

KENTUCKY UTILITIES CO
Form 10-K
February 23, 2015

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended
December 31, 2014
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
1-32944	PPL Energy Supply, LLC (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
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	61-0264150

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(Exact name of Registrant as specified in its charter)
(Kentucky)
220 West Main Street
Louisville, Kentucky 40202-1377
(502) 627-2000

1-3464

Kentucky Utilities Company 61-0247570
(Exact name of Registrant as specified in its charter)
(Kentucky and Virginia)
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 <input checked="" type="checkbox"/>	No
PPL Energy Supply, LLC	Yes	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes	No <input checked="" type="checkbox"/>

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 <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes	No <input checked="" type="checkbox"/>

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 <input checked="" type="checkbox"/>	No
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	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

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(§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 Energy Supply, LLC	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	<input checked="" type="checkbox"/>
PPL Energy Supply, LLC	<input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	<input checked="" type="checkbox"/>
LG&E and KU Energy LLC	<input checked="" type="checkbox"/>
Louisville Gas and Electric Company	<input checked="" type="checkbox"/>
Kentucky Utilities Company	<input checked="" type="checkbox"/>

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	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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

PPL Corporation	Yes	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes	No <input checked="" type="checkbox"/>

As of June 30, 2014, PPL Corporation had 664,018,408 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 \$23,592,574,036. As of January 30, 2015, PPL Corporation had 666,968,138 shares of its \$0.01 par value Common Stock outstanding.

PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.

As of January 30, 2015, 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.

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As of January 30, 2015, 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 30, 2015, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

PPL Energy Supply, LLC, 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 2015 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, 2014. Such Statements will provide the information required by Part III of this Report.

PPL CORPORATION
PPL ENERGY SUPPLY, LLC
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, 2014

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This combined Form 10-K is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Energy Supply, LLC, 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 Energy Supply, LLC, 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 services to LKE and its subsidiaries.

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

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

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

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

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

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

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

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

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

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

PPL Holtwood - PPL Holtwood, LLC, a subsidiary of PPL Generation that owns hydroelectric generating operations in Pennsylvania.

PPL Ironwood - PPL Ironwood LLC, an indirect subsidiary of PPL Generation that owns generating operations in Pennsylvania.

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

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

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

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

PPL WEM - PPL WEM Holdings Limited, an indirect U.K. subsidiary of PPL Global.

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

PPL WW - PPL WW Holdings Limited, an indirect U.K. subsidiary of PPL Global.

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

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

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

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

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.

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2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchases Contract(s) - a contract that is a component of a 2010 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to July 1, 2013.

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

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit requiring holders to purchase shares of PPL common stock on or prior to May 1, 2014.

401(h) account - A sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

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

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

AEPS - Alternative Energy Portfolio Standard.

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

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

Bcf - billion cubic feet.

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

CCR - Coal Combustion Residuals. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

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

COLA - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

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.

CSAPR - Cross-State Air Pollution Rule.

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

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.

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DNO - Distribution Network Operator in the U.K.

Dodd-Frank Act - the Dodd-Frank Wall Street Reform and Consumer Protection Act that was signed into law in July 2010.

DOE - Department of Energy.

DOJ - Department of Justice.

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

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

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

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

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

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.

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.

EEI - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEI is accounted for as an equity method investment.

E.ON AG - a German corporation and the parent of E.ON UK plc, and the indirect parent of E.ON US Investments Corp., the former parent of LKE.

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

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

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

ESOP - Employee Stock Ownership Plan.

EWG - exempt wholesale generator.

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

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

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

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

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

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

GWh - gigawatt-hour, one million kilowatt-hours.

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

IBEW - International Brotherhood of Electrical Workers.

ICP - Incentive Compensation Plan.

ICPKE - Incentive Compensation Plan for Key Employees.

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 in 2013 and 2014 to PPL's Equity Units prior to settlement.

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

Ironwood Acquisition - In April 2012, PPL Ironwood Holdings, LLC, an indirect, wholly owned subsidiary of PPL Energy Supply, completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which together own and operate, a natural gas combined-cycle unit in Lebanon, Pennsylvania.

Ironwood Facility - a natural gas combined-cycle unit in Lebanon, Pennsylvania with a summer rating of 662 MW.

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.

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

kV - Kilovolt.

kVA - kilovolt ampere.

kWh - kilowatt-hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

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

LIBOR - London Interbank Offered Rate.

LTIP - Long Term Infrastructure Improvement Plan.

MACRS - Modified Accelerated Cost Recovery System that is used to recover the basis of most business and investment property placed in service after 1986.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

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

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

MW - megawatt, one thousand kilowatts.

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

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

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

NOL - Net operating loss.

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

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

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

NUGs - non-utility generators, generating plants not owned by public utilities, whose electrical output must be purchased by utilities under the PURPA if the plant meets certain criteria.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

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

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

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

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.

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

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts, which are components of the 2010 and 2011 Equity Units.

PURPA - Public Utility Regulatory Policies Act of 1978, legislation passed by the U.S. Congress to encourage energy conservation, efficient use of resources and equitable rates.

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 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. Although calculated differently, 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 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.

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.

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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 - Electricity Distribution." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD commencing April 1, 2015.

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

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

RMC - Risk Management Committee.

RTO - Regional Transmission Organization.

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

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

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

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

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

SIP - PPL Corporation's 2012 Stock Incentive Plan.

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.

SMGT - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus that was terminated effective April 1, 2012.

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

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

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

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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.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2, or 549 MW of the capacity.

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

Total shareowner return - 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.

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

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

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

VEBA - Voluntary Employee Benefit Association Trust, accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

VIE - variable interest entity.

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.

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

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- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions, including the anticipated formation of Talen Energy via the spinoff of PPL Energy Supply and subsequent combination with Riverstone's competitive generation business and our ability to realize expected benefits from such business transactions.

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

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

PART I

ITEM 1. BUSINESS

General

(All Registrants)

PPL Corporation, headquartered in Allentown, Pennsylvania, is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; generates electricity from power plants in the northeastern, northwestern and southeastern U.S.; and markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S. Beginning in 2010, PPL expanded the rate regulated portion of its business, principally through the 2010 acquisition of LKE and the 2011 acquisition of WPD Midlands. In addition, in June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. See "Anticipated Spinoff of PPL Energy Supply" below for more information.

PPL's principal subsidiaries at December 31, 2014 are shown below (* denotes a Registrant).

PPL Corporation*

		PPL Capital Funding		
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	PPL Energy Supply*	
LG&E* Engages in the regulated generation, transmission, distribution and sale of electricity, and distribution and sale of natural gas in Kentucky	KU* Engages in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky	PPL EnergyPlus Performs energy marketing and trading activities Purchases fuel	PPL Generation Engages in the competitive generation of electricity, primarily in Pennsylvania and Montana	

U.K. Regulated
Segment

Kentucky
Regulated
Segment

Pennsylvania
Regulated
Segment

Supply
Segment

In addition to PPL Corporation, the other Registrants included in this filing are:

PPL Energy Supply, LLC, headquartered in Allentown, Pennsylvania, is an indirect wholly owned subsidiary of PPL formed in 2000 and is an energy company that through its principal subsidiaries is primarily engaged in the competitive generation and marketing of electricity in the northeastern U.S. PPL Energy Supply's principal subsidiaries are PPL EnergyPlus, its marketing and trading subsidiary, and PPL Generation, the owner of its generating facilities in Pennsylvania and Montana. As noted above, in June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. See "Anticipated Spinoff of PPL Energy Supply" below for more information.

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

LG&E and KU Energy LLC, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL since 2010 and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

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

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

(PPL and PPL Energy Supply)

Anticipated Spinoff of PPL Energy Supply

In recognition of the changes in recent years in the wholesale power markets, PPL performed an in-depth analysis of its business mix to determine the best available opportunities to maximize the value of its competitive generation business for shareowners. As a result, in June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off to PPL shareowners a newly formed entity, Talen Energy Holdings, Inc. (Holdco), which at such time will own all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy. Immediately following the spinoff, Holdco will merge with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power will be contributed by its owners to become a subsidiary of Talen Energy. Following completion of these transactions, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy and PPL's shareowners will receive a number of Talen Energy shares at closing based on the number of PPL shares owned as of the spinoff record date. The spinoff will have no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes and is subject to customary closing conditions, including receipt of certain regulatory approvals by the NRC, FERC, DOJ and PUC. In addition, there must be available, subject to certain conditions, at least \$1 billion of undrawn credit capacity under a Talen Energy (or its subsidiaries) revolving credit or similar facility. Any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions at the time of the spinoff are excluded from this calculation.

On December 18, 2014, the FERC issued a final order approving, subject to certain market power mitigation requirements, the combination of the competitive generation assets to form Talen Energy. On January 27, 2015, PPL and an affiliate of RJS Power filed a joint response with the FERC accepting additional market power mitigation measures required for the FERC's approval. PPL and RJS Power originally proposed divesting either of two groups of assets each having approximately 1,300 MW of generating capacity. PPL and RJS Power have agreed that within 12 months after closing of the transaction, Talen Energy will divest generating assets in one of the groups (from PPL Energy Supply's existing portfolio, this includes either the Holtwood and Wallenpaupack hydroelectric facilities or the Ironwood facility), and limit PJM energy market offers from assets it would retain in the other group to cost-based offers.

The transaction is expected to close in the second quarter of 2015. Talen Energy will own and operate a diverse mix of approximately 14,000 MW (after divestitures to meet FERC market power standards) of generating capacity in certain U.S. competitive energy markets primarily in PJM and ERCOT.

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

See Note 8 to the Financial Statements for additional information.

Montana Hydro Sale

In November 2014, PPL Montana completed the sale to NorthWestern of 633 MW of hydroelectric generating facilities located in Montana for approximately \$900 million in cash. The sale included 11 hydroelectric generating facilities and related assets.

See Note 8 to the Financial Statements for additional information.

Distribution of PPL Global (PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its entire membership interest in PPL Global to its parent, PPL Energy Funding (the parent holding company of PPL Energy Supply and PPL Global with no other material operations), to better align PPL's organizational structure with the manner in which it manages these businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business.

Acquisitions

(PPL, LKE, LG&E and KU)

On November 1, 2010, PPL acquired all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC.

(PPL)

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

Segment Information

(PPL)

PPL is organized into four reportable segments as depicted in the chart above: U.K. Regulated, Kentucky Regulated, Pennsylvania Regulated and Supply. PPL's reportable segments primarily reflect the activities of its related Subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of the applicable Subsidiary Registrants. The U.K. Regulated segment has no related Subsidiary Registrant. Upon completion of the anticipated spinoff of PPL Energy Supply in the second quarter of 2015, PPL will no longer have a Supply segment.

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

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	U.K. Regulated	Kentucky Regulated	Pennsylvania Regulated
For the year ended December 31, 2014:			
Operating Revenues (in billions)	\$ 2.6	\$ 3.2	\$ 2.0
Net Income Attributable to PPL Shareowners (in millions)	\$ 982	\$ 312	\$ 263
Electric energy delivered (GWh)	75,813	31,543	37,026
At December 31, 2014:			
Regulatory Asset Base (in billions) (a)	\$ 9.5	\$ 8.3	\$ 4.9
Service area (in square miles)	21,600	9,400	10,000
End-users (in millions)	7.8	1.3	1.4

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

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

(All Registrants except PPL)

PPL Energy Supply, PPL Electric, LKE, LG&E and KU each operate within a single reportable segment.

· U.K. Regulated Segment (PPL)

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

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

Details of revenue by category for the years ended December 31 are shown below.

	2014		2013		2012	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Utility revenues	\$ 2,573	98	\$ 2,359	98	\$ 2,289	98
Energy-related businesses	48	2	44	2	47	2
Total	\$ 2,621	100	\$ 2,403	100	\$ 2,336	100

The majority of WPD's utility revenue is known as DUoS and is from providing regulated electricity distribution services to licensed third party energy suppliers who use the network to transfer electricity to their customers, the end-users.

WPD's energy-related business revenues include ancillary activities that support the distribution business.

Franchise and Licenses

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

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

Ofgem has formal powers to propose modifications to each distribution license. In January 2014, Ofgem and WPD agreed to a reduction of £5 per residential end-user in the 2014/15 regulatory year to be recovered in the 2016/2017 regulatory year. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - Distribution Revenue Reduction" for additional information. In May 2014, Ofgem made license changes as part of the RIIO-ED1 process discussed below.

Competition

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

Revenue and Regulation

Ofgem has established a price control mechanism that provides the amount of base demand revenue that a regulated business can earn and provides for an increase or reduction in revenues based on incentives or penalties for exceeding or underperforming relative to pre-established targets. WPD is currently operating under DPCR5 which is effective for the period from April 1, 2010 through March 31, 2015.

In October 2010, Ofgem announced changes to the regulatory framework that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. Throughout the following discussion of this regulatory framework, the use of the term "customers" refers to the end-users of WPD's regulated distribution networks. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to:

- encourage DNOs to deliver safe, reliable and sustainable network service at long-term value to customers;
- enable DNOs to finance the required investment in a timely and efficient way; and
- remunerate DNOs according to their delivery for customers.

In addition to extending the price control period from five to eight years, the key components of RIIO-ED1 are:

- increased emphasis on outputs and incentives;
- enhanced stakeholder engagement including network customers;
- a stronger incentive framework to encourage more efficient investment and innovation;
- replacement of the current Low Carbon Network Fund to continue to stimulate innovation;
- depreciation of RAV for additions after April 1, 2015 will be extended from 20 years to 45 years, with a transitional arrangement that will gradually change the life over the price control period that will result in an average life of 35 years for RAV additions during RIIO-ED1. RAV at 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 and as such vary by asset type and are based on the expected useful lives of the assets;
- the ability for DNOs to be fast-tracked through the process, providing several benefits to the qualified DNOs, including the ability to collect the fast-track incentive, which is additional revenue equivalent to 2.5% of total annual expenditures during the 8-year price control period (approximately \$43 million annually for WPD), greater revenue certainty and a higher level of cost savings retention; and
- capital return comprised of a 10 year trailing average debt allowance, to be adjusted annually, and an equity allowance determined by Ofgem with a debt to equity ratio of 65:35. The real cost of equity determined by Ofgem for fast-tracked DNOs was 6.4% and 6.0% for slow-tracked DNOs and will be uplifted by inflation as measured by the Retail Price Index (RPI) to determine the nominal cost of equity.

In November 2013, Ofgem determined that the 8-year business plans of all four of WPD's DNOs were suitable for accelerated consideration or "fast tracking" and as a result merited early settlement of their price controls for the 8-year RIIO-ED1 period starting April 1, 2015. This was confirmed in February 2014.

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 a price control period is the sum of: (i) the regulator's determination of efficient operating costs, including certain pension deficit

funding, (ii) a return on capital from RAV plus an annual adjustment for inflation as determined by the RPI, (iii) a return of capital from RAV (i.e. depreciation), (iv) an allowance for taxation less a potential reduction for tax benefits from excess leverage, (v) legacy price control adjustments from preceding price control periods and (vi) certain pass-through costs over which the DNO has no control. As WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base demand revenue also includes the fast-track incentive discussed above. The RIIO-ED1 price control will also include an Annual Iteration Process. This will allow base demand revenues to be updated during the price control for financial adjustments covering tax, pension and cost of debt issues, adjustments relating to actual and allowed total expenditure together with the total cost incentive mechanism and the information quality incentive (IQI) discussed below, and legacy price control adjustments from preceding price control periods. This process calculates an incremental change to base revenue, known as the "MOD." RIIO-ED1 prices will be set using a forecast of RPI which is trued up 2 years later.

During DPCR5, 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 will decrease by about 11.8% primarily due to a change in the profiling approach and a lower weighted-average cost of capital. For each regulatory year thereafter, base demand revenue will increase by approximately 1% per annum before inflation for the remainder of RIIO-ED1.

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.

During the price control period, WPD's revenue is decoupled from volume. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are added or subtracted to base demand revenue in future years. Over and under-recovered amounts arising from 2014/15 onwards and refunded/recovered under RIIO-ED1 will be refunded/recovered on a two year lag (previously one year). Therefore the 2014/15 over/ under-recovery adjustment will occur in 2016/17 instead of in 2015/16. In 2016/17, WPD will recover the £5 per residential network customer reduction provided for in 2014/15 as that amount is currently considered an under-recovery. Under applicable U.S. GAAP, WPD does not record a receivable for under-recoveries, but does record a liability for over-recoveries. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. See Note 1 to the Financial Statements for additional information.

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

- **Information Quality Incentive (IQI)** - The IQI is designed to incentivize the DNOs to provide good quality information in the business plans they submit to Ofgem during the price control review process and to execute their business plans as submitted. The IQI eliminates the distinction between capital expenditure and operating expense and instead focuses on total expenditure:
- **DPCR5** - 85% of all network related expenditure is allocated to RAV and currently recovered over 20 years through the regulatory depreciation of RAV and 15% is recovered in the year of expenditure together with business support, non-operational capital expenditures and traffic management expenditures. The IQI provides for incentives or penalties at the end of DPCR5 under the rolling RAV incentive mechanism based on the ratio of actual expenditures to the expenditures submitted to Ofgem that were the basis for the revenues allowed for the five-year price control period. In addition, at the beginning of DPCR5, WPD was awarded \$301 million in IQI revenue of which \$222 million will be included in revenue throughout the current price control period with the balance recovered over 20 years through the RAV mechanism.
- **RIIO-ED1** - 80% of total costs will be allocated to RAV with 20% recovered in the year of expenditure. As a result of being fast-tracked, 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 cost incentive or penalty mechanism will be calculated each year on a 2 year lag basis as part of the annual MOD process discussed above.
- **Interruptions Incentive Scheme (IIS)** - This incentive has two major components: (1) Customer interruptions (CIs) and (2) Customer minutes lost (CMLs), and both are designed to incentivize the DNOs to invest and operate their networks to manage and reduce both the frequency and duration of power outages. During DPCR5 the target for each DNO is based on a benchmark of data from the last four years of the prior price control period. The IIS target under RIIO-ED1 will be divided into interruptions caused by planned and unplanned work. The target for planned work will be calculated as the annual average level of planned interruptions and minutes lost over a previous three

year period. The target for unplanned interruptions for the first year of RIIO-ED1 is specified in the DNO's 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. This broad measure encompasses:
 - customer satisfaction in supply interruptions, connections and general inquiries;
 - complaints;
 - stakeholder engagement; and
 - delivery of social obligations.

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

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

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; therefore, this will not impact future earnings. See Note 6 to the Financial Statements for additional information.

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

· Kentucky Regulated Segment (PPL)

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

(PPL, LKE, LG&E and KU)

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 400,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 321,000 customers in its electric service area and eight additional counties in Kentucky. KU provides electric service to approximately 515,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 28,000 customers in five counties in southwestern Virginia, and fewer than ten customers in Tennessee, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 12 municipalities in Kentucky under load following contracts. In Virginia, KU operates under the name Old Dominion Power Company.

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

	2014		2013		2012	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LKE						
Commercial	\$ 815	26	\$ 770	26	\$ 723	26
Industrial	627	20	587	20	551	20
Residential	1,281	40	1,205	40	1,071	39
Retail - other	279	9	260	9	270	10
Wholesale - municipal	109	3	110	4	102	4
Wholesale - other (a)	57	2	44	1	42	1
Total	\$ 3,168	100	\$ 2,976	100	\$ 2,759	100

	2014		2013		2012	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LG&E						
Commercial	\$ 433	28	\$ 405	29	\$ 374	28
Industrial	194	13	186	13	170	13
Residential	650	43	614	44	548	41
Retail - other	130	8	119	8	131	10
Wholesale - other (a) (b)	126	8	86	6	101	8
Total	\$ 1,533	100	\$ 1,410	100	\$ 1,324	100
KU						
Commercial	\$ 382	22	\$ 365	22	\$ 349	23
Industrial	433	25	401	25	381	25
Residential	631	36	591	36	523	34
Retail - other	149	9	141	9	139	9
Wholesale - municipal	109	6	110	7	102	7
Wholesale - other (a) (b)	33	2	27	1	30	2
Total	\$ 1,737	100	\$ 1,635	100	\$ 1,524	100

(a) Includes wholesale power and transmission revenues.

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

Franchises and Licenses

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

Competition

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

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

Power Supply

At December 31, 2014, LKE owned, controlled or had a minority ownership interest in generating capacity (summer rating) of 8,087 MW, of which 3,342 MW related to LG&E and 4,745 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.

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 2014, LKE's Kentucky power plants generated the following amounts of electricity.

Fuel Source	GWh		
	LKE	LG&E	KU
Coal (a)	33,768	14,944	18,824
Oil / Gas	1,505	522	983
Hydro	344	272	72
Total (b)	35,617	15,738	19,879

- (a) Includes 896 GWh of power generated by and purchased from OVEC for LKE, 620 GWh for LG&E and 276 GWh for KU.
- (b) This generation represents a 1.4% increase for LKE, a 5.4% increase for LG&E and a 1.6% decrease for KU from 2013 output.

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

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

See "Item 2. Properties - Kentucky Regulated Segment" for additional information regarding LG&E's and KU's Cane Run Unit 7 which is currently under construction, and LG&E's and KU's CPCN application to construct a solar generating facility at the E.W. Brown generating site. As a result of environmental requirements, LG&E and KU anticipate retiring five older coal-fired electric generating units at the Cane Run plant in 2015 and the Green River plant in 2016, which have a combined summer capacity rating of 724 MW. In addition, KU retired the remaining 71 MW coal-fired unit at the Tyrone plant in February 2013 and retired a 12 MW gas-fired unit at the Haefling plant in December 2013.

Fuel Supply

Coal is expected to be the predominant fuel used by LG&E and KU for baseload generation for the foreseeable future. However, natural gas will play a more significant role starting in 2015 when Cane Run Unit 7 is expected to be placed into operation as baseload generation. The natural gas for this generating unit will be contracted from suppliers separately from LG&E's natural gas customers. 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. To enhance the reliability of natural gas supply, LG&E and KU have secured long-term pipeline capacity on the interstate pipeline serving the new NGCC unit at Cane Run and six simple cycle combustion turbine units.

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2019 and normally augment their coal supply agreements with spot market purchases, as needed.

For their existing units, LG&E and KU expect for the foreseeable future to purchase most of their coal from western Kentucky, southern Indiana and southern Illinois. In 2015 and beyond, LG&E and KU may purchase certain quantities of ultra-low sulfur content coal from Wyoming for blending at TC2. Coal is delivered to the generating plants by barge, truck and rail.

(PPL, LKE and LG&E)

Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to LG&E's firm sales customers. By using natural gas storage facilities, LG&E avoids the costs typically associated with more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services are typically at their highest. Several suppliers under contracts of varying duration provide competitively priced natural gas. At December 31, 2014, LG&E had 12 Bcf of natural gas stored underground with a carrying value of \$54 million.

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

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2015 and 2020. Total winter season capacity under these contracts is 194,900 MMBtu/day and summer season capacity is 88,000 MMBtu/day. Additionally, LG&E has a contract with the same pipeline for the month of January 2015 with a total capacity of 35,000 MMBtu/day, and a contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in October 2018.

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

(PPL, LKE, LG&E and KU)

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.

In February 2013, LG&E and KU submitted a compliance filing to the FERC reflecting their participation with other utilities in the Southeastern Regional Transmission Planning group relating to certain FERC Order 1000 requirements. FERC Order 1000, issued in July 2011, establishes certain procedural and substantive requirements relating to participation, cost allocation and non-incumbent developer aspects of regional and inter-regional electric transmission planning activities.

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, the VSCC and the TRA. LG&E and KU operate under a FERC-approved open access transmission tariff (OATT).

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

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

KU's rates to 12 municipal customers for wholesale requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates; therefore, no return is earned on the related assets. In April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality with a 2017 effective date. In addition, a tenth municipality has a previously settled termination date of 2016.

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

Rate Case

On November 26, 2014, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately \$30 million at LG&E and approximately \$153 million at KU and an increase in annual base gas rates of approximately \$14 million at LG&E. The proposed base rate increases would result in electricity rate increases of 2.7% at LG&E and 9.6% at KU and a gas rate increase of 4.2% at LG&E and would become effective in July 2015. LG&E's and KU's applications each include a request for authorized returns-on-equity of 10.5%. The applications are based on a forecasted test year of July 1, 2015 through June 30, 2016. A number of parties have been granted intervention requests in the proceedings. A hearing on the applications is scheduled to commence on April 21, 2015. LG&E and KU cannot predict the outcome of these proceedings.

· Pennsylvania Regulated Segment (PPL)

Includes the regulated electricity delivery operations of PPL Electric.

(PPL and PPL Electric)

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

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

	2014		2013		2012	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Distribution						
Residential	\$ 1,285	63	\$ 1,215	65	\$ 1,108	63
Industrial	52	3	52	3	53	3
Commercial	367	18	363	19	366	21
Other	5		(11)		26	1
Transmission	335	16	251	13	210	12
Total	\$ 2,044	100	\$ 1,870	100	\$ 1,763	100

Franchise, Licenses and Other Regulations

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

Competition

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

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

Rates and Regulation

Transmission

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

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

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

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

Distribution

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

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

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

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it is in a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging assets. In January 2013, PPL Electric filed a petition requesting permission to establish a DSIC. In May 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four technical recovery calculation issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. In August 2014, the presiding Administrative Law Judge issued a recommended decision which would not have a significant impact on PPL Electric. This matter remains pending before the PUC.

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

PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, or an alternative supplier approved by the PUC to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to regulations established by the PUC. As of December 31, 2014, the following percentages of PPL Electric's customer load were provided by competitive suppliers: 50% of residential, 83% 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" 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 2013 through May 2015, which includes 4 solicitations for electricity

supply held in April and October, annually. Pursuant to this plan, PPL Electric contracts for all of the electricity supply for residential, small commercial and small industrial customers, large commercial and large industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of 12- and 9-month fixed-price load-following contracts for residential, small commercial and small industrial customers, and 12-month real-time pricing contracts for large commercial and large industrial customers to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR. In April 2014, PPL Electric filed a new Default Service Plan with the PUC for the period of June 1, 2015 through May 31, 2017. The petition was approved by the PUC on January 15, 2015.

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

· Supply Segment (PPL)

Consists primarily of the activities of PPL Energy Supply's subsidiaries, PPL Generation and PPL EnergyPlus. PPL Generation owns and operates competitive domestic power plants to generate electricity and acquires and develops competitive domestic generation projects. PPL EnergyPlus markets and trades electricity, natural gas, and other energy-related products in competitive wholesale and retail markets. In addition, certain financing and other costs are allocated to the Supply segment. Upon completion of the anticipated spinoff of PPL Energy Supply in 2015, PPL will no longer have a Supply segment. See "Anticipated Spinoff of PPL Energy Supply" above for additional information.

(PPL and PPL Energy Supply)

PPL Energy Supply's generation assets are primarily located in Pennsylvania and Montana. PPL Energy Supply enters into energy and energy-related contracts to hedge the variability of expected cash flows associated with its generating units and marketing activities, as well as for trading purposes. PPL EnergyPlus sells the electricity produced by PPL Energy Supply's generation plants based on prevailing market rates. PPL Energy Supply's total expected generation in 2015 is anticipated to be used to meet its committed contractual sales. PPL Energy Supply has also entered into commitments of varying quantities and terms for 2016 and beyond.

Details of revenue by category for the years ended December 31, are shown below.

	2014		2013		2012	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Energy						
Unregulated wholesale energy (a)	\$ 1,892	51	\$ 2,960	65	\$ 4,054	76
Unregulated retail energy	1,243	33	1,027	23	844	16
Total energy	3,135	84	3,987	88	4,898	92
Energy-related businesses (b)	601	16	527	12	448	8
Total	\$ 3,736	100	\$ 4,514	100	\$ 5,346	100

(a) Included in these amounts for 2014, 2013 and 2012 are \$84 million, \$51 million and \$78 million of wholesale electricity sales to an affiliate, PPL Electric, which are eliminated in consolidation for PPL.

(b) Energy-related businesses primarily support the generation, marketing and trading businesses of PPL Energy Supply. Their activities include developing renewable energy projects and providing energy-related products and services to commercial and industrial customers through their mechanical contracting and services subsidiaries. Energy-related businesses for PPL's Supply segment had additional revenues not related to PPL Energy Supply of \$13 million for 2012, which are not included in this table.

Power Supply

PPL Energy Supply owned or controlled generating capacity (summer rating) of 9,896 MW at December 31, 2014. Generating capacity controlled by PPL Generation and other PPL Energy Supply subsidiaries includes power

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obtained through PPL EnergyPlus' power purchase agreements. See "Item 2. Properties - Supply Segment" for details of PPL Energy Supply's generating capacity.

During 2014, PPL Energy Supply owned or controlled power plants that generated the following amounts of electricity.

Fuel Source	GWh		Total
	Northeastern	Northwestern	
Nuclear	16,903		16,903
Oil / Gas	11,080		11,080
Coal	16,074	4,030	20,104
Hydro (a)	931	3,318	4,249
Renewables (b)	413		413
Total	45,401	7,348	52,749

- (a) The Northwestern amount reflects generation from hydroelectric generating facilities that were sold by PPL Montana to NorthWestern in November 2014. See Note 8 to the Financial Statements for additional information.
- (b) PPL Energy Supply subsidiaries own or control renewable energy projects located in Pennsylvania, New Jersey, Vermont and New Hampshire with a generating capacity (summer rating) of 25 MW. PPL EnergyPlus sells the energy, capacity and RECs produced by these plants into the wholesale market as well as to commercial and industrial customers.

PPL Energy Supply's generation subsidiaries are EWGs that sell electricity into wholesale markets. EWGs are subject to regulation by the FERC, which has authorized these EWGs to sell the electricity generated at market-based prices. This electricity is sold to PPL EnergyPlus under FERC-jurisdictional power purchase agreements. PPL Susquehanna is subject to the jurisdiction of the NRC in connection with the operation of the Susquehanna nuclear units. Certain of PPL Energy Supply's other subsidiaries are subject to the jurisdiction of the NRC in connection with the operation of their fossil plants with respect to certain level and density monitoring devices. Certain operations of PPL Generation's subsidiaries are also subject to OSHA and comparable state statutes.

Fuel Supply

Coal

Pennsylvania

PPL EnergyPlus actively manages PPL Energy Supply's coal requirements by purchasing coal principally from mines located in northern Appalachia.

During 2014, PPL Generation purchased 5.6 million tons of coal required for its wholly owned Pennsylvania plants. Coal 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. PPL Generation, by and through its agent PPL EnergyPlus, has agreements in place that will provide more than 16 million tons of PPL Generation's projected coal needs for the Pennsylvania power plants from 2015 through 2018 and augments its coal supply agreements with spot market purchases, as needed.

A PPL Generation subsidiary owns a 12.34% interest in the Keystone plant and a 16.25% interest in the Conemaugh plant. PPL Generation owns a 12.34% interest in Keystone Fuels, LLC and a 16.25% interest in Conemaugh Fuels, LLC. The Keystone plant contracts with Keystone Fuels, LLC for its coal requirements, which provided 4.5 million tons of coal to the Keystone plant in 2014. The Conemaugh plant requirements are purchased under contract from Conemaugh Fuels, LLC, which provided 4.5 million tons of coal to the Conemaugh plant in 2014.

All wholly owned PPL Generation coal plants within Pennsylvania are equipped with scrubbers, which use limestone in their operations. Acting as agent for PPL Generation, PPL EnergyPlus has entered into limestone contracts with suppliers that will provide for those plants' requirements through 2016. During 2014, 430,000 tons of limestone were delivered to Brunner Island and Montour under these contracts. Annual limestone requirements range from approximately 400,000-500,000 tons.

Montana

PPL Montana owns a 30% interest in Colstrip Unit 3 and NorthWestern owns a 30% interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement that governs each party's responsibilities and rights relating to the operation of Colstrip Units 3 and 4. Under the terms of that agreement, each party is responsible for 15% of the total non-coal operating and construction costs of Colstrip Units 3 and 4, regardless of whether a particular cost is specific to Colstrip Unit 3 or 4 and is entitled to take up to 15% of the available generation from Units 3 and 4. Each party is responsible for its own coal costs. PPL Montana, with the other Colstrip owners, is party to contracts to purchase 100% of its coal requirements with defined coal quality characteristics and specifications. PPL Montana, with the other Colstrip Units 1 and 2 owner, has a long-term purchase and supply agreement with the current supplier

for Units 1 and 2, which provides these units 85% to 100% of their coal requirements (at owners' option) from January 2015 through December 2019. PPL Montana, with the other Colstrip Units 3 and 4 owners, has a long-term coal supply contract for Units 3 and 4, which provides these units 100% of their coal requirements through December 2019.

These units were originally built containing scrubbers and PPL Montana has entered into a long-term contract to purchase the limestone requirements for these units. The contract extends through December 2030.

Coal supply contracts are in place to purchase low-sulfur coal with defined quality characteristics and specifications for PPL Montana's Corette plant. The contracts covered 100% of the plant's coal requirements in 2014 and similar contracts are in place to supply 100% of the expected coal requirements through the suspension of plant operations scheduled for no later than April 2015. The plant is expected to be retired in August 2015.

Oil and Natural Gas

Pennsylvania

PPL Generation's Martins Creek Units 3 and 4 burn both oil and natural gas. During 2014, 100% of the physical gas requirements for the Martins Creek units were purchased on the spot market using either delivered supply or a combination of spot market supply and short-term capacity and oil requirements were supplied from inventory and replenished by purchases made in the spot market. At December 31, 2014, there were no long-term agreements for oil or natural gas for these units.

Short-term and long-term gas transportation contracts are in place for approximately 38% of the maximum daily requirements of the Lower Mt. Bethel combined-cycle facility.

For PPL's Ironwood combined-cycle facility, PPL EnergyPlus has long-term transportation contracts that can deliver up to approximately 25% of Ironwood's maximum daily gas requirements. Daily gas requirements can also be met through a combination of short-term transportation capacity release transactions coupled with upstream supply.

In addition, PPL EnergyPlus has secured long-term natural gas supply for approximately 10% of the combined needs of Ironwood and Lower Mt. Bethel through 2016.

Nuclear

The nuclear fuel cycle consists of several material and service components: the mining and milling of uranium ore to produce uranium concentrates; the conversion of these concentrates into uranium hexafluoride, a gas component; the enrichment of the hexafluoride gas; the fabrication of fuel assemblies for insertion and use in the reactor core; and the temporary storage and final disposal of spent nuclear fuel.

PPL Susquehanna has a portfolio of supply contracts, with varying expiration dates, for nuclear fuel materials and services. These contracts are expected to provide sufficient fuel to permit Unit 1 to operate into the first quarter of 2020 and Unit 2 to operate into the first quarter of 2019. PPL Susquehanna anticipates entering into additional contracts to ensure continued operation of the nuclear units.

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates, under current operating conditions, that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site spent fuel storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017. If necessary, the on-site spent fuel storage facility can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facility will accommodate all of the spent fuel expected to be discharged through 2044, the current licensed life of the plant.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages

suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit. The settlement included reimbursement of certain costs to store spent nuclear fuel at the Susquehanna plant incurred from 1998 through December 31, 2013, and PPL Susquehanna received payments for its claimed costs for those periods. In exchange, PPL Susquehanna waived any claims against the U.S. Government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013. In January 2014, PPL Susquehanna entered into a new agreement with the DOE to extend the settlement agreement on the same terms as the prior agreement for an additional three years to the end of 2016.

Energy Marketing

PPL EnergyPlus sells the capacity and electricity produced by PPL Generation subsidiaries, and buys and sells purchased power, capacity, ancillary services, FTRs, natural gas, oil, uranium, emission allowances and RECs in competitive wholesale and competitive retail markets.

PPL EnergyPlus transacts in competitive retail energy markets, and buys and sells electricity and natural gas supply, to meet the diverse needs of business customers. PPL EnergyPlus sells retail electricity supply to business customers in Delaware, the District of Columbia, Maryland, Montana, New Jersey, Ohio and Pennsylvania and sells retail natural gas supply to business customers in Delaware, Maryland, New Jersey, and Pennsylvania. The company also offers electricity supply to select residential customers in Pennsylvania. Although retail energy revenues continue to grow, the net margins related to these activities are not currently a significant component of PPL Energy Supply's margins.

Within the constraints of its hedging policy, PPL EnergyPlus actively manages its portfolios of energy and energy-related products to optimize their value and to limit exposure to price fluctuations. See Note 17 to the Financial Statements for more information.

Competition

Since the early 1990s, there has been increased competition in U.S. energy markets because of federal and state competitive market initiatives. Although some states, such as Pennsylvania and Montana, have created a competitive market for electricity generation, other states continue to consider different types of regulatory initiatives concerning competition in the power and gas industries. Some states that were considering creating competitive markets have slowed their plans or postponed further consideration. In addition, states that have created competitive markets have, from time to time, considered new market rules and re-regulation measures that could result in more limited opportunities for competitive energy suppliers. Interest in re-regulation, however, has slowed due to recent declining power prices. As such, the markets in which PPL Energy Supply participates are highly competitive.

PPL Energy Supply faces competition in wholesale markets for available energy, capacity and ancillary services. Competition is impacted by electricity and fuel prices, congestion along the power grid, governmental mandates for new generation, new market entrants, construction of new generating assets, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. PPL Energy Supply primarily competes with other electricity suppliers based on its ability to aggregate generation supply at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities and ISOs. Competitors in wholesale power markets include regulated utilities, industrial companies, NUGs, competitive subsidiaries of regulated utilities and other energy marketers. See "Item 1A. Risk Factors - Risks Related to Supply Segment", "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" and Notes 13 and 17 to the Financial Statements for more information concerning the risks faced with respect to competitive energy markets.

Franchise and Licenses

See "Energy Marketing" above for a discussion of PPL EnergyPlus' licenses in various states. PPL EnergyPlus has a license from the DOE to export electric energy to Canada. PPL EnergyPlus also has a permit from the National Energy Board of Canada to export firm and interruptible energy from Canada to the U.S.

PPL Susquehanna operates Units 1 and 2 pursuant to NRC operating licenses that expire in 2042 for Unit 1 and in 2044 for Unit 2.

In 2008, a PPL Energy Supply subsidiary, PPL Bell Bend, LLC, submitted a COLA to the NRC for a new nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. Also in 2008, the COLA was formally docketed and accepted for review by the NRC. PPL Bell Bend, LLC does not expect to complete the COLA review process with the NRC prior to 2018. See Note 8 to Financial Statements for additional information.

PPL Holtwood operates the Holtwood and Wallenpaupack hydroelectric generating plants pursuant to FERC-granted licenses that expire in 2030 and 2045, respectively.

· Other Corporate Functions (PPL)

PPL Services provides corporate functions such as financial, legal, supply chain, human resources and information technology services. Most of PPL Services' costs are charged directly to the respective PPL subsidiaries for the services provided or indirectly charged to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees.

Upon completion of the anticipated spinoff of PPL Energy Supply and any related transition services to Talen Energy, the remaining corporate functions that would be provided by PPL Services would primarily be in support of PPL Electric. As a result, a newly created centralized services company has been formed, PPL EU Services, which will provide the majority of corporate functions such as financial, supply chain, human resources and information technology services to PPL Electric. Significant portions of the various corporate functions within PPL Services will be transferred to PPL EU Services during 2015 and 2016 as the transition services agreements with Talen Energy expire. Most of PPL EU Services' costs will be charged directly to PPL Electric for the services provided, with limited amounts charged back to PPL Services and its affiliates. PPL Services will continue to provide certain limited corporate functions, as the size of the organization is being reduced from approximately 1,200 employees to less than 200 employees after the transition services with Talen Energy are complete.

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 further enables PPL to cost effectively support targeted credit profiles across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in future financings, in addition to continued direct financing by the operating companies.

Unlike PPL Services and PPL EU Services, PPL Capital Funding's costs are not generally charged to PPL subsidiaries. Costs are charged directly to PPL. However, PPL Capital Funding participated significantly in the financing for the acquisitions of LKE and WPD Midlands and certain associated financing costs were allocated to the Kentucky and U.K. Regulated segments. The associated financing costs, as well as the financing costs associated with prior issuances of certain other PPL Capital Funding securities, have been assigned to the appropriate segments for purposes of PPL management's assessment of segment performance. The financing costs associated primarily with PPL Capital Funding's securities issuances in 2013 and beyond, with certain exceptions including the remarketing of the debt component of the 2010 and 2011 Equity Units, have not been directly assigned or allocated to any segment.

See "Anticipated Spinoff of PPL Energy Supply" above for information on the expected reductions of \$75 million in corporate support costs in connection with the spinoff transaction.

(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, the retail load served and the terms of contracts to purchase or sell electricity. See "Financial Condition - Environmental Matters" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" 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

concerning projected capital expenditure requirements for 2015 through 2019. 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 is in the process of proposing and finalizing an unprecedented number of environmental regulations that will directly affect the electricity industry. These initiatives cover air, water and waste. 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" on projected environmental capital expenditures for the years 2015-2019. Also, see "Environmental Matters" in Note 13 to the Financial Statements for additional information. To comply with environmental requirements, PPL's forecast for environmental capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are \$2.4 billion for PPL, including \$2.2 billion for LKE (\$1.1 billion each for LG&E and KU), and \$192 million for PPL Energy Supply. Actual costs (including capital, emission allowance purchases and operational modifications) may be significantly lower or higher depending on the final compliance requirements and market conditions. PPL's and LKE's subsidiaries may also incur capital expenditures and operating expenses, which are not now determinable, but could be significant. Most environmental compliance costs incurred by LG&E and KU are subject to recovery through a rate recovery mechanism. See Note 6 to the Financial Statements for additional information.

EMPLOYEE RELATIONS

At December 31, 2014, PPL and its subsidiaries had the following full-time employees.

PPL Energy Supply (a)	4,156
PPL Electric	2,122
LKE	
KU	949
LG&E	1,029
LKS	1,504
Total LKE	3,482
PPL Global (primarily WPD)	6,473
PPL Services and other	1,158
Total PPL	17,391

(a) Includes labor union employees of mechanical contracting subsidiaries, whose numbers tend to fluctuate due to the nature of this business.

At December 31, 2014, the breakdown of the total workforce that is represented by labor unions was:

	Number of Employees	Percent of Total Workforce
PPL (a)	9,062	52%
PPL Energy Supply	2,482	60%
PPL Electric	1,319	62%

LKE	855	25%
LG&E	714	69%
KU	141	15%

(a) Includes 4,076 employees of WPD who are members of labor unions (or 63% 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 4,001 union employees, may be amended by agreement between WPD and the unions and can be terminated with 12 months' notice by either side.

See "Anticipated Spinoff of PPL Energy Supply" in Note 8 to the Financial Statements and "Labor Union Agreements" in Note 13 to the Financial Statements for details on the elimination of approximately 430 domestic positions at PPL, PPL Energy Supply and PPL Electric.

AVAILABLE INFORMATION

PPL's Internet website is www.pplweb.com. Under the Investor 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.

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 to PPL Energy Supply and its consolidated subsidiaries taken as a whole within the Supply segment discussions, 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 and PPL Energy Supply)

Risks Relating to Our Agreement to Spin off PPL Energy Supply and Form Talen Energy Corporation

The proposed spinoff of PPL Energy Supply and the combination with RJS Power are contingent upon the satisfaction of a number of conditions and may present situations that could have an adverse effect on us.

The proposed spinoff of PPL Energy Supply and the subsequent combination with RJS Power to form Talen Energy are complex transactions, subject to various conditions, and may be affected by unanticipated developments or changes in market conditions. On November 5, 2014, Talen Energy filed a registration statement with the SEC containing detailed information regarding Talen Energy. Completion of the proposed spinoff of PPL Energy Supply and subsequent combination with RJS Power will be contingent upon a number of factors, including that (i) PPL receives a favorable legal opinion of tax counsel as described below; (ii) the SEC declares effective Talen Energy's registration statement relating to registration of Talen Energy common stock and no SEC stop order suspending effectiveness of the registration statement be in effect prior to the PPL Energy Supply spinoff; (iii) the Talen Energy common stock be authorized for listing on the New York Stock Exchange; (iv) certain regulatory approvals have been obtained, including approval by the NRC and the FERC, Hart-Scott-Rodino clearance and certain approvals by the PUC and (v) there be, subject to certain conditions, at least \$1 billion of undrawn credit capacity under a revolving credit facility or similar facility available to Talen Energy and its subsidiaries (for purposes of which any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding shall not be considered as drawn against such facility). The spinoff and subsequent combination may be terminated by mutual written consent of the parties or subject to certain other circumstances, including the failure to complete these transactions by June 30, 2015 or, if the required regulatory approvals have not been obtained at such time but the other conditions to the consummation of these transactions have been or are capable of being satisfied, December 31, 2015. For these and other reasons, the spinoff and subsequent combination may not be completed on the terms or within the expected timeframe, if at all.

If the proposed 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 proposed spinoff of PPL Energy Supply and subsequent combination with RJS Power is 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 will satisfy a condition to completion of the spinoff and subsequent combination, that legal opinion will not be binding on the IRS. Accordingly, the IRS may reach conclusions that are different from the conclusions reached in such opinion. PPL is not aware of any facts or circumstances that would cause the factual statements or representations on which the legal opinion will be based to be materially different from the facts at the time of the spinoff. If, notwithstanding the receipt of such 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 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 will collectively own 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, are 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.

PPL may not be successful in realizing the full amount of anticipated annual savings as a result of the proposed spinoff of PPL Energy Supply.

In connection with the spinoff of PPL Energy Supply, and following any required transition services period, PPL is targeting to reduce its annual corporate support costs by an estimated \$185 million. This includes \$110 million of corporate support costs to be either eliminated or transferred to Talen Energy and \$75 million of corporate support costs to be eliminated as a result of workforce and other corporate cost reductions. If for any reason PPL cannot realize all or a significant portion of the \$75 million corporate cost savings it could have an adverse effect on PPL's cash flows and results of operations.

Risks related to our U.K. Segment

Our U.K. distribution business contributes more than 50% of PPL's total annual net income 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 reduce the results of operations from 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.;
- 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; and
- compliance with U.S. foreign corrupt practices laws.

We are subject to increased foreign currency exchange rate risks because a majority 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 U.S. GAAP basis may be subject to increased 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 U.S. GAAP requirements.

Our U.K. delivery business is subject to risks with respect to rate regulation and operational performance.

Our U.K. delivery businesses are rate-regulated and operate under an incentive-based regulatory framework. Managing operational risk is 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, PPL Energy Supply and LKE)

Risk Related to Registrant Holding Companies

PPL's, PPL Energy Supply's and LKE's 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 subsidiaries and, as a result, is effectively subordinated to all existing and future liabilities of those subsidiaries.

PPL, PPL Energy Supply 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 and distinct 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, PPL Energy Supply 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, PPL Energy Supply and LKE and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. Therefore, PPL's, PPL Energy Supply's and LKE's rights and the rights of their creditors, including rights of any 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.

(All Registrants except PPL Energy Supply)

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.

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, TRA 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 recovery of our costs or an adequate return on our capital investments. Federal or state agencies, interveners and other permitted parties may challenge our rate requests, and ultimately reduce, alter or limit our current rates or future rates we seek. Although our rates are generally regulated based on an analysis of our costs incurred in a base year or based 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.

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.

Changes in transmission and wholesale power market structures could increase costs or reduce revenues.

Wholesale revenues fluctuate with regional demand, fuel prices and contracted capacity. Changes to transmission and wholesale power market structures and prices may occur in the future, are not predictable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. These can include commercial or regulatory changes affecting power pools, exchanges or markets in which our domestic utilities participate.

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;
- environmental considerations and regulations;
- weather and geological issues; and
- political, labor and regulatory developments.

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.

PPL is 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 due to a declining trend in the number of available skilled workers and an increase in competition for such workers.

Risks Specific to Kentucky Regulated Segment

(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 waste, 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, operations 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 ongoing rulemakings and other regulatory developments, legislative activities and litigation. 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 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.

Risks Specific to Pennsylvania Regulated Segment

(PPL and PPL Electric)

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

We plan to pursue expansion of our transmission and distribution capacity over the next several years. We plan to do this through the potential construction or acquisition of transmission and distribution projects and capital investments to upgrade transmission and distribution infrastructure. These types of projects involve numerous risks. With respect to the construction or acquisition of transmission and distribution 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 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 (OATT), 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 AEPS. 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 Supply Segment

(PPL and PPL Energy Supply)

We face intense competition in the competitive power generation market, which may adversely affect our ability to operate profitably and generate positive cash flow.

Our generation business is dependent on our ability to operate successfully in a competitive environment and is not assured of any rate of return on capital investments through a regulated rate structure. Competition is affected by electricity and fuel prices, new market entrants, construction by others of generating assets and transmission capacity, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. These competitive factors may negatively affect our ability to sell electricity and related products and services, as well as the prices that we receive for such products and services, which could adversely affect our results of operations and our ability to grow our business.

We sell our available energy and capacity into competitive wholesale markets through contracts of varying duration. Competition in the wholesale power markets occurs principally on the basis of the price of products and, to a lesser extent, reliability and availability. We believe that the commencement of commercial operation of new electricity generating facilities in the regional markets where we own or control generation capacity and the evolution of demand side management resources will continue to increase competition in the wholesale electricity market in those regions, which could have an adverse effect on electricity and capacity prices.

We also face competition in the wholesale markets for generation capacity and ancillary services. We primarily compete with other electricity suppliers based on our ability to aggregate supplies at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities, ISOs and RTOs. We also compete against other energy marketers on the basis of relative financial condition and access to credit sources, and our competitors may have greater financial resources than we have.

Competitors in the wholesale power markets in which PPL Generation subsidiaries and PPL EnergyPlus operate include regulated utilities, industrial companies, non-utility generators, competitive subsidiaries of regulated utilities and financial institutions.

We are exposed to operational, price and credit risks associated with selling and marketing products in the wholesale and retail electricity markets.

We purchase and sell electricity in wholesale markets under market-based rates throughout the U.S. and also enter into short-term agreements to market available electricity and capacity from our generation assets with the expectation

of profiting from market price fluctuations. If we are unable to deliver firm capacity and electricity under these agreements, we could be required to pay damages. These damages would generally be based on the difference between the market price to acquire replacement capacity or electricity and the contract price of any undelivered capacity or electricity. Depending on price volatility in the wholesale electricity markets, such damages could be significant. Extreme weather conditions, unplanned generation facility outages, environmental compliance costs, transmission disruptions and other factors could affect our ability to meet our obligations or cause significant increases in the market price of replacement capacity and electricity.

Our wholesale power agreements typically include provisions requiring us to post collateral for the benefit of our counterparties if the market price of energy varies from the contract prices in excess of certain pre-determined amounts. We currently believe that we have sufficient liquidity to fulfill our potential collateral obligations under these power contracts. However, our obligation to post collateral could exceed the amount of our facilities or our ability to increase our facilities

could be limited by financial markets or other factors. See Note 7 to the Financial Statements for a discussion of credit facilities.

We also face credit risk that counterparties with whom we contract in both the wholesale and retail markets will default in their performance, in which case we may have to sell our electricity into a lower-priced market or make purchases in a higher-priced market than existed at the inception of the contract. Whenever feasible, we attempt to mitigate these risks using various means, including agreements that require our counterparties to post collateral for our benefit if the market price of energy varies from the contract price in excess of certain pre-determined amounts. However, there can be no assurance that we will avoid counterparty nonperformance risk, including bankruptcy, which could adversely impact our ability to meet our obligations to other parties, which could in turn subject us to claims for damages.

Adverse changes in commodity prices and related costs may decrease our future energy margins, which could adversely affect our earnings and cash flows.

Our energy margins, or the amount by which our revenues from the sale of power exceed our costs to supply power, are impacted by changes in market prices for electricity, fuel, fuel transportation, emission allowances, RECs, electricity capacity and related congestion charges and other costs. Unlike most commodities, the limited ability to store electricity requires that it must be consumed at the time of production. As a result, wholesale market prices for electricity may fluctuate substantially over relatively short time periods and can be unpredictable. Among the factors that influence such prices are:

- demand for electricity;
- supply of electricity available from current or new generation resources;
- variable production costs, primarily fuel (and associated transportation costs) and emission allowance expense for the generation resources used to meet the demand for electricity;
- transmission capacity and service into, or out of, markets served;
- changes in the regulatory framework for wholesale power markets;
- liquidity in the wholesale electricity market, as well as general creditworthiness of key participants in the market; and
- weather and economic conditions affecting demand for or the price of electricity or the facilities necessary to deliver electricity.

Our risk management policy and programs relating to electricity and fuel prices, interest rates and counterparty credit and non-performance risks may not work as planned, and we may suffer economic losses despite such programs.

We actively manage the market risk inherent in our generation and energy marketing activities, as well as our debt and counterparty credit positions. We have implemented procedures to monitor compliance with our risk management policy and programs, including independent validation of transaction and market prices, verification of risk and transaction limits, portfolio stress tests, sensitivity analyses and daily portfolio reporting of various risk management metrics. Nonetheless, our risk management programs may not work as planned. For example, actual electricity and fuel prices may be significantly different or more volatile than the historical trends and assumptions upon which we based our risk management calculations. Additionally, unforeseen market disruptions could decrease market depth and liquidity, negatively impacting our ability to enter into new transactions. We enter into financial contracts to hedge commodity basis risk, and as a result are exposed to the risk that the correlation between delivery points could change with actual physical delivery. Similarly, interest rates could change in significant ways that our risk management procedures were not designed to address. As a result, we cannot always predict the impact that our risk management decisions may have on us if actual events result in greater losses or costs than our risk models predict or

greater volatility in our earnings and financial position.

In addition, our trading, marketing and hedging activities are exposed to counterparty credit risk and market liquidity risk. We have adopted a credit risk management policy and program to evaluate counterparty credit risk. However, if counterparties fail to perform, we may be forced to enter into alternative arrangements at then-current market prices. In that event, our financial results could be adversely affected.

We do not always hedge against risks associated with electricity and fuel price volatility.

We attempt to mitigate risks associated with satisfying our contractual electricity sales obligations by either reserving generation capacity to deliver electricity or purchasing the necessary financial or physical products and services through competitive markets to satisfy our net firm sales contracts. We also routinely enter into contracts, such as fuel and electricity purchase and sale commitments, to hedge our exposure to fuel requirements and other electricity-related commodities. However, based on economic and other considerations, we may decide not to hedge the entire exposure of our operations

from commodity price risk. To the extent we do not hedge against commodity price risk and applicable commodity prices change in ways that would be adverse to us, our results of operations and financial position may be adversely affected. To the extent we do hedge against commodity price risk, those hedges may not ultimately prove to be effective.

The accounting for our hedging activities may increase the volatility in our quarterly and annual financial results.

We engage in commodity-related marketing and price-risk management activities in order to physically and financially hedge our exposure to market risk with respect to electricity sales from our generation assets, fuel utilized by those assets and emission allowances.

We generally attempt to balance our fixed-price physical and financial purchases and sales commitments in terms of contract volumes and the timing of performance and delivery obligations through the use of financial and physical derivative contracts. These derivatives are recorded on the balance sheet at fair value with changes in the fair value resulting from fluctuations in the underlying commodity prices immediately recognized in earnings, unless the derivative qualifies for cash flow hedge accounting treatment or the NPNS exception. Whether a derivative qualifies for cash flow hedge accounting treatment depends upon it meeting specific criteria used to determine if the cash flow hedge is and will remain appropriate for the term of the derivative. Specific criteria are also required in order to elect the NPNS exception, which permits qualifying hedges to be treated under the accrual accounting method. All economic hedges may not necessarily qualify for cash flow hedge accounting treatment or the NPNS exception, or we may elect not to utilize cash flow hedge accounting or the NPNS exception. As a result, our quarterly and annual results are subject to significant fluctuations caused by changes in market prices.

Changes in technology may negatively impact the value of our power plants.

A basic premise of our generation business is that generating electricity at central power plants achieves economies of scale and produces electricity at relatively low prices. There are alternate technologies to supply electricity, most notably fuel cells, micro turbines, batteries, windmills and photovoltaic (solar) cells, the development of which has been expanded due to global climate change concerns. Research and development activities are ongoing to seek improvements in alternate technologies. It is possible that advances will reduce the cost of alternative generation to a level that is equal to or below that of certain central station production. Also, as new technologies are developed and become available, the quantity and pattern of electricity usage (the "demand") by customers could decline, with a corresponding decline in revenues derived by generators. These alternative energy sources could result in a decline to the dispatch and capacity factors of our plants. As a result of all of these factors, the value of our generation facilities could be significantly reduced.

The full-requirements sales contracts that PPL EnergyPlus is awarded do not provide for specific levels of load and actual load significantly below or above our forecasts could adversely affect our energy margins.

We generally hedge our full-requirements sales contracts with our own generation or energy purchases from third parties. If the actual load is significantly lower than the expected load, we may be required to resell power at a lower price than was contracted for to supply the load obligation, resulting in a financial loss. Alternatively, a significant increase in load could adversely affect our energy margins because we are required under the terms of full-requirements sales contracts to provide the energy necessary to fulfill increased demand at the contract price, which could be lower than the cost to procure additional energy on the open market. Therefore, any significant decrease or increase in load compared with our forecasts could have a material adverse effect on our results of operations and financial position.

We may experience disruptions in our fuel supply, which could adversely affect our ability to operate our generation facilities.

We purchase fuel and other products consumed during the production of electricity (such as coal, natural gas, oil, water, uranium, lime, limestone and other chemicals) from a number of suppliers. Delivery of these fuels to our facilities is dependent upon the continuing financial viability of contractual counterparties as well as the infrastructure (including rail lines, rail cars, barge facilities, roadways, riverways and natural gas pipelines) available to serve each generation facility. As a result, we are subject to the risks of disruptions or curtailments in the production of power at our generation facilities if fuel is unavailable at any price or if a counterparty fails to perform or if there is a disruption in the fuel delivery infrastructure. Disruption in the delivery of fuel, including disruptions as a result of weather, transportation difficulties, global demand and supply dynamics, labor relations, environmental regulations or the financial viability of our fuel suppliers, could adversely affect our ability to operate our facilities, which could result in lower sales and/or higher costs and thereby adversely affect our results of operations.

Unforeseen changes in the price of coal and natural gas could cause us to incur excess coal inventories and contract termination costs.

Extraordinarily low natural gas prices could cause natural gas to be the more cost-competitive fuel compared to coal for generating electricity. Because we enter into guaranteed supply contracts to provide for the amount of coal needed to operate our base load coal-fired generating facilities, we may experience periods where we hold excess amounts of coal if fuel pricing results in our reducing or idling coal-fired generating facilities in favor of operating available alternative natural gas-fired generating facilities. In addition, we may incur costs to terminate supply contracts for coal in excess of our generating requirements.

If the services provided by the transmission facilities that deliver the wholesale power from our generation facilities are inadequate, our ability to sell and deliver wholesale power may be materially adversely affected. Furthermore, any changes in the structure and operation of, or the various pricing limitations imposed by, the RTOs and ISOs that operate these transmission facilities may adversely affect the profitability of our generation facilities.

We do not own or control the transmission facilities required to sell the wholesale power from our generation facilities. If the transmission service from these facilities is unavailable or disrupted, or if the transmission capacity infrastructure is inadequate, our ability to sell and deliver wholesale power may be materially adversely affected. RTOs and ISOs provide transmission services, administer transparent and competitive power markets and maintain system reliability. Many of these RTOs and ISOs operate in the real-time and day ahead markets in which we sell energy. The RTOs and ISOs that oversee most of the wholesale power markets impose, and in the future may continue to impose, offer caps and other mechanisms to guard against the potential exercise of market power in these markets as well as price limitations. These types of price limitations and other regulatory mechanisms may adversely affect the profitability of our generation facilities that sell energy and capacity into the wholesale power markets. Problems or delays that may arise in the formation and operation of maturing RTOs and similar market structures, or changes in geographic scope, rules or market operations of existing RTOs, may also affect our ability to sell, the prices we receive or the cost to transmit power produced by our generating facilities. Rules governing the various regional power markets may also change from time to time, which could affect our costs or revenues. As a result, our financial condition, results of operations and cash flows may be materially adversely affected.

The FERC has issued regulations that require wholesale electricity transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems will not be available or that transmission capacity will not be available in the amounts we require. We cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets or whether ISOs and RTOs in applicable markets will efficiently operate transmission networks and provide related services.

Because our generation facilities are part of interconnected regional grids, we face the risk of blackout due to a disruption on a neighboring interconnected system.

Major electric power blackouts are possible and have occurred, which could disrupt electrical service for extended periods of time. If a blackout were to occur, the impact could result in interruptions to our operations, increased costs to replace existing contractual obligations, the possibility of regulatory investigations and potential operational risks to our facilities. Additionally, in response to the blackout, there could be changes or developments in applicable regulations or market structures that could have longer-term impact on our business and results of operations.

Despite federal and state deregulation initiatives, our generation business is still subject to extensive regulation, which may increase our costs, reduce our revenues, or prevent or delay operation of our facilities.

Our generation subsidiaries sell electricity into the wholesale market. Generally, our generation subsidiaries and our marketing subsidiaries are subject to regulation by the FERC. The FERC has authorized us to sell generation from our facilities and power from our marketing subsidiaries at market-based prices. The FERC retains the authority to modify or withdraw our market-based rate authority and to impose "cost of service" rates if it determines that the market is not competitive, that we possess market power or that we are not charging just and reasonable rates. Any reduction by the FERC in the rates we may receive or any unfavorable regulation of our business by state regulators could materially adversely affect our results of operations. See "Regulatory Issues - FERC Market-Based Rate Authority" in Note 13 to the Financial Statements for information regarding recent court decisions that could impact the FERC's market-based rate authority program.

In addition, the acquisition, construction, ownership and operation of electricity generation facilities require numerous permits, approvals, licenses and certificates from federal, state and local governmental agencies. We may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approvals or if we fail to obtain or maintain any required approval or fail to comply with any applicable law or regulation, the operation of our assets and our sales of electricity could be prevented or delayed or become subject to additional costs.

Our costs to comply with existing and new environmental and related worker health and safety laws are expected to continue to be significant, and we plan to incur significant capital expenditures for pollution control improvements that could adversely affect our profitability and liquidity or cause the continued operation of certain generation facilities to be uneconomic.

Our business is subject to extensive federal, state and local statutes, rules and regulations relating to environmental protection and worker health and safety. Numerous governmental authorities, such as the EPA and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them, oftentimes requiring difficult and costly response actions. These laws and regulations may impose numerous obligations that are applicable to our operations, including the acquisition of permits to conduct regulated activities, the incurrence of capital or operating expenditures to limit or prevent releases of hazardous materials from our operations, the imposition of specific standards addressing worker protection, and the imposition of substantial liabilities and remedial obligations for pollution or contamination resulting from our operations. To comply with existing and future environmental requirements and as a result of voluntary pollution control measures we may take, we have spent and expect to spend substantial amounts in the future on environmental control and compliance. Failure to comply with these laws, regulations and permits may result in joint and several, strict liability for administrative, civil and/or criminal penalties, the imposition of remedial obligations, and the issuance of injunctions limiting or preventing some or all of our operations. Private parties may also have the right to pursue legal actions to enforce compliance, as well as to seek damages for non-compliance, with environmental laws, regulations and permits or for personal injury or property damage.

Our operations also pose risks of environmental liability due to leakage, migration, releases or spills of hazardous substances to surface or subsurface soils, surface water or groundwater. Certain environmental laws impose strict as well as joint and several liability (that could result in an entity paying more than its fair share) for costs required to remediate and restore sites where hazardous substances, hydrocarbons, or solid wastes have been stored or released. We may be required to remediate contaminated properties currently or formerly owned or operated by us or facilities of third parties that received waste generated by our operations regardless of whether such contamination resulted from the conduct of others or from consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. In addition, claims for damages to persons or property, including natural resources, may result from the environmental, health and safety impacts of our operations.

The trend of more expansive and stringent environmental legislation and regulations applied to the power generation industry could continue, resulting in increased costs of doing business and consequently affecting profitability. Many states and environmental groups have challenged certain federal laws and regulations relating to air emissions, water discharge and intake requirements, and management of CCRs as not being sufficiently strict. As a result, state and federal regulations have been proposed or adopted that would impose more stringent restrictions, which could require us to significantly increase capital and operating expenditures for additional environmental controls. At some of our older generating facilities it may be uneconomic for us to install necessary environmental controls to comply with new or proposed regulations, which could cause us to retire those units.

We may not be able to obtain or maintain all environmental regulatory approvals necessary for our planned capital projects which are necessary to our business. If there is a delay in obtaining any required environmental regulatory approval or if we fail to obtain, maintain or comply with any such approval, operations at our affected facilities could be halted, reduced or subjected to additional costs.

We are subject to certain risks associated with nuclear generation, including the risk that our Susquehanna nuclear plant could become subject to increased security or safety requirements that would increase capital and operating expenditures, uncertainties regarding spent nuclear fuel, and uncertainties associated with decommissioning our plant at the end of its licensed life.

Nuclear generation accounted for about 32% of PPL Energy Supply's 2014 competitive power generation output. The risks of nuclear generation generally include:

- the potential harmful effects on the environment and human health from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;
- limitations on the amounts and types of insurance commercially available to cover losses and liabilities that might arise in connection with nuclear operations; and
- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives. The licenses for our two nuclear units expire in 2042 and 2044. See Note 19 to the Financial Statements for additional information on the ARO related to the decommissioning.

The NRC has broad authority under federal law to impose licensing requirements, including security, safety and employee-related requirements for the operation of nuclear generation facilities. In the event of noncompliance, the NRC has authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. In addition, revised security or safety requirements promulgated by the NRC, particularly in response to the 2011 incident in Fukushima, Japan, could necessitate substantial capital or operating expenditures at our Susquehanna nuclear plant. There also remains substantial uncertainty regarding the temporary storage and permanent disposal of spent nuclear fuel, which could result in substantial additional costs to us that cannot be predicted. In addition, although we have no reason to anticipate a serious nuclear incident at our Susquehanna nuclear plant, if an incident did occur, any resulting operational loss, damages and injuries could have a material adverse effect on our results of operations, cash flows and financial condition. See Note 13 to the Financial Statements for a discussion of nuclear insurance.

We plan to optimize our competitive power generation operations, which involves a number of uncertainties and may not achieve the desired financial results.

We plan to optimize our competitive power generation operations. We plan to do this through the construction of new power plants or modification of existing power plants, and the potential closure of certain existing plants and acquisition of plants that may become available for sale. These types of projects involve numerous risks. Any planned power plant modifications could result in cost overruns, reduced plant efficiency and higher operating and other costs. With respect to the construction of new plants or modification of existing plants, 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. The success of both a new or acquired project would likely be contingent, among other things, upon 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. Furthermore, we might be unable to operate any new or modified plants as efficiently as projected, which could result in higher than projected operating and other costs and reduced earnings.

Risks Related to All Segments

(All Registrants)

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

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 generation plants, including the Susquehanna nuclear plant, and of our energy and fuel trading businesses, as well as our transmission and distribution operations 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 damages to our reputation.

Adverse economic conditions could adversely affect our financial condition and results of operations.

Adverse economic conditions and the declines in wholesale energy prices, partially resulting from adverse economic conditions, have significantly impacted our earnings. The breadth and depth of these negative economic conditions had a wide-ranging impact on the U.S. business environment, including our businesses. In addition, adverse economic conditions also reduce the demand for electricity and natural gas and/or reduce our customers' ability to pay their bills. This reduced demand continues to impact the key domestic wholesale energy markets we serve (such as PJM) and our Pennsylvania and Kentucky utility businesses. The combination of lower demand for power and increased supply of natural gas has put downward price pressure on wholesale energy

markets in general, further impacting our energy marketing results. In general, economic and commodity market conditions will continue to impact our unhedged future energy margins, utility profits, liquidity, earnings growth and overall financial condition.

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 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 and self-generation by customers. This focus on conservation, energy efficiency and self-generation may result in a decline in electricity demand, which could in turn adversely affect our business.

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.

Disruption in financial markets could adversely affect our financial condition and results of operations.

Our businesses are heavily dependent on credit and access to capital, among other things, for financing capital expenditures and providing collateral to support hedging in our energy marketing business. Regulations under the Dodd-Frank Act in the U.S. and Basel III in Europe may impose costly additional requirements on our businesses and the businesses of others with whom we contract, such as banks or other counterparties, or simply result in increased costs to conduct our business or access sources of capital and liquidity upon which the conduct of our businesses is dependent.

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.

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, unseasonably mild weather or severe storms occur. The patterns of these fluctuations may

change depending on the type and location of our facilities and the terms of our contracts to sell electricity.

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 in preparing for or responding 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. We provide a similar level of benefits to our management employees. 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 be required to record impairment charges in the future for certain of our investments, which could adversely affect our earnings.

Under GAAP, we are required to test our recorded goodwill and indefinite-lived intangible assets for impairment on an annual basis, or more frequently if events or circumstances indicate that these assets may be impaired. Although no impairments were recorded based on our annual review in the fourth quarter of 2014, we are unable to predict whether future impairment charges may be necessary.

We also review our long-lived tangible and finite-lived intangible assets, including equity investments, for impairment when events or circumstances indicate that the carrying value of these assets may not be recoverable. See Notes 1 and 16 to the Financial Statements for additional information on impairment charges taken and analysis performed during the reporting periods. We are unable to predict whether impairment charges, or other losses on sales of other assets or businesses, may occur in future years.

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.

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 fully 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 federal, state and local 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. Instability and unrest in the Middle East, Afghanistan, Ukraine and Iraq, as well as threats of war or other armed conflict elsewhere, may cause further disruption to

financial and commercial markets and contribute to even higher levels of volatility in prices for oil and gas. In addition, unrest in the Middle East, Afghanistan, Ukraine and Iraq could lead to acts of terrorism in the United States 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

None.

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, 2014, WPD's distribution system in the U.K. includes 1,624 substations with a total capacity of 68 million kVA, 56,882 circuit miles of overhead lines and 80,672 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, electric 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 electric generating capacity at December 31, 2014 was:

Primary Fuel/Plant	Total MW Capacity Summer	LKE		LG&E		KU	
		Ownership or Lease Interest in MW	% Ownership	Ownership or Lease Interest in MW	% Ownership	Ownership or Lease Interest in MW	
Coal							
Ghent - Units 1- 4	1,932	1,932				100.00	1,932
Mill Creek - Units 1- 4	1,472	1,472	100.00	1,472			
E.W. Brown - Units 1-3	682	682				100.00	682
Cane Run - Units 4 - 6	563	563	100.00	563			
Trimble County - Unit 1 (a)	511	383	75.00	383			
Trimble County - Unit 2 (a)	732	549	14.25	104	60.75		445
Green River - Units 3- 4	161	161				100.00	161
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
	8,173	5,915		2,642			3,273
Natural Gas/Oil							
E.W. Brown Unit 5 (c)	134	134	53.00	71	47.00		63

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E.W. Brown Units 6 - 7 (d)	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	314	314	29.00	91	71.00	223
Trimble County Units 7 - 10	628	628	37.00	232	63.00	396
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 11	14	14	100.00	14		
	2,086	2,086		646		1,440
Hydro						
Ohio Falls - Units 1-8	54	54	100.00	54		
Dix Dam - Units 1-3	32	32			100.00	32
	86	86		54		32
Total	10,345	8,087		3,342		4,745

- (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) This unit is owned by OVEC. LG&E and KU have a power purchase agreement that entitles LG&E and KU to their proportionate share of the 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.
- (d) Includes a sale-leaseback interest through December 2017 on two combustion turbines. LG&E and KU provided funds to fully defease the lease including the purchase price for the period up to the exercise date of an early purchase option contained in the lease. LG&E and KU may exercise the early purchase option in 2015. The financial statement treatment of this transaction is the same as if LG&E and KU had retained their ownership interests.

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, 2014, LG&E's transmission system included in the aggregate, 45 substations (32 of which are shared with the distribution system) with a total capacity of 8 million kVA and 675 pole miles of lines. LG&E's distribution system included 97 substations (32 of which are shared with the transmission system) with a total capacity of

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5 million kVA, 3,881 circuit miles of overhead lines and 2,452 underground cable miles. KU's transmission system included 138 substations (58 of which are shared with the distribution system) with a total capacity of 14 million kVA and 4,079 pole miles of lines. KU's distribution system included 479 substations (58 of which are shared with the transmission system) with a total capacity of 7 million kVA, 14,084 circuit miles of overhead lines and 2,375 underground cable miles.

LG&E's natural gas transmission system includes 4,338 miles of gas distribution mains and 395 miles of gas transmission mains, consisting of 255 miles of gas transmission pipeline, 126 miles of gas transmission storage lines, 14 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. LG&E and KU plan to implement the following capacity increases and decreases at the following plants located in Kentucky.

Primary Fuel/Plant	Total Net Summer MW Capacity Increase / (Decrease)	LG&E		KU		Year of Incremental Capacity Increase / Decrease
		% Ownership	Ownership or Lease Interest in MW	% Ownership	Ownership or Lease Interest in MW	
Coal						
Cane Run - Units 4-6 - (a)	(563)	100.00	(563)			2015
Green River - Units 3-4 - (b)	(161)			100.00	(161)	2016
Total Capacity Decreases	(724)		(563)		(161)	
Natural Gas						
Cane Run - Unit 7 (c)	640	22.00	141	78.00	499	2015
Bluegrass Unit 3 (d)	165	100.00	165			2015
Solar						
E.W. Brown (e)	10	39.00	4	61.00	6	2016
	815		310		505	

**Total Capacity
Increases**

- (a) LG&E anticipates retiring these units by the end of 2015. See Notes 8 and 13 to the Financial Statements for additional information.
- (b) KU had anticipated retiring these units by the end of 2015, however KU received a waiver from the Commonwealth of Kentucky to operate these units until April 2016. See Notes 8 and 13 to the Financial Statements for additional information.
- (c) In May 2012, LG&E and KU received approval to build this unit at the existing Cane Run site. See Note 8 to the Financial Statements for additional information.
- (d) On August 26, 2014, LG&E and KU entered into a Capacity Purchase and Tolling Agreement with Bluegrass Generation Company, LLC. This agreement, which is effective May 1, 2015 through April 30, 2019, is an operating lease in which LG&E and KU will purchase capacity produced up to 165 MW for 30 hours each year.
- (e) In December 2014, LG&E and KU received approval from the KPSC to build this unit at the existing E.W. Brown site. See Note 8 to the Financial Statements for additional information.

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 had electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. At December 31, 2014, PPL Electric's transmission system includes 43 substations with a total capacity of 23 million kVA and 3,989 pole miles in service. PPL Electric's distribution system includes 352 substations with a total capacity of 13 million kVA, 37,211 circuit miles of overhead lines and 8,320 underground cable 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.

Supply Segment (PPL and PPL Energy Supply)

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

The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances. PPL Energy Supply's electric generating capacity (summer rating) at December 31, 2014 was as follows.

Primary Fuel/Plant	Total MW Capacity	% Ownership	PPL Energy Supply's Ownership in MW	Location
Natural Gas/Oil				
Martins Creek	1,700	100.00	1,700	Pennsylvania
Ironwood	660	100.00	660	Pennsylvania
Lower Mt. Bethel	538	100.00	538	Pennsylvania
Combustion turbines	354	100.00	354	Pennsylvania
	3,252		3,252	
Coal				
Montour	1,504	100.00	1,504	Pennsylvania
Brunner Island	1,411	100.00	1,411	Pennsylvania
Colstrip Units 1 & 2 (a)	614	50.00	307	Montana
Conemaugh (a)	1,711	16.25	278	Pennsylvania
Colstrip Unit 3 (a)	740	30.00	222	Montana
Keystone (a)	1,710	12.34	211	Pennsylvania
Corette (b)	148	100.00	148	Montana
	7,838		4,081	
Nuclear				
Susquehanna (a)	2,494	90.00	2,245	Pennsylvania
Hydro				
Holtwood	249	100.00	249	Pennsylvania
Wallenpaupack	44	100.00	44	Pennsylvania
	293		293	
Qualifying Facilities				
Renewables (c)	16	100.00	16	Pennsylvania
Renewables	9	100.00	9	Various
	25		25	
Total	13,902		9,896	

(a) This unit is jointly owned. Each owner is entitled to its proportionate share of the unit's total output and funds its proportionate share of fuel and other operating costs. See Note 12 to the Financial Statements for additional

information.

- (b) Operations will be suspended at the Corette plant by April 2015 and the plant is expected to be retired in August 2015.
- (c) Includes facilities owned, controlled or for which PPL Energy Supply has the rights to the output.

As a condition of obtaining FERC approval of the spinoff transaction, certain of the above plants will be divested. See "Item 1. Business - General - Anticipated Spinoff of PPL Energy Supply" for additional information.

Amounts guaranteed by PPL Montour and PPL Brunner Island in connection with an \$800 million secured energy marketing and trading facility are secured by liens on the generating facilities owned by PPL Montour and PPL Brunner Island. See Note 7 to the Financial Statements for additional information.

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.

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 30, 2015, there were 62,423 common stock shareowners of record.

There were no purchases by PPL of its common stock during the fourth quarter of 2014.

PPL Energy Supply, LLC

There is no established public trading market for PPL Energy Supply's membership interests. PPL Energy Funding, a direct wholly owned subsidiary of PPL, owns all of PPL Energy Supply's outstanding membership interests. Distributions on the membership interests will be paid as determined by PPL Energy Supply's Board of Managers.

PPL Energy Supply made cash distributions to PPL Energy Funding of \$1.9 billion in 2014 and \$408 million in 2013.

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 \$158 million in 2014 and \$127 million in 2013.

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 will be paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of \$436 million in 2014 and \$254 million in 2013.

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 \$112 million in 2014 and \$99 million in 2013.

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 \$148 million in 2014 and \$124 million in 2013.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2014	2013	2012	2011 (c)	2010 (c)
Income Items (in millions)					
Operating revenues	\$ 11,499	\$ 11,721	\$ 12,132	\$ 12,580	\$ 8,370
Operating income	3,272	2,278	3,026	2,950	1,826
Income from continuing operations after income taxes					
attributable to PPL shareowners	1,583	1,096	1,486	1,399	937
Net income attributable to PPL shareowners					
	1,737	1,130	1,526	1,495	938
Balance Sheet Items (in millions) (d)					
Total assets	48,864	46,259	43,634	42,648	32,837
Short-term debt	1,466	701	652	578	694
Long-term debt	20,391	20,907	19,476	17,993	12,663
Noncontrolling interests			18	268	268
Common equity	13,628	12,466	10,480	10,828	8,210
Total capitalization	35,485	34,074	30,626	29,667	21,835
Financial Ratios					
Return on average common equity - %	13.0	9.8	13.8	14.9	13.3
Ratio of earnings to fixed charges (e)	3.1	2.1	2.9	2.9	2.6
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	665,849	630,321	581,944	578,405	483,391
Weighted-average	653,504	608,983	580,276	550,395	431,345
Income from continuing operations after income taxes					
available to PPL common shareowners - Basic EPS	\$ 2.41	\$ 1.79	\$ 2.55	\$ 2.53	\$ 2.16
Income from continuing operations after income taxes					
available to PPL common shareowners - Diluted EPS	\$ 2.38	\$ 1.71	\$ 2.54	\$ 2.53	\$ 2.16
Net income available to PPL common shareowners -					
Basic EPS	\$ 2.64	\$ 1.85	\$ 2.61	\$ 2.71	\$ 2.17
Net income available to PPL common shareowners -					
Diluted EPS	\$ 2.61	\$ 1.76	\$ 2.60	\$ 2.70	\$ 2.17
Dividends declared per share of common stock					
	\$ 1.49	\$ 1.47	\$ 1.44	\$ 1.40	\$ 1.40
Book value per share (d)	\$ 20.47	\$ 19.78	\$ 18.01	\$ 18.72	\$ 16.98
Market price per share (d)	\$ 36.33	\$ 30.09	\$ 28.63	\$ 29.42	\$ 26.32
Dividend payout ratio - % (f)	57	84	55	52	65
Dividend yield - % (g)	4.1	4.9	5.0	4.8	5.3

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Price earnings ratio (f) (g)	13.9	17.1	11.0	10.9	12.1
Sales Data - GWh					
Domestic - Electric energy supplied - retail	46,368	44,564	42,379	40,147	14,595
Domestic - Electric energy supplied - wholesale (h)	57,355	61,124	54,958	63,701	74,105
Domestic - Electric energy delivered - retail	68,569	67,848	66,931	67,806	42,463
U.K. - Electric energy delivered	75,813	78,219	77,467	58,245	26,820

- (a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Results" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2014, 2013 and 2012. The earnings were also affected by the sales of various businesses. See Note 8 to the Financial Statements for a discussion of discontinued operations in 2014, 2013 and 2012.
- (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) 2011 includes eight months of WPD Midlands activity following the April 1, 2011 acquisition, as PPL consolidates WPD on a one-month lag. 2010 includes two months of LKE activity following the November 1, 2010 acquisition.
- (d) As of each respective year-end.
- (e) 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.
- (f) Based on diluted EPS.
- (g) Based on year-end market prices.
- (h) GWh are included until the transaction closing for facilities that were sold.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Energy Supply, LLC, 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 Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

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

(All Registrants)

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

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

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

- "Overview" provides a description of each Registrant's business strategy, a description of key factors expected to impact future earnings and a discussion of important financial and operational developments.
- "Results of Operations" for PPL provides a detailed analysis of earnings by segment, and for the Subsidiary Registrants, includes a summary of earnings. For all Registrants, "Margins" provides explanations of non-GAAP financial measures and "Statement of Income Analysis" addresses significant changes in principal line items on the Statements of Income, comparing 2014 with 2013 and 2013 with 2012.
- "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."

Business Strategy

(All Registrants except PPL Energy Supply)

The strategy for the regulated businesses of WPD, PPL Electric, LKE, LG&E and KU is to provide efficient, reliable and safe operations and strong customer service, maintain constructive regulatory relationships and achieve timely recovery of costs. These regulated businesses also focus on providing competitively priced energy to customers and achieving stable, long-term growth in earnings and rate base, or RAV, as applicable. Both rate base and RAV are expected to grow for the foreseeable future as a result of significant capital expenditure programs to maintain existing assets and to improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities. Future RAV for WPD will also be affected by RIIO-ED1, effective April 1, 2015, as the recovery period for assets placed in service after that date will be extended from 20 to 45 years, with a transitional arrangement that will gradually change the life over the price control period that will result in an average life of 35 years for RAV additions during RIIO-ED1. The RAV balance at March 31, 2015 will continue to be recovered over 20 years. In addition, incentive targets have been adjusted in RIIO-ED1, resulting in lower overall incentive revenues available to be earned. See "Financial

and Operational Developments - Other Financial and Operational Developments - RIIO-ED1 - Fast Tracking" below for additional information.

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

For the U.K. regulated businesses, during the rate review period applicable for the eight year period beginning April 1, 2015, 80% of network related expenditures are added to the RAV and, together with adjustments for inflation and a return on the RAV, recovered through allowed revenue over 35 years (45 years for additions after April 1, 2023); RAV is intended to represent expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses) with other expenditures being recovered in the current year. The RAV balance at March 31, 2015 will continue to be recovered over 20 years.

(PPL)

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

(PPL and PPL Energy Supply)

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off to PPL shareowners a newly formed entity, Talen Energy Holdings, Inc. (Holdco), which at such time will own all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy. Immediately following the spinoff, Holdco will merge with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power will be contributed by its owners to become a subsidiary of Talen Energy. Following completion of these transactions, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy.

See "Item 1. Business," "Item 1A. Risk Factors" and "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" below for additional information.

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

cash flow during this current period of low energy and capacity prices.

(All Registrants)

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain targeted credit profiles and liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to, as applicable, changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of generating units. To manage these risks, PPL generally uses contracts such as forwards, options, swaps and insurance contracts.

Financial and Operational Developments

Earnings (PPL)

PPL's earnings by reportable segment were as follows:

	2014	2013	2012	2014 vs. 2013	\$ Change 2013 vs. 2012
U.K. Regulated	\$ 982	\$ 922	\$ 803	\$ 60	\$ 119
Kentucky Regulated	312	307	177	5	130
Pennsylvania Regulated	263	209	132	54	77
Supply (a)	307	(272)	414	579	(686)
Corporate and Other (b)	(127)	(36)		(91)	(36)
Net Income Attributable to PPL Shareowners	\$ 1,737	\$ 1,130	\$ 1,526	\$ 607	\$ (396)
EPS - basic	\$ 2.64	\$ 1.85	\$ 2.61	\$ 0.79	\$ (0.76)
EPS - diluted (c)	\$ 2.61	\$ 1.76	\$ 2.60	\$ 0.85	\$ (0.84)

- (a) In November 2014, PPL Montana completed the sale of 633MW of hydroelectric generating facilities to NorthWestern. PPL recognized a pre-tax gain of \$237 million (\$137 million after-tax) as a result of the transaction. 2013 includes a charge of \$697 million (\$413 million after-tax) for the termination of the operating lease of the Colstrip coal-fired electricity generating facility and an impairment charge of \$65 million (\$39 million after-tax) for the Corette coal-fired plant and related emission allowances. See Notes 8 and 16 to the Financial Statements for additional information.
- (b) 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. 2014 includes most of the costs related to the anticipated spinoff of PPL Energy Supply. See the following table of special items for additional information. For 2012, there were no significant amounts in this category.
- (c) See "2011 Equity Units" below and Note 4 to the Financial Statements for information on the Equity Units' impact on the calculation of 2014 and 2013 diluted EPS.

The following after-tax gains (losses), in total, which management considers special items, impacted PPL's results.

	2014	2013	2012
U.K. Regulated	\$ 75	\$ 67	\$ 107
Kentucky Regulated		3	(16)
Pennsylvania Regulated	(2)		
Supply	110	(531)	18
Corporate and Other (a)	(75)		
Total PPL	\$ 108	\$ (461)	\$ 109

- (a) 2014 includes \$46 million of deferred income tax expense to adjust valuation allowances on deferred tax assets for state net operating loss carryforwards, \$17 million of external transition and transaction costs and \$12 million of PPL Services' separation benefits related to the anticipated spinoff of PPL Energy Supply. See Note 8 to the Financial Statements for additional information.

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

2015 Outlook

(PPL)

Higher earnings are expected in 2015 compared with 2014, after adjusting for special items, certain dissynergies reflected in the Corporate and Other category previously recorded in the Supply segment, and earnings from the Supply segment. The factors underlying these projections by segment and Subsidiary Registrant are discussed below (on an after-tax basis).

(PPL's U.K. Regulated Segment)

Higher earnings are projected in 2015 compared with 2014, primarily driven by lower income taxes and a more favorable foreign currency exchange rate, partially offset by lower utility revenue.

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

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

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Lower earnings are projected in 2015 compared with 2014, primarily driven by higher operation and maintenance expense, higher depreciation and higher financing costs, partially offset by higher transmission margins and returns on distribution improvement capital investments.

(PPL's Supply Segment and PPL Energy Supply)

In anticipation of the spinoff of PPL Energy Supply, no forward looking information, including an earnings forecast, is being provided for PPL's Supply segment and PPL Energy Supply for 2015.

(PPL's Corporate and Other Category)

Lower costs are projected in 2015 compared with 2014, primarily driven by the reduction of dissynergies related to the Supply business spinoff through corporate restructuring efforts and lower income taxes.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "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.

Other Financial and Operational Developments

Economic and Market Conditions

(All Registrants except PPL Electric)

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

(PPL and PPL Energy Supply)

As a result of current economic and market conditions, the announced transaction with affiliates of Riverstone to form Talen Energy, PPL Energy Supply's current sub-investment grade credit rating and Talen Energy's expected sub-investment grade credit rating, PPL Energy Supply continues to monitor its business and operational plans, including capital and operation and maintenance expenditures, its hedging strategies and potential plant modifications to burn lower cost fuels. See "Margins - Changes in Non-GAAP Financial Measures - Unregulated Gross Energy Margins" below for additional information on energy margins. 2014 energy margins were lower compared to 2013 due to a higher average hedge price in 2013, partially offset by higher pricing on unhedged generation.

(PPL, LKE, LG&E and KU)

As a result of the environmental requirements discussed above, LKE projects \$2.2 billion (\$1.1 billion each at LG&E and KU) in capital investment over the next five years and anticipates retiring five coal-fired units (three at LG&E in 2015 and two at KU in 2016) with a combined summer capacity rating of 724 MW (563 MW at LG&E and 161 MW at KU). KU retired a 71 MW coal-fired unit at the Tyrone plant in February 2013 and a 12 MW gas-fired unit at the Haebling plant in December 2013. The retirement of these units is not expected to have a material impact on the financial condition or results of operations of PPL, LKE, LG&E and KU. See Note 8 to the Financial Statements for additional information regarding the anticipated retirement of these units as well as the construction of a NGCC in Kentucky expected to be operational in May 2015 and a 10 MW solar facility expected to be operational in 2016.

The KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on certain construction work-in-progress) that provide for timely recovery of prudently incurred costs (including

costs associated with environmental requirements). The Kentucky utility businesses are impacted by changes in customer usage levels, which can be driven by a number of factors including weather conditions and economic factors that impact the load utilized by customers.

(All Registrants)

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

Labor Union Agreements

(PPL, PPL Energy Supply and PPL Electric)

PPL, PPL Energy Supply and PPL Electric finalized a new three-year labor agreement with IBEW local 1600 in May 2014 and the agreement was ratified in early June 2014. As part of efforts to reduce operations and maintenance expenses, the new agreement offered a one-time voluntary retirement window to certain bargaining unit employees. As a result, for the year ended December 31, 2014, the following total separation benefits have been recorded.

	PPL	PPL Energy Supply	PPL Electric
Pension Benefits	\$ 13	\$ 11	\$ 2
Severance Compensation	7	6	1
Total Separation Benefits	\$ 20	\$ 17	\$ 3
Number of Employees	123	105	17

The separation benefits are included in "Other operation and maintenance" on the Statement of Income. The liability for pension benefits is included in "Accrued pension obligations" on the Balance Sheet at December 31, 2014. All of the severance compensation was paid in 2014. The remaining terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL, PPL Energy Supply or PPL Electric.

Anticipated Spinoff of PPL Energy Supply

(PPL, PPL Energy Supply and PPL Electric)

Following the announcement of the transaction to form Talen Energy as discussed in "Item 1. Business - General - Anticipated Spinoff of PPL Energy Supply", efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans and staffing selections were substantially completed in 2014.

The new organizational plans identify the need to resize and restructure the organizations. As a result, during 2014, charges for employee separation benefits were recorded in "Other operation and maintenance" on the Statement of Income and in "Other current liabilities" on the Balance Sheet as follows.

PPL Energy PPL

	PPL	Supply	Electric
Separation benefits	\$ 36	\$ 16	\$ 1
Number of positions	306	112	14

The separation benefits incurred include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. Most separations and payment of separation benefits are expected to occur in 2015.

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

(PPL)

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

In addition, PPL recorded \$27 million of third-party costs in 2014 related to this transaction. Of these costs, \$19 million were primarily for investment bank advisory, legal and accounting fees to facilitate the transaction, and are recorded in "Other Income (Expense) - net" on the Statement of Income. An additional \$8 million of consulting and other costs were incurred to ready the new Talen Energy organization and reconfigure the remaining PPL service functions. These costs are recorded in "Other operation and maintenance" on the Statement of Income. PPL currently estimates a range of total third-party costs that will ultimately be incurred of between \$60 million and \$70 million.

The assets and liabilities of PPL Energy Supply will continue to be classified as "held and used" on PPL's Balance Sheet until the closing of the transaction. In conducting its annual goodwill impairment assessment in the fourth quarter of 2014 for its Supply segment reporting unit, PPL determined that the estimated fair value of PPL Energy Supply exceeded its carrying value and no impairment was recognized. However, an impairment loss could be recognized by PPL at the spinoff date if the aggregate carrying amount of PPL Energy Supply's assets and liabilities exceeds its aggregate fair value at that date. PPL cannot predict whether an impairment loss will be recorded at the spinoff date.

(PPL Energy Supply)

In accordance with business combination accounting guidance, PPL Energy Supply will treat the combination with RJS Power as an acquisition and PPL Energy Supply will be considered the acquirer of RJS Power.

Montana Hydro Sale (PPL and PPL Energy Supply)

In November 2014, PPL Montana completed the sale to NorthWestern of 633 MW of hydroelectric generating facilities located in Montana for approximately \$900 million in cash. As a result of the sale, PPL and PPL Energy Supply recorded gains of \$237 million (\$137 million after-tax) and \$306 million (\$206 million after-tax), included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2014 Statement of Income. See Note 8 to the Financial Statements for additional information including the components of Discontinued Operations.

(PPL)

Ofgem Review of Line Loss Calculation

In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during the first quarter of 2014, WPD increased its existing liability by \$65 million for over-recovery of line losses with a reduction to "Utility" revenues on the Statement of Income. In June 2014, WPD applied for judicial review of certain of Ofgem's decisions related to closing out the DPCR4 line loss mechanism but was denied permission to apply for judicial review and WPD now considers the matter closed. The recorded liability at December 31, 2014 was \$99 million. The total recorded liability will be refunded to customers from April 1, 2015 through March 31, 2019. See Note 6 to the Financial Statements for additional information.

RIIO-ED1 - Fast Tracking

In February 2014, WPD elected to accept the decision of Ofgem to set the real cost of equity to be used during the RIIO-ED1 period at 6.4% compared to 6.7% proposed by WPD, and remain in the fast-track process. The change in the cost of equity is not expected to have a significant impact on PPL's results of operations. Also, in February 2014, Ofgem published formal confirmation that WPD's Business Plans submitted by its four DNOs were accepted as submitted, or "fast-tracked," for the eight-year price control period starting April 1, 2015. Fast tracking affords several benefits to the WPD DNOs including the ability to collect additional revenue equivalent to 2.5% of total annual expenditures during the eight-year price control period, or approximately \$43 million annually, greater revenue certainty and a higher level of cost savings retention. The period to challenge the fast tracking expired in June 2014 and no third parties have filed objections. See "Item 1. Business - Segment Information - U.K. Regulated Segment" for additional information on RIIO-ED1.

Distribution Revenue Reduction

In December 2013, WPD and other U.K. DNOs announced agreements with the U.K. Department of Energy and Climate Change and Ofgem to a reduction of £5 per residential customer of electricity distribution revenues that otherwise would have been collected in the regulatory year beginning April 1, 2014. Full recovery of the revenue reduction, together with the associated carrying cost, was expected to occur during the regulatory year beginning April 1, 2015 for three of the WPD DNOs, and over the eight year RIIO-ED1 regulatory period for the fourth DNO. However, in July 2014, Ofgem decided that full recovery will occur for all WPD DNOs in the regulatory year beginning April 1, 2016. Earnings for the U.K. Regulated segment were adversely affected by \$31 million in 2014. PPL projects earnings in 2015 will be adversely affected by \$15 million and earnings for 2016 will be positively affected by \$32 million with the remainder to be recovered in later periods.

2011 Equity Units

In March 2014, PPL Capital Funding remarketed \$978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired \$228 million of the 4.32% Junior Subordinated Notes due 2019 and issued \$350 million of 2.189% Junior Subordinated Notes due 2017 and \$400 million of 3.184% Junior Subordinated Notes due 2019. Simultaneously the newly issued Junior Subordinated Notes were exchanged for \$350 million of 3.95% Senior Notes due 2024 and \$400 million of 5.00% Senior Notes due 2044. In May 2014, PPL issued 31.7 million shares of common stock at \$30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of \$978 million, which were used to repay short-term debt and for general corporate purposes.

Kerr Dam Project Arbitration Decision and Impairment (PPL Energy Supply)

PPL Montana previously held a joint operating license issued for the Kerr Dam Project, which was sold to NorthWestern as part of the Montana hydro sale in November 2014. Between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam Project. In March 2014, an arbitration panel issued its final decision holding that the conveyance price payable by the Tribes for the Kerr Dam Project is \$18 million. As a result of the decision and the Tribes having given notice of their intent to exercise the option, in the first quarter of 2014 PPL Energy Supply recorded an impairment charge of \$18 million (\$10 million after-tax) to reduce the carrying amount to its fair value. See Note 16 to the Financial Statements for additional information on the impairment. Additionally, as a result of a guarantee included in the sale agreement with NorthWestern, if the Tribes exercise their option and purchase the Kerr Dam Project for \$18 million as expected, PPL Montana must pay NorthWestern \$12 million, which is recorded as a liability on the Balance Sheet at December 31, 2014.

Susquehanna Turbine Blade Inspection (PPL and PPL Energy Supply)

PPL Susquehanna continues to make modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant first identified in 2011. Unit 1 completed its planned refueling and turbine inspection outage in June 2014 and installed newly designed shorter last stage blades on one of the low pressure turbines. This change allowed Unit 1 to run with reduced blade vibration and no cracking during 2014. In the first, second and third quarters of 2014, Unit 2 was shut down for blade inspection and replacement, as well as additional maintenance. The financial impact of the Unit 2 outages was not material. Based on the positive experience on Unit 1, the same short blade modification will be installed on two of the three turbines on Unit 2 during the scheduled refueling outage in spring 2015. PPL Susquehanna continues to monitor blade performance and work with the turbine manufacturer to identify and resolve the issues causing blade cracking.

Regional Transmission Expansion Plan (PPL and PPL Electric)

In July 2014, PPL Electric announced that it had submitted a proposal to PJM to build a new regional transmission line. As currently proposed, PPL Electric is pursuing approval of this project from Pennsylvania, New Jersey, New York and Maryland. The proposed line would run from western Pennsylvania into New York and New Jersey and also south into Maryland, covering approximately 725 miles. The proposed line would enhance the ability to move power inter-regionally and intra-regionally improving reliability and cost effectiveness. As proposed, the project would begin in 2017 and the line would be in operation between 2023 and 2025. The project is estimated to cost \$4 billion to \$6 billion and requires numerous approvals from FERC, PJM and New York Independent System Operator. There can be no assurance, however, that the project will be approved as proposed. Additionally, PPL Electric is continuing to study the project and may modify it in the future.

Storm Damage Expense Rider (SDER) (PPL Electric)

In its December 28, 2012 final rate case order, the PUC directed PPL Electric to file a proposed SDER. In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. In April 2014, the PUC issued a final order approving the SDER with a January 1, 2015 effective date and initially including actual storm costs compared to collections from December 2013 through November 2014. As a result of the order, PPL Electric reduced its 2013 regulatory liability by \$12 million related to collections in excess of costs incurred from January 1, 2013 to November 30, 2013 that are not required to be refunded to customers. Also, as part of the order, PPL Electric was authorized to recover Hurricane Sandy storm damage costs through the SDER over a three-year period beginning January 2015. On June 20, 2014, the Office of Consumer Advocate (OCA) filed a petition for review of the April 2014 order with the Commonwealth Court of Pennsylvania. On December 3, 2014, the OCA filed a complaint against PPL Electric's initial SDER filing. In January 2015, the PUC issued a final order closing the investigation and modifying the effective date of the SDER to February 1, 2015. See "Pennsylvania Activities - Storm Damage Expense Rider" in Note 6 to the Financial Statements for additional information.

FERC Wholesale Formula Rates (LKE and KU)

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

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

On November 26, 2014, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately \$30 million at LG&E and approximately \$153 million at KU and an increase in annual base gas rates of approximately \$14 million at LG&E. The proposed base rate increases would result in electricity rate increases of 2.7% at LG&E and 9.6% at KU and a gas rate increase of 4.2% at LG&E and would become effective in July 2015. LG&E's and KU's applications each include a request for authorized returns-on-equity of 10.50%. The applications are based on a forecasted test year of July 1, 2015 through June 30, 2016. A number of parties have been granted intervention requests in the proceedings. A hearing on the applications is scheduled to commence on April 21, 2015. LG&E and KU cannot predict the outcome of these proceedings.

Results of Operations

(PPL)

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

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

(Subsidiary Registrants)

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

PPL Segment Earnings, Margins and Statement of Income Analysis

Segment Earnings

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from British pound sterling into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and allocated financing costs. The U.K. Regulated segment represents 57% of Net Income Attributable to PPL Shareowners for 2014 and 33% of PPL's assets at December 31, 2014.

Net Income Attributable to PPL Shareowners includes the following results:

	2014	2013	2012	\$ Change	
				2014 vs.	2013 vs.
				2013	2012
Utility revenues	\$ 2,573	\$ 2,359	\$ 2,289	214	70
Energy-related businesses	48	44	47	4	(3)
Total operating revenues	2,621	2,403	2,336	218	67
Other operation and maintenance	451	470	451	(19)	19
Depreciation	337	300	279	37	21
Taxes, other than income	157	147	147	10	
Energy-related businesses	31	29	34	2	(5)
Total operating expenses	976	946	911	30	35
Other Income (Expense) - net	127	(39)	(51)	166	12
Interest Expense	461	425	421	36	4
Income Taxes	329	71	150	258	(79)
Net Income Attributable to PPL Shareowners	\$ 982	\$ 922	\$ 803	60	119

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

additional detail of the special items.

		2014 vs. 2013	2013 vs. 2012
U.K.			
	Utility revenues	\$ 92	\$ 240
	Other operation and maintenance	46	(40)
	Depreciation	(19)	(25)
	Interest expense	(15)	(10)
	Other	4	1
	Income taxes	(24)	
U.S.			
	Interest expense and other	4	(1)
	Income taxes	(41)	1
	Foreign currency exchange, after-tax	5	(7)
	Special items, after-tax	8	(40)
	Total	\$ 60	\$ 119

U.K.

- Higher utility revenues in 2014 compared with 2013 primarily due to \$194 million from the April 1, 2014 and 2013 price increases, partially offset by \$88 million from lower volume due primarily to weather and \$8 million from lower third-party engineering revenue.

Higher utility revenues in 2013 compared with 2012 primarily due to the April 1, 2013 and 2012 price increases.

- Lower other operation and maintenance in 2014 compared with 2013 primarily due to \$38 million from lower pension expense and \$9 million from lower third-party engineering expense.

Higher other operation and maintenance for 2013 compared with 2012 primarily due to higher network maintenance expense.

- Higher depreciation expense for both periods primarily due to PP&E additions, net.
- Higher interest expense in 2014 compared with 2013 primarily due to an October 2013 debt issuance.

Higher interest expense in 2013 compared with 2012 primarily due to debt issuances in April 2012 and October 2013.

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

Income taxes in 2013 compared with 2012 were flat despite higher pre-tax income primarily due to lower U.K. tax rates.

U.S.

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

Lower income taxes in 2013 compared with 2012 primarily due to a \$42 million adjustment related to an IRS ruling regarding 2010 U.K. earnings and profits calculations, partially offset by a \$27 million increase in taxable dividends.

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

	Income Statement Line Item	2014	2013	2012
	Other Income			
Foreign currency-related economic hedges, net of tax of (\$68), \$15, \$18 (a)	(Expense) - net	\$ 127	\$ (29)	\$ (33)
WPD Midlands acquisition-related adjustments:				
	Other operation and maintenance			
Separation benefits, net of tax of \$0, \$1, \$4 (b)			(4)	(11)
Other acquisition-related adjustments, net of tax of \$0, (\$2), (\$1)			8	2

Other:

Change in U.K. income tax rate (c)	Income Taxes	84	75
Windfall Profits Tax litigation (d)	Income Taxes	43	
Change in WPD line loss accrual, net of tax of \$13, \$10, (\$23) (e)	Utility	(52)	(35) 74
Total		\$ 75	\$ 67 \$ 107

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.

(b) Represents severance compensation and early retirement deficiency costs

(c) The U.K. Finance Act of 2013, enacted in July 2013, reduced the U.K.'s statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20%, effective April 1, 2015. The U.K. Finance Act of 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in 2013 and 2012.

(d) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling by the U.S. Court of Appeals for the Third Circuit concerning the creditability of the U.K. Windfall Profits Tax for U.S. Federal income tax purposes. As a result, PPL recorded a \$43 million income tax benefit in 2013. See Note 5 to the Financial Statements for additional information.

(e) In November 2012, Ofgem issued additional consultation on the final DPCR4 line loss close-out that published values for each DNO. Based on this, WPD Midlands reduced its line loss liability for DPCR4 and DPCR5 by a total of \$97 million, pre-tax, in 2012. In 2013, WPD Midlands increased its line loss accrual by \$45 million, pre-tax, based on additional information provided by Ofgem regarding the calculation. In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, WPD increased its existing liability by \$65 million, pre-tax, for over-recovery of line losses. See Note 6 to the Financial Statements for additional information.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 18% of Net Income Attributable to PPL Shareowners for 2014 and 27% of PPL's assets at December 31, 2014.

Net Income Attributable to PPL Shareowners includes the following results:

	2014	2013	2012	2014 vs. 2013	\$ Change 2013 vs. 2012
Utility revenues	\$ 3,168	\$ 2,976	\$ 2,759	\$ 192	\$ 217
Fuel	965	896	872	69	24
Energy purchases	253	217	195	36	22
Other operation and maintenance	815	778	778	37	
Depreciation	354	334	346	20	(12)
Taxes, other than income	52	48	46	4	2
Total operating expenses	2,439	2,273	2,237	166	36
Other Income (Expense) - net	(9)	(7)	(15)	(2)	8
Other-Than-Temporary Impairments			25		(25)
Interest Expense	219	212	219	7	(7)
Income Taxes	189	179	80	10	99
Income (Loss) from Discontinued Operations (net of income taxes)		2	(6)	(2)	8
Net Income Attributable to PPL Shareowners	\$ 312	\$ 307	\$ 177	\$ 5	\$ 130

The changes in the results of the Kentucky Regulated segment between these periods were due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See below for additional detail of the special items.

	2014 vs. 2013	2013 vs. 2012
Kentucky Gross Margins	\$ 78	\$ 220
Other operation and maintenance	(35)	(5)
Depreciation	(14)	(34)
Taxes, other than income	(3)	(1)
Other Income (Expense) -net	(1)	7
Interest Expense	(7)	7
Income Taxes	(10)	(83)
Special items, after-tax	(3)	19
Total	\$ 5	\$ 130

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

- Higher other operation and maintenance in 2014 compared with 2013 primarily due to \$14 million of higher expenses due to the timing and scope of scheduled generation maintenance outages, \$9 million of higher bad debt expense and higher storm expenses of \$8 million.
- Higher depreciation in 2014 compared with 2013 due to additions to PP&E, net.
- Higher depreciation in 2013 compared with 2012 primarily due to environmental costs related to the 2005 and 2006 ECR plans now being included in base rates. As a result, \$51 million of depreciation associated with those environmental projects is shown as depreciation in 2013. Depreciation for these ECR plans was included in Kentucky Gross Margins in 2012 and 2011. This increase was partially offset by lower depreciation due to revised rates that were effective January 1, 2013. Both events are the result of the 2012 rate case proceedings.
- Higher interest expense in 2014 compared with 2013 primarily due to \$22 million of higher expense resulting from the issuance of \$500 million of First Mortgage Bonds in November 2013 and higher short-term debt balances partially offset by a \$10 million loss on extinguishment of debt in 2013 related to the remarketing of the PPL Capital Funding Junior Subordinated Notes component of the 2010 Equity Units and simultaneous exchange into Senior Notes in the second quarter of 2013, and a \$5 million decrease due to lower rates on the related Senior Notes as compared with the Junior Subordinated Notes.

- Higher income taxes in 2013 compared with 2012 primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Kentucky Regulated segment's results.

	Income Statement Line Item	2014	2013	2012
Impairments:				
	Other asset impairments, net of tax of \$0, \$0, \$10 (a)			\$ (15)
				Other-Than-Temporary-Impairments
LKE acquisition-related adjustments:				
				Income Taxes and Other operation
	Net operating loss carryforward and other tax-related adjustments			4
				and maintenance
Other:				
	LKE discontinued operations (b)		\$ 2	(5)
				Discontinued Operations
	EEI adjustments, net of tax of \$0, \$0, \$0 (c)			1
				Other Income (Expense) - net
Total			\$ 3	\$ (16)

(a) KU recorded an impairment of its equity method investment in EEI. See Note 16 to the Financial Statements for additional information.

(b) 2012 includes an adjustment recorded by LKE to an indemnification liability.

(c) Recorded by KU.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. The Pennsylvania Regulated segment represents 15% of Net Income Attributable to PPL Shareowners for 2014 and 16% of PPL's assets at December 31, 2014.

Net Income Attributable to PPL Shareowners includes the following results:

	2014	2013	2012	\$ Change	
				2014 vs. 2013	2013 vs. 2012
Utility revenues	\$ 2,044	\$ 1,870	\$ 1,763	\$ 174	\$ 107
Energy purchases					
External	587	588	550	(1)	38
Intersegment	84	51	78	33	(27)
Other operation and maintenance	543	531	576	12	(45)
Depreciation	185	178	160	7	18
Taxes, other than income	107	103	105	4	(2)
Total operating expenses	1,506	1,451	1,469	55	(18)
Other Income (Expense) - net	7	6	9	1	(3)
Interest Expense	122	108	99	14	9

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Income Taxes	160	108	68	52	40
Net Income	263	209	136	54	73
Net Income Attributable to Noncontrolling Interests			4		(4)
Net Income Attributable to PPL Shareowners	\$ 263	\$ 209	\$ 132	\$ 54	\$ 77

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

	2014 vs. 2013	2013 vs. 2012
Pennsylvania Gross Delivery Margins	\$ 118	\$ 114
Other operation and maintenance	13	23
Depreciation	(7)	(18)
Taxes, other than income		5
Other Income (Expense) - net	1	(3)
Interest Expense	(14)	(9)
Income Taxes	(55)	(39)
Noncontrolling Interests		4
Special Item, after tax	(2)	
Total	\$ 54	\$ 77

- See "Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Lower other operation and maintenance for 2014 compared with 2013, primarily due to \$16 million of lower payroll related expenses due to lower headcount, less maintenance projects and more focus on capital work in 2014.

Lower other operation and maintenance for 2013 compared with 2012, primarily due to lower storm costs of \$25 million and lower support group costs of \$10 million, partially offset by \$12 million increased vegetation management costs.

- Higher depreciation for both periods primarily due to transmission PP&E additions as well as additions related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure.
- Higher interest expense for both periods primarily due to the issuance of first mortgage bonds in July 2013 and June 2014.
- Higher income taxes in 2014 compared with 2013, primarily due to higher pre-tax income which increased income taxes by \$46 million and tax benefits related to federal and state income tax reserves of \$8 million in 2013.

Higher income taxes in 2013 compared with 2012, primarily due to higher pre-tax income which increased income taxes by \$47 million, partially offset by \$8 million of income tax return adjustments primarily recorded in 2012, largely related to changes in flow-through regulated tax depreciation.

The following after-tax loss, which management considers a special item, also impacted the Pennsylvania Regulated segment's results.

	Income Statement Line Item	2014	2013	2012
	Other Operation			
Separation benefits - bargaining unit voluntary program, net of tax of \$1, \$0, \$0 (a)	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. See Note 13 to the Financial Statements for additional information.

Supply Segment

The Supply segment primarily consists of PPL Energy Supply's wholesale, retail, marketing and trading activities, as well as its competitive generation operations. In addition, certain financing and other costs are allocated to the Supply segment. The Supply segment represents 17% of Net Income Attributable to PPL Shareowners for 2014 and 23% of PPL's assets at December 31, 2014.

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

Net Income Attributable to PPL Shareowners includes the following results.

	2014	2013	2012	\$ Change	
				2014 vs. 2013	2013 vs. 2012
Energy revenues					
External (a)	\$ 3,051	\$ 3,936	\$ 4,816	\$ (885)	\$ (880)
Intersegment	84	51	79	33	(28)
Energy-related businesses	601	527	461	74	66
Total operating revenues	3,736	4,514	5,356	(778)	(842)

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	2014	2013	2012	\$ Change	
				2014 vs. 2013	2013 vs. 2012
Fuel (a)	1,196	1,049	965	147	84
Energy Purchases (a)	209	1,171	1,812	(962)	(641)
Other operation and maintenance (b)	1,007	1,026	1,014	(19)	12
Loss on lease termination (c)		697		(697)	697
Depreciation	297	299	276	(2)	23
Taxes, other than income	57	53	54	4	(1)
Energy-related businesses	573	512	450	61	62
Total operating expenses	3,339	4,807	4,571	(1,468)	236
Other Income (Expense) - net	30	32	16	(2)	16
Interest Expense	181	216	212	(35)	4
Income Taxes	93	(174)	220	267	(394)
Income (Loss) from Discontinued Operations (c)	154	32	46	122	(14)
Net Income	307	(271)	415	578	(686)
Net Income Attributable to Noncontrolling Interests		1	1	(1)	
Net Income Attributable to PPL Shareowners	\$ 307	\$ (272)	\$ 414	\$ 579	\$ (686)

(a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 17 to the Financial Statements for additional information.

(b) 2013 includes an impairment charge of \$65 million (\$39 million after-tax) for the Corette coal-fired plant and related emission allowances. See Note 16 to the Financial Statements for additional information.

(c) See Note 8 to the Financial Statements for additional information.

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

	2014 vs. 2013	2013 vs. 2012
Unregulated Gross Energy Margins	\$ (188)	\$ (194)
Other operation and maintenance	(7)	42
Depreciation	2	(23)
Taxes, other than income	2	4
Other Income (Expense) - net	(2)	19
Interest Expense	35	(4)
Other	(3)	(5)
Income Taxes	82	23
Discontinued operations, after tax	17	1
Special items, after tax	641	(549)
Total	\$ 579	\$ (686)

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

- Higher other operation and maintenance in 2014 compared with 2013 primarily due to higher project expenses, including refueling outage expenses, at PPL Susquehanna of \$28 million, partially offset by the elimination of rent expense of \$20 million associated with the Colstrip lease which was terminated in December 2013.

Lower other operation and maintenance in 2013 compared with 2012 primarily due to lower fossil and hydroelectric expenses of \$27 million, largely driven by lower outage expenses in 2013 and lower pension expense of \$11 million.

- Higher depreciation in 2013 compared with 2012 primarily due to PP&E additions.
- Higher other income (expense) - net in 2013 compared with 2012, however no individual item was significant in comparison to the prior year.
- Lower interest expense in 2014 compared with 2013 primarily due to the repayment of debt in July and December 2013.
- Lower income taxes in 2014 compared with 2013 due to lower pre-tax income, which reduced income taxes by \$54 million, \$16 million of lower taxes due to state tax rate changes and \$12 million related to lower adjustments to valuation allowances on Pennsylvania net operating losses.

Lower income taxes in 2013 compared with 2012 due to lower pre-tax income, which reduced income taxes by \$52 million, and \$10 million related to the impact of prior period tax return adjustments, partially offset by \$38 million of higher taxes due to state tax rate changes.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results.

	Income Statement Line Item	2014	2013	2012
Adjusted energy-related economic activity - net, net of tax of \$4, \$54, (\$26)	(a)	\$ (6)	\$ (77)	\$ 38
Impairments:				
	Discontinued			
Kerr Dam Project impairment, net of tax of \$8, \$0, \$0 (b)	Operations	(10)		
	Other Income			
Adjustments - nuclear decommissioning trust investments, net of tax of \$0, \$0, \$(2)	(Expense) - net			2
	Other operation and			
Other asset impairments, net of tax of \$0, \$0, \$0	maintenance			(1)
	Other operation and			
Corette asset impairment, net of tax of \$0, \$26, \$0 (c)	maintenance		(39)	
Spinoff of PPL Energy Supply:				
	Other operation and			
Separation benefits, net of tax of \$6, \$0, \$0 (d)	maintenance	(10)		
	Other operation and			
Transition costs, net of tax of \$0, \$0, \$0	maintenance	(1)		
Other:				
Change in tax accounting method related to repairs	Income Taxes		(3)	
	Other operation and			
Counterparty bankruptcy, net of tax of \$0, \$(1), \$5 (e)	maintenance		1	(6)
	Unregulated wholesale			
Wholesale supply cost reimbursement, net of tax of \$0, \$0, \$0	energy			1
	Other operation and			
Ash basin leak remediation adjustment, net of tax of \$0, \$0, \$(1)	maintenance			1
Coal contract modification payments, net of tax of \$0, \$0, \$12 (f)	Fuel			(17)

	Other operation and			
Separation benefits - bargaining unit voluntary program, net of tax of \$7, \$0, \$0 (g)	maintenance	(10)		
Loss on Colstrip operating lease termination, net of tax of \$0, \$284, \$0 (h)	Loss on lease termination	(413)		
Mechanical contracting and engineering revenue adjustment, net of tax of (\$7), \$0, \$0 (i)	Energy-related businesses	10		
	Discontinued			
Sale of Montana hydroelectric generating facilities, net of tax of (\$100), \$0, \$0 (j)	Operations	137		
Total (k)		\$ 110	\$ (531)	\$ 18

- (a) Represents unrealized gains (losses), after-tax, on economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 17 to the Financial Statements for additional information. Amounts have been adjusted for insignificant amounts for option premiums.
- (b) In 2014, an arbitration panel issued its final decision holding that the conveyance price payable to PPL Montana was \$18 million. As a result, PPL Energy Supply determined the Kerr Dam Project was impaired and recorded a pre-tax charge of \$18 million. See Note 16 to the Financial Statements for additional information.
- (c) In 2013, PPL Energy Supply determined its Corette plant was impaired and recorded a pre-tax charge of \$65 million for the plant and related emission allowances. See Note 16 to the Financial Statements for additional information.
- (d) PPL Energy Supply recorded separation benefits related to the anticipated spinoff transaction. See Note 8 to the Financial Statements for additional information.
- (e) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012. In June 2013, PPL EnergyPlus received an approval for an administrative claim in the amount of \$2 million.
- (f) As a result of lower electricity and natural gas prices, coal-fired generation output decreased during 2012. Contract modification payments were incurred to reduce 2012 and 2013 coal deliveries.
- (g) In 2014, PPL Energy Supply'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. See Note 13 to the Financial Statements for additional information.
- (h) In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern certain hydroelectric generating facilities located in Montana. To facilitate the sale, PPL Montana terminated its operating lease arrangement related to partial interests in Units 1, 2 and 3 of the Colstrip coal-fired electric generating facility in December 2013 and acquired those interests, collectively, for \$271 million. At lease termination, the existing lease-related assets on the balance sheet were written off and the acquired Colstrip assets were recorded at fair value as of the acquisition date. PPL and PPL Energy Supply recorded a pre-tax charge of \$697 million for the termination of the lease. See Note 8 to the Financial Statements for additional information.

- (i) In 2014, PPL and PPL Energy Supply recorded \$17 million to "Energy-related businesses" revenues on the 2014 Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. See Note 1 to the Financial Statements for additional information.
- (j) In November 2014, PPL Montana completed the sale of 633 MW of hydroelectric generating facilities to NorthWestern. PPL Energy Supply recognized a pre-tax gain of \$306 million (\$206 million after-tax) as a result of the transaction. PPL recognized a pre-tax gain of \$237 million (\$137 million after-tax) as a result of the transaction, which reflects the allocation of \$69 million of additional goodwill. See Note 8 to the Financial Statements for additional information.
- (k) PPL Energy Supply's 2014 special items were \$179 million and reflect the \$206 million after-tax gain from the sale of the hydroelectric generating facilities discussed in footnote (j).

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 17 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	2014	2013	2012
Operating Revenues			
Unregulated wholesale energy	\$ 325	\$ (721)	\$ (311)
Unregulated retail energy	29	12	(17)
Operating Expenses			
Fuel	(27)	(4)	(14)
Energy Purchases	(327)	586	442
Energy-related economic activity (a)		(127)	100
Option premiums (b)	(10)	(4)	(1)
Adjusted energy-related economic activity	(10)	(131)	99
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010			35
Adjusted energy-related economic activity, net, pre-tax	\$ (10)	\$ (131)	\$ 64
Adjusted energy-related economic activity, net, after-tax	\$ (6)	\$ (77)	\$ 38

- (a) See Note 17 to the Financial Statements for additional information.
- (b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Unregulated wholesale energy" and "Energy purchases" on the Statements of Income.

Margins

Non-GAAP Financial Measures

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

- "Kentucky Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy

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

- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the electricity delivery operations of the Pennsylvania Regulated segment and PPL Electric, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the reconciliation table below (in "Energy purchases from affiliate" in PPL Electric's reconciliation table). As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

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

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

Reconciliation of Non-GAAP Financial Measures

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.

	2014				2013				Operating Income (b)
	PA Kentucky Gross Margins	Gross Delivery Margins	Gross Energy Margins	Other (a)	PA Kentucky Gross Margins	Gross Delivery Margins	Gross Energy Margins	Other (a)	
Operating Revenues									
Utility	\$ 3,168	\$ 2,044		\$ 2,570(c)	\$ 7,782	\$ 2,976	\$ 1,870	\$ 2,355(c)	\$ 7,201
PLR intersegment utility		(84)	\$ 84			(51)	\$ 51		

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revenue (expense) (d)										
Unregulated wholesale energy		1,490	318 (e)	1,808			3,623	(714)(e)	2,909	
Unregulated retail energy (f)		1,216	23 (e)	1,239			1,015	8(e)	1,023	
Energy-related businesses			670	670				588	588	
Total Operating Revenues	\$1,168	1,960	2,790	3,581	11,499	2,976	1,819	4,689	2,237	11,721
Operating Expenses										
Fuel	965		1,169	27 (g)	2,161	896		1,045	3 (g)	1,944
Energy purchases	253	587	(121)	322 (e)	1,041	217	588	1,745	(583)(e)	1,967
Other operation and maintenance	99	103	22	2,579	2,803	97	82	20	2,580	2,779
Loss on lease termination (Note 8)									697	697
Depreciation	11			1,209	1,220	5			1,137	1,142
Taxes, other than income	2	98	43	231	374	1	95	37	218	351
Energy-related businesses			8	620	628			7	556	563
Total Operating Expenses	\$1,330	788	1,121	4,988	8,227	1,216	765	2,854	4,608	9,443
Income (Loss) from										
Discontinued Operations			117	(117)(h)				139	(139)(h)	
Total	\$ 1,838	\$ 1,172	\$ 1,786	\$ (1,524)	\$ 3,272	\$ 1,760	\$ 1,054	\$ 1,974	\$ (2,510)	\$ 2,278

	2012				
	Unregulated				
	Kentucky	PA	Gross		Operating
	Gross	Gross	Energy		Income
	Margins	Margins	Margins	Other (a)	(b)
Operating Revenues					
Utility	\$ 2,759	\$ 1,763		\$ 2,286(c)	\$ 6,808
PLR intersegment utility revenue (expense) (d)		(78)	\$ 78		
Unregulated wholesale energy			4,266	(290)(e)	3,976
Unregulated retail energy (f)			861	(21)(e)	840
Energy-related businesses				508	508
Total Operating Revenues	2,759	1,685	5,205	2,483	12,132
Operating Expenses					
Fuel	872		931	34(g)	1,837
Energy purchases	195	550	2,207	(397)(e)	2,555
Other operation and maintenance	101	104	19	2,567	2,791
Depreciation	51			1,036	1,087
Taxes, other than income		91	34	227	352
Energy-related businesses				484	484
Total Operating Expenses	1,219	745	3,191	3,951	9,106
Income (Loss) from Discontinued Operations			154	(154)(h)	
Total	\$ 1,540	\$ 940	\$ 2,168	\$ (1,622)	\$ 3,026

- (a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) Primarily represents WPD's utility revenue.

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- (d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
- (e) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" within Note 17 to the Financial Statements. For 2012, "Unregulated wholesale energy" and "Energy purchases" include a net pre-tax loss of \$35 million related to the monetization of certain full-requirement sales contracts.
- (f) Although retail energy revenues continue to grow, the net margins related to these activities are not currently a significant component of Unregulated Gross Energy Margins.
- (g) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 17 to the Financial Statements. 2012 includes a net pre-tax loss of \$29 million related to coal contract modification payments.
- (h) Represents the revenues associated with the hydroelectric generating facilities located in Montana that are classified as discontinued operations. These revenues are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

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

	2014	2013	2012	\$ Change	
				2014 vs. 2013	2013 vs. 2012
Kentucky Regulated					
Kentucky Gross Margins					
LG&E	\$ 833	\$ 791	\$ 727	\$ 42	\$ 64
KU	1,005	969	813	36	156
LKE	\$ 1,838	\$ 1,760	\$ 1,540	\$ 78	\$ 220
Pennsylvania Regulated					
Pennsylvania Gross Delivery Margins					
Distribution	\$ 837	\$ 803	\$ 730	\$ 34	\$ 73
Transmission	335	251	210	84	41
Total	\$ 1,172	\$ 1,054	\$ 940	\$ 118	\$ 114
Supply					
Unregulated Gross Energy Margins					
Eastern U.S.	\$ 1,591	\$ 1,756	\$ 1,867	\$ (165)	\$ (111)
Western U.S.	195	218	301	(23)	(83)
Total	\$ 1,786	\$ 1,974	\$ 2,168	\$ (188)	\$ (194)

Kentucky Gross Margins

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

Kentucky Gross Margins increased in 2013 compared with 2012, primarily due to higher base rates of \$102 million (\$44 million at LG&E and \$58 million at KU), environmental cost recoveries added to base rates of \$53 million (\$3 million at LG&E and \$50 million at KU), returns from additional environmental capital investments of \$34 million (\$16 million at LG&E and \$18 million at KU), higher fuel recoveries of \$18 million (\$7 million at LG&E and \$11 million at KU) and higher volumes of \$6 million (\$9 million higher at KU, partially offset by \$3 million lower at LG&E).

The increase in base rates was the result of new KPSC rates effective January 1, 2013 at LG&E and KU. The environmental cost recoveries added to base rates were due to the transfer of the 2005 and 2006 ECR plans into base rates as a result of the 2012 Kentucky rate cases for LG&E and KU. This transfer results in depreciation and other operation and maintenance expenses associated with the 2005 and 2006 ECR plans being excluded from Kentucky Gross Margins in 2013, although the recovery of such costs remain in Kentucky Gross Margins through base rates.

Pennsylvania Gross Delivery Margins

Distribution

Distribution margins increased in 2014 compared with 2013, primarily due to an \$18 million favorable effect of distribution improvement capital investments and a \$12 million benefit from a change in estimate of a regulatory liability.”

Distribution margins increased in 2013 compared with 2012, primarily due to a \$53 million favorable effect of price, largely comprised of higher base rates, effective January 1, 2013, a \$15 million impact of weather, primarily due to the adverse effect of mild weather in 2012 and higher volumes of \$5 million.

Transmission

Transmission margins increased for both periods, primarily due to increased capital investments.

Unregulated Gross Energy Margins

Eastern U.S.

Eastern margins decreased in 2014 compared with 2013, primarily due to lower baseload energy prices of \$354 million and lower capacity prices of \$34 million, partially offset by net gains on commodity positions of \$75 million, favorable asset performance of \$70 million, \$38 million related to weather as discussed below and gas optimization of \$26 million.

During the first quarter of 2014, the PJM region experienced unusually cold weather conditions, higher demand and congestion patterns causing rising natural gas and electricity prices in spot and near-term forward markets. Due to

these market dynamics, PPL Energy Supply captured opportunities on unhedged generation, which were primarily offset by under hedged full-requirement sales contracts and retail electric.

Eastern margins decreased in 2013 compared with 2012, primarily due to \$435 million of lower baseload energy prices, partially offset by \$198 million of higher capacity prices and \$100 million of increased nuclear generation volume.

Western U.S.

Western margins decreased in 2014 compared with 2013, primarily due to lower wholesale energy prices.

Western margins decreased in 2013 compared with 2012, primarily due to \$69 million of lower wholesale energy prices and \$15 million of lower net economic availability of coal and hydroelectric units.

Statement of Income Analysis --

Utility Revenues

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

	2014 vs. 2013	2013 vs. 2012
Domestic:		
PPL Electric (a)	\$ 175	\$ 106
LKE (b)	192	217
Total Domestic	367	323
U.K.:		
Price (c)	194	221
Volume (d)	(88)	5
Line loss accrual adjustments (e)	(20)	(142)
Foreign currency exchange rates	142	(27)
Third-party engineering revenue	(8)	13
Other	(6)	
Total U.K.	214	70
Total	\$ 581	\$ 393

(a) See "Pennsylvania Gross Delivery Margins" for further information.

(b) See "Kentucky Gross Margins" for further information.

(c) The increase in 2014 compared with 2013 was due to price increases effective April 1, 2014 and April 1, 2013. The increase in 2013 compared with 2012 was due to price increases effective April 1, 2013 and April 1, 2012.

(d) The decrease in 2014 compared with 2013 was primarily due to the adverse effect of weather. The increase in 2013 compared with 2012 was primarily due to the favorable effect of weather.

(e) The decrease in both periods was primarily due to unfavorable loss accrual adjustments in 2014 and 2013 based on Ofgem's consultation documents on the DPCR4 line loss incentives and penalties and Ofgem's final decision on this matter in March 2014. See Note 6 to the Financial Statements for additional information.

Certain Operating Revenues and Expenses Included in "Margins"

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

	2014 vs. 2013	2013 vs. 2012
Unregulated wholesale energy	\$ (1,101)	\$ (1,067)
Unregulated retail energy	216	183
Fuel	217	107
Energy purchases	(926)	(588)

Energy-Related Businesses

Net contributions from energy-related businesses increased by \$17 million in 2014 compared with 2013. During 2014, PPL and PPL Energy Supply recorded a \$17 million increase to "Energy-related businesses" revenues on the

Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. See Note 1 to the Financial Statements for additional information.

Other Operation and Maintenance

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

	2014 vs. 2013	2013 vs. 2012
Domestic:		
LKE timing and scope of scheduled generation maintenance outages	\$ 14	\$ (21)
PPL Electric Act 129 costs incurred (a)	6	(24)
PPL Electric vegetation management (b)	(4)	12
PPL Electric payroll-related costs (c)	(16)	4
PPL Electric storm costs (d)	18	(26)
PPL Susquehanna (e)	28	(3)
PPL Energy Supply fossil and hydroelectric plants (f)	(78)	41
Bargaining unit one-time voluntary retirement benefits (Note 13)	20	
Separation benefits related to spinoff of PPL Energy Supply (Note 8)	36	
Stock compensation expense	13	2
Other	6	(15)

	2014 vs. 2013	2013 vs. 2012
U.K.:		
Network maintenance (g)	3	32
Third-party engineering	(9)	12
Pension (h)	(38)	8
Separation benefits	(4)	(11)
Employee-related expenses	(3)	(7)
Foreign currency exchange rates	23	(4)
Acquisition-related adjustments	12	(8)
Other	(3)	(4)
	\$ 24	\$ (12)

- (a) Relates to expenses associated with PPL Electric's PUC-approved energy efficiency and conservation plan with programs starting in 2010. These expenses are recovered in customer rates. The decrease in 2013 compared with 2012 results from the number of programs and the timing of such programs. Phase 1 of Act 129 closed in May 2013. Phase 2 programs began in June 2013.
- (b) The increase in 2013 compared with 2012 was due to increased activities related to maintaining and increasing system reliability for both the transmission and distribution systems.
- (c) The decrease in 2014 compared with 2013 was due to lower headcount, less maintenance work and more focus on capital projects in 2014.
- (d) The increase in 2014 compared with 2013 was due to more storm events. The 2012 expenses were unusually high due to Hurricane Sandy expenses.
- (e) The increase in 2014 compared with 2013 was primarily due to project expenses, including refueling outage expenses.
- (f) The decrease in 2014 compared with 2013 was primarily due to a \$65 million impairment charge in 2013 related to the Corette plant and the elimination of \$20 million of rent expense associated with the Colstrip lease which was terminated in December 2013. The increase in 2013 compared with 2012 was primarily due to the \$65 million impairment charge in 2013 related to the Corette plant, partially offset by lower fossil and hydroelectric expenses of \$24 million, largely driven by lower outage expenses in 2013. See Note 16 to the Financial Statements for additional information on the Corette plant impairment.
- (g) The increase in 2013 compared with 2012 was primarily due to vegetation management.
- (h) The decrease in 2014 compared with 2013 was primarily due to lower amortization of prior period losses and an increase in expected asset returns.

Loss on Lease Termination

A \$697 million charge was recorded in 2013 for the termination of the Colstrip operating lease to facilitate the sale of the Montana hydroelectric generating facilities. See Note 8 to the Financial Statements for additional information.

Depreciation

The increase (decrease) in depreciation was due to:

	2014 vs. 2013	2013 vs. 2012
Additions to PP&E, net	\$ 75	\$ 80
LKE lower depreciation rates effective January 1, 2013 (a)		(22)

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Adjustments to PPL Montana assets (b)	(15)	
Foreign currency exchange rates	18	(3)
Total	\$ 78	\$ 55

- (a) A result of the 2012 rate case.
- (b) Lower depreciation expense in 2014 due to the impairment recorded at PPL Montana for the Corette plant and the write-down of assets in conjunction with the termination of the operating lease at the Colstrip facility, both of which occurred in 2013.

Taxes, Other Than Income

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

	2014 vs. 2013	2013 vs. 2012
State gross receipts tax (a)	\$ 12	
State capital stock tax		\$ (5)
Foreign currency exchange rates	10	
Other	1	4
Total	\$ 23	\$ (1)

- (a) The increase in 2014 compared with 2013 was primarily due to higher retail electric revenues. This tax is included in "Unregulated Gross Energy Margins" and "Pennsylvania Gross Delivery Margins".

Other Income (Expense) - net

The increase (decrease) in other income (expense) - net was due to:

	2014 vs. 2013	2013 vs. 2012
Economic foreign currency exchange contracts (Note 17)	\$ 159	\$ 14
Earnings on securities in NDT funds	5	1
Charitable contributions	(5)	(15)
Transaction costs related to spinoff of PPL Energy Supply (Note 8)	(19)	
Other	1	16
Total	\$ 141	\$ 16

See Note 15 to the Financial Statements for additional information.

Other-Than-Temporary Impairments

Other-than-temporary impairments decreased by \$26 million in 2013 compared with 2012 primarily due to a \$25 million pre-tax impairment of the EEI investment in 2012. See Notes 1 and 16 to the Financial Statements for additional information.

Interest Expense

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

	2014 vs. 2013	2013 vs. 2012
Long-term debt interest expense (a)	\$ 15	\$ 37
Short-term debt interest expense	6	3
Hedging activities and ineffectiveness	(11)	4
Capitalized interest (b)	12	(2)
Net amortization of debt discounts, premiums and issuance costs	(8)	(4)
Loss on extinguishment of debt (c)	(1)	10
Foreign currency exchange rates	19	(4)
Other	(2)	(1)
Total	\$ 30	\$ 43

(a) The increase in 2014 compared with 2013 was primarily due to debt issuances at WPD (West Midlands) in October 2013, LG&E and KU in November 2013 and PPL Electric in June 2014 and July 2013. Partially offsetting the increase was repayment of debt at PPL Energy Supply in July and December 2013.

The increase in 2013 compared with 2012 was primarily due to debt issuances at PPL Capital Funding in March 2013, June 2012 and October 2012, PPL Electric in July 2013 and August 2012, and WPD (East Midlands) in April 2012. Partially offsetting the increase was the repayment of PPL Energy Supply debt in July 2013.

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- (b) Includes AFUDC. The increase in 2014 compared with 2013 was primarily due to the Holtwood hydroelectric expansion project placed in service in November 2013.
- (c) In March 2014, a \$9 million loss was recorded related to PPL Capital Funding's remarketing and debt exchange of the junior subordinated notes originally issued in April 2011 as a component of the 2011 Equity Units. In May 2013, a \$10 million loss was recorded related to PPL Capital Funding's remarketing and exchange of the junior subordinate notes that were originally issued in June 2010 as a component of PPL's 2010 Equity Units.

Income Taxes

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

	2014 vs. 2013	2013 vs. 2012
Change in pre-tax income at current period tax rates	\$ 420	\$ (310)
State valuation allowance adjustments (a)	31	11
State deferred tax rate change (b)	(16)	34
Federal and state tax reserve adjustments (c)	42	(42)
Federal and state tax return adjustments (d)	7	(21)
U.S. income tax on foreign earnings net of foreign tax credit (e)	44	(17)
U.K. Finance Act adjustments (f)	96	(22)
Impact of Lower U.K. income tax rates (f)	(17)	(16)
Other	11	28
Total	\$ 618	\$ (355)

- (a) The valuation allowances recorded on PPL's state deferred tax assets primarily relate to Pennsylvania net operating loss carryforwards. Pennsylvania requires that each corporation file a separate income tax return and has significant annual limitations on the deduction for net operating loss carryforwards. Currently, Pennsylvania allows an annual maximum deduction equal to the greater of \$4 million or 25% of taxable income. Legislation enacted in 2013 increased the annual maximum deduction to the greater of \$5 million or 30% of taxable income for tax years beginning in 2015.

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 earnings of PPL Energy Supply.

During 2013 and 2012, PPL recorded \$24 million and \$9 million of state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income over the remaining carryforward period of Pennsylvania net operating losses.

- (b) Changes in state apportionment resulted in reductions to the future estimated state tax rate at December 31, 2014 and 2012, and an increase to the future estimated state tax rate at December 31, 2013. PPL recorded an insignificant deferred tax benefit in 2014, a \$15 million deferred tax expense in 2013 and a \$19 million deferred tax benefit in 2012 related to its state deferred tax liabilities.
- (c) In May 2013, the U.S. Supreme Court reversed the December 2011 ruling, by the U.S. Court of Appeals for the Third Circuit, concerning the creditability of U.K. Windfall Profits Tax for U.S. federal income tax purposes. As a result of this decision, PPL recorded a tax benefit of \$44 million during 2013. See Note 5 to the Financial Statements for additional information.

PPL recorded a tax benefit of \$7 million during 2013 and \$6 million during 2012 to federal and state income tax reserves related to stranded cost securitization. The reserve balance at December 31, 2013 related to stranded costs securitization was zero.

- (d) During 2012, PPL recorded \$16 million in federal and state income tax expense related to the filing of the 2011 federal and state income tax returns. Of this amount, \$5 million relates to the reversal of prior years' state income tax benefits related to regulated depreciation. PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year.
- (e) During 2014, PPL recorded \$47 million of income tax expense primarily attributable to taxable dividends.

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

During 2012, PPL recorded a \$23 million adjustment to federal income tax expense related to the recalculation of 2010 U.K. earnings and profits.

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

The U.K.'s Finance Act 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liabilities and recognized a \$75 million deferred tax benefit in 2012 related to both rate decreases.

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

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

Income (Loss) from Discontinued Operations (net of income taxes) primarily includes the results of operations of the Montana hydroelectric generating facilities for all periods presented. See "Discontinued Operations - Montana Hydro Sale" in Note 8 to the Financial Statements for additional information. Income (Loss) from Discontinued Operations (net of income taxes) increased by \$120 million in 2014 compared with 2013 primarily due to the gain on the sale of the Montana hydroelectric generating facilities, and decreased by \$6 million in 2013 compared with 2012 primarily due to lower energy margins due to lower energy prices.

PPL Energy Supply: Earnings, Margins and Statement of Income Analysis

Earnings

	2014	2013	2012
Net Income (Loss) Attributable to PPL Energy Supply Member	\$ 410	\$ (230)	\$ 474
Special items, gains (losses), after-tax	179	(531)	18

Excluding special items, earnings in 2014 compared with 2013 decreased, primarily due to lower margins resulting from lower energy and capacity prices, partially offset by favorable baseload asset performance, gains on certain commodity positions, net benefits of unusually cold weather in the first quarter of 2014 and lower financing costs.

Excluding special items, earnings in 2013 compared with 2012 decreased, primarily due to lower baseload energy prices and higher depreciation, partially offset by higher capacity prices, higher nuclear generation volume and lower operation and maintenance expense.

The table below quantifies the changes in the components of Net Income (Loss) Attributable to PPL Energy Supply Member between these periods, which reflect amounts classified as Unregulated Gross Energy Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's Results of Operations - Segment Earnings - Supply Segment for the details of special items.

	2014 vs. 2013	2013 vs. 2012
Unregulated Gross Energy Margins	\$ (188)	\$ (194)
Other operation and maintenance	(7)	25
Depreciation	2	(27)
Taxes, other than income	2	5
Other Income (Expense) - net	(2)	15
Interest Expense	35	(1)
Other	(6)	(3)
Income Taxes	77	24
Discontinued Operations, after-tax	17	1
Special items, after-tax	710	(549)
Total	\$ 640	\$ (704)

Margins

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

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

	2014			2013		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Unregulated wholesale energy	\$ 1,490	\$ 318 (c)	\$ 1,808	\$ 3,623	\$ (714) (c)	\$ 2,909
Unregulated wholesale energy to affiliate	84		84	51		51
Unregulated retail energy (d)	1,216	27 (c)	1,243	1,015	12 (c)	1,027
Energy-related businesses		601	601		527	527
Total Operating Revenues	2,790	946	3,736	4,689	(175)	4,514

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Operating Expenses

Fuel	1,169	27 (e)	1,196	1,045	4 (e)	1,049
Energy purchases	(121)	330 (c)	209	1,745	(574) (c)	1,171
Other operation and maintenance	22	985	1,007	20	1,006	1,026
Loss on lease termination (Note 8)					697	697
Depreciation		297	297		299	299
Taxes, other than income	43	14	57	37	16	53
Energy-related businesses	8	565	573	7	505	512
Total Operating Expenses	1,121	2,218	3,339	2,854	1,953	4,807
Discontinued Operations	117	(117) (f)		139	(139) (f)	
Total	\$ 1,786	\$ (1,389)	\$ 397	\$ 1,974	\$ (2,267)	\$ (293)

2012

	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues			
Unregulated wholesale energy	\$ 4,266	\$ (290) (c)	\$ 3,976
Unregulated wholesale energy to affiliate	78		78
Unregulated retail energy (d)	861	(17) (c)	844
Energy-related businesses		448	448
Total Operating Revenues	5,205	141	5,346

	2012		Operating Income (b)
	Unregulated Gross Energy Margins	Other (a)	
Operating Expenses			
Fuel	931	34 (e)	965
Energy purchases	2,207	(386) (c)	1,821
Other operation and maintenance	19	978	997
Depreciation		272	272
Taxes, other than income	34	21	55
Energy-related businesses		432	432
Total Operating Expenses	3,191	1,351	4,542
Discontinued Operations	154	(154) (f)	
Total	\$ 2,168	\$ (1,364)	\$ 804

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See "Commodity Price Risk (Non-trading) - Economic Activity" within Note 17 to the Financial Statements. For 2012, "Unregulated wholesale energy" and "Energy purchases" include a net pre-tax loss of \$35 million related to the monetization of certain full-requirement sales contracts.

(d) Although retail energy revenues continue to grow, the net margins related to these activities are not currently a significant component of Unregulated Gross Energy Margins.

(e) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 17 to the Financial Statements. 2012 includes a net pre-tax loss of \$29 million related to coal contract modification payments.

(f) Represents the revenues associated with the hydroelectric generating facilities located in Montana that are classified as discontinued operations. These revenues are not reflected in "Operating Income" on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

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

	2014 vs. 2013	2013 vs. 2012
Unregulated wholesale energy	\$ (1,101)	\$ (1,067)
Unregulated wholesale energy to affiliate	33	(27)
Unregulated retail energy	216	183
Fuel	147	84
Energy purchases	(962)	(650)

Energy-Related Businesses

Net contributions from energy-related businesses increased by \$13 million in 2014 compared with 2013. During 2014, PPL Energy Supply recorded a \$17 million increase to "Energy-related businesses" revenues on the Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. See Note 1 to the Financial Statements for additional information.

Other Operation and Maintenance

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

	2014 vs. 2013	2013 vs. 2012
Fossil and hydroelectric plants (a)	\$ (78)	\$ 41
PPL Susquehanna (b)	28	(3)
PPL EnergyPlus (c)	1	(18)
Bargaining unit one-time voluntary retirement benefits (Note 13)	17	
Separation benefits related to spinoff of PPL Energy Supply (Note 8)	16	
Other	(3)	9
Total	\$ (19)	\$ 29

(a) The decrease in 2014 compared with 2013 was primarily due to a \$65 million impairment charge in 2013 related to the Corette plant and the elimination of \$20 million of rent expense associated with the Colstrip lease which was terminated in December 2013. The increase in 2013 compared with 2012 was primarily due to the \$65 million impairment charge in 2013 related to the Corette plant, partially offset by lower fossil and hydroelectric expenses of \$24 million, largely driven by lower outage expenses in 2013. See Note 16 to the Financial Statements for additional information on the Corette plant impairment.

(b) The increase in 2014 compared with 2013 was primarily due to project expenses, including refueling outage expenses.

(c) The decrease in 2013 compared with 2012 was primarily due to SMGT filing under Chapter 11 of the U.S. Bankruptcy Code. \$11 million of receivables billed to SMGT were fully reserved in 2012.

Loss on Lease Termination

A \$697 million charge was recorded in 2013 for the termination of the Colstrip operating lease to facilitate the sale of the Montana hydroelectric generating facilities. See Note 8 to the Financial Statements for additional information.

Depreciation

Depreciation decreased by \$2 million in 2014 compared with 2013, primarily due to decreases of \$15 million from the impairment recorded at PPL Montana for the Corette plant and the write-down of assets in conjunction with the termination of the operating lease at the Colstrip facility, both of which occurred in 2013. These decreases were partially offset by increases of \$13 million from PP&E additions in part due to the completed PPL Holtwood project in 2013. See Note 16 to the Financial Statements for additional information on the Corette impairment and Note 8 to the Financial Statements for information on the Colstrip operating lease termination.

Depreciation increased by \$27 million in 2013 compared with 2012 primarily due to net PP&E additions.

Taxes, Other Than Income

Taxes, other than income increased by \$4 million in 2014 compared with 2013 due to an \$8 million increase in state gross receipts tax offset by a \$4 million decrease in state capital stock tax.

Other Income (Expense) - net

Other income (expense) - net decreased by \$2 million in 2014 compared with 2013 and increased by \$13 million in 2013 compared with 2012. The decrease in 2014 compared with 2013 resulted from 2013 including a gain of \$8 million related to adjustments to liabilities for a PPL Energy Supply former mining subsidiary partially offset by a \$5 million increase in 2014 in net earnings on NDT funds. The increase in 2013 compared with 2012 primarily related to the former mining subsidiary's gains discussed above.

Interest Expense

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

	2014 vs. 2013	2013 vs. 2012
Long-term debt interest expense (a)	\$ (50)	\$ 1
Short-term debt interest expense	7	(2)
Capitalized interest (b)	14	2
Net amortization of debt discounts, premiums and issuance costs	(4)	(1)
Other	(2)	1
Total	\$ (35)	\$ 1

(a) The decrease in 2014 compared with 2013 was primarily due to the repayment of debt in July and December 2013.

(b)

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The increase in 2014 compared with 2013 was primarily due to the Holtwood hydroelectric expansion project placed in service in November 2013.

Income Taxes

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

	2014 vs. 2013	2013 vs. 2012
Change in pre-tax income at current period tax rates	\$ 298	\$ (439)
State deferred tax rate change (a)	(16)	34
Federal income tax credits (b)	8	3
Federal and state tax reserve adjustments (c)	(6)	8
Other	(9)	(1)
Total	\$ 275	\$ (395)

(a) Changes in state apportionment resulted in reductions to the future estimated state tax rate at December 31, 2014 and 2012, and an increase to the future estimated state tax rate at December 2013. PPL Energy Supply recorded an insignificant deferred tax benefit in 2014, a \$15 million deferred tax expense in 2013, and a \$19 million deferred tax benefit in 2012 related to its state deferred tax liabilities.

- (b) During 2013 and 2012, PPL Energy Supply recorded deferred tax benefits related to investment tax credits on progress expenditures for the Holtwood hydroelectric plant expansion. See Note 8 to the Financial Statements for additional information.
- (c) During 2013, PPL Energy Supply reversed \$3 million in tax benefits related to a 2008 change in method of accounting for certain expenditures for tax purposes and recorded \$4 million in federal tax expense related to differences in over (under) payment interest rates applied to audit claims as a result of the U.S. Supreme Court decision related to Windfall Profits Tax.

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) primarily includes the results of operations of the Montana hydroelectric generating facilities for all periods presented. See "Discontinued Operations - Montana Hydro Sale" in Note 8 to the Financial Statements for additional information. Income (Loss) from Discontinued Operations (net of income taxes) increased by \$191 million in 2014 compared with 2013 primarily due to the gain on the sale of the Montana hydroelectric generating facilities, and decreased by \$14 million in 2013 compared with 2012 primarily due to lower energy margins due to lower energy prices.

PPL Electric: Earnings, Margins and Statement of Income Analysis

Earnings

	2014	2013	2012
Net Income Available to PPL	\$ 263	\$ 209	\$ 132
Special item, gain (loss), after-tax	(2)		

Excluding a special item, pre-tax earnings in 2014 compared with 2013 increased, primarily due to returns on additional transmission and distribution improvement capital investments, lower other operation and maintenance expense and a benefit from a change in estimate of a regulatory liability, partially offset by higher interest expense and depreciation.

Pre-tax earnings in 2013 compared with 2012 increased, primarily due to higher distribution base rates that became effective January 1, 2013, returns on additional transmission capital investments, and lower operation and maintenance expense due to lower storm costs, partially offset by higher depreciation.

The table below quantifies the changes in the components of Net Income Available to PPL between these periods, which reflect amounts classified as Pennsylvania Gross Delivery Margins and a certain item that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's Results of Operations - Segment Earnings - Pennsylvania Regulated Segment for details of the special item.

	2014 vs. 2013	2013 vs. 2012
Pennsylvania Gross Delivery Margins	\$ 118	\$ 114
Other operation and maintenance	13	23
Depreciation	(7)	(18)

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Taxes, other than income		5
Other Income (Expense) - net	1	(3)
Interest Expense	(14)	(9)
Income Taxes	(55)	(39)
Distributions on Preference Stock		4
Special item, after tax	(2)	
Total	\$ 54	\$ 77

Margins

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

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

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	2014			2013		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,044		\$ 2,044	\$ 1,870		\$ 1,870
Operating Expenses						
Energy purchases	587		587	588		588
Energy purchases from affiliate	84		84	51		51
Other operation and maintenance	103	\$ 440	543	82	\$ 449	531
Depreciation		185	185		178	178
Taxes, other than income	98	9	107	95	8	103
Total Operating Expenses	872	634	1,506	816	635	1,451
Total	\$ 1,172	\$ (634)	\$ 538	\$ 1,054	\$ (635)	\$ 419

	2012		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,763		\$ 1,763
Operating Expenses			
Energy purchases	550		550
Energy purchases from affiliate	78		78
Other operation and maintenance	104	\$ 472	576
Depreciation		160	160
Taxes, other than income	91	14	105
Total Operating Expenses	823	646	1,469
Total	\$ 940	\$ (646)	\$ 294

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

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Pennsylvania Gross Delivery Margins"

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

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	2014 vs. 2013	2013 vs. 2012
Operating revenues	\$ 174	\$ 107
Energy purchases	(1)	38
Energy purchases from affiliate	33	(27)

Other Operation and Maintenance

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

	2014 vs. 2013	2013 vs. 2012
Act 129 costs incurred (a)	\$ 6	\$ (24)
Vegetation management (b)	(4)	12
Payroll-related costs (c)	(16)	4
Allocation of certain corporate support group costs	7	(10)
Storm costs (d)	18	(26)
Bargaining unit one-time voluntary retirement benefits (Note 13)	3	
Other	(2)	(1)
Total	\$ 12	\$ (45)

(a) Relates to expenses associated with PPL Electric's PUC-approved energy efficiency and conservation plan with programs starting in 2010. These expenses are recovered in customer rates. The decrease in 2013 compared with 2012 results from the number of programs and the timing of such programs. Phase 1 of Act 129 closed in May 2013. Phase 2 programs began in June 2013.

- (b) The increase in 2013 compared with 2012 was due to increased activities related to maintaining and increasing system reliability for both the transmission and distribution systems.
- (c) The decrease in 2014 compared with 2013 was due to lower headcount, less maintenance work and more focus on capital projects in 2014.
- (d) The increase in 2014 compared with 2013 was due to more storm events. The 2012 expenses were unusually high due to Hurricane Sandy expenses.

Depreciation

Depreciation increased by \$7 million in 2014 compared with 2013, and by \$18 million in 2013 compared with 2012, primarily due to transmission PP&E additions as well as additions related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure.

Financing Costs

The increase (decrease) in financing costs was due to:

	2014 vs. 2013	2013 vs. 2012
Long-term debt interest expense (a)	\$ 15	\$ 12
Distributions on Preference Stock (b)		(4)
Other	(1)	(3)
Total	\$ 14	\$ 5

- (a) The increase in 2014 compared with 2013 was due to debt issuances in June 2014 and July 2013. The increase in 2013 compared with 2012 was due to debt issuances in July 2013 and August 2012.
- (b) The decrease in 2013 compared with 2012 was due to the June 2012 redemption of all 2.5 million shares of preference stock.

Income Taxes

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

	2014 vs. 2013	2013 vs. 2012
Change in pre-tax income at current period tax rates	\$ 44	\$ 47
Federal and state tax reserve adjustments (a)	8	(1)
Federal and state tax return adjustments	2	(8)
Other	(2)	2
Total	\$ 52	\$ 40

- (a) PPL Electric recorded a tax benefit of \$7 million during 2013 and \$6 million during 2012 to federal and state income tax reserves related to stranded costs securitization. The reserve balance at December 31, 2013 related to stranded costs securitization was zero.

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

Earnings

	2014	2013	2012
Net Income	\$ 344	\$ 347	\$ 219
Special items, gains (losses), after-tax		3	(16)

Earnings in 2014 compared with 2013 decreased primarily due to higher operation and maintenance expense driven by the timing and scope of scheduled generation maintenance outages, higher bad debt expense, storm-related expenses, higher financing costs and higher depreciation expense partially offset by returns on additional environmental capital investments and higher sales volumes. The changes in sales volumes were driven by unusually cold weather in the first quarter of 2014.

Excluding special items, earnings in 2013 compared with 2012 increased primarily due to higher electricity and gas base rates that went into effect January 1, 2013 and returns on additional environmental capital investments.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated segment" for details of the special items.

	2014 vs. 2013	2013 vs. 2012
Margins	\$ 78	\$ 220
Other operation and maintenance	(35)	(5)
Depreciation	(14)	(34)
Taxes, other than income	(3)	(1)
Other Income (Expense)-net	(1)	7
Interest Expense	(22)	6
Income Taxes	(3)	(84)
Special items, after-tax	(3)	19
Total	\$ (3)	\$ 128

Margins

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

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

	2014			2013		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 3,168		\$ 3,168	\$ 2,976		\$ 2,976
Operating Expenses						
Fuel	965		965	896		896
Energy purchases	253		253	217		217
Other operation and maintenance	99	\$ 716	815	97	\$ 681	778
Depreciation	11	343	354	5	329	334
Taxes, other than income	2	50	52	1	47	48
Total Operating Expenses	1,330	1,109	2,439	1,216	1,057	2,273
Total	\$ 1,838	\$ (1,109)	\$ 729	\$ 1,760	\$ (1,057)	\$ 703

	2012		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,759		\$ 2,759
Operating Expenses			
Fuel	872		872
Energy purchases	195		195

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Other operation and maintenance	101	\$ 677	778
Depreciation	51	295	346
Taxes, other than income		46	46
Total Operating Expenses	1,219	1,018	2,237
Total	\$ 1,540	\$ (1,018)	\$ 522

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) are included above within "Margins" and are not discussed separately.

	2014 vs. 2013	2013 vs. 2012
Operating Revenues	\$ 192	\$ 217
Fuel	69	24
Energy purchases	36	22

Other Operation and Maintenance

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

	2014 vs. 2013	2013 vs. 2012
Timing and scope of scheduled generation maintenance outages	\$ 14	\$ (21)
Bad debt expense	9	(5)
Storm expenses	8	3
Gas maintenance	3	
Other (a)	3	23
Total	\$ 37	\$

(a) The increase in 2013 compared with 2012 was primarily due to \$9 million of higher expenses related to software maintenance and property and liability insurance expenses, \$6 million of increased generation expenses and \$4 million of adjustments to regulatory assets and liabilities.

Depreciation

The increase (decrease) in depreciation was due to:

	2014 vs. 2013	2013 vs. 2012
Additions to PP&E, net	\$ 20	\$ 10
Lower depreciation rates effective January 1, 2013 (a)		(22)
Total	\$ 20	\$ (12)

(a) A result of the 2012 rate case.

Other Income (Expense) - net

Other income (expense) - net increased by \$8 million in 2013 compared with 2012 primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.

Other-Than-Temporary Impairments

Other-than-temporary impairments decreased by \$25 million in 2013 compared with 2012 due to a \$25 million pre-tax impairment of the EEI investment in 2012. See Notes 1 and 16 to the Financial Statements for additional information.

Interest Expense

Interest expense increased by \$22 million in 2014 compared with 2013 primarily due to the issuance of \$500 million of First Mortgage Bonds in November 2013 and higher short-term debt balances in 2014.

Interest expense decreased by \$6 million in 2013 compared with 2012 primarily due to amortization of a fair market value adjustment of \$7 million in 2013.

Income Taxes

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

	2014 vs. 2013	2013 vs. 2012
Change in pre-tax income	\$ 1	\$ 86
Net operating loss carryforward adjustments (a)		9
Other	2	5
Total	\$ 3	\$ 100

(a) Adjustments recorded in 2012 to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

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

Income (loss) from discontinued operations (net of income taxes) increased by \$8 million in 2013 compared with 2012 primarily due to an adjustment in 2012 to the estimated liability for indemnifications related to the termination of the WKE lease.

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

Earnings

	2014	2013	2012
Net Income	\$ 169	\$ 163	\$ 123

Earnings in 2014 compared with 2013 increased primarily due to returns on additional environmental capital investments and higher sales volume partially offset by higher operation and maintenance driven by storm-related expenses, financing costs, depreciation and income tax expense. The changes in sales volume were driven by unusually cold weather in the first quarter of 2014.

Earnings in 2013 compared with 2012 increased primarily due to higher electricity and gas base rates that went into effect January 1, 2013 and returns on additional environmental capital investments.

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

	2014 vs. 2013	2013 vs. 2012
Margins	\$ 42	\$ 64
Other operation and maintenance	(4)	(10)
Depreciation	(7)	3
Taxes, other than income		(1)
Other Income (Expense) - net	(1)	1
Interest Expense	(15)	8
Income Taxes	(9)	(25)
Total	\$ 6	\$ 40

Margins

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

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

2014

2013

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	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,533		\$ 1,533	\$ 1,410		\$ 1,410
Operating Expenses						
Fuel	404		404	367		367
Energy purchases	244		244	205		205
Other operation and maintenance	47	\$ 332	379	45	\$ 328	373
Depreciation	4	153	157	2	146	148
Taxes, other than income	1	24	25		24	24
Total Operating Expenses	700	509	1,209	619	498	1,117
Total	\$ 833	\$ (509)	\$ 324	\$ 791	\$ (498)	\$ 293

	2012		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,324		\$ 1,324
Operating Expenses			
Fuel	374		374
Energy purchases	175		175
Other operation and maintenance	45	\$ 318	363
Depreciation	3	149	152
Taxes, other than income		23	23
Total Operating Expenses	597	490	1,087
Total	\$ 727	\$ (490)	\$ 237

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) are included above within "Margins" and are not discussed separately.

	2014 vs. 2013	2013 vs. 2012
Retail and wholesale	\$ 94	\$ 104
Electric revenue from affiliate	29	(18)
Fuel	37	(7)
Energy purchases	35	32
Energy purchases from affiliate	4	(2)

Other Operation and Maintenance

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

	2014 vs. 2013	2013 vs. 2012
Storm expenses	\$ 4	\$ 3
Bad debt expense	3	
Gas maintenance	3	
Other (a)	(4)	7
Total	\$ 6	\$ 10

(a) The increase in 2013 compared with 2012 was primarily due to \$6 million of higher expenses related to software maintenance and property and liability insurance expenses.

Depreciation

The increase (decrease) in depreciation was due to:

	2014 vs. 2013	2013 vs. 2012
Additions to PP&E, net	\$ 9	\$ 4
Lower depreciation rates effective January 1, 2013 (a)		(8)
Total	\$ 9	\$ (4)

(a) A result of the 2012 rate case.

Interest Expense

Interest expense increased by \$15 million in 2014 compared with 2013 primarily due to the issuance of \$250 million of First Mortgage Bonds in November 2013 and amortization of a fair market value adjustment of \$7 million in 2013.

Interest expense decreased by \$8 million in 2013 compared with 2012 primarily due to amortization of a fair market value adjustment of \$7 million in 2013.

Income Taxes

Income taxes increased by \$9 million in 2014 compared with 2013 and increased by \$25 million in 2013 compared with 2012 primarily due to the change in pre-tax income.

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

KU: Earnings, Margins and Statement of Income Analysis

Earnings

	2014	2013	2012
Net Income	\$ 220	\$ 228	\$ 137
Special items, gains (losses), after tax		1	(15)

Excluding special items, earnings in 2014 compared with 2013 decreased primarily due to higher other operation and maintenance expense driven by the timing and scope of scheduled generation maintenance outages, higher financing costs and higher depreciation expense partially offset by returns on additional environmental capital investments and higher sales volumes. The changes in sales volumes were driven by unusually cold weather in the first quarter of 2014.

Excluding special items, earnings in 2013 compared with 2012 increased primarily due to higher electricity base rates that went into effect January 1, 2013 and returns on additional environmental capital investments.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated segment" for details of these special items.

	2014 vs. 2013	2013 vs. 2012
Margins	\$ 36	\$ 156
Other operation and maintenance	(26)	(1)
Depreciation	(7)	(39)
Taxes, other than income	(3)	
Other Income (Expense) - net	3	4
Interest Expense	(7)	(1)
Income Taxes	(3)	(44)
Special items, after-tax	(1)	16
Total	\$ (8)	\$ 91

Margins

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

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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."

	2014			2013		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,737		\$ 1,737	\$ 1,635		\$ 1,635
Operating Expenses						
Fuel	561		561	529		529
Energy purchases	111		111	81		81
Other operation and maintenance	52	\$ 356	408	52	\$ 330	382
Depreciation	7	190	197	3	183	186
Taxes, other than income	1	26	27	1	23	24
Total Operating Expenses	732	572	1,304	666	536	1,202
Total	\$ 1,005	\$ (572)	\$ 433	\$ 969	\$ (536)	\$ 433

	2012		
	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,524		\$ 1,524
Operating Expenses			
Fuel	498		498
Energy purchases	109		109
Other operation and maintenance	55	\$ 329	384
Depreciation	49	144	193
Taxes, other than income		23	23
Total Operating Expenses	711	496	1,207
Total	\$ 813	\$ (496)	\$ 317

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Statement of Income Analysis --

Certain Operating Revenues and Expenses Included in "Margins"

The following Statement of Income line items and their related increase (decrease) are included above within "Margins" and are not discussed separately.

	2014 vs. 2013	2013 vs. 2012
Retail and wholesale	\$ 98	\$ 113
Electric revenue from affiliate	4	(2)
Fuel	32	31
Energy purchases	1	(10)
Energy purchases from affiliate	29	(18)

Other Operation and Maintenance

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

	2014 vs. 2013	2013 vs. 2012
Timing and scope of scheduled generation maintenance outages	\$ 14	\$ (21)
Bad debt expense	5	(2)
Storm expenses	4	
Other (a)	3	21
Total	\$ 26	\$ (2)

(a) The increase in 2013 compared with 2012 was primarily due to \$7 million of higher expenses related to software maintenance and property and liability insurance expenses, \$7 million of increased generation expenses and \$4 million of adjustments to regulatory assets and liabilities.

Depreciation

The increase (decrease) in depreciation was due to:

	2014 vs. 2013	2013 vs. 2012
Additions to PP&E, net	\$ 11	\$ 6
Lower depreciation rates effective January 1, 2013 (a)		(13)
Total	\$ 11	\$ (7)

(a) A result of the 2012 rate case.

Other Income (Expense) - net

Other income (expense) - net increased by \$5 million in 2013 compared with 2012 primarily due to losses from the EEI investment recorded in 2012. The EEI investment was fully impaired in the fourth quarter of 2012.

Other-Than-Temporary Impairments

Other-than-temporary impairments decreased by \$25 million in 2013 compared with 2012 due to a \$25 million pre-tax impairment of the EEI investment in 2012. See Notes 1 and 16 to the Financial Statements for additional information.

Interest Expense

Interest expense increased by \$7 million in 2014 compared with 2013 primarily due to the issuance of \$250 million of First Mortgage Bonds in November 2013.

Income Taxes

Income taxes increased by \$54 million in 2013 compared with 2012 primarily due to the change in pre-tax income.

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

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 Energy Supply	PPL Electric	LKE	LG&E	KU
December 31, 2014						
Cash and cash equivalents	\$ 1,751	\$ 352	\$ 214	\$ 21	\$ 10	\$ 11
Short-term investments	120					
Short-term debt	1,466	630		575	264	236
Notes payable with affiliates				41		
December 31, 2013						
Cash and cash equivalents	1,102	239	25	35	8	21
Notes receivable from affiliates			150	70		

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Short-term debt	701		20	245	20	150
December 31, 2012						
Cash and cash equivalents	901	413	140	43	22	21
Short-term debt	652	356		125	55	70
Notes payable with affiliates				25		

(a) At December 31, 2014, \$285 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.

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.

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	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2014						
Operating activities	\$ 3,403	\$ 462	\$ 613	\$ 999	\$ 371	\$ 566
Investing activities	(3,329)	497	(791)	(1,191)	(656)	(603)
Financing activities	583	(846)	367	178	287	27
2013						
Operating activities	\$ 2,857	\$ 410	\$ 523	\$ 920	\$ 366	\$ 495
Investing activities	(4,295)	(631)	(1,080)	(1,502)	(577)	(853)
Financing activities	1,631	47	442	574	197	358
2012						
Operating activities	\$ 2,764	\$ 784	\$ 389	\$ 744	\$ 305	\$ 500
Investing activities	(3,123)	(469)	(613)	(753)	(286)	(480)
Financing activities	48	(281)	44	(7)	(22)	(30)
2014 vs. 2013 Change						
Operating activities	\$ 546	\$ 52	\$ 90	\$ 79	\$ 5	\$ 71
Investing activities	966	1,128	289	311	(79)	250
Financing activities	(1,048)	(893)	(75)	(396)	90	(331)
2013 vs. 2012 Change						
Operating activities	\$ 93	\$ (374)	\$ 134	\$ 176	\$ 61	\$ (5)
Investing activities	(1,172)	(162)	(467)	(749)	(291)	(373)
Financing activities	1,583	328	398	581	219	388

Operating Activities

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

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2014 vs. 2013						
Change - Cash Provided (Used):						
Net income	\$ 606	\$ 639	\$ 54	\$ (3)	\$ 6	\$ (8)
Non-cash components	(478)	(656)	(53)	206	91	166
Working capital	440	(46)	7	(129)	(65)	(96)
Defined benefit plan funding	144	78	70	123	35	60
Other operating activities	(166)	37	12	(118)	(62)	(51)
Total	\$ 546	\$ 52	\$ 90	\$ 79	\$ 5	\$ 71

2013 vs. 2012

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Change - Cash Provided (Used):												
Net income	\$	(400)	\$	(704)	\$	73	\$	128	\$	40	\$	91
Non-cash components		545		313		31		90		(30)		(68)
Working capital		(332)		65		12		(31)		12		(15)
Defined benefit plan funding		44		(38)		(34)		(98)		(21)		(44)
Other operating activities		236		(10)		52		87		60		31
Total	\$	93	\$	(374)	\$	134	\$	176	\$	61	\$	(5)

(PPL and PPL Energy Supply)

A significant portion of PPL's Supply segment and PPL Energy Supply's operating cash flows is derived from its competitive baseload generation activities. See Note 8 to the Financial Statements for information on the anticipated spinoff of PPL Energy Supply, expected to occur during the second quarter of 2015. PPL Energy Supply employs a formal hedging program for its baseload generation fleet, the objective of which is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential over the medium term to benefit from power price increases. See Note 17 to the Financial Statements for further discussion. Despite PPL Energy Supply's hedging practices, future cash flows from operating activities are influenced by energy and capacity prices and, therefore, will fluctuate from period to period.

PPL's and PPL Energy Supply's contracts for the sale and purchase of electricity and fuel often require cash collateral or cash equivalents (e.g. letters of credit), or reductions or terminations of a portion of the entire contract through cash settlement, in the event of a downgrade of PPL's or its subsidiaries' or PPL Energy Supply's or its subsidiaries' credit ratings or adverse changes in market prices. For example, in addition to limiting its trading ability, if PPL's or its subsidiaries' ratings were lowered to below "investment grade" or a further downgrade of PPL Energy Supply's or its subsidiaries' credit ratings and there was a 10% adverse movement in energy prices, PPL and PPL Energy Supply estimate that, based on their December 31, 2014 positions, they would have been required to post additional collateral of approximately \$427 million for PPL and approximately \$321 million for PPL Energy Supply with respect to electricity and fuel contracts. PPL and PPL Energy Supply had adequate liquidity sources at December 31, 2014 if they would have been required to post this additional collateral. PPL and PPL Energy Supply have in place risk management programs that are designed to monitor and manage exposure to volatility of cash flows related to changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of generating units.

(PPL)

PPL had a \$546 million increase in cash provided by operating activities in 2014 compared with 2013.

- Net income improved by \$606 million between the periods. However, this included an additional \$478 million of net non-cash benefits, including a \$426 million charge in 2013 to terminate the operating lease arrangement for interests in the Colstrip facility in Montana and acquire the previously leased interests, a \$411 million decrease in unrealized losses on hedging activities, and a \$246 million pre-tax gain in 2014 on the sale of the Montana hydroelectric generation facilities. These non-cash benefits were partially offset by a \$568 million increase in deferred income tax expense. The net \$128 million increase from net income and non-cash adjustments in 2014 compared with 2013 reflects the \$271 million payment in December 2013, to terminate the operating lease arrangement for interests in the Colstrip facility in Montana and acquire the previously leased interests, partially offset by a decline in unregulated gross energy margins in 2014.
- The \$440 million increase in cash from changes in working capital was partially due to an increase in taxes payable (primarily due to increased taxable income in 2014), a change in uncertain tax positions between the periods, lower returns of counterparty collateral and changes in accounts receivable and unbilled revenue.
- The \$166 million decrease in cash from other operating activities was partially due to net proceeds of \$104 million for settlement in 2013 of forward starting interest rate swaps.

PPL had a \$93 million increase in cash from operating activities in 2013 compared with 2012.

- Net income declined by \$400 million between the periods, but included net non-cash charges of \$545 million. These net non-cash charges included a charge of \$426 million in 2013 to terminate the operating lease arrangement for interests in the Colstrip facility in Montana and acquire the previously leased interests, \$209 million of higher unrealized losses on hedging activities and \$135 million of changes to the WPD line loss accrual. These non-cash charges were partially offset by a \$352 million decrease in deferred income taxes. The net \$145 million increase from net income and non-cash adjustments between the periods was primarily due to higher revenues and margins from regulated utility operations, partially offset by the \$271 million payment in December 2013 to terminate the operating lease arrangement for interests in the Colstrip facility and acquire the previously leased interests and lower unregulated gross energy margins.
- The \$332 million decrease in cash from changes in working capital was primarily due to increases in accounts receivable (primarily due to extended payment terms at LG&E and KU, higher rates and colder weather in 2013 at LG&E, KU and PPL Electric and increases at PPL Energy Supply's mechanical contracting business) and changes

to certain tax-related accounts.

- The \$236 million increase in cash provided by other operating activities was partially due to net proceeds of \$104 million for settlement in 2013 of forward starting interest rate swaps.

(PPL Energy Supply)

PPL Energy Supply had a \$52 million increase in cash provided by operating activities in 2014 compared with 2013.

- Net income improved by \$639 million between the periods, however, this included an additional \$656 million of net non-cash benefits, including a \$315 million pre-tax gain in 2014 on the sale of the Montana hydroelectric generation facilities, a \$426 million charge in 2013 to terminate the operating lease arrangement for interests in the Montana Colstrip facility and acquire the previously leased interests, and \$167 million of lower unrealized losses on hedging activities. These non-cash benefits were partially offset by a \$270 million decrease in deferred income tax benefits. The net \$17 million decline from net income and non-cash adjustments in 2014 compared with 2013 reflects lower unregulated gross energy margins, higher operation and maintenance expenses and other factors. Cash provided by operating activities in 2014 included a \$176 million payment to PPL in November 2014 to satisfy the tax liability related to the gain on the sale of the PPL Montana hydroelectric facilities. Cash provided by operating activities in 2013 included a \$271 million payment in December in connection with terminating the operating lease arrangement for interests in the Montana Colstrip facility and acquiring the previously leased interests.
- Pension funding was \$78 million lower in 2014.

PPL Energy Supply had a \$374 million decrease in cash from operating activities in 2013 compared with 2012. Net income declined by \$704 million between the periods, but included net non-cash charges of \$313 million. These net non-cash charges included a charge of \$426 million in 2013 to terminate the operating lease arrangement for interests in the Montana Colstrip facility and acquire the previously leased interests associated with the lease termination, \$212 million of higher unrealized losses on hedging activities, and a \$65 million charge in 2013 for the impairment of the Corette facility. These non-cash charges were partially offset by a \$448 million decline in deferred income taxes. The net \$391 million decline from net income and non-cash adjustments in 2013 compared with 2012 was primarily due to a \$271 million payment in December 2013, also in connection with terminating the operating lease arrangement for interests in the Montana Colstrip facility and acquiring the previously leased interests. The decrease in cash between the periods also reflects lower unregulated gross energy margins in 2013 compared with 2012.

(PPL Electric)

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

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

PPL Electric had a \$134 million increase in cash from operating activities in 2013 compared with 2012.

- Net income improved by \$73 million between the periods and included net non-cash charges of \$31 million. The \$104 million increase in cash in 2013 versus 2012 was primarily due to higher distribution base rates that became effective January 1, 2013 and higher transmission margins from additional capital investments.
- The \$52 million increase in cash from other operating activities was partially due to changes in certain tax-related accounts.

(LKE)

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

- LKE's non-cash components of net income included a \$195 million increase in deferred income taxes primarily due to an increase in accelerated tax depreciation over book depreciation as a result of additional assets in service in 2014.

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

LKE had a \$176 million increase in cash provided by operating activities in 2013 compared with 2012.

- LKE's non-cash components of net income included a \$121 million increase in deferred income taxes primarily due to utilization of net operating losses.
- The decrease in cash from working capital was driven primarily by increases in accounts receivable and unbilled revenues due to extended payment terms, higher rates and colder December weather in 2013, offset by an increase in accounts payable due to timing of fuel purchase commitments and payments.
- The increase in cash from LKE's other operating activities was driven primarily by \$86 million in proceeds from the settlement of interest rate swaps.

(LG&E)

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

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

LG&E had a \$61 million increase in cash provided by operating activities in 2013 compared with 2012.

- The increase in cash from working capital was driven primarily by an increase in accounts payable due to timing of fuel purchase commitments and payments and an increase in accrued taxes due to decreased payments for property taxes in 2013, partially offset by increases in accounts receivable and unbilled revenues due to extended payment terms, higher rates and colder December weather in 2013, and higher fuel and underground gas storage inventory in 2013 attributable to an increase in fuel and natural gas prices.
- The increase in cash from LG&E's other operating activities was driven primarily by \$43 million in proceeds from the settlement of interest rate swaps received in 2013.

(KU)

KU had a \$71 million increase in cash provided by operating activities in 2014 compared with 2013.

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

KU had a \$5 million decrease in cash provided by operating activities in 2013 compared with 2012.

-

The decrease in cash from working capital was driven primarily by increases in accounts receivable and unbilled revenues due to extended payment terms, higher rates and colder December weather in 2013, offset by an increase in accounts payable due to timing of fuel purchase commitments and payments.

- The increase in cash from KU's other operating activities was driven primarily by \$43 million in proceeds from 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.

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	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2014 vs. 2013						
Change - Cash Provided (Used):						
Expenditures for PP&E	\$ 122	\$ 167	\$ (28)	\$ 172	\$ (79)	251
Acquisitions & divestitures, net	900	900				
Notes receivable with affiliates						
activity, net			300	140		
Restricted cash and cash equivalent activity	(69)	(86)				
Purchase and sale of investments, net	(121)	(1)				
Other investing activities	134	148	17	(1)		(1)
Total	\$ 966	\$ 1,128	\$ 289	\$ 311	\$ (79)	250

2013 vs. 2012

Change - Cash Provided (Used):						
Expenditures for PP&E	\$ (1,107)	\$ 65	\$ (279)	\$ (666)	\$ (291)	(375)
Acquisitions & divestitures, net	84	84				
Notes receivable with affiliates						
activity, net		(198)	(150)	(85)		
Restricted cash and cash equivalent activity	(116)	(126)				
Other investing activities	(33)	13	(38)	2		2
Total	\$ (1,172)	\$ (162)	\$ (467)	\$ (749)	\$ (291)	(373)

(PPL)

For PPL, in 2014 compared with 2013, the decrease in "Expenditures for PP&E" was partially due to expenditures made in 2013 for the Holtwood hydroelectric expansion project at PPL Energy Supply and construction of Cane Run Unit 7 for both LG&E and KU, partially offset by expenditures made in 2014 at WPD (primarily due to projects to enhance system reliability and the effect of foreign currency exchange rates). "Acquisitions & divestitures, net" reflects the 2014 sale of PPL Montana's hydroelectric generation facilities. See Note 8 to the Financial Statements for additional information. The change in "Other investing activities" was the result of investing inflow of \$164 million, in 2014, from U.S. Department of Treasury grants for the Rainbow and Holtwood hydroelectric expansion projects.

For PPL, in 2013 compared with 2012, the change in "Expenditures for PP&E" was due to increased spending on projects to enhance system reliability at WPD and PPL Electric, the Susquehanna-Roseland transmission project at PPL Electric, environmental air projects at LG&E's Mill Creek and KU's Ghent plants, construction of Cane Run Unit 7 for both LG&E and KU and coal combustion residuals projects at KU's Ghent and E.W. Brown plants. The change in "Restricted cash and cash equivalent activity" was primarily related to margin deposit returns in 2012 at PPL Energy Supply.

(PPL Energy Supply)

For PPL Energy Supply, in 2014 compared with 2013, the decrease in "Expenditures for PP&E" was partially due to expenditures made in 2013 for the Holtwood hydroelectric expansion project. "Acquisitions & divestitures, net" reflects the 2014 sale of PPL Montana's hydroelectric generation facilities. See Note 8 to the Financial Statements for additional information. The change in "Other investing activities" was the result of investing inflow of \$164 million, in 2014, from U.S. Department of Treasury grants for the Rainbow and Holtwood hydroelectric expansion projects.

For PPL Energy Supply, in 2013 compared with 2012, the change in "Acquisitions & divestitures, net" related to the disbursement in 2012 for the Ironwood Acquisition. The change in "Notes receivable with affiliates, net" resulted from repayments received in 2012. The change in "Restricted cash and cash equivalent activity" was primarily related to margin deposit returns in 2012.

(PPL Electric)

For PPL Electric, in 2014 compared with 2013, the change in "Notes receivable with affiliates, net" resulted from proceeds received in 2014 from repayments.

For PPL Electric, in 2013 compared with 2012, the change in "Expenditures for PP&E" was due to increases for projects to enhance system reliability and the Susquehanna-Roseland transmission project.

(LKE)

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

In comparing 2013 with 2012, cash used by investing activities increased as a result of the increase in expenditures primarily due to environmental air projects at LG&E's Mill Creek and KU's Ghent plants, construction of Cane Run Unit 7 for both LG&E and KU and coal combustion residuals projects at KU's Ghent and E.W. Brown plants.

(LG&E)

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

In comparing 2013 with 2012, cash used by investing activities increased as a result of the increase in expenditures primarily due to environmental air projects at the Mill Creek plant and the construction of Cane Run Unit 7.

(KU)

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

In comparing 2013 with 2012, cash used by investing activities increased as a result of the increase in expenditures primarily due to environmental air projects at the Ghent plant, construction of Cane Run Unit 7 and coal combustion residuals projects at the Ghent and E.W. Brown plants.

(All Registrants)

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2015 through 2019.

Financing Activities

(All Registrants)

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

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	PPL	Energy Supply	PPL Electric	LKE	LG&E	KU
2014 vs. 2013						
Change - Cash Provided (Used):						
Debt issuance/retirement, net	\$ (1,541)	\$ 438	\$ (62)	\$ (496)	\$ (248)	\$ (248)
Stock issuances/redemptions, net	(263)					
Dividends	(89)		(31)		(13)	(24)
Capital contributions/distributions, net		(2,336)	58	(177)	71	(66)
Changes in net short-term debt (a)	728	986	(40)	276	279	6
Other financing activities	117	19		1	1	1
Total	\$ (1,048)	\$ (893)	\$ (75)	\$ (396)	\$ 90	\$ (331)

2013 vs. 2012	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used):						
Debt issuance/retirement, net	\$ 176	\$ (738)	\$ 99	\$ 496	\$ 248	248
Stock issuances/redemptions, net	1,515		250			
Dividends	(45)		(32)		(24)	(24)
Capital contributions/distributions, net		1,393	55	144	86	157
Changes in net short-term debt (a)	(25)	(312)	20	(55)	(90)	10
Other financing activities	(38)	(15)	6	(4)	(1)	(3)
Total	\$ 1,583	\$ 328	\$ 398	\$ 581	\$ 219	388

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

(PPL)

In 2014, PPL required \$1.05 billion less cash from financing activities primarily due to improvements in cash from operations of \$546 million and the proceeds of \$164 million from the U.S. Department of Treasury grants (as described in "Investing Activities" above) and the use of cash on hand which helped support the significant capital expenditure programs of its subsidiaries.

In 2013, PPL required \$1.6 billion additional cash from financing activities primarily to support the significant capital expenditure programs of its subsidiaries. Financing needs were partially mitigated by \$93 million of additional cash provided by operating activities.

(PPL Energy Supply)

In 2014, financing activities included distributions of \$836 million to PPL of the proceeds from the PPL Montana hydroelectric generation facilities sale, net of a tax liability payment discussed in "Operating Activities" above, and proceeds from the U.S. Department of Treasury PPL Holtwood tax grant (See Note 8 to the Financial Statements for information on these transactions. Both receipts are included within "Investing Activities" above.).

In 2013, financing activities included net capital contributions of \$1.1 billion from PPL to PPL Energy Supply to fund the debt maturities discussed below, to repay short-term debt and to terminate the operating lease arrangement for interests in the Montana Colstrip facility and acquire the previously leased interests. Debt repayments included the \$300 million debt maturity and the \$437 million repayment of outstanding debt related to the acquisition of the previously leased Lower Mt. Bethel facility.

(PPL Electric)

In 2014, PPL Electric required \$75 million less cash from financing activities to support its significant capital expenditure program, primarily due to the receipt of \$150 million on notes receivable from affiliates (as described in

"Investing Activities" above) and improvements in cash from operations of \$90 million.

In 2013, PPL Electric required \$398 million additional cash from financing activities to support its significant capital expenditure program. Financing needs were partially mitigated by \$134 million of additional cash provided by operating activities.

(LKE)

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

In comparing 2013 with 2012, cash provided by financing activities increased as a result of the long-term debt issuance at LG&E and KU and higher capital contributions from PPL. The proceeds from the issuance of long-term debt were mainly used for capital expenditures related to environmental air projects and the construction of Cane Run Unit 7.

(LG&E)

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

In comparing 2013 with 2012, cash provided by financing activities increased as a result of the \$250 million long-term debt issuance. The proceeds from the issuance of long-term debt were mainly used for capital expenditures related to environmental air projects and the construction of Cane Run Unit 7.

(KU)

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

In comparing 2013 with 2012, cash provided by financing activities increased as a result of the \$250 million long-term debt issuance and higher capital contributions from LKE. The proceeds from the issuance of long-term debt were mainly used for capital expenditures related to environmental air projects and the construction of Cane Run Unit 7.

(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 (PPL, PPL Energy Supply and PPL Electric)

Long-term debt and equity securities activity for 2014 included:

	Debt Issuances (a)	Retirements	Net Stock Issuances
PPL	\$ 296	\$ 546	\$ 1,074
PPL Energy Supply		309	
PPL Electric	296	10	
Non-cash Transactions:			
PPL (b)	\$ 750	\$ 750	

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

(b) Represents the remarketing of Junior Subordinated Notes that were issued as a component of PPL's 2011 Equity Units and simultaneously exchanged for Senior Notes.

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

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

At December 31, 2014, LG&E's and KU's tax-exempt revenue bonds in the form of auction rate securities total \$231 million (\$135 million at LG&E and \$96 million at KU). These bonds continue to experience failed auctions and the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2014, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.15% (0.14% at LG&E and 0.16% at KU).

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LKE, LG&E and KU anticipate receiving equity contributions from their parent or member in 2015. As a result of the proposed spinoff of PPL Energy Supply to form Talen Energy, PPL Energy Supply does not expect to receive cash equity contributions from its member in 2015. Additionally, under the terms

of the spinoff agreements with affiliates of Riverstone, PPL Energy Supply is generally prohibited from making distributions or other payments to PPL or any PPL affiliate that is not a subsidiary of PPL Energy Supply, with the exception of specific distributions and other payments set forth in the spinoff agreements. These exceptions are generally limited to a planned distribution from PPL Energy Supply to PPL during the first quarter of 2015 in an amount not to exceed \$191 million.

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, 2014, the total committed borrowing capacity under credit facilities and the use of this borrowing capacity were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 750		\$ 21	\$ 729
PPL Energy Supply Credit Facilities	3,150	\$ 630	259	2,261
PPL Electric Credit Facility	300		1	299
LKE Credit Facility	75	75		
LG&E Credit Facility	500		264	236
KU Credit Facilities	598		434	164
Total LKE Consolidated	1,173	75	698	400
Total U.S. Credit Facilities (a) (b) (c)	\$ 5,373	\$ 705	\$ 979	\$ 3,689
Total U.K. Credit Facilities (c) (d) (e)	£ 1,055	£ 167		£ 888

- (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 65% for PPL Energy Supply and 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facility, and other customary covenants. See Note 7 to the Financial Statements for additional information regarding these credit facilities.
- (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 Energy Supply - 9%, PPL Electric - 6%, 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.
- (e) At December 31, 2014, the unused capacity under the U.K. committed credit facilities was approximately \$1.4 billion. The commitments under the U.K.'s credit facilities are provided by a diverse bank group with no one bank

providing more than 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, 2014, 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.

As a result of the proposed spinoff transaction, PPL Energy Supply has syndicated a \$1.85 billion credit facility which is currently fully committed. This syndicated credit facility will replace the existing \$3 billion PPL Energy Supply syndicated credit facility and will be effective upon closing of the spinoff transaction. See "Item 1. Business" and "Financial and Operational Developments - Other Financial and Operational Developments - Anticipated Spinoff of PPL Energy Supply" above for additional information.

During the second quarter of 2014, PPL Energy Supply's corporate credit rating was lowered to below investment grade. At December 31, 2014, the additional collateral posted as a result of the downgrade was \$190 million. PPL Energy Supply primarily issued letters of credit under its credit facilities noted above to post the required collateral. PPL Energy Supply continues to have adequate access to the capital markets and adequate capacity under its credit facilities and does not expect a material change in its financing costs as a result of the downgrade.

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	\$ 41		\$ 184
LG&E Money Pool (a)	500		\$ 264	236
KU Money Pool (a)	500		236	264

(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 issued a maximum short-term debt limit for each utility at \$500 million from any source.

Commercial Paper (All Registrants)

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

	Capacity	December 31, 2014 Commercial Paper Issuances	Unused Capacity	December 31, 2013 Commercial Paper Issuances
PPL Electric	\$ 300		\$ 300	\$ 20
LG&E	350	\$ 264	86	20
KU	350	236	114	150
Total LKE	700	500	200	170
Total PPL	\$ 1,000	\$ 500	\$ 500	\$ 190

In August 2014, PPL Energy Supply terminated its commercial paper program.

Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries currently plan to incur, subject to market conditions, approximately \$2.2 billion of long-term indebtedness in 2015, of which \$600 million is to refinance existing long-term debt.

PPL also plans to issue approximately \$200 million of common stock in 2015.

The remaining proceeds will be used to fund capital expenditures and for general corporate purposes.

(PPL Energy Supply)

Subject to market conditions, PPL Energy Supply may issue long-term debt securities in 2015 to fund its current debt maturity obligations or for general corporate purposes, if necessary.

(PPL Electric)

PPL Electric currently plans to issue, subject to market conditions, approximately \$450 million of long-term indebtedness in 2015, the proceeds of which will be used to fund capital expenditures and for general corporate purposes.

(LKE, LG&E and KU)

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LG&E and KU currently plan to issue, subject to market conditions, approximately \$550 million for LG&E and \$500 million for KU, of first mortgage bond indebtedness in 2015, the proceeds of which will be used to refinance \$500 million of maturing first mortgage bonds for LG&E and KU (\$250 million each), to fund capital expenditures and for general corporate purposes. LKE plans to refinance its \$400 million bond maturing in 2015 with proceeds from an intercompany loan from a PPL affiliate.

Contributions from Parent/Member (All Registrants except PPL)

From time to time, PPL Energy Supply's and LKE's members 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. PPL Energy Supply does not expect to receive cash equity contributions from its member in 2015.

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 PPL Energy Supply and LKE to their members, and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2015 through 2019. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

	Total	2015	2016	Projected 2017	2018	2019
PPL						
Construction expenditures (a) (b)						
Generating facilities	\$ 2,751	\$ 523	\$ 457	\$ 392	\$ 546	\$ 833
Distribution facilities	9,969	2,035	1,975	1,980	1,973	2,006
Transmission facilities	3,685	746	748	775	731	685
Environmental	2,317	609	407	398	521	382
Other	380	73	91	78	68	70
Total Construction Expenditures	19,102	3,986	3,678	3,623	3,839	3,976
Nuclear fuel	566	106	85	120	126	129
Total Capital Expenditures	\$ 19,668	\$ 4,092	\$ 3,763	\$ 3,743	\$ 3,965	\$ 4,105
PPL Energy Supply						
Construction expenditures (a) (b)						
Generating facilities	\$ 1,317	\$ 325	\$ 301	\$ 241	\$ 281	\$ 169
Environmental	122	41	22	34	13	12
Other	42	9	8	9	8	8
Total Construction Expenditures	1,481	375	331	284	302	189
Nuclear fuel	566	106	85	120	126	129

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Total Capital Expenditures	\$	2,047	\$	481	\$	416	\$	404	\$	428	\$	318		
PPL Electric (a) (b)														
Distribution facilities	\$	2,383	\$	440	\$	462	\$	500	\$	500	\$	481		
Transmission facilities		3,328		687		694		692		658		597		
Total Capital Expenditures	\$	5,711	\$	1,127	\$	1,156	\$	1,192	\$	1,158	\$	1,078		
LKE (b)														
Generating facilities			\$	1,433	\$	197	\$	156	\$	151	\$	265	\$	664
Distribution facilities				1,209		245		252		248		223		241
Transmission facilities				357		59		53		84		73		88
Environmental				2,196		569		386		364		508		369
Other				294		55		73		62		51		53
Total Capital Expenditures	\$	5,489	\$	1,125	\$	920	\$	909	\$	1,120	\$	1,415		
LG&E (b)														
Generating facilities	\$	595	\$	92	\$	85	\$	69	\$	92	\$	257		
Distribution facilities		742		158		162		154		129		139		
Transmission facilities		90		16		12		25		17		20		
Environmental		1,126		341		199		177		261		148		
Other		134		25		34		28		22		25		
Total Capital Expenditures	\$	2,687	\$	632	\$	492	\$	453	\$	521	\$	589		

	Total	2015	2016	Projected 2017	2018	2019
KU (b)						
Generating facilities	\$ 838	\$ 105	\$ 71	\$ 82	\$ 173	\$ 407
Distribution facilities	467	87	90	94	94	102
Transmission facilities	267	43	41	59	56	68
Environmental	1,070	228	187	187	247	221
Other	157	29	38	34	29	27
Total Capital Expenditures	\$ 2,799	\$ 492	\$ 427	\$ 456	\$ 599	\$ 825

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately \$171 million for PPL; \$64 million for PPL Energy Supply and \$67 million for PPL Electric.

(b) The 2015 total excludes amounts included in accounts payable as of December 31, 2014.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes estimated costs to meet a projected capacity need at LKE in 2021 and PPL Electric's asset optimization program to replace aging transmission and distribution assets as well as the Susquehanna-Roseland and Northeast/Pocono projects. This table also includes LKE's environmental projects related to existing and proposed EPA compliance standards (actual costs may be significantly lower or higher depending on the final requirements and market conditions; most environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism). See Note 6 to the Financial Statements for information on LG&E's and KU's ECR mechanism and CPCN filing, and Note 8 to the Financial Statements for information on significant development plans. See "Item 2. Properties" for information on planned projects to expand capacity.

In addition to cash on hand and cash from operations, the Registrants plan to fund capital expenditures in 2015 with proceeds from the sources noted below.

Source	PPL	PPL Energy Supply	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.

Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2014, estimated contractual cash obligations were as follows.

Total	2015	2016 - 2017	2018 - 2019	After 2019
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PPL										
Long-term Debt (a)	\$	20,426	\$	1,535	\$	1,137	\$	794	\$	16,960
Interest on Long-term Debt										
(b)		16,521		942		1,747		1,655		12,177
Operating Leases (c)		135		36		45		20		34
Purchase Obligations (d)		6,359		2,543		1,800		788		1,228
Other Long-term Liabilities										
Reflected on the										
Balance										
Sheet under GAAP										
(e) (f)		889		481		408				
Total Contractual Cash										
Obligations	\$	44,330	\$	5,537	\$	5,137	\$	3,257	\$	30,399
PPL Energy Supply										
Long-term Debt (a)	\$	2,238	\$	535	\$	358	\$	407	\$	938
Interest on Long-term Debt										
(b)		799		120		164		117		398
Operating Leases (c)		39		11		21		5		2
Purchase Obligations (d)		2,400		790		813		419		378
Other Long-term Liabilities										
Reflected on the										
Balance										
Sheet under GAAP										
(e) (f)		73		73						
Total Contractual Cash										
Obligations	\$	5,549	\$	1,529	\$	1,356	\$	948	\$	1,716

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	Total	2015	2016 - 2017	2018 - 2019	After 2019
PPL Electric					
Long-term Debt (a)	\$ 2,614	\$ 100			\$ 2,514
Interest on Long-term Debt (b)	2,376	119	229	229	1,799
Purchase Obligations (d)	189	68	45	45	31
Other Long-term Liabilities					
Reflected on the Balance Sheet under GAAP (e) (f)	32	32			
Total Contractual Cash Obligations	\$ 5,211	\$ 319	\$ 274	\$ 274	4,344
LKE					
Long-term Debt (a)	\$ 4,585	\$ 900	\$ 219	\$ 138	\$ 3,328
Interest on Long-term Debt (b)	2,767	159	293	293	2,022
Operating Leases (c)	73	16	19	12	26
Coal and Natural Gas Purchase Obligations (g)	1,871	732	800	256	83
Unconditional Power Purchase Obligations (h)	876	26	53	61	736
Construction Obligations (i)	875	801	74		
Pension Benefit Plan Obligations (e)	52	52			
Other Obligations	96	74	15	7	
Total Contractual Cash Obligations	\$ 11,195	\$ 2,760	\$ 1,473	\$ 767	6,195
LG&E					
Long-term Debt (a)	\$ 1,359	\$ 250	\$ 219	\$ 138	\$ 752
Interest on Long-term Debt (b)	927	47	87	81	712
Operating Leases (c)	28	6	7	4	11
Coal and Natural Gas Purchase Obligations (g)	972	340	437	112	83
Unconditional Power Purchase Obligations (h)	607	18	37	42	510
Construction Obligations (i)	542	472	70		
Pension Benefit Plan Obligations (e)	21	21			
Other Obligations	31	25	4	2	
Total Contractual Cash Obligations	\$ 4,487	\$ 1,179	\$ 861	\$ 379	2,068
KU					
Long-term Debt (a)	\$ 2,101	\$ 250			\$ 1,851
Interest on Long-term Debt (b)	1,648	75	149	155	1,269
Operating Leases (c)	41	9	12	7	13
Coal and Natural Gas Purchase Obligations (g)	899	392	363	144	
Unconditional Power Purchase Obligations (h)	269	8	16	19	226
Construction Obligations (i)	317	313	4		
Pension Benefit Plan Obligations (e)	15	15			
Other Obligations	50	34	11	5	

Total Contractual Cash Obligations	\$	5,340	\$	1,096	\$	555	\$	330	\$	3,359
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- (a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 7 to the Financial Statements for a discussion of the remarketing feature related to the REPS, as well as discussion of variable-rate remarketable bonds issued on behalf of PPL Energy Supply, LG&E and KU. The Registrants do not have any significant capital lease obligations.
- (b) Assumes interest payments through stated maturity or earlier put dates. For PPL, PPL Energy Supply, LKE, LG&E and KU the payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.
- (c) See Note 9 to the Financial Statements for additional information.
- (d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes as applicable, the purchase obligations of electricity, coal, nuclear fuel and limestone as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above. Financial swaps (for PPL and PPL Energy Supply) and open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented.
- (e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2013. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2015 for PPL's and LKE's U.S. pension plans (for PPL Energy Supply, PPL Electric, LG&E and KU includes their share of these amounts). Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 11 to the Financial Statements for a discussion of expected contributions.
- (f) At December 31, 2014, total unrecognized tax benefits of \$20 million for PPL and \$15 million for PPL Energy Supply were excluded from this table as management cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.
- (g) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 13 to the Financial Statements for additional information.
- (h) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 13 to the Financial Statements for additional information.
- (i) Represents construction commitments, including commitments for the LG&E's Mill Creek and KU's Ghent and E.W. Brown environmental air projects, LG&E's and KU's Cane Run Unit 7, KU's E.W. Brown landfill and LG&E's Ohio Falls refurbishment which are also reflected in the Capital Expenditures table presented above.

Dividends/Distributions

(PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors at the time. Subject to certain exceptions, PPL may not declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2014, no interest payments were deferred.

(All Registrants except PPL)

From time to time, as determined by their respective Board of Directors or Board of Managers, the Registrants pay dividends or distributions, as applicable, to their respective shareholders or members. PPL Energy Supply expects to distribute to its member an amount not to exceed \$191 million in the first quarter of 2015. Certain of the credit facilities of PPL Energy Supply, PPL Electric, LKE, LG&E and KU include minimum debt covenant ratios that could effectively restrict the payment of dividends or distributions. See "Forecasted Sources of Cash" above for information on additional restrictions on PPL Energy Supply's ability to make distributions to its member, PPL.

(All Registrants)

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

Purchase or Redemption of Debt Securities

The Registrants will continue to evaluate outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

Rating Agency Actions

Moody's, S&P and Fitch have periodically reviewed the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations. In January 2015, Fitch withdrew its ratings for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, LG&E, and KU.

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

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2014.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
PPL									
WPD Ltd.	Baa3	BBB-							
WPD (East Midlands)	Baa1	BBB							
WPD (West Midlands)	Baa1	BBB							
WPD (South Wales)	Baa1	BBB	A-						
WPD (South West)	Baa1	BBB	A-				P-2		
PPL Capital Funding	Baa3	BBB-	BBB						
PPL and PPL Energy Supply									
PPL Energy Supply	Ba1	BB	BB						
PPL and PPL Electric									
PPL Electric				A2	A-	A-	P-2	A-2	F2
PPL and LKE									
LKE	Baa2	BBB-	BBB+						
LG&E				A1	A-	A+	P-2	A-2	F2
KU				A1	A-	A+	P-2	A-2	F2

A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

In addition to the credit ratings noted above, the rating agencies have taken the following actions related to the Registrants and their subsidiaries.

(PPL)

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for PPL.

In March 2014, Moody's, S&P and Fitch assigned ratings of Baa3, BBB- and BBB, respectively, to PPL Capital Funding's \$350 million 3.95% Senior Notes due 2024 and \$400 million 5.00% Senior Notes due 2044. Fitch also assigned a stable outlook to these notes.

In April 2014, Moody's affirmed its ratings with a stable outlook for PPL WEM, WPD (East Midlands), WPD (West Midlands), PPL WW, WPD (South Wales) and WPD (South West).

In April 2014, Fitch affirmed its ratings with a stable outlook for PPL and PPL Capital Funding.

In June 2014, Moody's affirmed its ratings and revised its outlook to positive for PPL and PPL Capital Funding.

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In June 2014, S&P affirmed its ratings for PPL, PPL Capital Funding, PPL WEM, WPD (East Midlands), WPD (West Midlands), PPL WW, WPD (South Wales) and WPD (South West) and placed the issuers on CreditWatch with positive implications.

In June 2014, Fitch affirmed its ratings with a stable outlook for PPL and PPL Capital Funding.

In August 2014, Fitch affirmed its ratings and revised its outlook to negative for WPD (South Wales). Fitch also affirmed its ratings with a stable outlook for PPL WW and WPD (South West).

In October 2014, Fitch affirmed and withdrew its long-term and short-term issuer default ratings for PPL Capital Funding.

In October 2014, Moody's and S&P affirmed their ratings and outlooks for WPD (East Midlands), WPD (West Midlands), WPD (South Wales) and WPD (South West). In addition, Moody's and S&P have assigned Baa3, P-3, Stable and BBB, A-2, CreditWatch Positive long and short-term issuer ratings to Western Power Distribution Ltd, the new holding company for the four DNOs, following a legal entity restructuring implemented in October 2014. The issuer ratings of PPL WW and PPL WEM have also been withdrawn.

(PPL and PPL Energy Supply)

In April 2014, Fitch affirmed its ratings with a negative outlook for PPL Energy Supply.

In May 2014, S&P lowered its long-term issuer rating and senior unsecured rating from BBB to BB+ and its commercial paper rating and short-term issuer rating from A-2 to A-3 with a stable outlook for PPL Energy Supply.

In June 2014, Moody's lowered its senior unsecured rating from Baa2 to Ba1 and its commercial paper rating and short-term issuer rating from P-2 to Not Prime with a negative outlook for PPL Energy Supply. Moody's also assigned a Corporate Family Rating of Ba1, a Probability of Default Rating of Ba1-PD and a Speculative Grade Liquidity rating of SGL-1 to PPL Energy Supply.

In June 2014, S&P lowered its long-term issuer rating and senior unsecured rating from BB+ to BB and its commercial paper rating and short-term issuer rating from A-3 to B for PPL Energy Supply and placed the issuer on CreditWatch with negative implications.

In June 2014, Fitch lowered its long-term issuer default rating and senior unsecured debt rating from BBB- to BB and its commercial paper rating and short-term issuer default rating from F3 to B for PPL Energy Supply and placed the issuer on Rating Watch Negative.

(PPL and PPL Electric)

In January 2014, Moody's upgraded its long-term issuer rating and senior unsecured rating from Baa2 to Baa1 and senior secured rating from A3 to A2, affirmed its commercial paper rating and revised its outlook to stable for PPL Electric.

In April 2014, Fitch affirmed its ratings with a stable outlook for PPL Electric.

In June 2014, S&P affirmed its ratings for PPL Electric and placed the issuer on CreditWatch with positive implications.

In June 2014, Moody's, S&P and Fitch assigned ratings of A2, A- and A-, respectively, to PPL Electric's \$300 million 4.125% First Mortgage Bonds due 2044. Fitch also assigned a stable outlook to these notes.

In December 2014, Fitch upgraded its long-term issuer ratings from BBB to BBB+ for PPL Electric.

(PPL, LKE, LG&E and KU)

In January 2014, Moody's affirmed its ratings and revised its outlook to stable for LKE.

In January 2014, Moody's upgraded its long-term issuer ratings and senior unsecured ratings from Baa1 to A3 and senior secured ratings from A2 to A1, affirmed its commercial paper ratings and revised its outlook to stable for LG&E and KU.

In February 2014, Moody's affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds.

In April 2014, Fitch affirmed its ratings with a stable outlook for LKE, LG&E and KU.

In June 2014, S&P affirmed its ratings for LKE, LG&E and KU and placed the issuers on CreditWatch with positive implications.

In June 2014, Moody's affirmed its ratings and revised its outlook to positive for LKE.

In June 2014, S&P affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds and placed them on CreditWatch with positive implications.

In September 2014, Moody's affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds.

In October 2014, S&P affirmed its ratings for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds.

In December 2014, S&P confirmed its ratings for LG&E's 2001 Series A Pollution Control Revenue Bonds, LG&E's 2001 Series B (Louisville/Jefferson County Metro Government, Kentucky) Pollution Control Revenue Bonds and LG&E's 2001 Series B (County of Trimble, Kentucky) Pollution Control Revenue Bonds.

In December 2014, Moody's assigned an A1 rating for LG&E's 2001 Series A Pollution Control Revenue Bonds, LG&E's 2001 Series B (Louisville/Jefferson County Metro Government, Kentucky) Pollution Control Revenue Bonds and LG&E's 2001 Series B (County of Trimble, Kentucky) Pollution Control Revenue Bonds.

In December 2014, Moody's downgraded its long-term ratings from Aa1 to Aa2 for KU's 2000 Series A Solid Waste Disposal Facility Revenue Bonds, KU's 2004 Series A and 2008 Series A Environmental Facilities Revenue Bonds and KU's 2006 Series B Environmental Facilities Revenue Refunding Bonds.

Ratings Triggers

(PPL)

As discussed in Note 7 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's, S&P, or Fitch) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event for each company. These notes totaled £3.8 billion (approximately \$5.9 billion) nominal value at December 31, 2014.

(All Registrants except PPL Electric)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if PPL's, PPL Energy Supply's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 17 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, PPL Energy Supply, LKE and LG&E for derivative contracts in a net liability position at December 31, 2014.

Guarantees for Subsidiaries (PPL and PPL Energy Supply)

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

Off-Balance Sheet Arrangements (All Registrants)

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

Risk Management

Market Risk

(All Registrants)

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

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

Commodity Price Risk (Non-trading)

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

LG&E's and KU's retail electric and natural gas rates and municipal wholesale electric rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LG&E and KU sell excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 17 to the Financial Statements for additional information.

(PPL and PPL Electric)

PPL Electric is exposed to market price and volumetric risks from its obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market price risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement energy supply contracts for the majority of its PLR obligations. These supply contracts transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

(PPL and PPL Energy Supply)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 17 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following tables sets forth the changes in the net fair value of non-trading commodity derivative contracts at December 31. See Notes 16 and 17 to the Financial Statements for additional information.

	Gains (Losses)	
	2014	2013
Fair value of contracts outstanding at the beginning of the period	\$ 107	\$ 473

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Contracts realized or otherwise settled during the period	328	(452)
Fair value of new contracts entered into during the period (a)	(12)	58
Other changes in fair value	(370)	28
Fair value of contracts outstanding at the end of the period	\$ 53	\$ 107

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at December 31, 2014 based on the observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 12	\$ (32)	\$ 10		\$ (10)
Prices based on significant unobservable inputs (Level 3)	46	16	1		63
Fair value of contracts outstanding at the end of the period	\$ 58	\$ (16)	\$ 11		\$ 53

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2020. The following table sets forth changes in the net fair value of trading commodity derivative contracts at December 31. See Notes 16 and 17 to the Financial Statements for additional information.

	Gains (Losses)	
	2014	2013
Fair value of contracts outstanding at the beginning of the period	\$ 11	\$ 29
Contracts realized or otherwise settled during the period	(60)	(13)
Fair value of new contracts entered into during the period (a)	5	3
Other changes in fair value	92	(8)
Fair value of contracts outstanding at the end of the period	\$ 48	\$ 11

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at December 31, 2014 based on the observability of the information used to determine the fair value.

	Net Asset (Liability)				Total Fair
	Maturity Less Than	Maturity	Maturity	Maturity in Excess	

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Source of Fair Value	1 Year	1-3 Years	4-5 Years	of 5 Years	Value
Prices quoted in active markets for identical instruments (Level 1)	\$ 1				\$ 1
Prices based on significant observable inputs (Level 2)	(10)	\$ 11	\$ (2)		(1)
Prices based on significant unobservable inputs (Level 3)	6	14	17	\$ 11	48
Fair value of contracts outstanding at the end of the period	\$ (3)	\$ 25	\$ 15	\$ 11	\$ 48

VaR Models

A VaR model is utilized to measure commodity price risk in unregulated gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for 2014 was as follows.

	Trading	Non-Trading
95% Confidence Level, Five-Day Holding Period		
Period End	\$ 4	\$ 7
Average for the Period	7	10
High	10	15
Low	4	5

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at December 31, 2014.

Interest Rate Risk (All Registrants)

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

The following interest rate hedges were outstanding at December 31.

	2014				2013			
	Fair Value,	Effect of a	Maturities	Exposure	Fair Value,	Effect of a	Maturities	Exposure
	Net - Asset	10%	Ranging	Hedged	Net -	10%	Through	Hedged
	(Liability)	Adverse	Exposure		Asset	Adverse	Exposure	
	(a)	Movement	Hedged		(Liability)	Movement	Hedged	
		in Rates			(a)	in Rates		
		(b)				(b)		
PPL								
Cash flow hedges								
Interest rate swaps (c)	\$ 1,600	\$ (108)	\$ (59)	2045	\$ 1,325	\$ 91	\$ (44)	
Cross-currency swaps (d)	1,262	27	(165)	2028	1,262	(31)	(177)	
Economic hedges								
Interest rate swaps (e)	179	(49)	(3)	2033	179	(37)	(4)	
LKE								
Cash flow hedges								
Interest rate swaps (c)	1,000	(66)	(44)	2045				
Economic hedges								
Interest rate swaps (e)	179	(49)	(3)	2033	179	(37)	(4)	
LG&E								

Cash flow hedges							
Interest rate swaps (c)	500	(33)	(22)	2045			
Economic hedges							
Interest rate swaps (e)	179	(49)	(3)	2033	179	(37)	(4)
KU							
Cash flow hedges							
Interest rate swaps (c)	500	(33)	(22)	2045			

- (a) Includes accrued interest, if applicable.
- (b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes foreign currency exchange rates.
- (c) Changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or regulatory liabilities, if recoverable through regulated rates, and reclassified into earnings in the same period during which the item being hedged affects earnings.
- (d) Cross-currency swaps are utilized to hedge the principal and interest payments of WPD's U.S. dollar-denominated senior notes. Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.
- (e) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates at December 31 is shown below.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2014						
Increase in interest expense	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
Increase in fair value of debt	\$ 707	\$ 46	\$ 132	\$ 138	\$ 44	\$ 82
2013						
Increase in interest expense	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
Increase in fair value of debt	\$ 732	\$ 48	\$ 120	\$ 146	\$ 45	\$ 85

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars. See Note 1 to the Financial Statements for additional information regarding foreign currency translation.

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

The following foreign currency hedges were outstanding at December 31.

	2014				2013			
	Exposure	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	
Net investment hedges (b)	£ 217	\$ 17	\$ (34)	2016	£ 301	\$ (20)	\$ (49)	
Economic hedges (c)	1,368	111	(193)	2016	1,425	(86)	(222)	

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

(b)

To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding exclude the amount of intercompany loans classified as net investment hedges. See Note 17 to the Financial Statements for additional information.

- (c) To economically hedge the translation of expected earnings denominated in GBP to U.S. dollars.

NDT Funds - Securities Price Risk (PPL and PPL Energy Supply)

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At December 31, 2014, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheets. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2014, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$73 million reduction in the fair value of the trust assets, compared with \$66 million at December 31, 2013. See Notes 16 and 20 to the Financial Statements for additional information regarding the NDT funds.

(All Registrants)

Defined Benefit Plans - Securities Price Risk

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

Credit Risk

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

(PPL and PPL Energy Supply)

PPL Energy Supply includes the effect of credit risk on its fair value measurements to reflect the probability that a counterparty will default when contracts are out of the money (from the counterparty's standpoint). In this case, PPL Energy Supply would have to sell into a lower-priced market or purchase in a higher-priced market. When necessary, PPL Energy Supply records an allowance for doubtful accounts to reflect the probability that a counterparty will not pay for deliveries PPL Energy Supply has made but not yet billed, which are reflected in "Unbilled revenues" on the Balance Sheets.

(PPL and PPL Electric)

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

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2014, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Notes 13, 14, 16 and 17 to the Financial Statements for additional information on the competitive solicitation process, the Agreement, credit concentration and credit risk.

Foreign Currency Translation (PPL)

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2014, changes in this exchange rate resulted in a foreign currency translation loss of \$290 million, which primarily reflected a \$680 million decrease to PP&E and goodwill offset by a decrease of \$390 million to net liabilities. In 2013, changes in this exchange rate resulted in a foreign currency translation gain of \$150 million, which primarily reflected a \$330 million increase to PP&E and goodwill offset by an increase of \$180 million to net liabilities. In 2012, changes in this exchange rate resulted in a foreign currency translation gain of \$99 million, which primarily reflected a \$181 million increase to

PP&E offset by an increase of \$82 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

(All Registrants)

Related Party Transactions

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

Acquisitions, Development and Divestitures

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on significant activities.

(PPL and PPL Energy Supply)

See Note 8 to the Financial Statements for information on the anticipated spinoff of PPL Energy Supply and the completed Montana hydro sale.

Environmental Matters

(All Registrants except PPL Electric)

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services.

The following is a discussion of the more significant environmental matters. See Note 13 to the Financial Statements and "Item 1. Business - Environmental Matters" for additional information on environmental matters.

Climate Change

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage, as applicable, to the Registrants' generation assets, electricity transmission and delivery systems, as well as impacts on the Registrants' customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL, PPL Energy Supply, LKE, LG&E and KU have hydroelectric generating facilities or where river water is used to cool their fossil and nuclear (as applicable) powered generators. The Registrants cannot currently predict whether their businesses will experience these potential risks or estimate the cost of their related consequences.

In June 2013, President Obama released his Climate Action Plan which reiterates the goal of reducing GHG emissions in the U.S. through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing more restrictive energy efficiency standards. Additionally, the Climate Action Plan calls for the U.S. to prepare for the impacts of climate change. Requirements related to this could affect the Registrants and others in the industry as modifications may be needed to electricity delivery systems to improve the ability to withstand major storms in order to meet those requirements. As further described below, the EPA has proposed rules pursuant to this directive, which it expects to finalize in the second or third quarter of 2015. The EPA has also announced that it will be developing a federal implementation plan which would apply to any states that fail to submit an acceptable state implementation plan. The Administration's increase in its estimate of the "social cost of

carbon" (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton for 2015 may also lead to more costly regulatory requirements.

In January 2014, the EPA issued a revised proposal to regulate carbon dioxide emissions from new power plants. The proposed limits for coal-fired plants can only be achieved through carbon capture and sequestration, a technology that is not presently commercially viable and, therefore, effectively preclude the construction of new coal-fired plants. The proposed standards for new gas-fired plants may also not be continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new gas-fired plants could have a significant industry-wide impact.

The EPA has also issued a proposed regulation addressing carbon dioxide emissions from existing power plants. The existing plant proposal contains stringent, state-specific rate-based reduction goals to be achieved in two phases (2020-2029 and 2030 and beyond). The regulation of carbon dioxide emissions from existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

Waters of the United States

On April 21, 2014, the EPA and the U.S. Army Corps of Engineers published a proposed rule that could greatly expand the Clean Water Act definition of Waters of the United States. If the definition is expanded as proposed, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. The EPA plans to make certain changes to the proposed regulation based on comments received. The U.S. House and Senate are considering legislation to block this regulation. Until a final rule is issued, the Registrants cannot predict the outcome of the pending rulemaking.

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the RCRA. On December 19, 2014, the EPA issued its pre-publication version of the rule regulating coal combustion residuals (CCRs), imposing extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants and are not closed. Under the rule, the EPA will regulate CCRs as non-hazardous under Subtitle D of RCRA and allow beneficial use of CCRs with some restrictions. The CCR rule will become effective six months after publication in the Federal Register with publication expected in early 2015. PPL expects that its plants using surface impoundments for management and disposal of CCRs or the past management of CCRs and continued use to manage waste waters will be most impacted by this rule. The rule's specific closure requirements for CCR impoundments and landfills may require increases to AROs for these facilities at the Registrants' coal-fired plants.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict how this rule will impact their facilities, but the financial and operational impact could be significant.

Effluent Limitation Guidelines (ELGs)

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

Clean Water Act 316(b)

The EPA's final 316(b) rule for existing facilities became effective on October 14, 2014, and regulates cooling water intake structures and their impact on aquatic organisms. States are allowed considerable authority to interpret the rule. The rule requires existing facilities to choose between several options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Plants already equipped with closed-cycle cooling, an acceptable option, would likely not incur substantial costs. Once-through systems would likely require additional technology to comply with the rule. Mill Creek Unit 1 and Brunner Island (all units) are the

only units expected to be impacted. PPL, PPL Energy Supply, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs to be material.

MATS

In February 2012, the EPA finalized the MATS rule requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule was challenged by industry groups and states, and was upheld by the D.C. Circuit Court in April 2014. On November 25, 2014, the U.S. Supreme Court granted a petition for review of the rule. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. LG&E, KU and PPL Energy Supply have received compliance extensions for certain plants. PPL, PPL Energy Supply, LKE, LG&E and KU are generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls at PPL Energy Supply and approved ECR plans to install additional controls at some of LG&E's and KU's Kentucky plants.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems and other controls may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact of MATS on operating costs. PPL Energy Supply is retrofitting the scrubbers at its Colstrip, Montana plant, the cost of which is not expected to be significant. PPL Energy Supply will suspend operations at the Corette plant by April 2015 and the plant is expected to be retired in August 2015 due to expected market conditions and costs to comply with the MATS requirements. The Corette plant asset group was determined to be impaired in December 2013. See "Application of Critical Accounting Policies - Asset Impairment (Excluding Investments)" for additional information.

LG&E's and KU's anticipated retirements of generating units at the Cane Run and Green River plants in 2015 and 2016 are in response to MATS and other environmental regulations. The retirement of these units is not expected to have a material impact on the financial condition or results of operations of PPL, LKE, LG&E or KU.

CSAPR

The EPA's CSAPR addresses the interstate transport of fine particulates and ozone. In accordance with an October 2014 U.S. Court of Appeals decision, CSAPR establishes interstate allowance trading programs for sulfur dioxide and nitrogen oxide emissions from fossil-fueled plants in two phases: Phase 1 in 2015 and Phase 2 in 2017. Sulfur dioxide emissions are subject to an annual trading program and nitrogen oxide emissions are subject to annual and ozone season programs. Oral arguments pertaining to outstanding challenges to the EPA's CSAPR will be heard before the D.C. Circuit Court on February 25, 2015.

Although PPL, PPL Energy Supply, LKE, LG&E and KU do not anticipate incurring significant costs to comply with these programs, changes in market or operating conditions could result in impacts that are higher than anticipated.

Regional Haze

Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. To date, the focus of regional haze regulation has been on the western U.S. As for the eastern U.S., the EPA determined that region-wide reductions under the CSAPR trading program could, in most instances, be utilized under state programs to satisfy BART requirements for sulfur dioxide and nitrogen oxides. However, the EPA's determination is being challenged by environmental groups and others.

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

In Montana, the EPA finalized a Federal Implementation Plan (FIP) of the Regional Haze Rules in September 2012, with stricter emissions limits for PPL Energy Supply's Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and stricter emission limits for the Corette plant (which are not based on additional controls). The cost of the additional controls for Colstrip Units 1 & 2 could be significant. PPL Energy Supply is meeting the stricter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above). Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit and litigation is ongoing.

National Ambient Air Quality Standards

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP is finalizing a rule requiring nitrogen oxide reductions for fossil-fueled plants. The PADEP is expected to finalize this rule in early 2015. The EPA proposed to further strengthen the ozone standard in November 2014, which could lead to further nitrogen oxide reductions, particularly for PPL, PPL Energy Supply, LKE, LG&E, and KU fossil-fueled plants within the OTR. The EPA is under court order to finalize the standard by October 1, 2015. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another states' non-attainment. The EPA recently sent a policy memo to state agencies to facilitate the development of these plans, including modeling data showing which states are contributing. The implementation of such plans could have an impact on the structure and stringency of CSAPR Phase 2 reductions (discussed above).

In 2010, the EPA finalized a new, more stringent ambient air standard for sulfur dioxide and required states to identify areas that meet the standard and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky and part of Yellowstone County in Montana. Attainment is due for both areas by 2018. States are working to finalize designations for other areas and in April 2014, the EPA proposed timeframes for completing these designations. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CSAPR, the MATS, or the Regional Haze Rules (as discussed above), such as upgraded or new sulfur dioxide scrubbers at certain plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment is not expected to be significant, as the plant's operations will be suspended by April 2015 and the plant is expected to be retired in August 2015. In addition, MDEQ recently submitted a request to the EPA for a determination that this area is in attainment. If the EPA agrees with this request, then the deadlines associated with non-attainment would be suspended.

In December 2012, the EPA finalized a new, more stringent, annual National Ambient Air Quality Standard for fine particulates. The rules were challenged by the D.C. Circuit Court and upheld in May 2014. Final designations for the 2012 particulate standard were published in January 2015 identifying non-attainment areas in Pennsylvania and Kentucky. PPL Energy Supply plants in Pennsylvania are not expected to be required to make further reductions towards achieving attainment. In Kentucky, mitigation in Jefferson County is expected to be supported by projects already underway at Cane Run and Mill Creek and in Northern Kentucky by projects at Ghent and Trimble County. States have until 2021 to achieve attainment in non-attainment areas.

(All Registrants)

Competition

See "Competition" under each of PPL's reportable segments in "Item 1. Business - General - Segment Information" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting the Registrants.

New Accounting Guidance

See Notes 1 and 22 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

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

Price Risk Management (All Registrants except PPL Electric)

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

Defined Benefits

(All Registrants)

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

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

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

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

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

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets that will be earned over the life of the plan. These projected returns reduce the net benefit costs the Registrants record currently.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

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

to U.S. defined benefit pension and other postretirement benefit obligations, an increase to future expense and a decrease to funded status.

For the year ended December 31, 2014, PPL's U.S. defined benefit pension and other postretirement benefit plans incurred actuarial losses of \$621 million primarily due to the decrease in discount rates and updated mortality assumptions partially offset by asset gains in excess of assumed rates of return.

(PPL)

In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate, which uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. An individual bond matching approach, which is used for the U.S. pension plans as discussed below, is not used for the U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support such an approach.

(All Registrants)

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

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

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

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

	Assumption / Registrant	2014	2013
Discount rate			
	Pension - PPL (U.S.)	4.25%	5.12%
	Pension - PPL (U.K.)	3.85%	4.41%
	Pension - PPL Energy Supply	4.28%	5.18%
	Pension - LKE	4.25%	5.18%
	Pension - LG&E	4.20%	5.13%
	Other Postretirement - PPL	4.08%	4.91%
	Other Postretirement - PPL Energy Supply	3.81%	4.51%
	Other Postretirement - LKE	4.06%	4.91%

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Expected return on plan assets

Pension - PPL (U.S.)	7.00%	7.00%
Pension - PPL (U.K.)	7.19%	7.19%
Pension - PPL Energy Supply	7.00%	7.00%
Pension - LKE	7.00%	7.00%
Pension - LG&E	7.00%	7.00%
Other Postretirement - PPL	6.06%	5.96%
Other Postretirement - LKE	6.85%	6.75%

Rate of compensation increase

Pension - PPL (U.S.)	3.92%	3.97%
Pension - PPL (U.K.)	4.00%	4.00%
Pension - PPL Energy Supply	4.03%	3.94%
Pension - LKE	3.50%	4.00%
Other Postretirement - PPL	3.86%	3.96%
Other Postretirement - PPL Energy Supply	4.03%	3.94%
Other Postretirement - LKE	3.50%	4.00%

In selecting health care cost trend rates, plan sponsors consider past performance and forecasts of health care costs. At December 31, 2014, the health care cost trend rates for all plans were 7.2% for 2015, gradually declining to an ultimate trend rate of 5.0% in 2020.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. At December 31, 2014, the defined benefit plans were recorded in the Registrants' financial statements as follows.

	PPL Energy					
	PPL	Supply	PPL Electric	LKE	LG&E	KU
Balance Sheet:						
Regulatory assets/liabilities	\$ 704		\$ 372	\$ 332	\$ 215	\$ 117
Pension liabilities	1,766	\$ 299	212	307	57	59
Other postretirement benefit liabilities	242	44	40	152	85	52
AOCI (pre-tax)	(3,133)	(496)		73		
Statement of Income:						
Defined benefits costs	\$ 88	\$ 42	\$ 14	\$ 24	\$ 9	\$ 5
Increase (decrease) from prior year	(81)	(9)	(7)	(16)	(9)	(6)

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

Actuarial assumption

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

(a) Only impacts other postretirement benefits.

Actuarial assumption	Defined Benefit Liabilities	Increase (Decrease)		Defined Benefit Costs
		AOCI (pre-tax)	Regulatory Assets/Liabilities	
PPL				
Discount rate	\$ 548	\$ (459)	\$ 89	\$ 36

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Expected return on plan assets	n/a	n/a	n/a	29
Rate of compensation increase	76	(64)	12	13
Health care cost trend rate (a)	5	(1)	4	1
PPL Energy Supply				
Discount rate	64	(64)		4
Expected return on plan assets	n/a	n/a	n/a	4
Rate of compensation increase	9	(9)		2
PPL Electric				
Discount rate	50		50	3
Expected return on plan assets	n/a		n/a	3
Rate of compensation increase	7		7	1
LKE				
Discount rates		63	(24)	39
Expected return on plan assets		n/a	n/a	n/a
Rate of compensation increase		11	(6)	5
Health care cost trend rate (a)		4	(1)	4

	Defined Benefit Liabilities	Increase (Decrease)		Defined Benefit Costs
		AOCI (pre-tax)	Regulatory Assets/Liabilities	
LG&E				
Discount rates	21	n/a	21	2
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	2	n/a	2	
Health care cost trend rate (a)	1	n/a	1	
KU				
Discount rates	18	n/a	18	1
Expected return on plan assets	n/a	n/a	n/a	1
Rate of compensation increase	3	n/a	3	
Health care cost trend rate (a)	3	n/a	3	

(a) Only impacts other postretirement benefits.

Asset Impairment (Excluding Investments)

(All Registrants except PPL Electric)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, an impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its estimated fair value. Management must make significant judgments to estimate future cash flows, including the useful lives of the assets, the forward prices for revenue and fuel components in the markets where the assets are utilized, the amount of capital and operations and maintenance spending and management's intended use of the assets. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in

that test consider the likelihood of possible outcomes that existed at the balance sheet date, including an assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in materially different results than those identified and recorded in the financial statements.

(PPL and PPL Energy Supply)

In September 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place the Corette coal-fired plant in Montana in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with MATS requirements. PPL Energy Supply had been monitoring the plant for potential impairment since this announcement and until the fourth quarter of 2013, no impairment was indicated as various price scenarios allowed for recovery of the asset. During the fourth quarter of 2013, in connection with the completion of its annual business planning process, management updated its fundamental view for long-term power and gas prices. Based upon this fundamental view, management altered its expectations regarding the probability that the Corette plant would operate subsequent to its initially being placed in long-term reserve status. As a result, based on an undiscounted cash flow analysis, the carrying amount for Corette was determined to no longer be recoverable. PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows to assess the fair value of the Corette asset group. Assumptions used in the fair

value assessment were forward energy prices, expectations for demand for energy in Corette's market and expected operation and maintenance and capital expenditures that were consistent with assumptions used in the business planning process. Through this analysis, PPL Energy Supply determined the fair value of the asset group to be negligible. This resulted in PPL and PPL Energy Supply recording an impairment charge of \$65 million, or \$39 million after-tax for the Corette plant and related excess emission allowances. PPL Energy Supply now expects to retire the Corette plant in August 2015.

PPL Montana held a joint operating license issued for the Kerr Dam Project. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam Project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes to PPL Montana was \$18 million. As a result of the decision, PPL Energy Supply performed a recoverability test on the Kerr Dam Project. PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows (a PPL proprietary model) to assess the fair value of the Kerr Dam Project. Assumptions used in the PPL proprietary model were the conveyance price, forward energy price curves, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the business planning process and a market participant discount rate. Through this analysis, PPL Energy Supply determined the fair value of the Kerr Dam Project to be \$29 million at March 31, 2014, resulting in PPL and PPL Energy Supply recording an impairment charge of \$18 million, or \$10 million after-tax. The Kerr Dam Project was included in the sale of the Montana Hydroelectric facilities and the assets were removed from the Balance Sheet.

The depressed levels of energy and capacity prices in PJM, as well as management's forward view of these prices using its fundamental pricing models, has put pressure on the recoverability assessment of PPL Energy Supply's investment in its Pennsylvania coal-fired generation assets. In the fourth quarter of 2013, after updating its fundamental pricing models in conjunction with the annual business planning process, management tested the Brunner Island and Montour plants for impairment and concluded neither plant was impaired as of December 31, 2013. The recoverability assessment is very sensitive to forward energy and capacity price assumptions, as well as forecasted operation and maintenance and capital spending. Therefore, a further decline in forecasted long-term energy or capacity prices or changes in environmental laws requiring additional capital or operation and maintenance expenditures, could negatively impact PPL Energy Supply's operations of these facilities and potentially result in future impairment charges for some or all of the carrying value of these plants. There were no events or changes in circumstances that indicated a recoverability assessment was required to be performed in 2014. The carrying value of the Pennsylvania coal-fired generation assets tested was \$2.6 billion as of December 31, 2014 (\$1.4 billion for Brunner Island and \$1.2 billion for Montour).

See Note 13 to the Financial Statements for additional information on MATS and other environmental requirements for coal-fired generation plants.

(All Registrants, except PPL Electric)

For a long-lived asset classified as held for sale, an impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized in future periods for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, PPL, PPL Energy Supply, LKE, LG&E and KU consider all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and determining the present value of the cash flow streams using risk adjusted discount rates.

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

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

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

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

PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill in the fourth quarter of 2014. These evaluations considered the excess of fair value over the carrying value of each reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2012, and the relevant events and circumstances that occurred since those tests were performed including:

- current year financial performance versus the prior year,
- changes in planned capital expenditures,
- the consistency of forecasted free cash flows,
- earnings quality and sustainability,
- changes in market participant discount rates,
- changes in long-term growth rates,
- changes in PPL's market capitalization, and
- the overall economic and regulatory environments in which these regulated entities operate.

Based on the overall favorable results of these evaluations, management did not conclude it was more likely than not that the fair value of these reporting units were less than their carrying values. As such, the two-step quantitative impairment test was not performed.

PPL (for its Supply segment) and PPL Energy Supply elected to bypass step zero. Therefore, the goodwill for these reporting units was tested for impairment using the quantitative test in the fourth quarter of 2014, and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting units. A decrease in the forecasted cash flows of 10%, an increase in the discount rate by 0.25%, or a 10% decrease in the market multiples would not have resulted in an impairment of goodwill for these reporting units.

Loss Accruals (All Registrants)

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

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

For PPL, see Note 6 to the Financial Statements for a discussion of the Ofgem Review of Line Loss Calculation, including the \$65 million increase to this liability recorded in 2014.

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

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

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.
- Actions or decisions by certain regulators could result in a better estimate of a previously recorded loss accrual.

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

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

Asset Retirement Obligations

(All Registrants except PPL Electric)

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the statement of income, for changes in the obligation due to the passage of time.

(PPL, LKE, LG&E and KU)

In the case of LG&E and KU, because costs of removal are collected in rates, the depreciation and accretion expenses related to an ARO are recorded as a regulatory asset, such that there is no earnings impact.

(All Registrants except PPL Electric)

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

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed

periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset.

At December 31, 2014, the total recorded balances and information on the most significant recorded AROs were as follows.

	Total ARO		Most Significant AROs	
	Recorded	Amount Recorded	% of Total	Description
PPL	\$ 761	\$ 587	77	Nuclear decommissioning, ash ponds, landfills and natural gas mains
PPL Energy Supply	425	369	87	Nuclear decommissioning
LKE	285	218	76	Ash ponds, landfills and natural gas mains
LG&E	74	46	62	Ash ponds, landfills and natural gas mains
KU	211	172	82	Ash ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2014, a 10% change to retirement cost, a 0.25% decrease in the discount rate or a 0.25% increase in the inflation rate would not have a significant impact on the ARO liabilities of the Registrants. For PPL and PPL Energy Supply, there would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions. As noted above, these factors do not impact the Statements of Income of LKE, LG&E and KU.

Income Taxes (All Registrants)

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

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

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On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2014, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by as much as the following.

	Increase	Decrease
PPL		\$ 20
PPL Energy Supply		15

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the timing and utilization of tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation. In addition, for PPL, this change could also relate to the creditability of foreign taxes and the timing and utilization of foreign tax credits. For PPL Electric, LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

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

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

Regulatory Assets and Liabilities

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. WPD's electricity distribution revenues are set every five years (changing to every eight years beginning on April 1, 2015) through price controls that are not directly based on cost recovery. Therefore, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(All Registrants except PPL Energy Supply)

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

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

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At December 31, 2014, regulatory assets and regulatory liabilities were recorded as reflected in the table below. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

	PPL	PPL Electric	LKE	LG&E	KU
Regulatory assets	\$ 1,599	\$ 909	\$ 690	\$ 418	\$ 272
Regulatory liabilities	1,083	94	989	468	521

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

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

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

	2014	2013
PPL Electric	\$ 113	\$ 116
LKE	167	180
LG&E	76	85
KU	91	95

Other Information (All Registrants)

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Reference is made to "Risk Management" for the Registrants in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Corporation and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PPL Corporation and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2015, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 23, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Corporation

We have audited PPL Corporation and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). PPL Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, PPL Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014, and our report dated February 23, 2015, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 23, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Managers and Sole Member of PPL Energy Supply, LLC

We have audited the accompanying consolidated balance sheets of PPL Energy Supply, LLC and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Energy Supply, LLC and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 23, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of PPL Electric Utilities Corporation

We have audited the accompanying consolidated balance sheets of PPL Electric Utilities Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Electric Utilities Corporation and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 23, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Sole Member of LG&E and KU Energy LLC

We have audited the accompanying consolidated balance sheets of LG&E and KU Energy LLC and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LG&E and KU Energy LLC and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 23, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of Louisville Gas and Electric Company

We have audited the accompanying balance sheets of Louisville Gas and Electric Company as of December 31, 2014 and 2013, and the related statements of income, equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 23, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of Kentucky Utilities Company

We have audited the accompanying balance sheets of Kentucky Utilities Company as of December 31, 2014 and 2013, and the related statements of income, equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Utilities Company at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 23, 2015

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,

PPL Corporation and Subsidiaries

(Millions of Dollars, except share data)

	2014	2013	2012
Operating Revenues			
Utility	\$ 7,782	\$ 7,201	\$ 6,808
Unregulated wholesale energy	1,808	2,909	3,976
Unregulated retail energy	1,239	1,023	840
Energy-related businesses	670	588	508
Total Operating Revenues	11,499	11,721	12,132
Operating Expenses			
Operation			
Fuel	2,161	1,944	1,837
Energy purchases	1,041	1,967	2,555
Other operation and maintenance	2,803	2,779	2,791
Loss on lease termination (Note 8)		697	
Depreciation	1,220	1,142	1,087
Taxes, other than income	374	351	352
Energy-related businesses	628	563	484
Total Operating Expenses	8,227	9,443	9,106
Operating Income	3,272	2,278	3,026
Other Income (Expense) - net	118	(23)	(39)
Other-Than-Temporary Impairments	2	1	27
Interest Expense	1,024	994	951
Income from Continuing Operations Before Income Taxes	2,364	1,260	2,009
Income Taxes	781	163	518
Income from Continuing Operations After Income Taxes	1,583	1,097	1,491
Income (Loss) from Discontinued Operations (net of income taxes)	154	34	40
Net Income	1,737	1,131	1,531
Net Income Attributable to Noncontrolling Interests		1	5
Net Income Attributable to PPL Shareowners	\$ 1,737	\$ 1,130	\$ 1,526

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Amounts Attributable to PPL Shareowners:

Income from Continuing Operations After Income Taxes	\$	1,583	\$	1,096	\$	1,486
Income (Loss) from Discontinued Operations (net of income taxes)		154		34		40
Net Income	\$	1,737	\$	1,130	\$	1,526

Earnings Per Share of Common Stock:

Income from Continuing Operations After Income Taxes Available to PPL						
Common Shareowners:						
Basic	\$	2.41	\$	1.79	\$	2.55
Diluted	\$	2.38	\$	1.71	\$	2.54
Net Income Available to PPL Common Shareowners:						
Basic	\$	2.64	\$	1.85	\$	2.61
Diluted	\$	2.61	\$	1.76	\$	2.60
Dividends Declared Per Share of Common Stock	\$	1.49	\$	1.47	\$	1.44

Weighted-Average Shares of Common Stock Outstanding (in thousands)

Basic	653,504	608,983	580,276
Diluted	665,973	663,073	581,626

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	2014	2013	2012
Net income	\$ 1,737	\$ 1,131	\$ 1,531
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of (\$8), \$4, \$2	(275)	138	94
Available-for-sale securities, net of tax of (\$39), (\$72), (\$31)	35	67	29
Qualifying derivatives, net of tax of \$23, (\$41), (\$32)	(10)	45	39
Equity investees' other comprehensive income (loss), net of tax of \$0, \$0, (\$1)			2
Defined benefit plans:			
Prior service costs, net of tax of (\$4), (\$1), \$0	5	2	1
Net actuarial gain (loss), net of tax of \$225, (\$73), \$343	(509)	71	(965)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$7, \$4, \$1	(6)	(6)	(7)
Qualifying derivatives, net of tax of \$23, \$80, \$278	(64)	(83)	(434)
Defined benefit plans:			
Prior service costs, net of tax of (\$3), (\$4), (\$5)	4	6	10
Net actuarial loss, net of tax of (\$34), (\$49), (\$29)	111	135	79
Total other comprehensive income (loss) attributable to PPL Shareowners	(709)	375	(1,152)
Comprehensive income (loss)	1,028	1,506	379
Comprehensive income attributable to noncontrolling interests		1	5
Comprehensive income (loss) attributable to PPL Shareowners	\$ 1,028	\$ 1,505	\$ 374

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	2014	2013	2012
Cash Flows from Operating Activities			
Net income	\$ 1,737	\$ 1,131	\$ 1,531
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	1,237	1,161	1,100
Amortization	228	222	186
Defined benefit plans - expense	90	176	166
Deferred income taxes and investment tax credits	640	72	424
Unrealized (gains) losses on derivatives, and other hedging activities	(175)	236	27
Pre-tax gain from the sale of the Montana hydroelectric generation business (Note 8)	(246)		
Loss on lease termination (Note 8)		426	
Adjustment to WPD line loss accrual	65	45	(90)
Stock compensation expense	64	51	49
Other	57	49	31
Change in current assets and current liabilities			
Accounts receivable	(83)	(165)	7
Accounts payable	(4)	25	(29)
Unbilled revenues	90	27	(19)
Fuel, materials and supplies	(134)	(27)	(18)
Counterparty collateral	(17)	(81)	(34)
Taxes payable	158	20	24
Uncertain tax positions		(114)	(4)
Other	80	(35)	55
Other operating activities			
Defined benefit plans - funding	(419)	(563)	(607)
Other assets	12	7	(33)
Other liabilities	23	194	(2)
Net cash provided by (used in) operating activities	3,403	2,857	2,764
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(4,090)	(4,212)	(3,105)
Expenditures for intangible assets	(95)	(95)	(71)
Proceeds from the sale of Montana hydroelectric generation business (Note 8)	900		
Ironwood Acquisition, net of cash acquired			(84)
Purchases of nuclear plant decommissioning trust investments	(170)	(159)	(154)
Proceeds from the sale of nuclear plant decommissioning trust investments	154	144	139
Proceeds from the receipt of grants	164	4	4
Purchases of other investments	(120)		
	(89)	(20)	96

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Net (increase) decrease in restricted cash and cash equivalents

Other investing activities	17	43	52
Net cash provided by (used in) investing activities	(3,329)	(4,295)	(3,123)
Cash Flows from Financing Activities			
Issuance of long-term debt	296	2,038	1,223
Retirement of long-term debt	(546)	(747)	(108)
Repurchase of common stock		(74)	
Issuance of common stock	1,074	1,411	72
Payment of common stock dividends	(967)	(878)	(833)
Redemption of preference stock of a subsidiary			(250)
Debt issuance and credit facility costs	(22)	(49)	(17)
Contract adjustment payments on Equity Units	(22)	(82)	(94)
Net increase (decrease) in short-term debt	777	49	74
Other financing activities	(7)	(37)	(19)
Net cash provided by (used in) financing activities	583	1,631	48
Effect of Exchange Rates on Cash and Cash Equivalents	(8)	8	10
Net Increase (Decrease) in Cash and Cash Equivalents	649	201	(301)
Cash and Cash Equivalents at Beginning of Period	1,102	901	1,202
Cash and Cash Equivalents at End of Period	\$ 1,751	\$ 1,102	\$ 901
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 959	\$ 916	\$ 847
Income taxes - net	\$ 190	\$ 128	\$ 73

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

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

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,751	\$ 1,102
Short-term investments	120	
Restricted cash and cash equivalents	180	83
Accounts receivable (less reserve: 2014, \$46; 2013, \$64)		
Customer	923	923
Other	171	97
Unbilled revenues	735	835
Fuel, materials and supplies	836	702
Prepayments	87	153
Deferred income taxes	129	246
Price risk management assets	1,158	942
Regulatory assets	37	33
Other current assets	32	37
Total Current Assets	6,159	5,153
Investments		
Nuclear plant decommissioning trust funds	950	864
Other investments	35	43
Total Investments	985	907
Property, Plant and Equipment		
Regulated utility plant	30,568	27,755
Less: accumulated depreciation - regulated utility plant	5,361	4,873
Regulated utility plant, net	25,207	22,882
Non-regulated property, plant and equipment		
Generation	11,310	11,881
Nuclear fuel	624	591
Other	885	834
Less: accumulated depreciation - non-regulated property, plant and equipment	6,404	6,172
Non-regulated property, plant and equipment, net	6,415	7,134
Construction work in progress	2,975	3,071
Property, Plant and Equipment, net	34,597	33,087
Other Noncurrent Assets		
Regulatory assets	1,562	1,246
Goodwill	4,005	4,225
Other intangibles	925	947
Price risk management assets	319	337
Other noncurrent assets	312	357
Total Other Noncurrent Assets	7,123	7,112

Total Assets	\$	48,864	\$	46,259
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The accompanying Notes to Financial Statements are an integral part of the financial statements.

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

	2014	2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,466	\$ 701
Long-term debt due within one year	1,535	315
Accounts payable	1,356	1,308
Taxes	230	114
Interest	314	325
Dividends	249	232
Price risk management liabilities	1,126	829
Regulatory liabilities	91	90
Other current liabilities	1,076	998
Total Current Liabilities	7,443	4,912
Long-term Debt	18,856	20,592
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,450	3,928
Investment tax credits	159	342
Price risk management liabilities	252	415
Accrued pension obligations	1,756	1,286
Asset retirement obligations	739	687
Regulatory liabilities	992	1,048
Other deferred credits and noncurrent liabilities	589	583
Total Deferred Credits and Other Noncurrent Liabilities	8,937	8,289
Commitments and Contingent Liabilities (Notes 5, 6 and 13)		
Equity		
Common stock - \$0.01 par value (a)	7	6
Additional paid-in capital	9,433	8,316
Earnings reinvested	6,462	5,709
Accumulated other comprehensive loss	(2,274)	(1,565)
Total Equity	13,628	12,466
Total Liabilities and Equity	\$ 48,864	\$ 46,259

(a) 780,000 shares authorized; 665,849 and 630,321 shares issued and outstanding at December 31, 2014 and 2013.

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

CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Millions of Dollars)

	PPL Shareowners						Total
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non- controlling interests	
December 31, 2011	578,405	\$ 6	\$ 6,813	\$ 4,797	\$ (788)	\$ 268	\$ 11,096
Common stock issued	3,543		99				99
Common stock repurchased	(4)						
Stock-based compensation			18				18
Net income				1,526		5	1,531
Dividends, dividend equivalents, redemptions and distributions			6	(845)		(255)	(1,094)
Other comprehensive income (loss)					(1,152)		(1,152)
December 31, 2012	581,944	\$ 6	\$ 6,936	\$ 5,478	\$ (1,940)	\$ 18	\$ 10,498
Common stock issued	50,807	\$	1,437			\$	1,437
Common stock repurchased	(2,430)		(74)				(74)
Cash settlement of equity forward agreements			(13)				(13)
Stock-based compensation			30				30
Net income				\$ 1,130		\$ 1	1,131

Dividends, dividend equivalents, redemptions and distributions				(899)		(19)	(918)				
Other comprehensive income (loss)				\$	375		375				
December 31, 2013	630,321	\$	6	\$	8,316	\$	5,709	\$	(1,565)	\$	12,466
Common stock issued	35,528	\$	1	\$	1,089					\$	1,090
Stock-based compensation					28						28
Net income				\$	1,737						1,737
Dividends, dividend equivalents, redemptions and distributions											(984)
Other comprehensive income (loss)						\$	(709)				(709)
December 31, 2014	665,849	\$	7	\$	9,433	\$	6,462	\$	(2,274)	\$	13,628

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

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

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2014	2013	2012
Operating Revenues			
Unregulated wholesale energy	\$ 1,808	\$ 2,909	\$ 3,976
Unregulated wholesale energy to affiliate	84	51	78
Unregulated retail energy	1,243	1,027	844
Energy-related businesses	601	527	448
Total Operating Revenues	3,736	4,514	5,346
Operating Expenses			
Operation			
Fuel	1,196	1,049	965
Energy purchases	209	1,171	1,821
Other operation and maintenance	1,007	1,026	997
Loss on lease termination (Note 8)		697	
Depreciation	297	299	272
Taxes, other than income	57	53	55
Energy-related businesses	573	512	432
Total Operating Expenses	3,339	4,807	4,542
Operating Income (Loss)	397	(293)	804
Other Income (Expense) - net	30	32	19
Interest Expense	124	159	158
Income (Loss) from Continuing Operations Before Income Taxes	303	(420)	665
Income Taxes	116	(159)	236
Income (Loss) from Continuing Operations After Income Taxes	187	(261)	429
Income (Loss) from Discontinued Operations (net of income taxes)	223	32	46
Net Income (Loss)	410	(229)	475
Net Income (Loss) Attributable to Noncontrolling Interests		1	1
Net Income (Loss) Attributable to PPL Energy Supply Member	\$ 410	\$ (230)	\$ 474
Amounts Attributable to PPL Energy Supply Member:			
Income (Loss) from Continuing Operations After Income Taxes	\$ 187	\$ (262)	\$ 428
Income (Loss) from Discontinued Operations (net of income taxes)	223	32	46

Net Income (Loss)	\$	410	\$	(230)	\$	474
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The accompanying Notes to Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31,
 PPL Energy Supply, LLC and Subsidiaries
 (Millions of Dollars)

	2014	2013	2012
Net income (loss)	\$ 410	\$ (229)	\$ 475
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Available-for-sale securities, net of tax of (\$40), (\$72), (\$31)	35	67	29
Qualifying derivatives, net of tax of \$0, \$0, (\$46)			68
Defined benefit plans:			
Prior service costs, net of tax of (\$6), (\$1), \$0	8	2	1
Net actuarial gain (loss), net of tax of \$83, (\$49), \$56	(120)	71	(82)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$7, \$4, \$1	(6)	(6)	(7)
Qualifying derivatives, net of tax of \$17, \$84, \$291	(25)	(123)	(463)
Defined benefit plans:			
Prior service costs, net of tax of (\$1), (\$3), (\$2)	3	4	5
Net actuarial loss, net of tax of (\$4), (\$10), (\$2)	5	14	10
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	(100)	29	(439)
Comprehensive income (loss)	310	(200)	36
Comprehensive income attributable to noncontrolling interests		1	1
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ 310	\$ (201)	\$ 35

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2014	2013	2012
Cash Flows from Operating Activities			
Net income (loss)	\$ 410	\$ (229)	\$ 475
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	313	318	285
Amortization	163	156	119
Defined benefit plans - expense	42	51	43
Deferred income taxes and investment tax credits	(26)	(296)	152
Impairment of assets	20	65	3
Unrealized (gains) losses on derivatives, and other hedging activities	4	171	(41)
Pre-tax gain from the sale of the Montana hydroelectric generation business (Note 8)	(315)		
Loss on lease termination (Note 8)		426	
Other	36	2	19
Change in current assets and current liabilities			
Accounts receivable	17	23	(54)
Accounts payable	2	(56)	(22)
Unbilled revenues	68	83	33
Fuel, materials and supplies	(97)	(31)	(29)
Prepayments	(53)	(5)	(1)
Counterparty collateral	(17)	(81)	(34)
Price risk management assets and liabilities	(30)	7	(21)
Taxes payable	(3)	(31)	(27)
Other	(40)	(16)	(17)
Other operating activities			
Defined benefit plans - funding	(35)	(113)	(75)
Other assets	3	(4)	(41)
Other liabilities		(30)	17
Net cash provided by (used in) operating activities	462	410	784
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(416)	(583)	(648)
Proceeds from the sale of the Montana hydroelectric generation business (Note 8)	900		
Ironwood Acquisition, net of cash acquired			(84)
Expenditures for intangible assets	(46)	(42)	(45)
Purchases of nuclear plant decommissioning trust investments	(170)	(159)	(154)
Proceeds from the sale of nuclear plant decommissioning trust investments	154	144	139
Proceeds from the receipt of grants	164	3	
Net (increase) decrease in notes receivable from affiliates			198

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Net (increase) decrease in restricted cash and cash equivalents	(108)	(22)	104
Other investing activities	19	28	21
Net cash provided by (used in) investing activities	497	(631)	(469)
Cash Flows from Financing Activities			
Retirement of long-term debt	(309)	(747)	(9)
Contributions from member	739	1,577	563
Distributions to member	(1,906)	(408)	(787)
Net increase (decrease) in short-term debt	630	(356)	(44)
Other financing activities		(19)	(4)
Net cash provided by (used in) financing activities	(846)	47	(281)
Net Increase (Decrease) in Cash and Cash Equivalents	113	(174)	34
Cash and Cash Equivalents at Beginning of Period	239	413	379
Cash and Cash Equivalents at End of Period	\$ 352	\$ 239	\$ 413
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 122	\$ 157	\$ 150
Income taxes - net	\$ 310	\$ 189	\$ 128

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 352	\$ 239
Restricted cash and cash equivalents	176	68
Accounts receivable (less reserve: 2014, \$2; 2013, \$21)		
Customer	186	233
Other	103	97
Accounts receivable from affiliates	36	45
Unbilled revenues	218	286
Fuel, materials and supplies	455	358
Prepayments	70	20
Price risk management assets	1,079	860
Other current assets	26	27
Total Current Assets	2,701	2,233
Investments		
Nuclear plant decommissioning trust funds	950	864
Other investments	30	37
Total Investments	980	901
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,318	11,891
Nuclear fuel	624	591
Other	293	288
Less: accumulated depreciation - non-regulated property, plant and equipment	6,242	6,046
Non-regulated property, plant and equipment, net	5,993	6,724
Construction work in progress	443	450
Property, Plant and Equipment, net	6,436	7,174
Other Noncurrent Assets		
Goodwill	72	86
Other intangibles	257	266
Price risk management assets	239	328
Other noncurrent assets	75	86
Total Other Noncurrent Assets	643	766
Total Assets	\$ 10,760	\$ 11,074

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2014	2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 630	
Long-term debt due within one year	535	\$ 304
Accounts payable	361	393
Accounts payable to affiliates	50	4
Taxes	28	31
Interest	16	22
Price risk management liabilities	1,024	750
Other current liabilities	246	278
Total Current Liabilities	2,890	1,782
Long-term Debt	1,683	2,221
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,223	1,114
Investment tax credits	27	205
Price risk management liabilities	193	320
Accrued pension obligations	299	111
Asset retirement obligations	415	393
Other deferred credits and noncurrent liabilities	123	130
Total Deferred Credits and Other Noncurrent Liabilities	2,280	2,273
Commitments and Contingent Liabilities (Note 15)		
Member's equity	3,907	4,798
Total Liabilities and Equity	\$ 10,760	\$ 11,074

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

CONSOLIDATED STATEMENTS OF EQUITY

PPL Energy Supply, LLC and Subsidiaries

(Millions of Dollars)

	Member's equity	Non- controlling interests	Total
December 31, 2011	\$ 4,019	\$ 18	\$ 4,037
Net income (loss)	474	1	475
Other comprehensive income (loss)	(439)		(439)
Contributions from member	563		563
Distributions	(787)	(1)	(788)
December 31, 2012	\$ 3,830	\$ 18	\$ 3,848
Net income (loss)	\$ (230)	\$ 1	\$ (229)
Other comprehensive income (loss)	29		29
Contributions from member	1,577		1,577
Distributions	(408)	(19)	(427)
December 31, 2013	\$ 4,798	\$	\$ 4,798
Net income (loss)	\$ 410		\$ 410
Other comprehensive income (loss)	(100)		(100)
Contributions from member	739		739
Distributions	(1,940)		(1,940)
December 31, 2014	\$ 3,907		\$ 3,907

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

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CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2014	2013	2012
Operating Revenues	\$ 2,044	\$ 1,870	\$ 1,763
Operating Expenses			
Operation			
Energy purchases	587	588	550
Energy purchases from affiliate	84	51	78
Other operation and maintenance	543	531	576
Depreciation	185	178	160
Taxes, other than income	107	103	105
Total Operating Expenses	1,506	1,451	1,469
Operating Income	538	419	294
Other Income (Expense) - net	7	6	9
Interest Expense	122	108	99
Income Before Income Taxes	423	317	204
Income Taxes	160	108	68
Net Income (a)	263	209	136
Distributions on Preference Stock			4
Net Income Available to PPL	\$ 263	\$ 209	\$ 132

(a) Net income approximates comprehensive income.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2014	2013	2012
Cash Flows from Operating Activities			
Net income	\$ 263	\$ 209	\$ 136
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	185	178	160
Amortization	19	19	18
Defined benefit plans - expense	15	21	22
Deferred income taxes and investment tax credits	87	127	114
Other	(23)	(9)	(9)
Change in current assets and current liabilities			
Accounts receivable	(64)	(29)	3
Accounts payable	30	12	38
Prepayments	1	36	2
Taxes payable	75	49	12
Other	18	(15)	(14)
Other operating activities			
Defined benefit plans - funding	(23)	(93)	(59)
Other assets	19	8	(3)
Other liabilities	11	10	(31)
Net cash provided by (used in) operating activities	613	523	389
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(931)	(903)	(624)
Expenditures for intangible assets	(26)	(39)	(9)
Net (increase) decrease in notes receivable from affiliate	150	(150)	
Other investing activities	16	12	20
Net cash provided by (used in) investing activities	(791)	(1,080)	(613)
Cash Flows from Financing Activities			
Issuance of long-term debt	296	348	249
Retirement of long-term debt	(10)		
Contributions from PPL	263	205	150
Redemption of preference stock			(250)
Payment of common stock dividends to parent	(158)	(127)	(95)
Net increase (decrease) in short-term debt	(20)	20	
Other financing activities	(4)	(4)	(10)
Net cash provided by (used in) financing activities	367	442	44
Net Increase (Decrease) in Cash and Cash Equivalents	189	(115)	(180)
Cash and Cash Equivalents at Beginning of Period	25	140	320

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Cash and Cash Equivalents at End of Period	\$	214	\$	25	\$	140
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Supplemental Disclosures of Cash Flow Information

Cash paid (received) during the period for:

Interest - net of amount capitalized	\$	110	\$	87	\$	81
Income taxes - net	\$	40	\$	(45)	\$	(42)

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

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

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 214	\$ 25
Accounts receivable (less reserve: 2014, \$17; 2013, \$18)		
Customer	312	284
Other	44	5
Accounts receivable from affiliates	1	4
Notes receivable from affiliate		150
Unbilled revenues	113	116
Materials and supplies	43	35
Prepayments	10	40
Deferred income taxes	58	85
Regulatory assets	12	6
Other current assets	12	16
Total Current Assets	819	766
Property, Plant and Equipment		
Regulated utility plant	7,589	6,888
Less: accumulated depreciation - regulated utility plant	2,517	2,417
Regulated utility plant, net	5,072	4,471
Construction work in progress	738	591
Property, Plant and Equipment, net	5,810	5,062
Other Noncurrent Assets		
Regulatory assets	897	772
Intangibles	235	211
Other noncurrent assets	24	35
Total Other Noncurrent Assets	1,156	1,018
Total Assets	\$ 7,785	\$ 6,846

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

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

	2014	2013
Liabilities and Equity		
Current Liabilities		
Short-term debt		\$ 20
Long-term debt due within one year	\$ 100	10
Accounts payable	325	295
Accounts payable to affiliates	70	57
Taxes	85	51
Interest	34	34
Regulatory liabilities	76	76
Other current liabilities	103	82
Total Current Liabilities	793	625
Long-term Debt	2,502	2,305
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,483	1,399
Accrued pension obligations	212	96
Regulatory liabilities	18	15
Other deferred credits and noncurrent liabilities	60	57
Total Deferred Credits and Other Noncurrent Liabilities	1,773	1,567
Commitments and Contingent Liabilities (Notes 6 and 13)		
Stockholder's Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	1,603	1,340
Earnings reinvested	750	645
Total Equity	2,717	2,349
Total Liabilities and Equity	\$ 7,785	\$ 6,846

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at December 31, 2014 and 2013.

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

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Millions of Dollars)

	Common stock shares outstanding (a)	Preferred securities	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2011	66,368	\$ 250	\$ 364	\$ 979	\$ 532	\$ 2,125
Net income					136	136
Redemption of preference stock		(250)		6	(6)	(250)
Capital contributions from PPL				150		150
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(95)	(95)
December 31, 2012	66,368	\$	\$ 364	\$ 1,135	\$ 563	\$ 2,062
Net income					\$ 209	\$ 209
Capital contributions from PPL				\$ 205		205
Cash dividends declared on common stock					(127)	(127)
December 31, 2013	66,368		\$ 364	\$ 1,340	\$ 645	\$ 2,349
Net income					\$ 263	\$ 263
Capital contributions from PPL				\$ 263		263
Cash dividends declared on common stock					(158)	(158)
December 31, 2014	66,368		\$ 364	\$ 1,603	\$ 750	\$ 2,717

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

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

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
 LG&E and KU Energy LLC and Subsidiaries
 (Millions of Dollars)

	2014	2013	2012
Operating Revenues	\$ 3,168	\$ 2,976	\$ 2,759
Operating Expenses			
Operation			
Fuel	965	896	872
Energy purchases	253	217	195
Other operation and maintenance	815	778	778
Depreciation	354	334	346
Taxes, other than income	52	48	46
Total Operating Expenses	2,439	2,273	2,237
Operating Income	729	703	522
Other Income (Expense) - net	(9)	(7)	(15)
Other-Than-Temporary Impairments			25
Interest Expense	167	144	150
Interest Expense with Affiliate		1	1
Income from Continuing Operations Before Income Taxes	553	551	331
Income Taxes	209	206	106
Income from Continuing Operations After Income Taxes	344	345	225
Income (Loss) from Discontinued Operations (net of income taxes)		2	(6)
Net Income	\$ 344	\$ 347	\$ 219

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31,
 LG&E and KU Energy LLC and Subsidiaries
 (Millions of Dollars)

	2014	2013	2012
Net income	\$ 344	\$ 347	\$ 219
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax			
(expense) benefit:			
Equity investee's other comprehensive income			
(loss), net			
of tax of \$0, \$0, (\$1)			1
Defined benefit plans:			
Prior service costs, net of tax of			
\$4, \$0, \$0	(7)		
Net actuarial gain (loss), net of			
tax of \$32, (\$18), \$13	(50)	28	(21)
Reclassification to net income - (gains) losses, net of tax			
expense (benefit):			
Equity investees' other comprehensive (income)			
loss, net of			
tax of \$0, \$0, \$0	(1)		
Defined benefit plans:			
Prior service costs, net of tax of			
\$0, \$0, \$0	1		
Net actuarial loss, net of tax of			
\$0, \$0, \$0	(1)		1
Total other comprehensive income (loss)	(58)	28	(19)
Comprehensive income (loss) attributable to member	\$ 286	\$ 375	\$ 200

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
 LG&E and KU Energy LLC and Subsidiaries
 (Millions of Dollars)

	2014	2013	2012
Cash Flows from Operating Activities			
Net income	\$ 344	\$ 347	\$ 219
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	354	334	346
Amortization	25	22	27
Defined benefit plans - expense	25	48	40
Deferred income taxes and investment tax credits	449	254	133
Impairment of assets			25
Other	16	5	2
Change in current assets and current liabilities			
Accounts receivable	(20)	(91)	(9)
Accounts payable	12	40	1
Accounts payable to affiliates	(1)	1	(1)
Unbilled revenues	13	(24)	(10)
Fuel, materials and supplies	(32)	(1)	8
Income tax receivable	(136)	1	2
Taxes payable	(3)	13	1
Other	(1)	22	
Other operating activities			
Defined benefit plans - funding	(45)	(168)	(70)
Settlement of interest rate swaps		86	
Other assets	(7)	9	(8)
Other liabilities	6	22	38
Net cash provided by (used in) operating activities	999	920	744
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(1,262)	(1,434)	(768)
Net (increase) decrease in notes receivable from affiliates	70	(70)	15
Other investing activities	1	2	
Net cash provided by (used in) investing activities	(1,191)	(1,502)	(753)
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates	41	(25)	25
Issuance of long-term debt		496	
Net increase (decrease) in short-term debt	330	120	125
Debt issuance and credit facility costs	(5)	(6)	(2)
Distributions to member	(436)	(254)	(155)
Contributions from member	248	243	
Net cash provided by (used in) financing activities	178	574	(7)
Net Increase (Decrease) in Cash and Cash Equivalents	(14)	(8)	(16)

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Cash and Cash Equivalents at Beginning of Period		35		43		59
Cash and Cash Equivalents at End of Period	\$	21	\$	35	\$	43

Supplemental Disclosures of Cash Flow Information

Cash paid (received) during the period for:

Interest - net of amount capitalized	\$	157	\$	137	\$	139
Income taxes - net	\$	(75)	\$	(67)	\$	(45)

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
 LG&E and KU Energy LLC and Subsidiaries
 (Millions of Dollars)

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 21	\$ 35
Accounts receivable (less reserve: 2014, \$25; 2013, \$22)		
Customer	231	224
Other	18	20
Unbilled revenues	167	180
Notes receivable from affiliates		70
Fuel, materials and supplies	311	278
Prepayments	28	21
Income taxes receivable	136	
Deferred income taxes	16	159
Regulatory assets	25	27
Other current assets	3	3
Total Current Assets	956	1,017
Property, Plant and Equipment		
Regulated utility plant	10,007	8,526
Less: accumulated depreciation - regulated utility plant	1,067	778
Regulated utility plant, net	8,940	7,748
Other, net	5	3
Construction work in progress	1,559	1,793
Property, Plant and Equipment, net	10,504	9,544
Other Noncurrent Assets		
Regulatory assets	665	474
Goodwill	996	996
Other intangibles	174	221
Other noncurrent assets	101	98
Total Other Noncurrent Assets	1,936	1,789
Total Assets	\$ 13,396	\$ 12,350

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
 LG&E and KU Energy LLC and Subsidiaries
 (Millions of Dollars)

	2014	2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 575	\$ 245
Long-term debt due within one year	900	
Notes payable with affiliates	41	
Accounts payable	399	346
Accounts payable to affiliates	2	3
Customer deposits	52	50
Taxes	36	39
Price risk management liabilities	5	4
Price risk management liabilities to affiliates	66	
Regulatory liabilities	15	14
Interest	23	23
Other current liabilities	131	111
Total Current Liabilities	2,245	835
Long-term Debt	3,667	4,565
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,241	965
Investment tax credits	131	135
Price risk management liabilities	43	32
Accrued pension obligations	305	152
Asset retirement obligations	274	245
Regulatory liabilities	974	1,033
Other deferred credits and noncurrent liabilities	268	238
Total Deferred Credits and Other Noncurrent Liabilities	3,236	2,800
Commitments and Contingent Liabilities (Notes 6 and 15)		
Member's equity	4,248	4,150
Total Liabilities and Equity	\$ 13,396	\$ 12,350

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

CONSOLIDATED STATEMENTS OF EQUITY
 LG&E and KU Energy LLC and Subsidiaries
 (Millions of Dollars)

		Member's Equity
December 31, 2011	\$	3,741
Net income		219
Distributions to member		(155)
Other comprehensive income (loss)		(19)
December 31, 2012	\$	3,786
Net income	\$	347
Contributions from member		243
Distributions to member		(254)
Other comprehensive income (loss)		28
December 31, 2013	\$	4,150
Net income	\$	344
Contributions from member		248
Distributions to member		(436)
Other comprehensive income (loss)		(58)
December 31, 2014	\$	4,248

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

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STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars)

	2014	2013	2012
Operating Revenues			
Retail and wholesale	\$ 1,445	\$ 1,351	\$ 1,247
Electric revenue from affiliate	88	59	77
Total Operating Revenues	1,533	1,410	1,324
Operating Expenses			
Operation			
Fuel	404	367	374
Energy purchases	230	195	163
Energy purchases from affiliate	14	10	12
Other operation and maintenance	379	373	363
Depreciation	157	148	152
Taxes, other than income	25	24	23
Total Operating Expenses	1,209	1,117	1,087
Operating Income	324	293	237
Other Income (Expense) - net	(3)	(2)	(3)
Interest Expense	49	34	42
Income Before Income Taxes	272	257	192
Income Taxes	103	94	69
Net Income (a)	\$ 169	\$ 163	\$ 123

(a) Net income equals comprehensive income.

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars)

	2014	2013	2012
Cash Flows from Operating Activities			
Net income	\$ 169	\$ 163	\$ 123
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	157	148	152
Amortization	12	6	11
Defined benefit plans - expense	9	18	18
Deferred income taxes and investment tax credits	118	26	69
Other	2	9	(13)
Change in current assets and current liabilities			
Accounts receivable	(35)	(23)	(2)
Accounts payable	25	16	
Accounts payable to affiliates	(4)	1	(3)
Unbilled revenues	9	(13)	(7)
Fuel, materials and supplies	(8)	(12)	
Income tax receivable	(74)		
Taxes payable	8	9	(7)
Other		8	(7)
Other operating activities			
Defined benefit plans - funding	(13)	(48)	(27)
Settlement of interest rate swaps		43	
Other assets	(2)	9	(24)
Other liabilities	(2)	6	22
Net cash provided by (used in) operating activities	371	366	305
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(656)	(577)	(286)
Net cash provided by (used in) investing activities	(656)	(577)	(286)
Cash Flows from Financing Activities			
Issuance of long-term debt		248	
Net increase (decrease) in short-term debt	244	(35)	55
Debt issuance and credit facility costs	(2)	(3)	(2)
Payment of common stock dividends to parent	(112)	(99)	(75)
Contributions from parent	157	86	
Net cash provided by (used in) financing activities	287	197	(22)
Net Increase (Decrease) in Cash and Cash Equivalents	2	(14)	(3)
Cash and Cash Equivalents at Beginning of Period	8	22	25
Cash and Cash Equivalents at End of Period	\$ 10	\$ 8	\$ 22

Supplemental Disclosures of Cash Flow Information

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Cash paid (received) during the period for:						
Interest - net of amount capitalized	\$	46	\$	36	\$	39
Income taxes - net	\$	65	\$	51	\$	5

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

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 10	\$ 8
Accounts receivable (less reserve: 2014, \$2; 2013, \$2)		
Customer	107	102
Other	11	9
Unbilled revenues	76	85
Accounts receivable from affiliates	23	
Fuel, materials and supplies	162	154
Prepayments	8	7
Income taxes receivable	74	
Regulatory assets	21	17
Other current assets	1	3
Total Current Assets	493	385
Property, Plant and Equipment		
Regulated utility plant	4,031	3,383
Less: accumulated depreciation - regulated utility plant	456	332
Regulated utility plant, net	3,575	3,051
Construction work in progress	676	651
Property, Plant and Equipment, net	4,251	3,702
Other Noncurrent Assets		
Regulatory assets	397	303
Goodwill	389	389
Other intangibles	97	120
Other noncurrent assets	35	35
Total Other Noncurrent Assets	918	847
Total Assets	\$ 5,662	\$ 4,934

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

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2014	2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 264	\$ 20
Long-term debt due within one year	250	
Accounts payable	240	166
Accounts payable to affiliates	20	24
Customer deposits	25	24
Taxes	19	11
Price risk management liabilities	5	4
Price risk management liabilities to affiliates	33	
Regulatory liabilities	10	9
Interest	6	6
Other current liabilities	42	32
Total Current Liabilities	914	296
Long-term Debt	1,103	1,353
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	700	582
Investment tax credits	36	38
Price risk management liabilities	43	32
Accrued pension obligations	57	19
Asset retirement obligations	66	68
Regulatory liabilities	458	482
Other deferred credits and noncurrent liabilities	111	104
Total Deferred Credits and Other Noncurrent Liabilities	1,471	1,325
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,521	1,364
Earnings reinvested	229	172
Total Equity	2,174	1,960
Total Liabilities and Equity	\$ 5,662	\$ 4,934

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at December 31, 2014 and December 31, 2013.

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

STATEMENTS OF EQUITY

Louisville Gas and Electric Company
(Millions of Dollars)

	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Total
December 31, 2011	21,294	\$	424	\$	1,278	\$	60	\$	1,762
Net income							123		123
Cash dividends declared on common stock							(75)		(75)
December 31, 2012	21,294	\$	424	\$	1,278	\$	108	\$	1,810
Net income						\$	163	\$	163
Capital contributions from LKE				\$	86				86
Cash dividends declared on common stock							(99)		(99)
December 31, 2013	21,294	\$	424	\$	1,364	\$	172	\$	1,960
Net income						\$	169	\$	169
Capital contributions from LKE				\$	157				157
Cash dividends declared on common stock							(112)		(112)
December 31, 2014	21,294	\$	424	\$	1,521	\$	229	\$	2,174

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

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

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STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars)

	2014	2013	2012
Operating Revenues			
Retail and wholesale	\$ 1,723	\$ 1,625	\$ 1,512
Electric revenue from affiliate	14	10	12
Total Operating Revenues	1,737	1,635	1,524
Operating Expenses			
Operation			
Fuel	561	529	498
Energy purchases	23	22	32
Energy purchases from affiliate	88	59	77
Other operation and maintenance	408	382	384
Depreciation	197	186	193
Taxes, other than income	27	24	23
Total Operating Expenses	1,304	1,202	1,207
Operating Income	433	433	317
Other Income (Expense) - net	(1)	(3)	(8)
Other-Than-Temporary Impairments			25
Interest Expense	77	70	69
Income Before Income Taxes	355	360	215
Income Taxes	135	132	78
Net Income (a)	\$ 220	\$ 228	\$ 137

(a) Net income approximates comprehensive income.

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars)

	2014	2013	2012
Cash Flows from Operating Activities			
Net income	\$ 220	\$ 228	\$ 137
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	197	186	193
Amortization	11	14	14
Defined benefit plans - expense	5	18	11
Deferred income taxes and investment tax credits	224	69	99
Impairment of assets			25
Other	13	(3)	10
Change in current assets and current liabilities			
Accounts receivable	(9)	(37)	(17)
Accounts payable	(10)	23	1
Accounts payable to affiliates	22	(8)	
Unbilled revenues	4	(11)	(3)
Fuel, materials and supplies	(25)	10	7
Income tax receivable	(60)		
Taxes payable	(19)	7	15
Other	(5)	10	6
Other operating activities			
Defined benefit plans - funding	(5)	(65)	(21)
Settlement of interest rate swaps		43	
Other assets	(4)	1	(3)
Other liabilities	7	10	26
Net cash provided by (used in) operating activities	566	495	500
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(604)	(855)	(480)
Other investing activities	1	2	
Net cash provided by (used in) investing activities	(603)	(853)	(480)
Cash Flows from Financing Activities			
Issuance of long-term debt		248	
Net increase (decrease) in short-term debt	86	80	70
Debt issuance and credit facility costs	(2)	(3)	
Payment of common stock dividends to parent	(148)	(124)	(100)
Contributions from parent	91	157	
Net cash provided by (used in) financing activities	27	358	(30)
Net Increase (Decrease) in Cash and Cash Equivalents	(10)		(10)
Cash and Cash Equivalents at Beginning of Period	21	21	31
Cash and Cash Equivalents at End of Period	\$ 11	\$ 21	\$ 21

Supplemental Disclosures of Cash Flow Information

Cash paid (received) during the period for:

Interest - net of amount capitalized	\$	73	\$	61	\$	62
Income taxes - net	\$		\$	47	\$	(39)

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

BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 11	\$ 21
Accounts receivable (less reserve: 2014, \$2; 2013, \$4)		
Customer	124	122
Other	6	9
Unbilled revenues	91	95
Fuel, materials and supplies	149	124
Prepayments	10	4
Income taxes receivable	60	
Regulatory assets	4	10
Other current assets	4	6
Total Current Assets	459	391
Property, Plant and Equipment		
Regulated utility plant	5,976	5,143
Less: accumulated depreciation - regulated utility plant	611	446
Regulated utility plant, net	5,365	4,697
Other, net	1	1
Construction work in progress	880	1,139
Property, Plant and Equipment, net	6,246	5,837
Other Noncurrent Assets		
Regulatory assets	268	171
Goodwill	607	607
Other intangibles	77	101
Other noncurrent assets	58	56
Total Other Noncurrent Assets	1,010	935
Total Assets	\$ 7,715	\$ 7,163

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

BALANCE SHEETS AT DECEMBER 31,
 Kentucky Utilities Company
 (Millions of Dollars, shares in thousands)

	2014	2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 236	\$ 150
Long-term debt due within one year	250	
Accounts payable	141	159
Accounts payable to affiliates	47	25
Customer deposits	27	26
Taxes	14	33
Price risk management liabilities to affiliates	33	
Regulatory liabilities	5	5
Interest	11	11
Other current liabilities	41	36
Total Current Liabilities	805	445
Long-term Debt	1,841	2,091
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	884	658
Investment tax credits	95	97
Accrued pension obligations	59	11
Asset retirement obligations	208	177
Regulatory liabilities	516	551
Other deferred credits and noncurrent liabilities	101	89
Total Deferred Credits and Other Noncurrent Liabilities	1,863	1,583
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,596	2,505
Accumulated other comprehensive income (loss)		1
Earnings reinvested	302	230
Total Equity	3,206	3,044
Total Liabilities and Equity	\$ 7,715	\$ 7,163

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at December 31, 2014 and December 31, 2013.

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

STATEMENTS OF EQUITY

Kentucky Utilities Company

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2011	37,818	\$ 308	\$ 2,348	\$ 89		\$ 2,745
Net income				137		137
Cash dividends declared on common stock				(100)		(100)
Other comprehensive income (loss)					\$ 1	1
December 31, 2012	37,818	\$ 308	\$ 2,348	\$ 126	\$ 1	\$ 2,783
Net income				\$ 228		\$ 228
Capital contributions from LKE			\$ 157			157
Cash dividends declared on common stock				(124)		(124)
December 31, 2013	37,818	\$ 308	\$ 2,505	\$ 230	\$ 1	\$ 3,044
Net income				\$ 220		\$ 220
Capital contributions from LKE			\$ 91			91
Cash dividends declared on common stock				(148)		(148)
Other comprehensive income (loss)					\$ (1)	(1)
December 31, 2014	37,818	\$ 308	\$ 2,596	\$ 302	\$ (1)	\$ 3,206

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

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

COMBINED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(All Registrants)

General

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

Business and Consolidation

(PPL)

PPL is an energy and utility holding company that, through its subsidiaries, is primarily engaged in: 1) the regulated distribution of electricity in the U.K.; 2) the regulated generation, transmission, distribution and sale of electricity and the regulated distribution and sale of natural gas, primarily in Kentucky; 3) the regulated transmission, distribution and sale of electricity in Pennsylvania; and 4) the competitive generation and marketing of electricity in portions of the northeastern and northwestern U.S. Headquartered in Allentown, PA, PPL's principal subsidiaries are PPL Global, LKE (including its principal subsidiaries, LG&E and KU), PPL Electric and PPL Energy Supply (including its principal subsidiaries, PPL EnergyPlus and PPL Generation). PPL's corporate level financing subsidiary is PPL Capital Funding.

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

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

(PPL and PPL Energy Supply)

PPL Energy Supply is an energy company conducting business primarily through its principal subsidiaries PPL Generation and PPL EnergyPlus. PPL Generation owns and operates a portfolio of competitive domestic power generating assets. These power plants are located in Pennsylvania and Montana and use well-diversified fuel sources including coal, uranium, natural gas, oil and water. PPL EnergyPlus sells electricity produced by PPL Generation subsidiaries, participates in wholesale market load-following auctions, and markets various energy products and commodities such as: capacity, transmission, FTRs, coal, natural gas, oil, uranium, emission allowances, RECs and other commodities in competitive wholesale and competitive retail markets, primarily in the northeastern and northwestern U.S.

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. See Note 8 for additional information.

In November 2014, PPL Montana completed the sale of its hydroelectric generating facilities. See Note 8 for additional information.

(PPL and PPL Electric)

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

(PPL, LKE, LG&E and KU)

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

(PPL and PPL Energy Supply)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of PPL Montana's hydroelectric generating facilities and the gain on the sale of these facilities to NorthWestern in November 2014. The related assets and liabilities have not been reclassified to assets/liabilities of discontinued operations on the balance sheet at December 31, 2013. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations. See Note 8 for additional information.

(All Registrants)

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

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

Regulation

(PPL)

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

(All Registrants except PPL Energy Supply)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Rates are generally established based on a historical or future test period. As a

result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 6 for additional details regarding regulatory matters.

Accounting Records (All Registrants except PPL Energy Supply)

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

(All Registrants)

Use of Estimates

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

Loss Accruals

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

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

Changes in Classification

The classification of certain amounts in the 2013 and 2012 financial statements have been changed to conform to the current presentation. The changes in classification did not affect the Registrants' net income or equity.

Earnings Per Share (PPL)

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

Price Risk Management

(All Registrants)

Energy and energy-related contracts are used to hedge the variability of expected cash flows associated with the generating units and marketing activities, as well as for trading purposes at PPL Energy Supply. Interest rate contracts are used to hedge exposures to changes in the fair value of debt instruments and to hedge exposures to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain energy and energy-related contracts meet the definition of a derivative, while others do not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative energy contracts have been excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. All other contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. These contracts are recorded as "Price risk management assets" and "Price risk management liabilities" on the Balance Sheets. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities." PPL considers intra-month transactions to be spot activity, which is not accounted for as a derivative.

Energy and energy-related contracts are assigned a strategy and accounting classification. Processes exist that allow for subsequent review and validation of the contract information. See Note 17 for more information. The accounting department provides the traders and the risk management department with guidelines on appropriate accounting classifications for various contract types and strategies. Some examples of these guidelines include, but are not limited to:

- Physical coal, limestone, lime, uranium, electric transmission, gas transportation, gas storage and renewable energy credit contracts not traded on an exchange are not derivatives due to the lack of net settlement provisions.
- Only contracts where physical delivery is deemed probable throughout the entire term of the contract can qualify for NPNS.
- Physical transactions that permit cash settlement and financial transactions do not qualify for NPNS because physical delivery cannot be asserted; however, these transactions can receive cash flow hedge treatment if they effectively hedge the volatility in the future cash flows for energy-related commodities.
- Certain purchased option contracts or net purchased option collars may receive cash flow hedge treatment.
- Derivative transactions that do not qualify for NPNS or cash flow hedge treatment, or for which NPNS or cash flow hedge treatment is not elected, are recorded at fair value through earnings.

A similar process is also followed by the treasury department as it relates to interest rate and foreign currency derivatives. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions entered into to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions entered into to hedge the value of a net investment of foreign operations can be designated as net investment hedges.
- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency swaps and options to hedge GBP earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.
- Derivative transactions may be marked to fair value through regulatory assets/liabilities at PPL Electric, LG&E and KU if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

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

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

PPL Energy Supply reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in "Unregulated wholesale energy" on the Statements of Income.

See Notes 16 and 17 for additional information on derivatives.

(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts. See Notes 16 and 17 for additional information.

Revenue

Utility Revenue (PPL)

For the years ended December 31, the Statements of Income "Utility" line item contains rate-regulated revenue from the following:

	2014	2013	2012
Domestic electric and gas revenue (a)	\$ 5,209	\$ 4,842	\$ 4,519
U.K. electric revenue (b)	2,573	2,359	2,289
Total	\$ 7,782	\$ 7,201	\$ 6,808

(a) Represents revenue from cost-based rate-regulated generation, transmission and/or distribution in Pennsylvania, Kentucky, Virginia and Tennessee, including regulated wholesale revenue.

(b) Represents regulated electricity distribution revenue from the operation of WPD's distribution networks.

Revenue Recognition

(All Registrants)

Operating revenues, except for certain energy and energy-related contracts that meet the definition of derivative instruments and "Energy-related businesses," are recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' meters are read and bills are rendered throughout the month, rather than all being read at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Unbilled wholesale energy revenues are recorded at month-end to reflect estimated amounts until actual dollars and MWhs are confirmed and invoiced. Any difference between estimated and actual revenues is adjusted the following month.

Certain PPL subsidiaries participate primarily in the PJM RTO, as well as in other RTOs and ISOs. In PJM, PPL EnergyPlus is a marketer, a load-serving entity and a seller for PPL Energy Supply's generation subsidiaries. A function of interchange accounting is to match participants' MWh entitlements (generation plus scheduled bilateral purchases) against their MWh obligations (load plus scheduled bilateral sales) during every hour of every day. If the net result during any given hour is an entitlement, the participant is credited with a spot-market sale to the RTO at the respective market price for that hour; if the net result is an obligation, the participant is charged with a spot-market purchase at the respective market price for that hour. PPL Energy Supply records the hourly net sales in its Statements of Income as "Unregulated wholesale energy" if in a net sales position and "Energy purchases" if in a net purchase position.

(PPL)

WPD's revenue is primarily from charges to suppliers to use its distribution system to deliver electricity to the end-user. During the price control period, WPD's revenue is decoupled from volume. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are

added or subtracted to the base demand revenue in future years. Under applicable GAAP, WPD does not record a receivable for under-recoveries, but does record a liability for over-recoveries. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(PPL and PPL Energy Supply)

PPL Energy Supply records non-derivative energy marketing activity in the period when the energy is delivered. Generally, sales contracts held for non-trading purposes are reported gross on the Statements of Income within "Unregulated wholesale energy" and "Unregulated retail energy." However, non-trading physical sales and purchases of electricity at major market delivery points (which is any delivery point with liquid pricing available, such as the pricing hub for PJM West), are netted and reported in the Statements of Income within "Unregulated wholesale energy" or "Energy purchases," depending on the net hourly position. Certain energy and energy-related contracts that meet the definition of derivative instruments are recorded at fair value with subsequent changes in fair value recognized as revenue or expense (see Note 17), unless hedge accounting is applied or NPNS is elected. If derivatives meet cash flow hedging criteria, changes in fair value are recorded in

AOCI. The unrealized and realized results of derivative and non-derivative contracts that are designated as proprietary trading activities are reported net on the Statements of Income within "Unregulated wholesale energy."

"Energy-related businesses" revenue primarily includes revenue from PPL Energy Supply's mechanical contracting and engineering subsidiaries. These subsidiaries record revenue from construction contracts on the percentage-of-completion method of accounting, measured by the actual cost incurred to date as a percentage of the estimated total cost for each contract. Accordingly, costs and estimated earnings in excess of billings on uncompleted contracts are recorded within "Unbilled revenues" on the Balance Sheets, and billings in excess of costs and estimated earnings on uncompleted contracts are recorded within "Other current liabilities" on the Balance Sheets. The amount of costs and estimated earnings in excess of billings was \$20 million and \$14 million at December 31, 2014 and 2013, and the amount of billings in excess of costs and estimated earnings was \$41 million and \$75 million at December 31, 2014 and 2013.

During 2014, PPL and PPL Energy Supply recorded a \$17 million increase to "Energy-related businesses" revenues and "Income from Continuing Operations before Income Taxes" on the 2014 Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. The \$10 million after-tax impact of correcting this error increased "Income from Continuing Operations after Income Taxes" and "Net Income" on the 2014 Statement of Income. The impact of the error is not material to the previously-issued financial statements or to the full year results for 2014.

Accounts Receivable

(All Registrants)

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

(PPL, PPL Energy Supply and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During 2014, 2013 and 2012, PPL Electric purchased \$1.1 billion, \$985 million and \$848 million of accounts receivable from unaffiliated third parties. During 2014, 2013 and 2012, PPL Electric purchased \$336 million, \$294 million and \$313 million of accounts receivable from PPL EnergyPlus.

Allowance for Doubtful Accounts (All Registrants)

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

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

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Charged to Income	Additions Charged to Other Accounts	Deductions (a)	Balance at End of Period
PPL					
2014	\$ 64	\$ 49		\$ 67	\$ 46
2013	64	39	\$ 4(c)	43	64
2012	54	55(b)		45	64
PPL Energy Supply					
2014	\$ 21			\$ 19(b)	\$ 2
2013	23	\$ 1		3	21
2012	15	12(b)		4	23

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	Balance at		Additions			Balance at				
	Beginning of	Period	Charged to	Charged to	Deductions (a)	End of Period				
			Income	Other Accounts						
PPL Electric										
2014	\$	18	\$	34	\$	35	\$	17		
2013		18		32		32		18		
2012		17		32		31		18		
LKE										
2014	\$	22	\$	14	\$	11	\$	25		
2013		19		4	\$	4(c)		22		
2012		17		9		7		19		
LG&E										
2014	\$	2	\$	5	\$	(1)(c)	\$	4	\$	2
2013		1		2		1(c)		2		2
2012		2		2		3		1		1
KU										
2014	\$	4	\$	8	\$	(3)(c)	\$	7	\$	2
2013		2		3		3(c)		4		4
2012		2		4		4		2		2

- (a) Primarily related to uncollectible accounts written off.
- (b) In 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract and the U.S. Bankruptcy Court for the District of Montana approved a request to terminate the contract. In 2014, PPL EnergyPlus received an insignificant amount of cash, settling the outstanding administrative claim and therefore, the related reserve balance was offset against the accounts receivable balance.
- (c) Primarily related to capital projects, thus the provision was recorded as an adjustment to construction work in progress.

Cash

Cash Equivalents (All Registrants)

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

Restricted Cash and Cash Equivalents (PPL, PPL Energy Supply and PPL Electric)

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

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

	PPL		PPL Energy Supply		PPL Electric	
	2014	2013	2014	2013	2014	2013
Margin deposits posted to						
counterparties	\$ 175	\$ 67	\$ 175	\$ 67		
Low carbon network fund (a)	19	27				
Funds deposited with a trustee		12				\$ 12
Ironwood debt service reserves	17	17	17	17		
Other	13	11	1	1	\$ 3	
	\$ 224	\$ 134	\$ 193	\$ 85	\$ 3	\$ 12

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

Fair Value Measurements (All Registrants)

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities including investments in the NDT funds and defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability.

These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.
- Level 3 - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

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

Investments

(All Registrants)

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

Short-term Investments

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

Investments in Debt and Equity Securities

Investments in debt securities are classified as held-to-maturity and measured at amortized cost when there is an intent and ability to hold the securities to maturity. Debt and equity securities held principally to capitalize on fluctuations in their value with the intention of selling them in the near-term are classified as trading. All other investments in debt and equity securities are classified as available-for-sale. Both trading and available-for-sale securities are carried at fair value. The specific identification method is used to calculate realized gains and losses on debt and equity

securities. Any unrealized gains and losses on trading securities are included in earnings.

The criteria for determining whether a decline in fair value of a debt security is other than temporary and whether the other-than-temporary impairment is recognized in earnings or reported in OCI require that when a debt security is in an unrealized loss position and:

- there is an intent or a requirement to sell the security before recovery, the other-than-temporary impairment is recognized currently in earnings; or
- there is no intent or requirement to sell the security before recovery, the portion of the other-than-temporary impairment that is considered a credit loss, if any, is recognized currently in earnings and the remainder of the other-than-temporary impairment is reported in OCI, net of tax.

Unrealized gains and losses on available-for-sale equity securities are reported, net of tax, in OCI. When an equity security's decline in fair value below cost is determined to be an other-than-temporary impairment, the unrealized loss is recognized currently in earnings. See Notes 16 and 20 for additional information on investments in debt and equity securities.

Equity Method Investment (PPL, LKE and KU)

Investments in entities over which PPL, LKE and KU have the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting and are reported in "Other Investments" on PPL's Balance Sheet and in "Other noncurrent assets" on LKE's and KU's Balance Sheets. In accordance with the accounting guidance for equity method investments, the recoverability of the investment is periodically assessed. If an identified event or change in circumstances requires an impairment evaluation, the fair value of the investment is assessed. The difference between the carrying amount of the investment and its estimated fair value is recognized as an impairment loss when the loss in value is deemed other-than-temporary and such loss is included in "Other-Than-Temporary Impairments" on the Statements of Income.

KU owns 20% of the common stock of EEI, which is accounted for as an equity method investment. During 2012, KU recorded losses of \$8 million from its share of EEI's operating results. In December 2012, KU concluded that an other-than-temporary decline in the value of its investment in EEI had occurred. KU recorded an impairment charge of \$25 million (\$15 million, after-tax) which reduced the investment balance to zero, the estimated fair value at December 31, 2014, 2013 and 2012. See Note 16 for additional information.

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

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

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

Long-Lived and Intangible Assets

Property, Plant and Equipment

(All Registrants)

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations is recorded at fair value at the time of acquisition, which establishes its original cost. If impaired, the asset is written down to fair value at that

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

(All Registrants except PPL Energy Supply)

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

(PPL and PPL Energy Supply)

Nuclear fuel-related costs, including fuel, conversion, enrichment, fabrication and assemblies, are capitalized as PP&E. Such costs are amortized as the fuel is spent using the units-of-production method and included in "Fuel" on the Statements of Income.

PPL and PPL Energy Supply capitalize interest costs as part of construction costs. Capitalized interest, excluding AFUDC for PPL, was as follows.

	PPL	PPL Energy Supply
2014	\$ 34	\$ 23
2013	46	37
2012	53	47

Depreciation

(All Registrants)

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

Following are the weighted-average rates of depreciation at December 31.

	2014					
	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Regulated utility plant	2.92		2.46	3.80	4.05	3.63
Non-regulated PP&E - Generation	3.28	3.28				

2013

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Regulated utility plant	2.94		2.61	4.07	4.52	3.77
Non-regulated PP&E - Generation	3.10	3.10				

(PPL, LKE, LG&E and KU)

The KPSC approved new lower depreciation rates for LG&E and KU as part of the rate-case settlement agreement reached in November 2012. Effective January 1, 2013, the new rates resulted in annual reductions in depreciation expense of approximately \$22 million (\$8 million for LG&E and \$14 million for KU).

(All Registrants)

Goodwill and Other Intangible Assets

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

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

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

PPL and PPL Energy Supply account for RECs as intangible assets. PPL and PPL Energy Supply buy and/or sell RECs and also create RECs through owned renewable energy generation facilities. In any period, PPL and PPL Energy Supply can be a net purchaser or seller of RECs depending on their contractual obligations to purchase or deliver RECs and the production of RECs from their renewable energy generation facilities. The carrying value of RECs created from their renewable energy generation facilities is initially recorded at zero value and purchased RECs are initially recorded based on their purchase price. When RECs are consumed to satisfy an obligation to deliver RECs to meet a state's Renewable Portfolio Standard Obligation or when RECs are sold to third parties, they are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of RECs are not diminished until they are consumed, RECs are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Energy purchases" on the Statements of Income. Gains and losses on the sale of RECs are included in "Other operation and maintenance" on the Statements of Income.

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

Asset Impairment (Excluding Investments)

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

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value. See Note 16 for a discussion of asset impairments, including the Corette coal-fired plant and the Kerr Dam Project, both in Montana.

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

fair value less cost to sell.

The depressed level of energy and capacity prices in PJM, as well as management's forward view of these prices using its fundamental pricing models, has put pressure on the recoverability assessment of PPL Energy Supply's investment in its Pennsylvania coal-fired generation assets. In the fourth quarter of 2013, after updating its fundamental pricing models in conjunction with the annual business planning process, management tested the Brunner Island and Montour plants for impairment and concluded neither plant was impaired as of December 31, 2013. The recoverability assessment is very sensitive to forward energy and capacity price assumptions as well as forecasted operation and maintenance and capital spending. Therefore, a further decline in forecasted long-term energy or capacity prices or changes in environmental laws requiring additional capital or operations and maintenance expenditures, could negatively impact PPL Energy Supply's operations of these facilities and potentially result in future impairment charges for some or all of the carrying value of these plants. There were no events or changes in circumstances that indicated a recoverability assessment was required to be

performed in 2014. The carrying value of these assets was \$2.6 billion as of December 31, 2014 (\$1.4 billion for Brunner Island and \$1.2 billion for Montour).

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

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

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

PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill in the fourth quarter of 2014 and determined that it was not more likely than not that the fair values of their reporting units were less than their carrying values.

PPL, for its Supply segment, and PPL Energy Supply elected to bypass step zero and quantitatively tested the goodwill of these reporting units for impairment in the fourth quarter of 2014 and no impairment was recognized.

Asset Retirement Obligations

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

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

Compensation and Benefits

Defined Benefits (All Registrants)

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

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

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

See Note 11 for a discussion of defined benefits.

Stock-Based Compensation

(All Registrants except LG&E and KU)

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

Taxes

Income Taxes

(All Registrants)

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

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

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

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

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

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

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

The Registrants record the receipt of grants related to assets as a reduction to the book basis of the property and the related deferred income taxes as an immediate reduction to income tax expense.

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

(All Registrants except PPL Energy Supply)

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

(All Registrants except PPL)

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

	2014	2013
PPL Energy Supply	\$ 105	\$ 44
PPL Electric	(25)	(19)
LKE	136	(28)
LG&E	74	(8)
KU	60	(27)

Taxes, Other Than Income (All Registrants)

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

Other

Leases

(All Registrants)

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 9 for a discussion of arrangements under which PPL Energy Supply, LG&E and KU are lessees for accounting purposes.

Fuel, Materials and Supplies

(All Registrants)

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

(All Registrants except PPL Electric)

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

	PPL		PPL Energy Supply		LKE		LG&E		KU	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Fuel	\$ 408	\$ 305	\$ 243	\$ 163	\$ 166	\$ 141	\$ 66	\$ 64	\$ 100	\$ 77
Natural gas stored underground (a)	62	49	7	2	54	48	54	48		
Materials and supplies	366	348	205	193	91	89	42	42	49	47
Total	\$ 836	\$ 702	\$ 455	\$ 358	\$ 311	\$ 278	\$ 162	\$ 154	\$ 149	\$ 124

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

Guarantees (All Registrants)

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

Treasury Stock (PPL and PPL Electric)

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

Foreign Currency Translation and Transactions (PPL)

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

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

New Accounting Guidance Adopted (All Registrants)

Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Registrants retrospectively adopted accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its

co-obligors. This guidance also requires additional disclosures for these obligations.

The adoption of this guidance did not have a significant impact on the Registrants.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL prospectively adopted accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance did not have a significant impact on PPL; however, the impact in future periods could be material.

Presentation of Unrecognized Tax Benefits When Net Operating Loss Carryforwards, Similar Tax Losses, or Tax Credit Carryforwards Exist

Effective January 1, 2014, the Registrants prospectively adopted accounting guidance that requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The adoption of this guidance did not have a significant impact on the Registrants.

2. Segment and Related Information

(PPL)

PPL is organized into four segments: U.K. Regulated, Kentucky Regulated, Pennsylvania Regulated and Supply. PPL's segments are split between its regulated and competitive businesses with its regulated businesses further segmented by geographic location.

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

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

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric.

The Supply segment consists primarily of PPL Energy Supply's wholesale, retail, marketing and trading activities, as well as its competitive generation operations. In addition, certain financing and other costs are allocated to the Supply segment.

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

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

Financial data for the segments are:

Income Statement Data	2014	2013	2012
Revenues from external customers by product			
U.K. Regulated			
Utility service (a)	\$ 2,573	\$ 2,359	\$ 2,289
Energy-related businesses	48	44	47
Total	2,621	2,403	2,336
Kentucky Regulated			
Utility service (a)	3,168	2,976	2,759

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	2014	2013	2012
Pennsylvania Regulated			
Utility service (a)	2,044	1,866	1,760
Supply			
Energy (b)	3,051	3,936	4,816
Energy-related businesses	601	527	461
Total	3,652	4,463	5,277
Corporate and Other	14	13	
Total	11,499	11,721	12,132
Intersegment electric revenues			
Supply (c)	84	51	79
Depreciation			
U.K. Regulated	337	300	279
Kentucky Regulated	354	334	346
Pennsylvania Regulated	185	178	160
Supply	297	299	276
Corporate and Other	47	31	26
Total	1,220	1,142	1,087
Amortization (d)			
U.K. Regulated	17	19	15
Kentucky Regulated	25	22	27
Pennsylvania Regulated	19	19	18
Supply	163	156	126
Corporate and Other	4	6	
Total	228	222	186
Unrealized (gains) losses on derivatives and other hedging activities (b)			
U.K. Regulated			