



# 2<sup>nd</sup> Quarter Earnings Call

PPL Corporation  
August 9, 2016



# Cautionary Statements and Factors That May Affect Future Results

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Any statements made in this presentation about future operating results or other future events are forward-looking statements under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from such forward-looking statements. A discussion of factors that could cause actual results or events to differ is contained in the Appendix to this presentation and in the Company's SEC filings.

# Agenda

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2<sup>nd</sup> Quarter Results and 2016 Earnings Forecast

W. H. Spence

Post-Brexit Growth Plan

W. H. Spence

Segment Results and Financial Overview

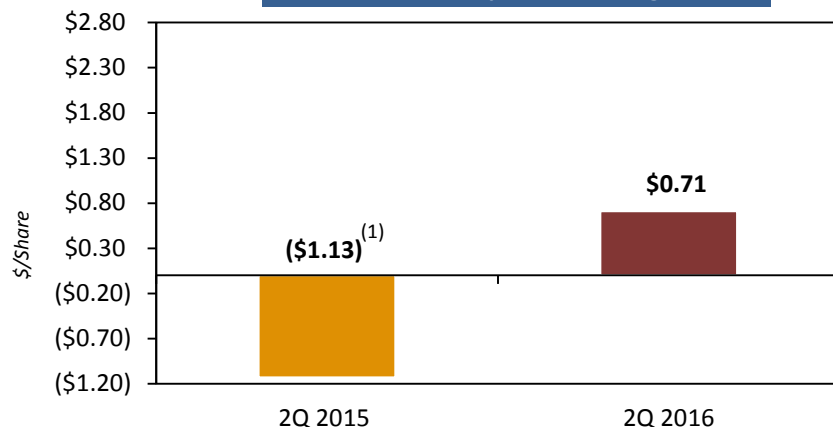
V. Sorgi

Q&A

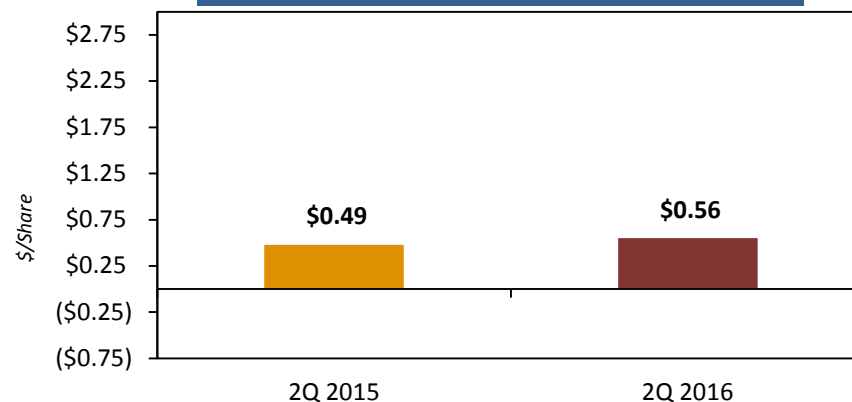
# Earnings Results



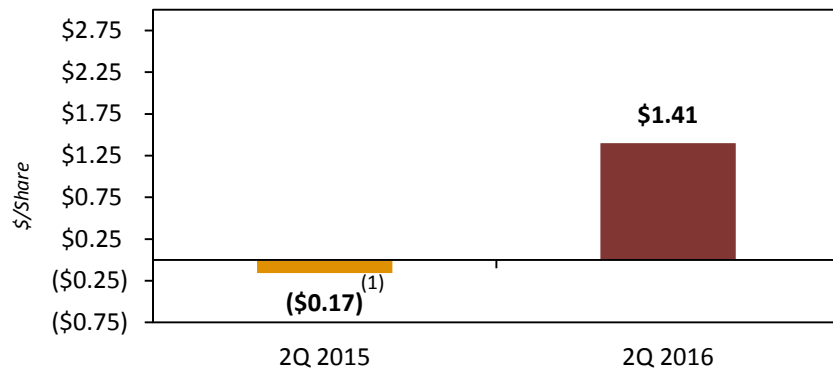
**Second Quarter Reported Earnings (GAAP)**



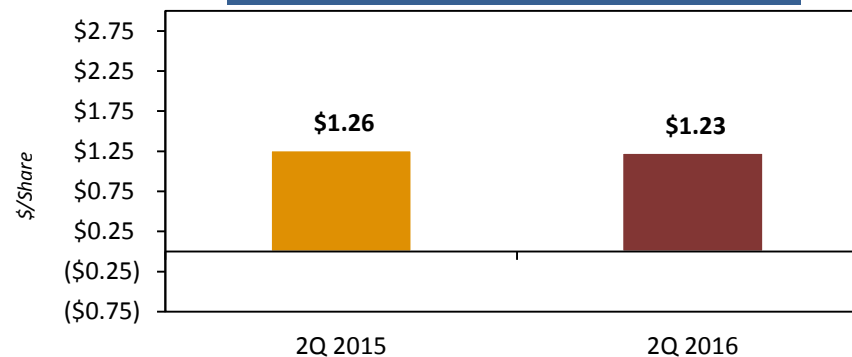
**Second Quarter Earnings from Ongoing Operations (Non-GAAP)**



**Year-to-Date Reported Earnings (GAAP)**



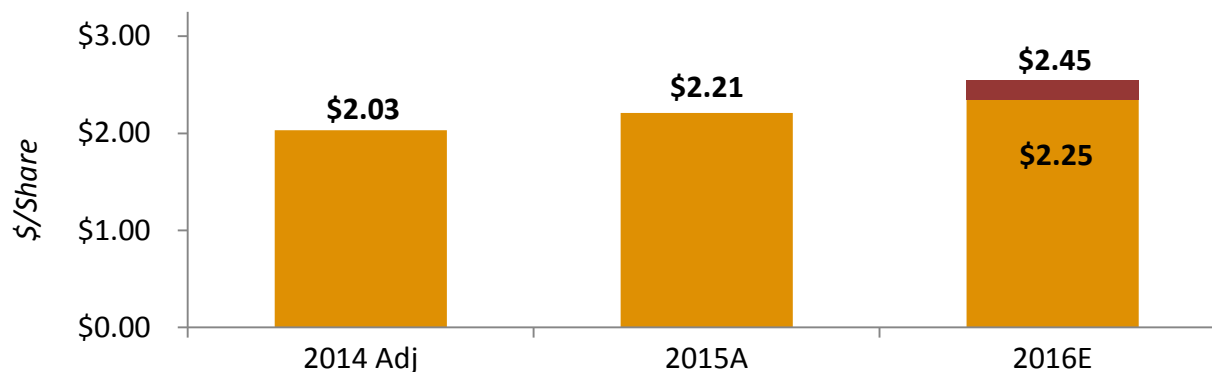
**Year-to-Date Earnings from Ongoing Operations (Non-GAAP)**



Note: See Appendix for the reconciliation of reported earnings (loss) to earnings from ongoing operations.

(1) Second quarter reported earnings includes a loss of \$1.50 per share from discontinued operations associated with the June 1 spinoff of the Supply segment. Year-to-date reported earnings includes a loss of \$1.36 per share from discontinued operations.

# 2016 Earnings Forecast



Segment	2014 Adjusted Earnings from Ongoing Operations	2015A Earnings from Ongoing Operations	2016E Earnings from Ongoing Operations (Midpoint)
U.K. Regulated	\$1.37	\$1.44	\$1.41 <sup>(3)</sup>
Kentucky Regulated	0.47	0.51	0.57
PA Regulated	0.40	0.37	0.47
Corporate and Other	(0.21) <sup>(2)</sup>	(0.11)	(0.10)
<b>Total<sup>(1)</sup></b>	<b>\$2.03</b>	<b>\$2.21</b>	<b>\$2.35</b>

Note: See Appendix for the reconciliation of reported earnings (loss) to earnings from ongoing operations.

- (1) Earnings presented here exclude any earnings from the Supply segment. However, the Supply segment was part of PPL Corporation's consolidated reported earnings for the first five months of 2015.
- (2) For 2014, earnings from ongoing operations reflects the full impact of dissynergies related to the spinoff of the Supply segment: Indirect O&M (\$0.07), Interest (\$0.05) and Depreciation (\$0.01).
- (3) 2016 forecast assumes \$1.30/£ exchange rate on remaining un-hedged earnings for 2016.

# Impacts of Brexit Vote

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- WPD business operations and regulatory environment remain unchanged
  - Base revenues are set (in GBP) for seven more years
  - Revenues are adjusted for inflation and volumetric changes (e.g., weather or economic impacts) on a two-year lag
  - No changes to capital investment in GBP
- The GBP/USD exchange rate impacts our translated USD earnings and USD dividend coming back to the U.S.



# Post-Brexit Financial Update

## PPL Response to Brexit

- With no near-term catalyst that would signal a significant move higher in exchange rates, PPL took decisive action reflective of post-Brexit currency market
  - Monetized existing 2017 and 2018 hedges and re-established hedges at current market rates
  - Updated business plan to assume a \$1.30/£ foreign currency rate through 2020 on open positions
  - Revised U.K. cash repatriation strategy
- Re-established a baseline of PPL earnings and future earnings growth through the end of the decade
  - Set new longer-term projection of 5 – 6% compound annual growth in earnings from 2017 through 2020 for PPL

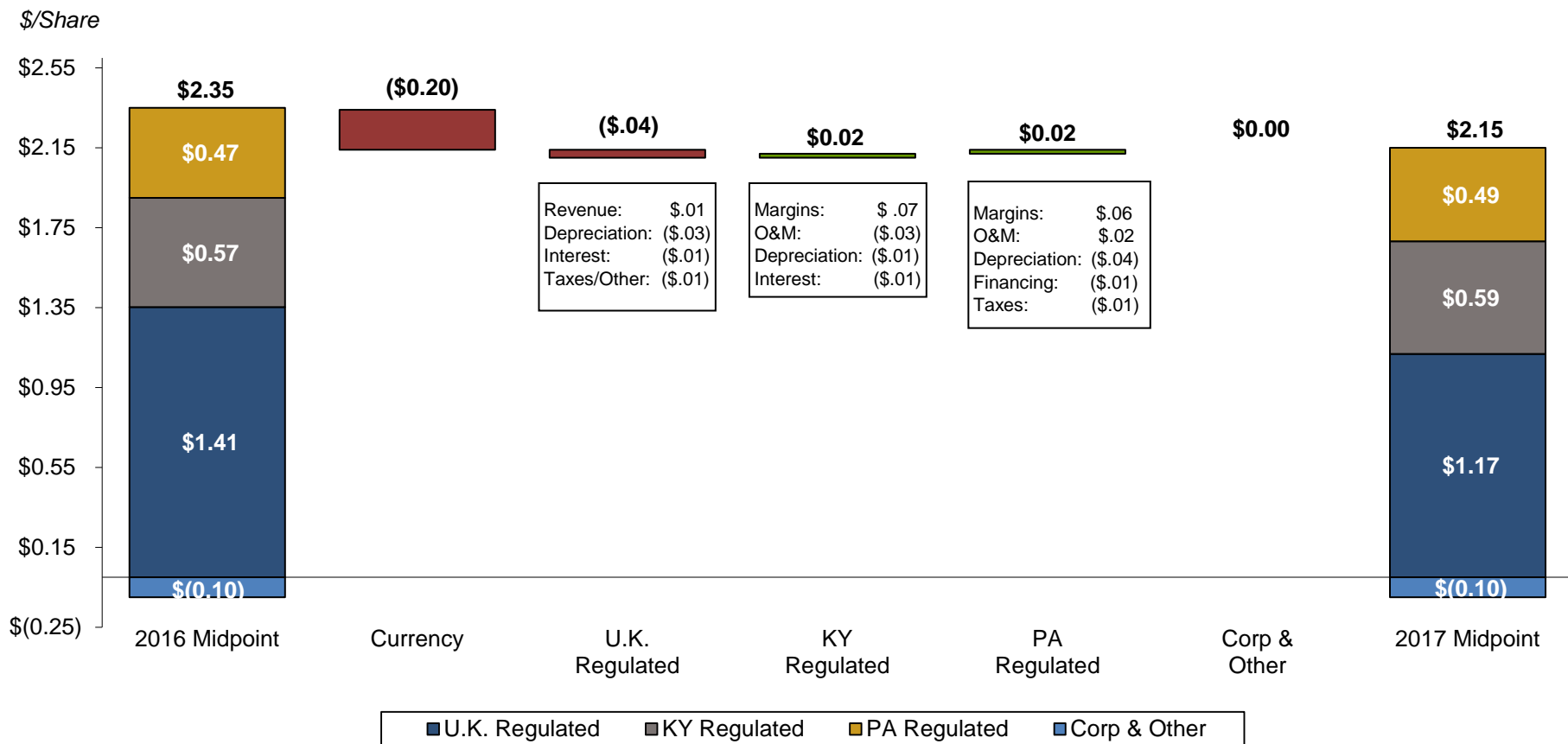
## PPL Rationale

- Recognizes the current reality of the lower GBP exchange rate post-Brexit
- Enabled us to lock-in the cash value of the existing hedges, providing 5 - 6 years of coverage against lower cash repatriation from the U.K.
- Provides upside to the plan in an improving currency scenario
- Re-established hedge levels protect against currency downside in 2017
- Preserved opportunity to increase the PPL Corporation dividend by about 4% per year beginning in 2017<sup>(1)</sup>
- Annual total return<sup>(2)</sup> proposition of 8 - 10% from 2017 through 2020

(1) Subject to approval by the Board of Directors.

(2) Total return defined as the sum of percentage earnings growth and dividend yield.

# 2016 Earnings Forecast to 2017 Earnings Forecast Walk

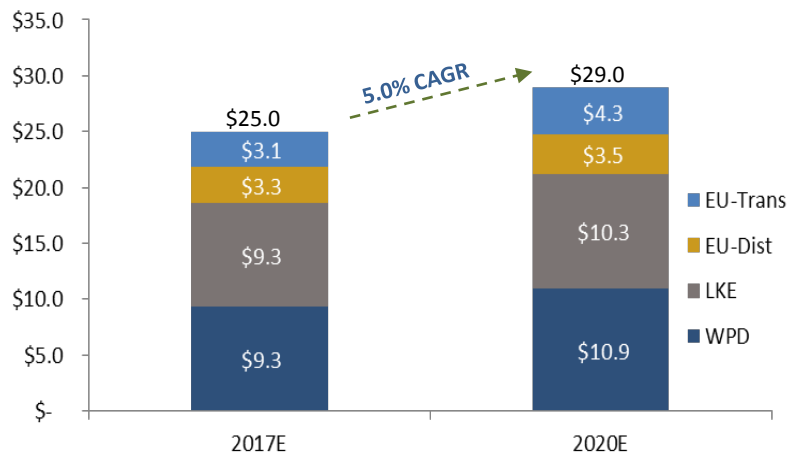




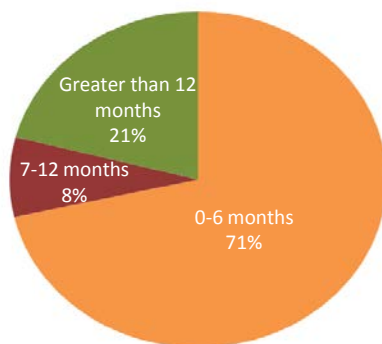
# Significant Investment Opportunity with Constructive Rate Mechanisms Drives Projected Earnings Growth

Strong Regulated Rate Base Growth

(\$ in Billions)

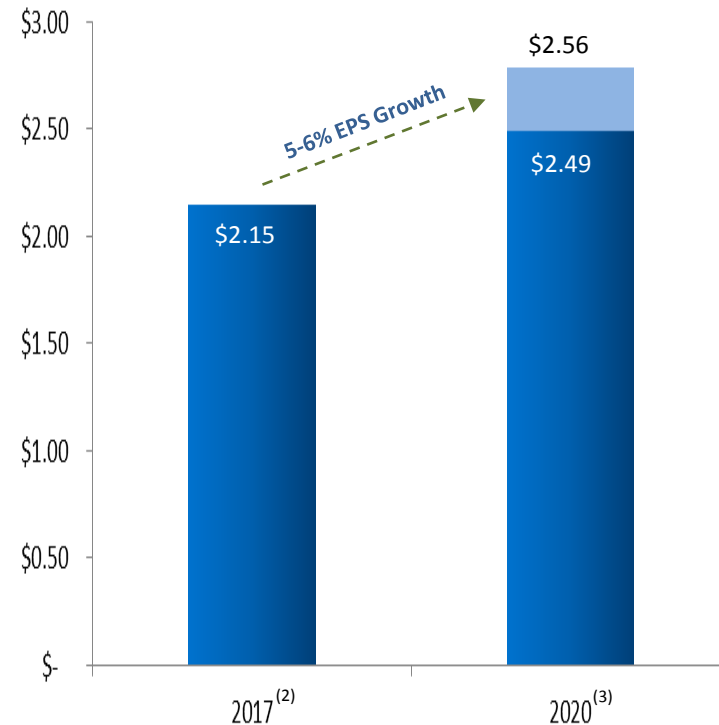


2017E – 2020E Capital Recovery, Earning on Investment<sup>(1)</sup>



- (1) “0-6 months” primarily consists of 100% of WPD capital expenditures and domestic capital expenditures where the investment occurs within six months of that spend being included in rates.  
 “7-12 months” and “Greater than 12 months” primarily consist of domestic capital expenditures where the investment occurs within 7 to 12 months or greater than 12 months of that spend being included in rates.

5-6% Compound Annual EPS Growth



- (2) Based on midpoint of the 2017 earnings guidance range of \$2.05 - \$2.25 per share.  
 (3) Does not represent earnings forecast or guidance for 2020.

# Summary Financial Highlights

# Ongoing Earnings Overview



	Q2 2016	Q2 2015	Change
Pennsylvania Regulated	\$0.11	\$0.07	\$0.04
Kentucky Regulated	0.11	0.09	0.02
U.K. Regulated	0.36	0.36	0.00
Corporate and Other	(0.02)	(0.03)	0.01
Total	<u>\$0.56</u>	<u>\$0.49</u>	<u>\$0.07</u>

Note: See Appendix for the reconciliation of reported earnings (loss) to earnings from ongoing operations.

# Pennsylvania Regulated Segment Earnings Drivers



## 2nd Quarter

2015 EPS – Ongoing Earnings		\$0.07
Gross margins	0.04	
Depreciation	(0.01)	
Income Taxes	0.01	
Total		<u>0.04</u>
2016 EPS – Ongoing Earnings		<u>\$0.11</u>

Note: See Appendix for the reconciliation of reported earnings (loss) to earnings from ongoing operations.

# Kentucky Regulated Segment Earnings Drivers



## 2nd Quarter

2015 EPS – Ongoing Earnings		\$0.09
Gross margins	0.03	
Operation and maintenance	0.01	
Financing costs	(0.01)	
Income taxes	(0.01)	
Total		<u>0.02</u>
2016 EPS – Ongoing Earnings		<u>\$0.11</u>

Note: See Appendix for the reconciliation of reported earnings (loss) to earnings from ongoing operations.

# U.K. Regulated Segment Earnings Drivers



## 2nd Quarter

2015 EPS – Ongoing Earnings		\$0.36
Gross margins	0.02	
Operation and maintenance	0.01	
Depreciation	(0.01)	
Financing Costs	(0.01)	
Currency	(0.01)	
Total		<u>0.00</u>
2016 EPS – Ongoing Earnings		<u>\$0.36</u>

Note: See Appendix for the reconciliation of reported earnings (loss) to earnings from ongoing operations.



# Summary of Drivers to Achieve 5-6% EPS Growth 2017 through 2020



## Key Earnings Growth Assumptions:

- Updated for foreign currency, interest rates, RPI and pension assumptions
- Dividend secure and targeted growth of about 4% through 2020<sup>(1)</sup>

## 6 - 8% Domestic Utilities Earnings Growth:

- Domestic rate base growth of ~5% from 2017 through 2020
- Minimal load growth
- PA Transmission Cap Ex of \$1.9 billion at 11.68% base ROE, 12.93% for approximately \$650 million Susquehanna Roseland project
- KY Environmental investment of \$1.2 billion at 10% ROE

## 4 - 6% U.K. Regulated Earnings Growth:

- No change to underlying business
- No volumetric risk
- \$1.30/£ foreign currency rate assumed for all open positions
- Cashed out 2017 and 2018 hedges in 2016
- Expected RAV growth of 5.4% from 2017 through 2020
- Average expected segment ROE's of 12 – 14%<sup>(2)</sup>
- Incentive revenue assumptions: 2017: \$85M; 2018: \$80M - \$100M, and 2019 - 2020: \$95M - \$115M
- RPI (inflation rate) – 2.9% for 2017; 3.1% for 2018 - 2019; and 3.2% for 2020
- Effective tax rate of approximately 17%

(1) Subject to approval by the Board of Directors.

(2) Based on 2017-2020 Segment earnings projections. Capital structure adjusted to include debt of \$750 million that is allocated for Segment reporting purposes.

# U.K. Cash Repatriation Strategy

**Optimizing annual cash repatriation from the U.K.  
\$100 - \$200 million near-term, with flexibility up to \$500 million per year.**

## **Summary of prior cash repatriation strategy:**

- Previous guidance of \$300 to \$500 million cash repatriation annually from the U.K., midpoint of \$400 million represented £250 million at \$1.60/£ exchange rate
- £250 million translated at \$1.30/£ results in U.S. dollar cash of \$325 million per year
- \$450 million gains on currency hedges cover approximately 5 - 6 years of cash shortfall at \$1.30/£ exchange rate

## **Further optimization of cash repatriation strategy from \$325 million to \$100 – \$200 million per year:**

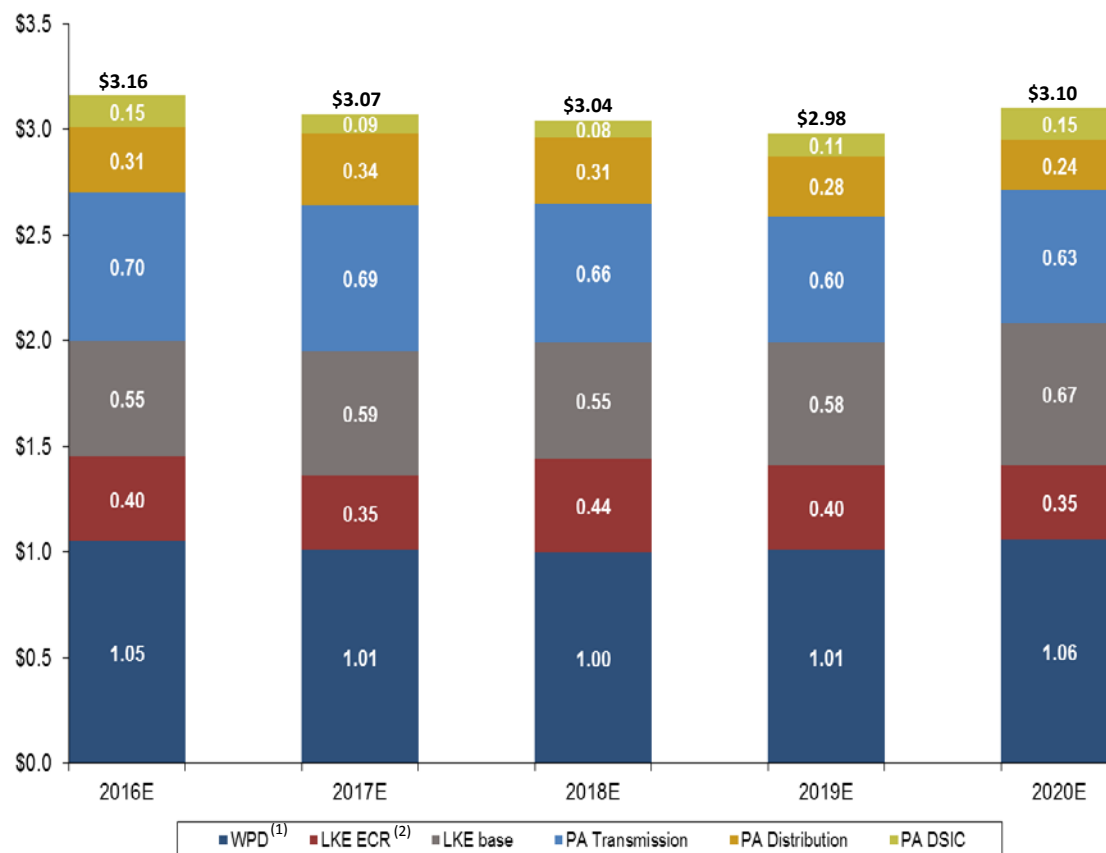
- Minimizes translation impact of historically low GBP foreign currency rates on repatriated cash
- Shift in borrowing from the U.K. to the U.S. captures tax rate differential
- Lower distribution levels extend tax efficient cash repatriation strategy
- Continued flexibility to evaluate most efficient repatriation strategy going forward taking into account future market conditions

# Significant Ongoing Capital Expenditure Program



**~\$15.4 billion of Capital Expenditures from 2016 – 2020 to strengthen safety and reliability of T&D systems and address environmental regulations in Kentucky.**

(\$ in Billions)



- Approx. 80% of Regulated capital expenditures earn returns subject to minimal or no lag
- PA – Implementation of \$471 million Smart Meter Program to be recovered through a rider mechanism (~\$406 million of Capital; ~\$65 million O&M)
- PA and KY – Continued focus on improving reliability in both Transmission and Distribution systems
- KY – Environmental spending in response to regulations for Mercury, SO<sub>2</sub>, NO<sub>x</sub>, Ozone, Particulates, Water Intake and Discharge and CCRs (does not include Clean Power Plan)
- U.K. – Continued focus on asset replacement, faults and general system reinforcement

(1) Based on assumed exchange rate of \$1.37/£ for 2016 and \$1.30/£ for 2017-2020.

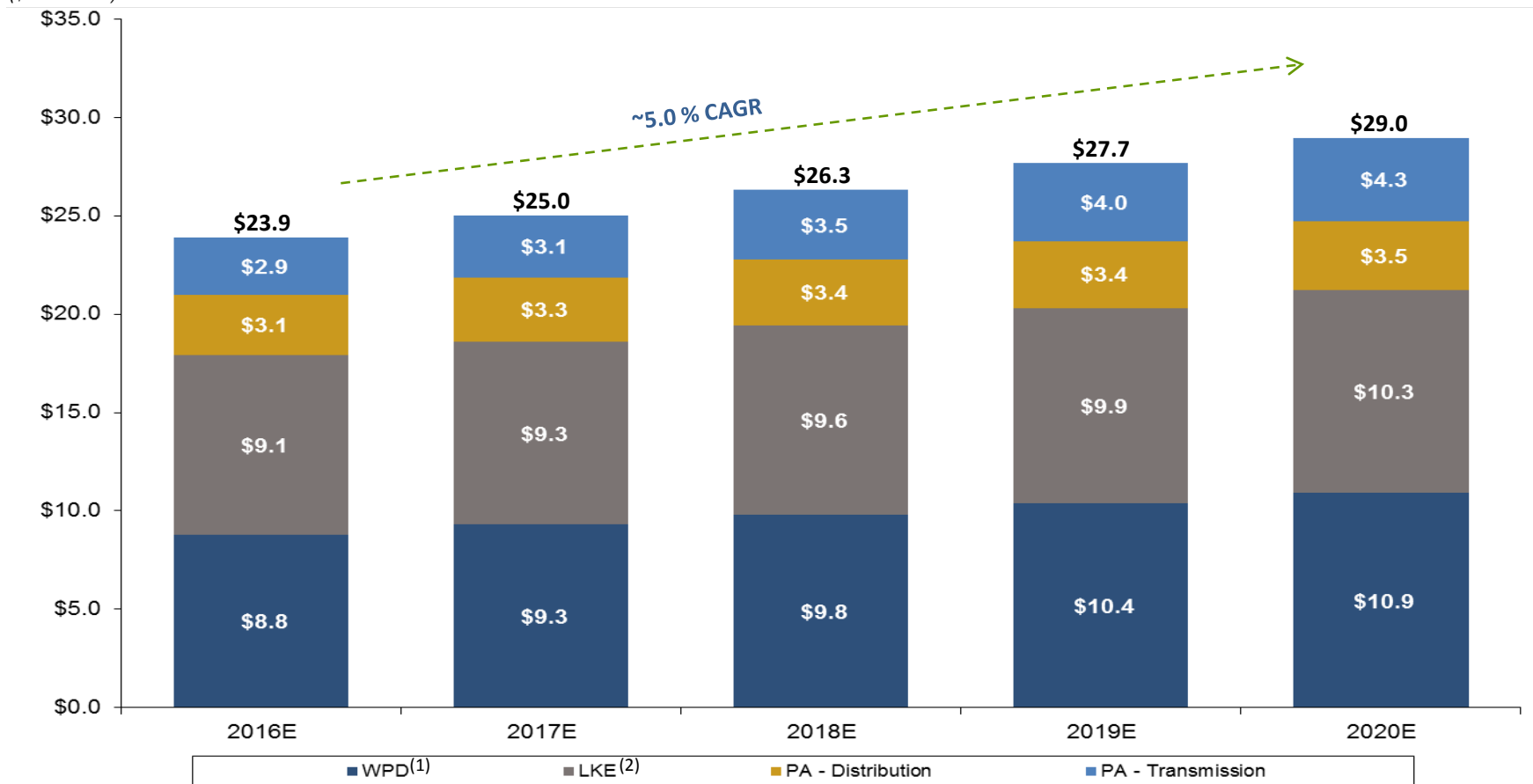
(2) Expect between 80% and 90% to receive timely returns via ECR mechanism based on historical experience and future projections.

# Capital Plan is Driving Rate Base Growth



Strong regulated rate base growth will drive EPS growth.

(\$ in Billions)



(1) Based on assumed exchange rate of \$1.30/£ for all years.

(2) Represents utility capitalization for LKE. Represents Regulatory Asset Value (RAV) for WPD.

# Foreign Currency Hedging Status

GBP Foreign Currency	2016	2017	2018
Percentage Hedged	87%	95%	50%
Hedged Rate (GBP/USD)	\$1.60	\$1.32	\$1.30 <sup>(1)</sup>
Budgeted Rate on Open Position (GBP/USD)	\$1.30	\$1.30	\$1.30

## EPS Sensitivities:

Change in Rate (GBP/USD)	Change in EPS		
+ 0.10	\$0.00	\$0.00	\$0.08
+ 0.05	\$0.00	\$0.00	\$0.05
- 0.05	\$0.00	\$0.00	(\$0.03)
- 0.10	\$0.00	\$0.00	(\$0.05)

Note: FX hedging status as of 8/8/2016.

(1) 2018 hedges are a combination of average-rate forwards and zero-cost collars. Average hedge rates based on the average forward rate and the average floor in the collars.

# RPI Update and Sensitivity



RPI (Regulatory Year)	2016/17	2017/18	2018/19
Forecast RPI assumption	2.4%	3.1%	3.1%
Current RPI forecast <sup>(1)</sup>	2.4%	3.1%	3.1%

RPI (Calendar Year)	2016	2017	2018
Forecast RPI assumption	2.0%	2.9%	3.1%
Current RPI forecast <sup>(1)</sup>	2.0%	2.9%	3.1%

## EPS Sensitivities:

Change in 2016/2017 RPI (forecast assumption 2.0%) <sup>(2)</sup>	Change in EPS		
0.5%	\$0.00	\$0.00	\$0.02

(1) Represents July 2016 forecast. Source: U.K. HM Treasury RPI forecast: <https://www.gov.uk/government/collections/data-forecasts>

(2) Sensitivities include the net effect on revenue, O&M and interest expense on index-linked debt.

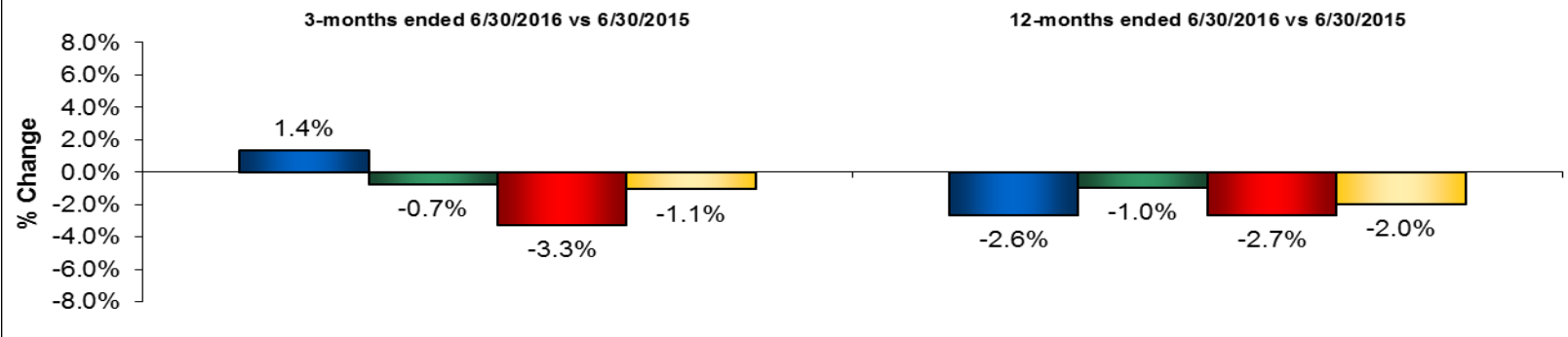


# Appendix

# U.S. Regulated Volume Variances

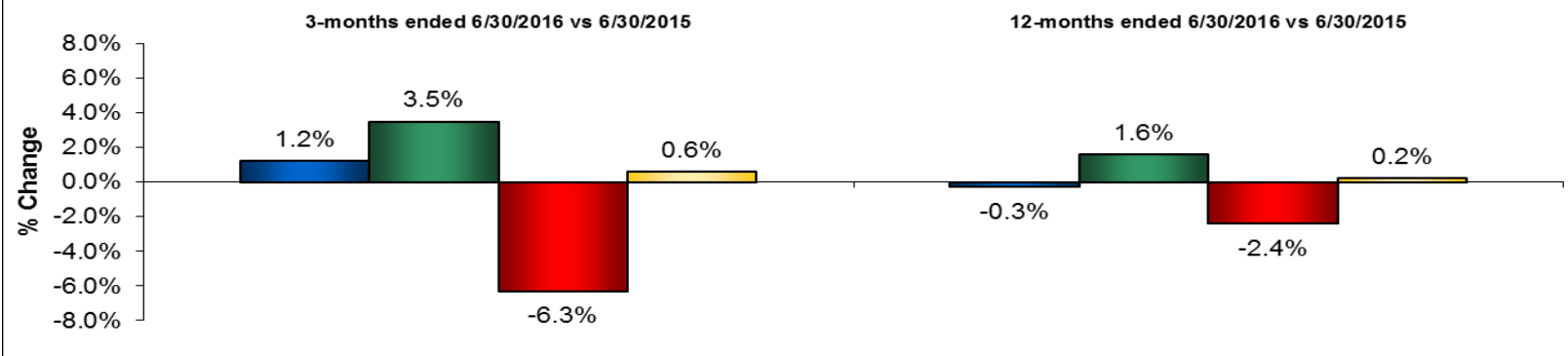


## KY Regulated Weather-Normalized Sales - Retail



	Residential	Commercial	Industrial	Total		Residential	Commercial	Industrial	Total	
Weather-Normalized (charted)	1.4%	-0.7%	-3.3%	-1.1%		-2.6%	-1.0%	-2.7%	-2.0%	
Actual	0.8%	-1.9%	-3.8%	-1.8%		-6.7%	-2.2%	-3.3%	-4.0%	

## PA Regulated Weather-Normalized Sales - Retail



	Residential	Commercial	Industrial	Total		Residential	Commercial	Industrial	Total	
Weather-Normalized (charted)	1.2%	3.5%	-6.3%	0.6%		-0.3%	1.6%	-2.4%	0.2%	
Actual	0.0%	2.5%	-6.3%	-0.5%		-7.4%	0.5%	-2.4%	-3.2%	

Note: Total includes Residential, Commercial and Industrial customer classes as well as "Other", which is not depicted on the charts above.

# U.K. Regulated Segment EPS Projection



Note: Assumes GBP/USD exchange rates of \$1.53 /£ for 2015A, \$1.52/£ for 2016E and \$1.32/£ for 2017E.

(1) 2015 represents earnings from ongoing operations. See Appendix for the reconciliation of reported earnings (loss) to earnings from ongoing operations.

## U.K. Incentive Revenues

- Annual performance above or below the Ofgem targets for Customer Minutes Lost (CML), Customer Interruptions (CI) and the Broad Measure of Customer Satisfaction Survey is rewarded or penalized on a 2-year lag

- WPD projects to receive incentive revenues as follows at \$1.30/£:

	<u>2017</u>	<u>2018</u>
Current Estimate	\$ 85M	\$80M - \$100M
Previous Estimate	\$115M	\$85M - \$115M

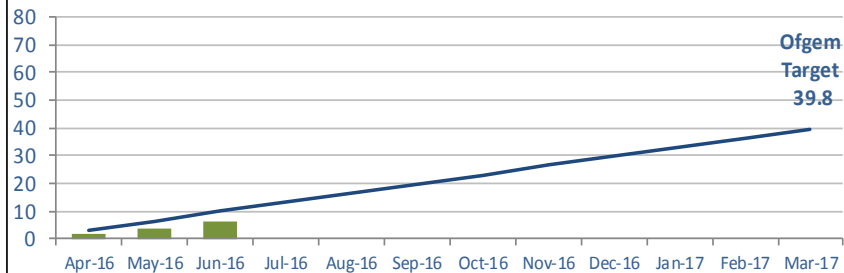
- These estimates were adjusted for lower exchange rates, current RPI forecasts and updated estimates for two additional incentives for 2018 (Social Responsibility and Time to Connect)
- The following slides provide WPD's current and projected performance for the 2016/2017 regulatory year for quality of service and customer satisfaction incentive mechanisms

# U.K. Incentive Revenue – Quality of Service



## 2016/2017 Year-to-date Performance

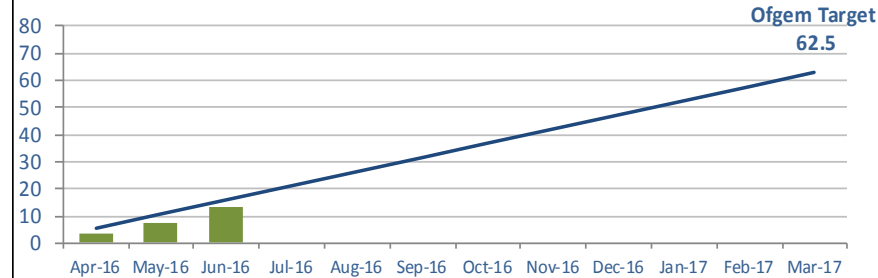
Customer Minutes Lost



CML and Ofgem target are based on a weighted average of all four DNOs.

A measurement of the cumulative amount of minutes customers are without electricity.

Customer Interruptions (per 100 customers)



CI and Ofgem target are based on a weighted average of all four DNOs.

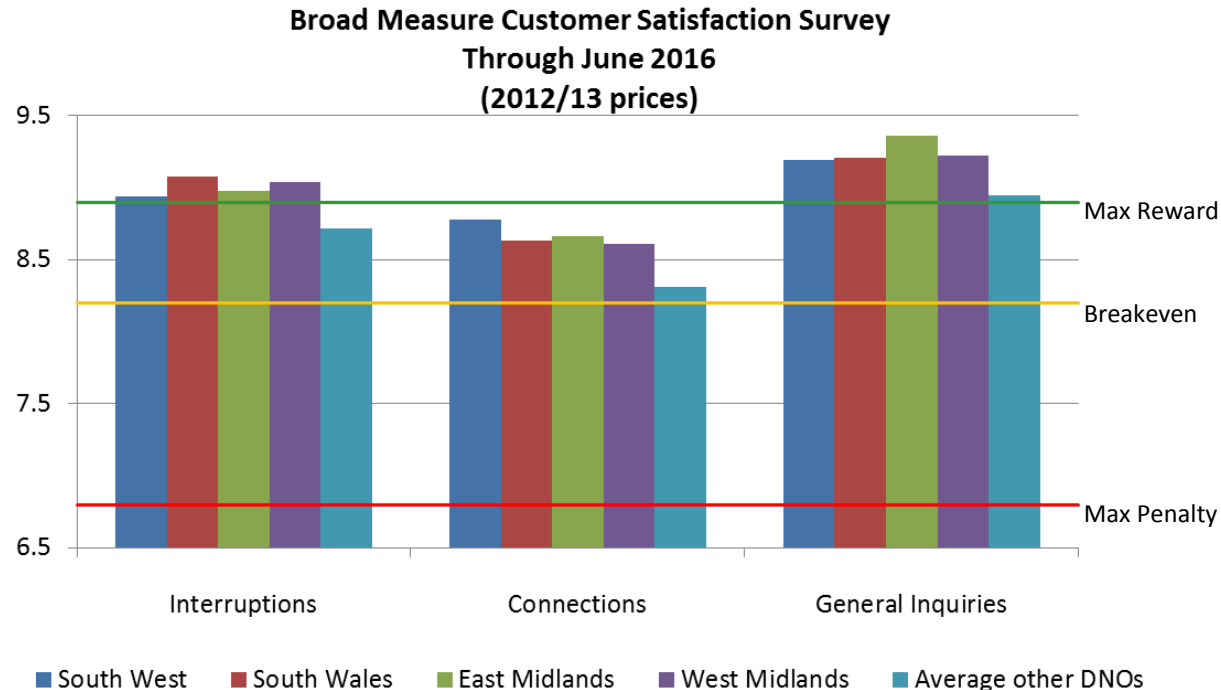
A measurement of the cumulative amount of interruptions in a customer's electricity supply, per 100 customers.

## Projected 2016/2017 Performance

	Ofgem				WPD
		Max.		Max.	
	Reward / Penalty	Reward CMLs	Target CMLs	Penalty CMLs	Projected Performance
Customer Minutes Lost					
South Wales	+/- £6.0M	11.2	27.5	43.8	20.7
South West	+/- £8.9M	18.4	35.6	52.8	29.0
East Midlands	+/- £12.5M	23.2	37.6	52.0	19.9
West Midlands	+/- £12.9M	34.3	50.3	66.3	28.5
Total (2012/13 prices)		£40.3M		£-40.3M	£31.4M

	Ofgem				WPD
		Max.		Max.	
	Reward / Penalty	Reward CIs	Target CIs	Penalty CIs	Projected Performance
Customer Interruptions					
South Wales	+/- £2.2M	35.1	49.9	64.7	43.8
South West	+/- £3.3M	39.7	55.4	71.1	47.8
East Midlands	+/- £4.6M	38.0	51.1	64.2	41.7
West Midlands	+/- £4.7M	70.9	85.0	99.1	63.3
Total (2012/13 prices)		£14.8M		£-14.8M	£10.4M

# U.K. Incentive Revenue – Customer Satisfaction



	South West	South Wales	East Midlands	West Midlands	Total
Max reward/penalty	+/-£2.8	+/-£1.9	+/-£4.0	+/-£4.0	+/-£12.7

- The Broad Measure of Customer Satisfaction Survey rewards or penalizes DNOs for the levels of customer satisfaction
- Through June 2016, WPD performance is near or at the max reward levels. WPD projects 2016/2017 performance of £11.3M (in 2012/2013 prices)



# Project Compass Summary

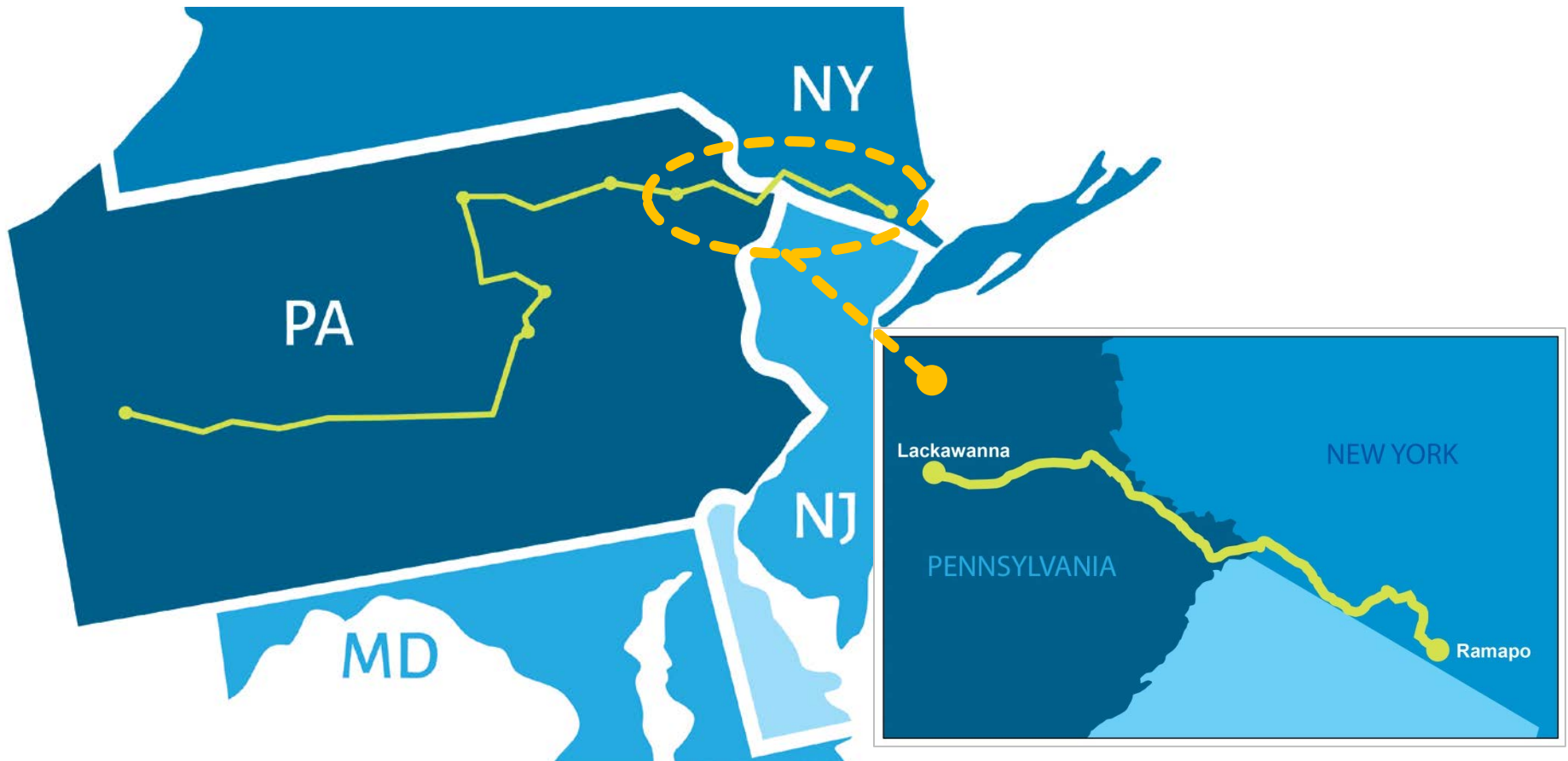
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## **Proposed First Segment:**

- 95-mile initial segment from Blakely, PA to Ramapo, NY
  - PPL Electric filed interconnection request with NYISO on October 27, 2015
  - Estimated cost of \$500 - \$600 million
  - Estimated in-service date in 2023
- Benefits as proposed include:
  - Substantial annual savings for NY customers
  - Economic development benefits
  - Grid reliability

**Full Project Current Plan:** 475-mile transmission line from Western PA to Southeastern NY at an estimated cost of \$3 – \$4 billion

# Project Compass



# Kentucky Environmental Controls



Control Device			Low Nox Burners	SCR/SNCR	Scrubbers	Closed Cycle Cooling Tower	Dry Handling/ Disposal/ Beneficial Use	Baghouses
Addresses		Mw of Capacity	NO <sub>x</sub>	NO <sub>x</sub>	SO <sub>2</sub>	Water Intake	Coal Combustion Residuals (CCRs)	Particulates and Hg (with PAC injection)
Trimble County	Unit 1	370 <sup>(2)</sup>	✓	✓	✓	✓	(1)	✓
	Unit 2	549 <sup>(2)</sup>	✓	✓	✓	✓	(1)	✓
Ghent	Unit 1	474	✓	✓	✓	✓	✓ (4)	✓
	Unit 2	493	✓	✓	✓	✓	✓ (4)	✓
	Unit 3	485	✓	✓	✓	✓	✓ (4)	✓
	Unit 4	465	✓	✓	✓	✓	✓ (4)	✓
Brown	Unit 1	106	✓	(3)	✓	✓	(1)	(3)
	Unit 2	166	✓	(3)	✓	✓	(1)	(3)
	Unit 3	409	✓	✓	✓	✓	(1)	✓
Mill Creek	Unit 1	300	✓	(3)	✓	(5)	✓	✓
	Unit 2	297	✓	(3)	✓	✓	✓	✓
	Unit 3	391	✓	✓	✓	✓	✓	✓
	Unit 4	477	✓	✓	✓	✓	✓	✓

✓ = Installed

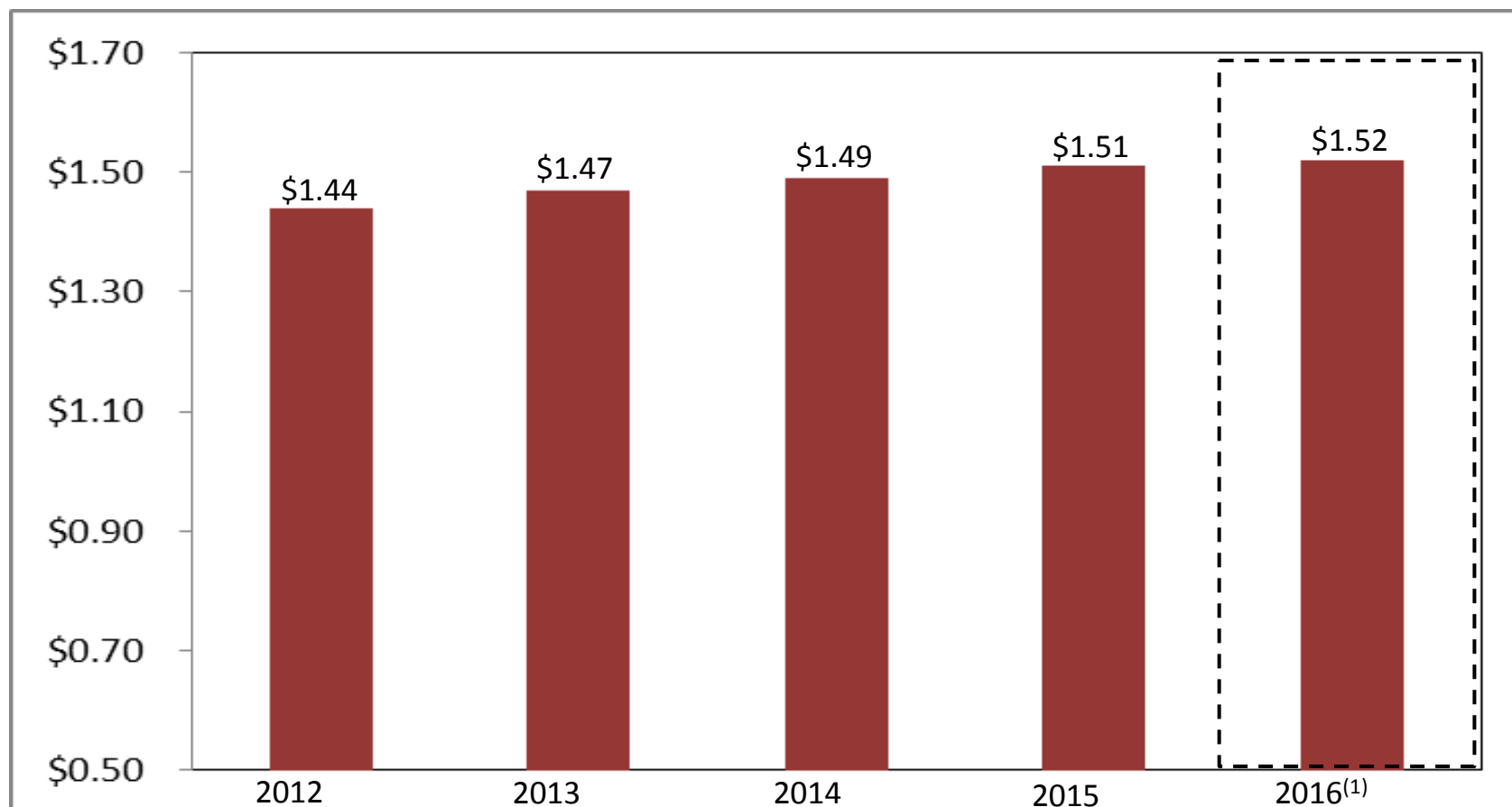
- (1) CCR Dry Handling/Disposal construction is approved by KPSC at Trimble and Brown.  
CCR Dry Handling is permitted, commenced construction and operations are pending at Trimble and Brown.  
Disposal permitted and commenced construction at Brown; permitting and construction are pending at Trimble.
- (2) Ratings represent LKE's 75% ownership of Trimble Units 1 & 2.
- (3) Standard(s) are based on station wide or company wide limit(s). LG&E and KU comply without Control Device.
- (4) Portions of Ghent CCR systems are operational at this time; other CCR system construction activity continues.
- (5) Performing required data gathering (2015 – 2016) to assess compliance options under the new standards.

# Dividend Growth



**14<sup>th</sup> dividend increase in 15 years.**

\$/Share  
Annualized



(1) Annualized dividend based on 2/4/2016 announced increase.

# Funding the Growth



**Strong domestic operating cash flows plus the U.K. dividend sufficient to fund the PPL dividend.  
Domestic debt and equity issuances fund domestic utility growth.**

	2014A <sup>(1)</sup>	2015A <sup>(2)</sup>	2016E
Domestic Cash from Operations	\$2,145	\$1,546	\$1,615
Domestic Maintenance Capex <sup>(3)</sup>	(900)	(640)	(707)
Dividend From UK Regulated	263	319	355
<b>Cash Available for Distribution</b>	<b>\$1,508</b>	<b>\$1,225</b>	<b>\$1,263</b>
Common Dividend	(967)	(1,004)	(1,025)
<b>Cash Available for Reinvestment</b>	<b>\$541</b>	<b>\$221</b>	<b>\$238</b>
 <b>Domestic Growth Capex</b>	 <b>(\$1,816)</b>	 <b>(\$1,650)</b>	 <b>(\$1,407)</b>
 Debt Maturities	 (\$546)	 (\$1,000)	 \$0
Debt Issuances and Change in Cash <sup>(4)</sup>	(71)	2,139	1,076
Equity Issuances	1,063	175	116
Other Investing & Financing Activities	829 <sup>(5)</sup>	115	(23)
<b>Additional Funding Sources for Domestic Growth Capex</b>	<b>\$1,275</b>	<b>\$1,429</b>	<b>\$1,169</b>

Note: Information provided on this slide to be updated on an annual basis. See appendix for the Reconciliation of Domestic Cash Flows.

(1) Includes results of PPL Energy Supply, LLC.

(2) Actuals for 2015 do not include activity related to PPL Energy Supply, LLC for any portion of the year, except a planned \$191 million dividend.

(3) Represents book depreciation.

(4) Includes domestic issuances (short and long term), net of issue costs.

(5) Includes approximately \$900 million of proceeds from sale of the Montana hydros.

# Debt Maturities

(\$ in Millions)	2016	2017	2018	2019	2020
PPL Capital Funding	\$0	\$0	\$250	\$0	\$0
PPL Electric Utilities <sup>(1)</sup>	0	224	0	0	100
LG&E and KU Energy	0	0	0	0	475
Louisville Gas & Electric <sup>(2)</sup>	25	194	98	40	0
Kentucky Utilities	0	0	0	0	500
WPD	0	100	0	0	195
<b>Total</b>	<b>\$25</b>	<b>\$518</b>	<b>\$348</b>	<b>\$40</b>	<b>\$1,270</b>

Note: As of June 30, 2016.

(1) PPL Electric Utilities has municipal bonds that may be put by the holders before the bonds' final maturities. These amounts reflect the timing of any put option in 2017.

(2) Louisville Gas & Electric has several municipal bonds that may be put by the holders before the bonds' final maturities. These amounts reflect the timing of any put option in 2016 through 2019.



# Liquidity Profile



**Strong liquidity position to fund current operations and growth.**

Entity	Facility	Expiration Date	Capacity (Millions)	Letters of Credit & Commercial Paper Issued (Millions)	Borrowed (Millions)	Unused Capacity (Millions)
<b>PPL Capital Funding</b>	Syndicated Credit Facility	Nov-2018	\$300	\$0	\$0	\$300
	Syndicated Credit Facility	Jan-2021	700	320	0	380
	Bilateral Credit Facility	Mar-2017	150	17	0	133
			<b>\$1,150</b>	<b>\$337</b>	<b>\$0</b>	<b>\$813</b>
<b>PPL Electric Utilities</b>	Syndicated Credit Facility	Jan-2021	\$400	\$7	\$0	\$393
<b>LG&amp;E and KU Energy (LKE)</b>	Syndicated Credit Facility	Oct-2018	\$75	\$0	\$0	\$75
<b>Louisville Gas &amp; Electric</b>	Syndicated Credit Facility	Dec-2020	\$500	\$110	\$0	\$390
<b>Kentucky Utilities</b>	Syndicated Credit Facility	Dec-2020	\$400	\$29	\$0	\$371
	Letter of Credit Facility	Oct-2017	198	198	0	0
			<b>\$598</b>	<b>\$227</b>	<b>\$0</b>	<b>\$371</b>
<b>WPD</b>	WPD plc Syndicated Credit Facility	Jan-2021	£210	£0	£138	£72
	WPD (South West) Syndicated Credit Facility	Jul-2020 <sup>(1)</sup>	245	0	100	145
	WPD (East Midlands) Syndicated Credit Facility	Jul-2020 <sup>(1)</sup>	300	0	31	269
	WPD (West Midlands) Syndicated Credit Facility	Jul-2020 <sup>(1)</sup>	300	0	0	300
	Uncommitted Credit Facilities		40	4	0	36
			<b>£1,095</b>	<b>£4</b>	<b>£269</b>	<b>£822</b>

Note: As of June 30, 2016.

(1) In July 2016, the expiration dates for the WPD (South West), WPD (East Midlands) and WPD (West Midlands) syndicated credit facilities were extended to July 2021.

# Strong Credit Ratings



**Strong credit profile at our utilities, holding companies and PPL Corporation.**

PPL Corporation		
Credit Rating	S&P	Moody's
Secured	NR	NR
Unsecured	NR	NR
Long-term Issuer	A-	Baa2
Outlook	Stable	Stable

PPL Capital Funding		
Credit Rating	S&P	Moody's
Secured	NR	NR
Unsecured	BBB+	Baa2
Long-term Issuer	A-	NR
Outlook	Stable	Stable

WPD Holding Company		
Credit Rating	S&P	Moody's
Secured	NR	NR
Unsecured	BBB+	Baa3
Long-term Issuer	A-	Baa3
Outlook	Stable	Stable

LKE Holding Company		
Credit Rating	S&P	Moody's
Secured	NR	NR
Unsecured	BBB+	Baa1
Long-term Issuer	A-	Baa1
Outlook	Stable	Stable

WPD Operating Companies		
Credit Rating	S&P	Moody's
Secured	NR	NR
Unsecured	A-	Baa1
Long-term Issuer	A-	Baa1
Outlook	Stable	Stable

LKE Operating Companies		
Credit Rating	S&P	Moody's
Secured	A	A1
Unsecured	NR	NR
Long-term Issuer	A-	A3
Outlook	Stable	Stable

PPL Electric Utilities		
Credit Rating	S&P	Moody's
Secured	A	A1
Unsecured	NR	NR
Long-term Issuer	A-	A3
Outlook	Stable	Stable

# Reconciliation of Segment Reported Earnings (Loss) to Earnings from Ongoing Operations



After-Tax (Unaudited)  
(millions of dollars)

## Reported Earnings (Loss)

Less: Special Items (expense) benefit:

Foreign currency-related economic hedges, net of tax of (\$56), (\$69)

Spinoff of the Supply segment, net of tax of \$0, \$1

## Total Special Items

## Earnings from Ongoing Operations

2nd Quarter June 30, 2016					Year-to-Date June 30, 2016				
U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Total Corp.	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Total Corp.
\$ 345	\$ 76	\$ 78	\$ (16)	\$ 483	\$ 634	\$ 188	\$ 172	\$ (30)	\$ 964
	104			104	128				128
			(1)	(1)				(2)	(2)
104			(1)	103	128			(2)	126
\$ 241	\$ 76	\$ 78	\$ (15)	\$ 380	\$ 506	\$ 188	\$ 172	\$ (28)	\$ 838

After-Tax (Unaudited)  
(per share - diluted)

## Reported Earnings (Loss)

Less: Special Items (expense) benefit:

Foreign currency-related economic hedges

Spinoff of the Supply segment

## Total Special Items

## Earnings from Ongoing Operations

2nd Quarter June 30, 2016					Year-to-Date June 30, 2016				
U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Total Corp.	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Total Corp.
\$ 0.51	\$ 0.11	\$ 0.11	\$ (0.02)	\$ 0.71	\$ 0.93	\$ 0.28	\$ 0.25	\$ (0.05)	\$ 1.41
	0.15			0.15	0.19				0.19
								(0.01)	(0.01)
0.15				0.15	0.19			(0.01)	0.18
\$ 0.36	\$ 0.11	\$ 0.11	\$ (0.02)	\$ 0.56	\$ 0.74	\$ 0.28	\$ 0.25	\$ (0.04)	\$ 1.23

# Reconciliation of Segment Reported Earnings (Loss) to Earnings from Ongoing Operations



After-Tax (Unaudited) (millions of dollars)	2nd Quarter June 30, 2015						Year-to-Date June 30, 2015					
	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Disc. Ops. <sup>(1)</sup>	Total Corp.	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Disc. Ops. <sup>(1)</sup>	Total Corp.
<b>Reported Earnings (Loss)</b>	\$ 190	\$ 47	\$ 49	\$ (36)	\$ (1,007)	\$ (757)	\$ 565	\$ 156	\$ 136	\$ (55)	\$ (912)	\$ (110)
Less: Special Items (expense) benefit:												
Foreign currency-related economic hedges, net of tax of \$38, \$18		(71)				(71)	(34)					(34)
Spinoff of the Supply segment:												
Discontinued operations, net of tax of \$91, \$40 <sup>(1)</sup>					(1,007)	(1,007)					(912)	(912)
Transition and transaction costs, net of tax of (\$3), (\$1)				(12)		(12)				(15)		(15)
Employee transitional services, net of tax of \$1, \$2				(1)		(1)				(3)		(3)
Separation benefits, net of tax of \$1, \$1				(1)		(1)				(2)		(2)
Other:												
WPD Midlands acquisition-related adjustment, net of tax of (\$1)							2					2
Settlement of certain income tax positions	18					18	18					18
Certain valuation allowances, net of tax of \$0, \$0		(8)				(8)		(8)				(8)
LKE acquisition-related adjustment, net of tax of \$0, \$0		(4)				(4)		(4)				(4)
<b>Total Special Items</b>	<u>(53)</u>	<u>(12)</u>		<u>(14)</u>	<u>(1,007)</u>	<u>(1,086)</u>	<u>(14)</u>	<u>(12)</u>		<u>(20)</u>	<u>(912)</u>	<u>(958)</u>
<b>Earnings from Ongoing Operations</b>	<u>\$ 243</u>	<u>\$ 59</u>	<u>\$ 49</u>	<u>\$ (22)</u>	<u>\$</u>	<u>\$ 329</u>	<u>\$ 579</u>	<u>\$ 168</u>	<u>\$ 136</u>	<u>\$ (35)</u>	<u>\$</u>	<u>\$ 848</u>

After-Tax (Unaudited) (per share - diluted)	2nd Quarter June 30, 2015						Year-to-Date June 30, 2015					
	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Disc. Ops. <sup>(1)</sup>	Total Corp.	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Disc. Ops. <sup>(1)</sup>	Total Corp.
<b>Reported Earnings (Loss)</b>	\$ 0.28	\$ 0.07	\$ 0.07	\$ (0.05)	\$ (1.50)	\$ (1.13)	\$ 0.84	\$ 0.23	\$ 0.20	\$ (0.08)	\$ (1.36)	\$ (0.17)
Less: Special Items (expense) benefit:												
Foreign currency-related economic hedges		(0.11)				(0.11)	(0.05)					(0.05)
Spinoff of the Supply segment:												
Discontinued operations <sup>(1)</sup>					(1.50)	(1.50)					(1.36)	(1.36)
Transition and transaction costs				(0.02)		(0.02)				(0.02)		(0.02)
Employee transitional services										(0.01)		(0.01)
Other:												
Settlement of certain income tax positions	0.03					0.03	0.03					0.03
Certain valuation allowances		(0.01)				(0.01)		(0.01)				(0.01)
LKE acquisition-related adjustment		(0.01)				(0.01)		(0.01)				(0.01)
<b>Total Special Items</b>	<u>(0.08)</u>	<u>(0.02)</u>		<u>(0.02)</u>	<u>(1.50)</u>	<u>(1.62)</u>	<u>(0.02)</u>	<u>(0.02)</u>		<u>(0.03)</u>	<u>(1.36)</u>	<u>(1.43)</u>
<b>Earnings from Ongoing Operations</b>	<u>\$ 0.36</u>	<u>\$ 0.09</u>	<u>\$ 0.07</u>	<u>\$ (0.03)</u>	<u>\$</u>	<u>\$ 0.49</u>	<u>\$ 0.86</u>	<u>\$ 0.25</u>	<u>\$ 0.20</u>	<u>\$ (0.05)</u>	<u>\$</u>	<u>\$ 1.26</u>

(1) Includes an \$879 million charge reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with applicable rules under GAAP.

# Reconciliation of Segment Reported Earnings (Loss) to Earnings from Ongoing Operations



After-Tax (Unaudited) Year-to-Date December 31, 2015	(millions of dollars)						(per share - diluted)					
	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Disc. Ops. <sup>(1)</sup>	Total Corp.	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Disc. Ops. <sup>(1)</sup>	Total Corp.
<b>Reported Earnings (Loss)</b>	\$ 1,121	\$ 326	\$ 252	\$ (96)	\$ (921)	\$ 682	\$ 1.66	\$ 0.48	\$ 0.37	\$ (0.14)	\$ (1.36)	\$ 1.01
Less: Special Items (expense) benefit:												
Foreign currency-related economic hedges, net of tax of (\$30)	55					55	0.08					0.08
Spinoff of the Supply segment:												
Discontinued operations, net of tax of \$30 <sup>(1)</sup>					(921)	(921)					(1.36)	(1.36)
Transition and transaction costs, net of tax of \$6				(12)		(12)				(0.02)		(0.02)
Employee transitional services, net of tax of \$2				(5)		(5)				(0.01)		(0.01)
Separation benefits, net of tax of \$3				(5)		(5)						
Other:												
Change in U.K. tax rate	78					78	0.11					0.11
Settlement of certain income tax positions	18					18	0.03					0.03
WPD Midlands acquisition-related adjustment, net of tax of (\$1)	2					2						
Certain valuation allowances, net of tax of \$0		(12)				(12)		(0.02)				(0.02)
LKE acquisition-related adjustment, net of tax of \$0		(5)				(5)		(0.01)				(0.01)
<b>Total Special Items</b>	<b>153</b>	<b>(17)</b>		<b>(22)</b>	<b>(921)</b>	<b>(807)</b>	<b>0.22</b>	<b>(0.03)</b>		<b>(0.03)</b>	<b>(1.36)</b>	<b>(1.20)</b>
<b>Earnings from Ongoing Operations</b>	<b>\$ 968</b>	<b>\$ 343</b>	<b>\$ 252</b>	<b>\$ (74)</b>	<b>\$</b>	<b>\$ 1,489</b>	<b>\$ 1.44</b>	<b>\$ 0.51</b>	<b>\$ 0.37</b>	<b>\$ (0.11)</b>	<b>\$</b>	<b>\$ 2.21</b>

(1) Includes an \$879 million charge reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with applicable rules under GAAP.

# Reconciliation of Segment Reported Earnings (Loss) to Earnings from Ongoing Operations (Adjusted)



After-Tax (Unaudited) Year-to-Date December 31, 2014	(millions of dollars)						(per share - diluted) <sup>(1)</sup>					
	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other <sup>(2)</sup>	Disc. Ops. <sup>(2)</sup>	Total Corp.	U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other <sup>(2)</sup>	Disc. Ops. <sup>(2)</sup>	Total Corp.
<b>Reported Earnings (Loss)</b>	\$ 982	\$ 312	\$ 263	\$ (120)	\$ 300	\$ 1,737	\$ 1.48	\$ 0.47	\$ 0.39	\$ (0.18)	\$ 0.45	\$ 2.61
Less: Special Items (expense) benefit:												
Foreign currency-related economic hedges, net of tax of (\$68)	127					127	0.19					0.19
Spinoff of the Supply segment:												
Supply segment earnings, net of tax of (\$93)					307	307					0.46	0.46
Discontinued operations adjustments, net of tax of \$3, (\$3)				(5)	5					(0.01)	0.01	
Change in tax valuation allowances				(46)		(46)				(0.07)		(0.07)
Transition and transaction costs, net of tax of \$3, \$7				(5)	(12)	(17)					(0.02)	(0.02)
Separation benefits, net of tax of \$6				(12)		(12)				(0.02)		(0.02)
Other:												
Change in WPD line loss accrual, net of tax of \$13	(52)					(52)	(0.08)					(0.08)
Separation benefits, net of tax of \$1			(2)			(2)			(0.01)			(0.01)
<b>Total Special Items</b>	<u>75</u>		<u>(2)</u>	<u>(68)</u>	<u>300</u>	<u>305</u>	<u>0.11</u>		<u>(0.01)</u>	<u>(0.10)</u>	<u>0.45</u>	<u>0.45</u>
Dissynergies-spinoff of Supply segment expense (benefit): <sup>(3)</sup>												
Indirect operation and maintenance, net of tax of (\$33)				47		47				0.07		0.07
Interest expense, net of tax of (\$20)				29		29				0.05		0.05
Depreciation, net of tax of (\$5)				7		7				0.01		0.01
<b>Total dissynergies-spinoff of Supply segment</b>				<u>83</u>		<u>83</u>				<u>0.13</u>		<u>0.13</u>
<b>Earnings from Ongoing Operations (Adjusted)</b>	<u>\$ 907</u>	<u>\$ 312</u>	<u>\$ 265</u>	<u>\$ (135)</u>	<u>\$</u>	<u>\$ 1,349</u>	<u>\$ 1.37</u>	<u>\$ 0.47</u>	<u>\$ 0.40</u>	<u>\$ (0.21)</u>	<u>\$</u>	<u>\$ 2.03</u>

- (1) The "If-Converted Method" has been applied to PPL's 2011 Equity Units, resulting in \$9 million of interest charges (after-tax) being added back to earnings and approximately 11 million shares of PPL Common Stock being treated as outstanding. Both adjustments are only for purposes of calculating diluted earnings per share.
- (2) Certain amounts have been reclassified to reflect the Supply segment as a discounted operation.
- (3) Represents 2014 costs allocated to the Supply segment that remained with PPL after the spinoff of the Supply segment.

# Reconciliation of PPL's Forecast of Reported Earnings (Loss) to Earnings from Ongoing Operations



After-Tax (Unaudited)

## Reported Earnings (Loss)

Less: Special Items (expense) benefit:

Foreign currency-related economic hedges

Spinoff of the Supply segment

## Total Special Items

## Earnings from Ongoing Operations

Forecast (per share - diluted)						
2016 Midpoint						
U.K. Reg.	KY Reg.	PA Reg.	Corp. & Other	Total	High 2016	Low 2016
\$ 1.60	\$ 0.57	\$ 0.47	\$ (0.11)	\$ 2.53	\$ 2.63	\$ 2.43
0.19				0.19	0.19	0.19
			(0.01)	(0.01)	(0.01)	(0.01)
0.19			(0.01)	0.18	0.18	0.18
\$ 1.41	\$ 0.57	\$ 0.47	\$ (0.10)	\$ 2.35	\$ 2.45	\$ 2.25

# Gross Margins Summary



(Unaudited) (Millions of Dollars, Except Share Data)	Three Months Ended June 30,			Per Share Diluted (after-tax)
	2016	2015	Change	
<b>U.K. Gross Margins</b>	<u>\$ 534</u>	<u>\$ 547</u>	\$ (13)	\$ (0.02)
Impact of changes in foreign currency exchange rates			(27)	(0.04)
<b>Change in U.K. Gross Margins excluding impact of foreign currency exchange rates</b>			<u>\$ 14</u>	<u>\$ 0.02</u>
 <b>KY Gross Margins</b>	 <u>\$ 471</u>	 <u>\$ 438</u>	 <u>\$ 33</u>	 <u>\$ 0.03</u>
 <b>PA Gross Delivery Margins</b>				
Distribution	\$ 216	\$ 193	\$ 23	\$ 0.02
Transmission	<u>111</u>	<u>90</u>	<u>21</u>	<u>0.02</u>
<b>Total</b>	<u>\$ 327</u>	<u>\$ 283</u>	<u>\$ 44</u>	<u>\$ 0.04</u>



# Reconciliation of Second Quarter Margins to Operating Income



(Unaudited) (Millions of Dollars)	Three Months Ended June 30, 2016					Three Months Ended June 30, 2015				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Delivery Margins	Other	Operating Income	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Delivery Margins	Other	Operating Income
<b>Operating Revenues</b>	\$ 553	\$ 721	\$ 495	\$ 16	\$ 1,785	\$ 575	\$ 714	\$ 476	\$ 16	\$ 1,781
<b>Operating Expenses</b>										
Fuel		182		1	183		214			214
Energy purchases		28	118	1	147		28	138	4	170
Energy purchases from affiliate								5	(5)	
Other operation and maintenance	19	26	28	352	425	28	24	27	388	467
Depreciation		13		218	231		9		207	216
Taxes, other than income		1	22	51	74		1	23	52	76
Total Operating Expenses	19	250	168	623	1,060	28	276	193	646	1,143
<b>Total</b>	<u>\$ 534</u>	<u>\$ 471</u>	<u>\$ 327</u>	<u>\$ (607)</u>	<u>\$ 725</u>	<u>\$ 547</u>	<u>\$ 438</u>	<u>\$ 283</u>	<u>\$ (630)</u>	<u>\$ 638</u>

# Reconciliation of Domestic Cash Flows

Year Ended December 2015 (Millions of Dollars)								
	Domestic Cash from Operations	Cash Available for Distribution	Cash Available for Reinvestment	Domestic Growth Capex	Additional Funding Sources for Domestic Growth Capex	Reconciling Items		PPL Consolidated Statement of Cash Flows
						PPL Global, LLC	Other	
Net cash provided by operating activities - continuing operations	\$ 1,546 <sup>(1)</sup>					\$ 871	\$ (183) <sup>(1)</sup>	\$ 2,234
Net cash used in investing activities - continuing operations		\$ (640)		\$ (1,650)	\$ 115	(1,226)		(3,401)
Net cash provided by financing activities - continuing operations			\$ (1,004)		707	533	246 <sup>(2)</sup>	482
Net cash distributions to parent from discontinued operations							132	132
Effect of exchange rates on cash and cash equivalents						(10)		(10)
Domestic (increase) decrease in cash and cash equivalents		319 <sup>(3)</sup>			607 <sup>(4)</sup>		(926)	
	\$ 1,546	\$ 1,546						
		\$ 1,225		1,225				
Total			\$ 221	\$ (1,650)	\$ 1,429	\$ 168	\$ (731)	\$ (563)

Year Ended December 2014 (Millions of Dollars)								
	Domestic Cash from Operations	Cash Available for Distribution	Cash Available for Reinvestment	Domestic Growth Capex	Additional Funding Sources for Domestic Growth Capex	Reconciling Items		PPL Consolidated Statement of Cash Flows
						PPL Global, LLC	Other	
Net cash provided by operating activities	\$ 2,145 <sup>(5)</sup>					\$ 1,184	\$ 74 <sup>(5)</sup>	\$ 3,403
Net cash used in investing activities		\$ (900)		\$ (1,816)	\$ 829	(1,442)		(3,329)
Net cash provided by financing activities			\$ (967)		1,451	(86)	185 <sup>(2)</sup>	583
Effect of exchange rates on cash and cash equivalents						(8)		(8)
Domestic (increase) decrease in cash and cash equivalents		263 <sup>(3)</sup>			(1,005) <sup>(4)</sup>		742	
	\$ 2,145	\$ 2,145						
		\$ 1,508		1,508				
Total			\$ 541	\$ (1,816)	\$ 1,275	\$ (352)	\$ 1,001	\$ 649

Note: For 2016, due to the generalized and forward-looking nature of this information, the Company has not reconciled the presented non-GAAP financial measures to the most directly comparable GAAP financial measures.

(1) Domestic Cash from Operations includes a \$191 million PPL Energy Supply, LLC dividend and realized gains of \$37 million on U.K. earnings hedges, partially offset by \$45 million of discontinued hedges associated with the spinoff of the Supply segment.

(2) Primarily represents PPL Global, LLC items that eliminate in PPL's consolidation.

(3) Represents dividend from U.K. Regulated and the realized impact of associated net investment hedges.

(4) Represents domestic change in cash and cash equivalents, and excludes the adjustments to Domestic Cash from Operations referenced here.

(5) Domestic Cash from Operations includes realized losses of \$74 million on U.K. earnings hedges.

# Forward-Looking Information Statement

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*Statements contained in this presentation, including statements with respect to future earnings, cash flows, dividends, financing, regulation and corporate strategy are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corporation believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, these statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: market demand for energy in our service territories, weather conditions affecting customer energy usage and operating costs; the effect of any business or industry restructuring, including the ability of PPL Corporation to realize all or a significant portion of the anticipated cost savings from the corporate restructuring following the Supply business spinoff; the profitability and liquidity of PPL Corporation and its subsidiaries; new accounting requirements or new interpretations or applications of existing requirements; operating performance of our facilities; the length of scheduled and unscheduled outages at our generating plants; environmental conditions and requirements and the related costs of compliance; system conditions and operating costs; development of new projects, markets and technologies; performance of new ventures; asset or business acquisitions and dispositions; any impact of hurricanes or other severe weather on our business; receipt of necessary government permits, approvals, rate relief and regulatory cost recovery; capital market conditions and decisions regarding capital structure; the impact of state, federal or foreign investigations applicable to PPL Corporation and its subsidiaries; the outcome of litigation against PPL Corporation and its subsidiaries; stock price performance; the market prices of equity securities and the impact on pension income and resultant cash funding requirements for defined benefit pension plans; the securities and credit ratings of PPL Corporation and its subsidiaries; political, regulatory or economic conditions in states, regions or countries where PPL Corporation or its subsidiaries conduct business, including any potential effects of threatened or actual terrorism or war or other hostilities; British pound sterling to U.S. dollar exchange rates; new state, federal or foreign legislation, including new tax legislation; and the commitments and liabilities of PPL Corporation and its subsidiaries. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's Form 10-K and other reports on file with the Securities and Exchange Commission.*

# Definitions of Non-GAAP Financial Measures

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

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

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

*Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge British-pound-sterling-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from earnings from ongoing operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL’s underlying hedged earnings.*

# Definitions of Non-GAAP Financial Measures

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

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

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

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

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