ENERGY FORWARD

PPL CORPORATION **2021 ANNUAL REPORT**

PPL CORPORATION AT A GLANCE

Headquarters: **Allentown, Pa.**

$5.8 billion in annual revenue

Total assets of **$33 billion**

Market capitalization of **$22.6 billion**

Three **regulated** utility companies

More than **2.5 million** utility customers (electric and gas) in the U.S.

More than **83,000 miles** of electric and gas lines

More than **67 billion** kilowatt-hours of electricity delivered

About **7,500 megawatts** of generation capacity*

More than **5,600** full-time employees

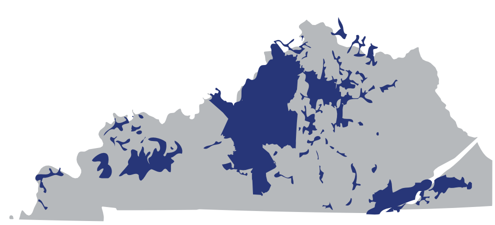
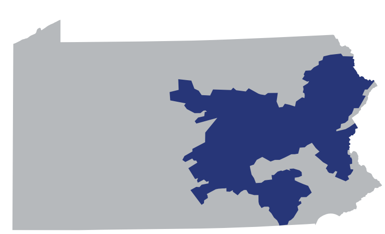
Recognized leader in **customer satisfaction**

As of Dec. 31, 2021.
**Net summer capacity - LG&E - KU ownership or other interest.*

PPL Strategic Repositioning

Over the past year, PPL has taken significant steps to strategically reposition itself as a U.S.-based energy company, with a clear focus on simplifying PPL's business mix, strengthening its credit metrics, enhancing long-term earnings growth and predictability, improving long-term value for customers and shareowners, and providing the company with greater financial flexibility to invest in sustainable energy solutions.

In March 2021, PPL announced agreements to sell its U.K. utility business, Western Power Distribution (WPD), and to acquire Rhode Island's primary electric and gas utility, The Narragansett Electric Company. PPL completed the sale of WPD in June 2021, achieving exceptional value of nearly $11 billion. The company has also received all necessary regulatory approvals to acquire Narragansett Electric for $3.8 billion. As of the publication of this report, PPL continued to work diligently through state appeals processes, focused on closing as soon as circumstances permit.

MAJOR BUSINESS SEGMENTS*	KEY INFORMATION	
Kentucky Regulated	PPL's Kentucky segment consists primarily of the regulated electricity and natural gas operations of Louisville Gas and Electric Company and Kentucky Utilities Company, which serve 1.3 million customers in Kentucky and Virginia and operate about 7,500 megawatts of regulated generating capacity.	
Pennsylvania Regulated	PPL's Pennsylvania segment consists of the regulated electricity delivery operations of PPL Electric Utilities Corporation, which serves approximately 1.4 million customers in eastern and central Pennsylvania.	

**PPL's principal subsidiaries as of Dec. 31, 2021.*

DEAR SHAREOWNERS,

2021 was a pivotal year for PPL.

We took bold steps to transform our company for long-term growth and success, to address challenges that have impacted PPL from a shareowner return perspective and to improve total shareowner return while building on our core strengths. At the same time, we leaned forward on our clean energy strategy, committed to a net-zero future, and delivered outstanding results for our customers and communities. The end result is a new, U.S.-focused PPL — stronger, more agile and better positioned to drive sustainable value for all stakeholders.

This year's letter highlights our 2021 transition and the progress we've made as we focus on creating the utilities of the future today — customer-first, people-driven and technology-enabled to drive an affordable, reliable clean energy transition.

REPOSITIONING PPL FOR FUTURE SUCCESS.

Over the past year, we took significant steps to strategically reposition PPL for future success. Our goals at the outset of our strategic pivot were clear:

- Simplify our business mix.
- Narrow our focus to high-performing, U.S. rate-regulated utilities.
- Strengthen our balance sheet.
- Enhance long-term earnings growth and predictability.
- Improve long-term value for our customers and shareowners.

To achieve these objectives, we announced agreements in March 2021 to sell our U.K. utility business, Western Power Distribution (WPD), to National Grid plc for £7.8 billion and, in a separate transaction, to acquire National Grid's Rhode Island utility business, The Narragansett Electric Company (Narragansett Electric), for $3.8 billion. We closed on the WPD sale in June, achieving exceptional value of nearly $11 billion. In addition, we've received all of the necessary regulatory approvals to acquire Narragansett Electric and are now working diligently through state appeals processes. We will close as soon as circumstances permit.

Throughout 2021, we also took steps to strategically allocate the WPD sale proceeds to support PPL's future growth prospects and long-term shareowner value. This included reducing PPL's outstanding debt by $3.5 billion; identifying over $1 billion of additional capital investments in our U.S. utilities; and returning $1.4 billion to shareowners via share repurchases and additional dividends.

The result of our strategic repositioning will be a new PPL that is built for the future, with a plan that delivers competitive long-term earnings per share and dividend growth, significant investment opportunities to drive a clean energy future, and a balance sheet capable of fueling growth for the foreseeable future with no equity needs. In summary, we're setting up PPL to deliver premier growth while continuing to provide highly reliable service, award-winning customer satisfaction and industry-leading grid innovation.

Vincent Sorgi
President and Chief Executive Officer

Craig A. Rogerson
Independent Chair of the Board

DELIVERING ESSENTIAL ENERGY AND EXCEPTIONAL SERVICE.

At PPL, we view operational excellence as a competitive advantage, and a key pillar of our corporate strategy is to achieve industry-leading performance in safety, reliability, customer satisfaction and operational efficiency.

As we advanced this strategic objective in 2021, we delivered strong results. We maintained transmission and distribution reliability, as well as generation availability, that was among the best in the industry despite some of the worst storm seasons experienced in our service territories. We responded quickly and effectively to that severe weather, including devastating tornadoes in Kentucky and the remnants of Hurricane Ida in Pennsylvania.

We maintained affordable energy rates below regional averages, improved safety performance enterprise-wide, and executed more than $2 billion in infrastructure improvements in our U.S. operations to build smarter, more dynamic and more resilient energy networks. In the process, we again achieved award-winning customer satisfaction. Both PPL Electric Utilities and Kentucky Utilities ranked highest in their respective regions and segments for residential and business customer satisfaction. Both were named most-trusted utility brands by Escalent following an independent survey of customers at the nation's 140 largest utilities.

Moving forward, we have no intention of resting on our laurels. Our goal, as always, is to deploy advanced technologies to drive continuous improvement in system resiliency, reliability and efficiency.

COMMITTING TO NET-ZERO AND DRIVING A RESPONSIBLE CLEAN ENERGY TRANSITION.

A key component of repositioning PPL for the future is moving forward on our broad-based clean energy strategy, which centers on decarbonizing our generation, positioning the grid as an enabler of clean energy resources, driving digital innovation, investing in research and development to enable new clean energy technologies, and decarbonizing our non-generation operations.

*Letter dated as of April 4, 2022.

In pursuit of this strategy in 2021, we:

- Set a new goal to achieve net-zero carbon emissions by 2050.
- Accelerated our interim emissions reduction targets to 70% by 2035 and 80% by 2040.
- Announced more than $50 million in new investments to drive clean energy research and development.
- Launched a partnership to study carbon capture at natural gas combined-cycle power plants.
- Reached agreements to provide an additional 125 MW of solar power to Kentucky customers.
- Joined a national coalition to support greater adoption of electric vehicles.
- Linked executive compensation to climate-related goals.

Beyond these efforts, we published our latest climate assessment report in November. The report highlighted the risks and opportunities associated with climate change; evaluated potential future emissions under multiple scenarios, including one consistent with the U.S. commitments to the Paris Agreement; and outlined our strategy to enable a responsible clean energy transition. In October, we also completed our triennial Kentucky Integrated Resource Plan, which projected a significant increase in renewable energy additions in the 15-year planning horizon compared to our prior plan.

As we work toward our clean energy goals, we're proud of the progress we've made – reducing our emissions nearly 60% since 2010 – and we're pleased with the momentum we generated in 2021. However, we recognize it will take continued dedication, ideas and innovation to reach our net-zero goals, and that's our focus.

We continue to economically transition our Kentucky coal-fired generation and are committing not to burn unabated coal by 2050. We're transitioning the Kentucky fleet to cleaner energy sources, with expected retirements of at least 2,000 MW of coal-fired power plants by 2035, including at least 1,000 MW by 2028. We are reviewing our generation plans for opportunities to further advance fleet decarbonization while maintaining reliability and affordability. In addition, we're creating advanced, clean-energy-enabling grids. Working together with our industry, our customers and other stakeholders, we're optimistic that we will achieve a net-zero future.

PARTNERING TO BUILD STRONGER COMMUNITIES IN THE AREAS WE SERVE.

At PPL, our mission includes providing safe, affordable, reliable and sustainable energy to our customers, but the impact we make extends beyond the energy we provide.

In 2021, our companies and foundations contributed more than $12 million to improve education; foster diversity, equity and inclusion (DEI); promote sustainable communities; and support programs that strengthen the communities we serve. Together with our employees and retirees, we raised more than $7 million to support United Way and partner agencies in the work they do to improve lives.

When tornadoes damaged Kentucky homes, businesses and power lines, we responded swiftly, deploying more than 600 employees and contractors to restore power as quickly and safely as possible and providing immediate financial support to assist families and businesses.

And throughout the year, we worked to lead by example on DEI. This included strengthening diversity within our leadership ranks, our overall workforce and our board; expanding support for social justice and equity initiatives; enhancing supplier diversity; and creating new opportunities through business resource groups for employees of all backgrounds and experiences to collaborate, share perspectives and contribute to PPL's success. As a result of our strong commitment to DEI, we were named a best place to work for LGBTQ equality and disability inclusion and a top utility for workforce diversity.

MOVING FORWARD WITH CONFIDENCE. DRIVING SUSTAINABLE VALUE FOR ALL STAKEHOLDERS.

As we set our sights on continued growth and execution, we are focused on economically and sustainably transitioning to cleaner energy sources. As we've done for years, we continue to invest in advanced grid automation. Our past investments have supported our strong reliability performance and efficiency, and we believe the best is yet to come. In addition, we're using data analytics to prevent outages while operating more efficiently. And we're continuing to incorporate advanced technology to enable widespread connection of renewable energy while preserving power quality and reliability.

This has been our playbook over the past decade in Pennsylvania. It has resulted in significantly improved customer satisfaction, 27% fewer outages per customer, and one of the nation's smartest and most advanced energy networks – all while keeping operating and maintenance costs flat.

We believe this proven operating model differentiates PPL and is the key to delivering an affordable clean energy transition. Our strategy is to replicate this success across our portfolio, including in Rhode Island upon completion of the Narragansett Electric acquisition. We believe we are uniquely qualified to help Rhode Island achieve its ambitious clean energy goals, which include 100% renewable energy by 2030 and net-zero economy-wide carbon emissions by 2050.

In summary, we're proud of what our team of talented employees accomplished in 2021 as we laid a foundation for growth and success and returned $2.3 billion to shareowners through dividends and share purchases. We're excited about the opportunity we have to shape our energy future and drive long-term value for all stakeholders. And we're thankful for your investment in PPL and for the trust you've placed in us.

Sincerely,

Vincent Sorgi
President and
Chief Executive Officer

Craig A. Rogerson
Independent
Chair of the Board

2021 FINANCIAL HIGHLIGHTS

For the years ended December 31

FINANCIAL	2021	2020
Operating revenues (millions)	**$5,783**	$5,474
Net income (millions)	**$(1,480)**	$1,469
Earnings from ongoing operations (millions) [(a)(b)]	**$806**	$774
Total assets (millions)	**$33,223**	$48,116
Earnings per share - Diluted	**$(1.93)**	$1.91
Earnings from ongoing operations per share – Diluted [(a)(b)]	**$1.05**	$1.00
Dividends declared per share	**$1.66**	$1.66
Book value per share [(c)]	**$18.67**	$17.39
Market price per share	**$30.06**	$28.20
Market price/book value ratio	**161%**	162%
Dividend yield	**5.5%**	5.9%

OPERATING – ELECTRICITY SALES (GWh)		
Retail delivered	**66,434**	64,482
Wholesale supplied [(d)]	**888**	542

(a) Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations, which we sometimes refer to as Net Income 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 statutory tax rate of the entity where the activity is recorded. See "Reconciliation of Net Income to Earnings from Ongoing Operations" on page 26 (millions of dollars) and page IV (per share) of this report.

(b) Earnings from ongoing operations for 2020 have been adjusted primarily for earnings that were previously included in the U.K. Regulated segment.

(c) Based on 735,112 and 768,907 shares of common stock outstanding (in thousands) at December 31, 2021, and December 31, 2020.

(d) Represents FERC-regulated municipal and unregulated off-system sales.

RECONCILIATION OF FINANCIAL MEASURES (UNAUDITED)

Reconciliation of Earnings from Ongoing Operations

	(per share - diluted)					
	KY Reg.	**PA Reg.**	**Corp. & Other**	**Disc. Ops.**[1]	**Total 2021**	2020[3]
Net Income	**$0.62**	**$0.58**	**$(1.17)**	**$(1.96)**	**$(1.93)**	$1.91
Less: Special Items (expense) benefit:[2]						
Income (Loss) from Discontinued Operations	**-**	**-**	**-**	**(1.97)**	**(1.97)**	1.08
Talen litigation costs	**-**	**-**	**(0.02)**	**-**	**(0.02)**	(0.02)
Strategic corporate initiatives	**-**	**-**	**(0.01)**	**-**	**(0.01)**	(0.01)
Valuation allowance adjustment	**0.01**	**-**	**(0.01)**	**0.01**	**0.01**	-
Transmission formula rate return on equity settlement	**-**	**(0.03)**	**-**	**-**	**(0.03)**	-
Acquisition integration	**-**	**-**	**(0.03)**	**-**	**(0.03)**	-
U.K. tax rate change	**-**	**-**	**(0.50)**	**-**	**(0.50)**	(0.13)
Solar panel impairment	**-**	**-**	**(0.03)**	**-**	**(0.03)**	-
Loss on early extinguishment of debt	**-**	**-**	**(0.40)**	**-**	**(0.40)**	-
COVID-19 impact	**-**	**-**	**-**	**-**	**-**	(0.01)
Total Special Items	**0.01**	**(0.03)**	**(1.00)**	**(1.96)**	**(2.98)**	0.91
Earnings from Ongoing Operations	**$0.61**	**$0.61**	**$(0.17)**	**$-**	**$1.05**	$1.00

[1] PPL sold its U.K. utility business on June 14, 2021, and its earnings were treated as a special item.

[2] See Combined Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information on special items.

[3] Earnings from ongoing operations for 2020 have been adjusted primarily for earnings that were previously included in the U.K. Regulated segment.

Statements contained in this Annual Report, including statements with respect to future earnings 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 these statements. Forward-looking statements may be identified by the use of words such as "believe," "expect," "plans," "intends," "may," "strategy," "target," "goals," "anticipate," and other similar words and include, without limitation, statements regarding the acquisition of The Narragansett Electric Company and the anticipated effects of that transaction. Investors should not place undue reliance on forward-looking statements as a prediction of actual results. Any forward-looking statements should be considered in light of the factors and other matters discussed in "Item 1A. Risk Factors" and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Corporation's 2021 Annual Report on Form 10-K and other reports on file with the Securities and Exchange Commission.

FINANCIAL TABLE OF CONTENTS

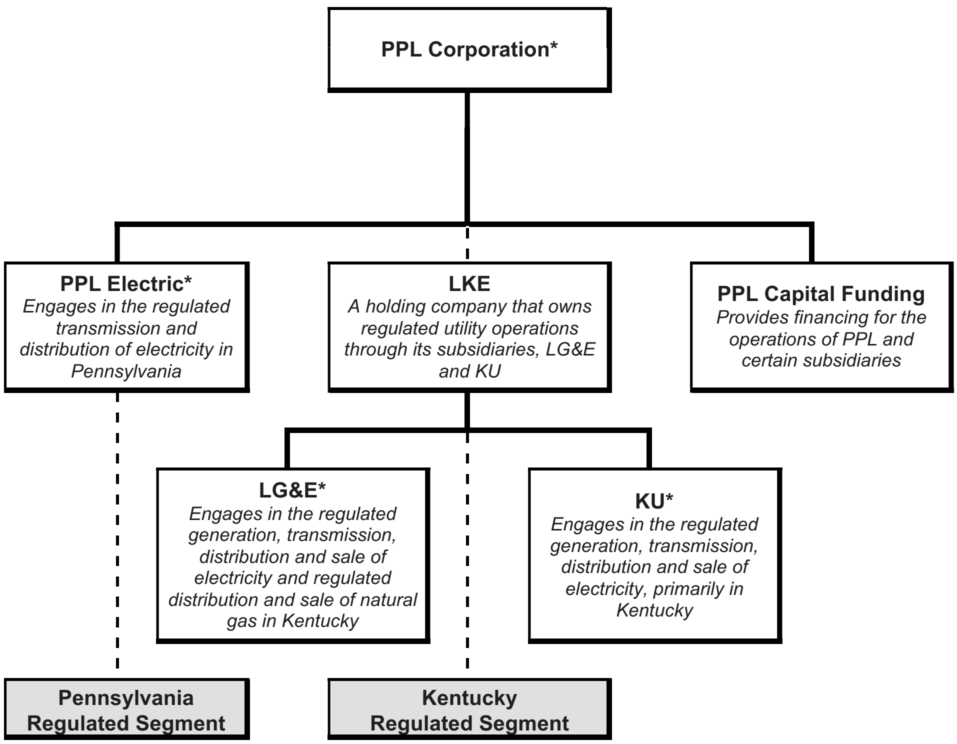
Form 10-K for the year ended Dec. 31, 2021, was filed by PPL Corporation with the U.S. Securities and Exchange Commission on February 18, 2022. Please visit PPL Corporation's website, www.pplweb.com/investors, for the full text.

General

(All Registrants)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company, incorporated in 1994, in connection with the deregulation of electricity generation in Pennsylvania, to serve as the parent company to the regulated utility, PPL Electric, and to generation and other unregulated business activities. PPL, through its regulated utility subsidiaries, delivers electricity to customers in Pennsylvania, Kentucky and Virginia; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries at December 31, 2021 are shown below (* denotes a Registrant).



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

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

LG&E, 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.

KU, 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 and Virginia. KU is subject to regulation as a public utility by the KPSC and the VSCC, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Kentucky customers under the KU name and its Virginia customers under the Old Dominion Power name. KU was incorporated in Kentucky in 1912 and in Virginia in 1991.

Segment Information

(PPL)

PPL is organized into two reportable segments as depicted in the chart above: Kentucky Regulated, which primarily represents the results of LG&E and KU, and Pennsylvania Regulated, which primarily represents the results of PPL Electric. "Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments.

A comparison of PPL's Regulated segments is shown below.

	Kentucky Regulated	Pennsylvania Regulated
For the year ended December 31, 2021:		
Operating Revenues (in billions)	$ 3.3	$ 2.4
Net Income (in millions)	$ 468	$ 445
Electricity delivered (GWh)	30,317	37,005
At December 31, 2021:		
Regulatory Asset Base (in billions) (a)	$ 11.3	$ 8.9
Service area (in square miles)	9,400	10,000
End-users (in millions)	1.3	1.4

(a) Represents capitalization for Kentucky Regulated and rate base for Pennsylvania Regulated.

See Note 2 to the Financial Statements for additional financial information by segment. The sale of the U.K. utility business, which substantially represented PPL's U.K. Regulated segment as reported in prior years, was completed on June 14, 2021, pursuant to a share purchase agreement entered into on March 17, 2021. As a result, PPL determined segment information for the U.K. Regulated segment would no longer be provided beginning with the Form 10-Q for the quarter ended March 31, 2021. See Note 9 to the Financial Statements for additional information.

(PPL Electric, LG&E and KU)

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

Kentucky Regulated Segment *(PPL)*

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

(PPL, LG&E and KU)

LG&E and KU are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, also Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electricity service to approximately 429,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 333,000 customers in its electricity service area and eight additional counties in Kentucky. KU provides electric service to approximately 538,000 customers in 77 counties in central, southeastern and western Kentucky and approximately 28,000 customers in five counties in southwestern Virginia, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to two municipalities in Kentucky under load following contracts. See Note 3 to the Financial Statements for revenue information.

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 electricity service areas of LG&E and KU. 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 LG&E and KU, which may be significant, cannot currently be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

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

Power Supply

At December 31, 2021, LG&E owned generating capacity of 2,760 MW and KU owned generating capacity of 4,775 MW.

The system capacity of LG&E's and KU's owned generation is based upon several factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances.

During 2021, LG&E's and KU's power plants generated the following amounts of electricity:

	GWh	
Fuel Source	**LG&E**	**KU**
Coal	10,297	14,718
Gas	1,395	4,382
Hydro	263	89
Solar	7	12
Total (a)	11,962	19,201

(a) This generation represents increases for LG&E and KU of 4% and 5% from 2020 output.

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

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

Due to environmental requirements and energy efficiency measures, as of December 31, 2021, LG&E and KU have retired approximately 1,200 MW of coal-fired generation plants since 2010.

LG&E and KU received approval from the KPSC to develop a 4 MW Solar Share facility to service a Solar Share program. The Solar Share program is a voluntary program that allows customers to subscribe capacity in the Solar Share facility. Construction commences, in 500-kilowatt phases, when subscription is complete. Construction of four 500-kilowatt phases was completed as of December 31, 2021. The subscription for the fifth 500-kilowatt phase was completed with construction expected to be completed in 2022. LG&E and KU continue to market the program and have started receiving subscriptions for the sixth 500-kilowatt phase.

On January 23, 2020, LG&E and KU applied to the KPSC for approval of arrangements relating to the purchase of 100 MW of solar power in connection with the Green Tariff option established in the 2018 Kentucky base rate cases. Pursuant to the agreements, LG&E and KU would purchase the initial 20 years of output of a proposed third-party solar generation facility and resell the bulk of the power as renewable energy to two large industrial customers and use the remaining power for other customers. The generation facility is currently expected to be operational in the second quarter of 2023. On May 8, 2020, the KPSC issued an order approving LG&E's and KU's applications with certain modifications. LG&E and KU requested reconsideration of limited portions of the KPSC's Order and on December 16, 2020, the KPSC amended their original order. PPL, LG&E and KU do not anticipate that these arrangements will have a significant impact on their results of operations or financial condition.

On October 6, 2021, LG&E and KU entered into an agreement to purchase the initial 20 years of output of a proposed 125 MW third-party solar generation facility in connection with the Green Tariff option established in the 2018 Kentucky base rate cases. Pursuant to the agreements, LG&E and KU would purchase output of the facility and resell power as renewable energy to certain large customers. The generation facility is currently expected to be operational in the fourth quarter of 2024. PPL, LG&E and KU do not anticipate that this agreement will have a significant impact on their results of operations or financial condition.

Fuel Supply

Coal and natural gas are expected to be the predominant fuels used by LG&E and KU for generation for the foreseeable future. Natural gas used for generation is primarily purchased using contractual arrangements separate from LG&E's natural gas distribution operations. Natural gas and oil are also 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 several factors including fluctuations in demand, coal mine production issues, high or low river level events, lock outages and other supplier or transporter operating or financial difficulties.

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2026 and augment their coal supply agreements with spot market purchases, as needed.

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

To enhance the reliability of natural gas supply, LG&E and KU have secured firm long-term pipeline transport capacity services with contracts of various durations through 2024 on the interstate pipeline serving Cane Run Unit 7. This pipeline also serves the six simple cycle combustion turbine units located at the Trimble County site as well as two other simple cycle units at the Paddy's Run site. For the seven simple cycle combustion turbines at the E.W. Brown facility, no firm long-term pipeline transport capacity has been purchased due to the facility's connection to two interstate pipelines and some of the units having dual fuel capability.

LG&E and KU have firm contracts for a portion of the natural gas fuel for Cane Run Unit 7 through October 2024. The bulk of the natural gas fuel remains purchased on the spot market.

(PPL and LG&E)

Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 billion cubic feet (Bcf), are used to provide natural gas service to LG&E's firm sales customers. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would need 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 expected to be higher. At December 31, 2021, 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 durations and terms that provide competitively priced natural gas designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2023 and 2026. Total winter season capacity under these contracts is 184,900 MMBtu/day and summer season capacity is 60,000 MMBtu/day. With this same pipeline, LG&E also has another contract for pipeline capacity through 2026 for 60,000 MMBtu/day during both the winter and summer seasons. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in 2023.

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

(PPL, 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 organization.

Rates

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

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

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

KU's rates to municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except accumulated deferred income taxes, are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets. In April 2014, certain municipalities submitted notices of termination to cease taking power under the wholesale requirements contracts. KU's service to eight municipalities terminated effective April 30, 2019. KU continues to provide service to two municipalities.

See "Financial and Operational Developments" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 7 to the Financial Statements for additional information on current rate proceedings and rate mechanisms.

Pennsylvania Regulated Segment *(PPL)*

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

(PPL and PPL Electric)

PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties within eastern and central Pennsylvania. PPL Electric also provides electricity to retail customers in this territory as a PLR under the Customer Choice Act. See Note 3 to the Financial Statements for revenue information.

Franchise, Licenses and Other Regulations

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

Competition

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

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

Rates and Regulation

Transmission

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

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

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

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

See "Financial and Operational Developments" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 7 to the Financial Statements for additional information on rate mechanisms and regulatory matters.

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, except accumulated deferred income taxes, are excluded from the return on rate base. Therefore, no return is earned on the related assets unless specifically provided for by the PUC. Currently, PPL Electric's Smart Meter rider and the DSIC are the only riders authorized to earn a return. Certain operating expenses are also included in PPL Electric's distribution base rates including wages and benefits, other operation and maintenance expenses, depreciation and taxes.

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

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

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

See Note 7 to the Financial Statements for additional information on rate mechanisms and legislative and regulatory matters.

PLR

The Customer Choice Act requires electric distribution companies, including PPL Electric, or an alternative supplier approved by the PUC, to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. In 2021, the following average percentages of PPL Electric's customer load were provided by competitive suppliers: 39% of residential, 79% of small commercial and industrial and 98% of large commercial and industrial customers. The PUC continues to favor expanding the competitive market for electricity.

PPL Electric's electricity generation costs are established based upon the results of a competitive solicitation process. On December 17, 2020, the PUC approved PPL Electric's default service plan for the period June 1, 2021 through May 31, 2025, which includes a total of eight solicitations for electricity supply held semiannually in April and October. The first two auctions of the plan were completed in 2021. This plan also includes eight solicitations for alternative energy credits held semiannually in January and July. Through January 2022, two alternative energy credit solicitations have been completed. All contracts from previous default service plans concluded on or before November 30, 2021.

Pursuant to the plans, PPL Electric contracts for all of the electricity supply for residential, commercial and industrial customers who elect to take default service from PPL Electric. These solicitations contain a mix of products including 5-year block energy contracts for residential customers, 6- and 12-month fixed-price load-following contracts for residential and small commercial and industrial customers, 12-month real-time pricing contracts for large commercial and industrial customers, and alternative energy credit contracts for residential, commercial and industrial customers. These contracts fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

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

Corporate and Other *(PPL)*

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

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

Unlike PPL Services, PPL Capital Funding's costs are not generally charged to PPL subsidiaries. Costs are charged directly to PPL. However, PPL Capital Funding participated significantly in the financing for the acquisition of LKE and certain associated financing costs were allocated to the Kentucky Regulated Segment. Prior to 2021, the associated financing costs, as well as the financing costs associated with prior issuances of certain other PPL Capital Funding securities, were assigned to the appropriate segments for purposes of PPL management's assessment of segment performance. In 2021, corporate level financing costs are no longer allocated to the reportable segments. The financing costs associated primarily with PPL Capital Funding's securities issuances, with certain exceptions, have not been directly assigned or allocated to any segment.

The financial results of Safari Energy are also reported within Corporate and Other.

ENVIRONMENTAL MATTERS

(All Registrants)

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, and may be subject to different and more stringent such laws and regulations enacted in the future. The EPA and other federal agencies with jurisdiction over environmental matters have issued numerous environmental regulations relating to air, water and waste that directly affect the electric power industry. Due to these environmental issues, it may be necessary for the Registrants to modify or cease certain operations or operation of certain facilities to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to environmental permits or rules add uncertainty to estimating future costs of complying with such permits and rules. The Biden administration is currently undertaking changes in a wide range of environmental programs.

See “Legal Matters” in Note 14 to the Financial Statements for a discussion of environmental commitments and contingencies. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2022 through 2024.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and other federal, state and local environmental requirements applicable to coal combustion wastes and by-products from coal-fired generating facilities upon KPSC review. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery at the discretion of the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, it has less exposure to related environmental compliance costs. The Registrants can provide no assurances as to the ultimate outcome of future proceedings before regulatory authorities.

Air

NAAQS (PPL, LG&E and KU)

The Clean Air Act has a significant impact on the operation of fossil fuel generation plants. The Clean Air Act requires the EPA periodically to establish and review National Ambient Air Quality Standards, known as NAAQS, for six pollutants: carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. In December 2020, the EPA released final actions keeping the existing NAAQS standard for particulate matter and ozone without change, but the EPA is currently reconsidering those decisions. PPL, LG&E, and KU are unable to predict the outcome of future evaluations by the EPA and the states with respect to the NAAQS standards.

Applicable regulations require each state to identify areas within its boundaries that fail to meet the NAAQS, (known as nonattainment areas), and develop a state implementation plan to achieve and maintain compliance. States that are found to contribute significantly to another state's nonattainment with ozone standards are required to establish "good neighbor" state implementation plans. In addition, for attainment of ozone and fine particulates standards, certain states, including Kentucky, are subject to a regional EPA program known as the Cross-State Air Pollution Rule (CSAPR).

In January 2018, the EPA designated Jefferson County, Kentucky (Louisville) as being in nonattainment with the existing 2015 ozone standard. In 2020 and 2021, LG&E entered into agreements with the Louisville Metro Air Pollution Control District for temporary nitrogen oxide emission limits at LG&E's Mill Creek Station during those years to facilitate compliance with the ozone standard. If Jefferson County is unable to demonstrate attainment within the specified timeframes, it may be “bumped up” to the moderate nonattainment classification and thus subject to additional requirements including requirements for installation of reasonably available control technology on coal-fired generating units. Compliance with such requirements may require installation of additional pollution controls or other compliance actions. LG&E is unable to determine the impact on operations until certain compliance determinations are made by the EPA and Kentucky.

In April 2021, the EPA published final revisions to the CSAPR providing for reductions in ozone season nitrogen oxide emissions for 2021 and subsequent years from sources in 12 states, including Kentucky. Additionally, the EPA reversed its previous approval of the Kentucky State Implementation Plan with respect to these requirements. The CSAPR revisions are aimed at ensuring compliance with the 2008 ozone NAAQS, so additional nitrogen oxide emission reductions could potentially be required for compliance with the revised 2015 ozone NAAQS. PPL, LG&E and KU do not currently expect the impact of the CSAPR revisions on operations to be material. Pursuant to the President's executive order, the EPA is currently reconsidering its previous determinations made in December 2020 to retain the existing NAAQS for ozone and particulate matter without change, with final determinations by the EPA expected in 2022 for particulate matter and 2023 for ozone.

PPL, LG&E, and KU are unable to predict future emission reductions that may be required by future federal rules or state implementation actions. Compliance with the NAAQS, CSAPR and related requirements may require installation of additional pollution controls or other compliance actions, inclusive of retirements, the costs of which PPL, LG&E and KU believe would be subject to rate recovery.

Climate Change (All Registrants)

There is continuing world-wide attention focused on issues related to climate change. In 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, establishing non-binding targets to reduce GHG emissions from both developed and developing nations. In 2017, President Trump announced a U.S. withdrawal from the Paris Agreement, effective November 2020. In January 2021, the Biden presidential administration initiated the process to rejoin the Paris Agreement, which was completed in February 2021. The Biden administration also issued executive orders directing agencies to conduct a general review of regulations and executive actions relating to the environment and reestablished a framework for considering the social cost of carbon as part of certain agency cost-benefit analyses for new regulations. The Biden administration is exploring wide-ranging efforts to address climate change. Recent government actions and policy developments, including the President's announced goal of a carbon free electricity sector by 2035, and targeting net-zero emissions for the federal government by 2050, could have significant impacts on PPL's business operations, products, and services. Certain of the efforts announced by the Biden administration are preliminary or ongoing in nature. Additionally, there are ongoing efforts by various state and local governments to assess potential changes to legislation, rules, policies, directives, and other requirements applicable to greenhouse gas emissions. PPL, LG&E and KU cannot predict the outcome of ongoing developments.

PPL has adopted a goal of net-zero carbon emissions by 2050, which includes continuing to retire coal-fired generation and investing in research and innovation that will help to achieve this goal, while maintaining reliable and affordable energy in our service territories. The net-zero goal relates to direct and indirect carbon emissions consistent with Greenhouse Gas Protocol guidance and referenced by the EPA Center for Corporate Climate Leadership. Through 2020, PPL has reduced carbon emissions nearly 60% from 2010 levels and is targeting a 70% reduction from 2010 levels by 2035 and an 80% reduction by 2040.

PPL is also aware of the various risks associated with climate change, including increased frequency and severity of severe weather. To address these risks, PPL continues to work to advance the grid and improve the Company's equipment to help mitigate the impacts of extreme weather events and improve reliability.

The EPA's Affordable Clean Energy Rule (PPL, LG&E and KU)

In July 2019, the EPA repealed the Clean Power Plan and finalized the Affordable Clean Energy (ACE) Rule which gives states broad latitude to establish emission guidelines providing for plant-specific efficiency upgrades or "heat-rate improvements" to reduce GHG emissions per unit of electricity generated. Various entities filed petitions for review and petitions for reconsideration. On January 19, 2021, the D.C. Circuit Court issued an opinion finding that the EPA had erroneously repealed the Clean Power Plan. The D.C Circuit Court's opinion also vacated and remanded the ACE Rule to the EPA. On October 29, 2021, the U.S. Supreme Court granted review of the D.C. Circuit Court's ruling. PPL, LG&E, and KU cannot predict the outcome of the pending litigation and regulatory proceedings or changes that may be pursued by the Biden administration, but believe that the costs would be subject to rate recovery.

Water/Waste

(PPL, LG&E and KU)

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects that impact "Waters of the United States." Many other requirements relate to power plant operations, including the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, and standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. These requirements could impose significant costs for LG&E and KU, which are expected to be subject to rate recovery.

Clean Water Act Jurisdiction

Environmental groups and others have claimed that discharges to groundwater from leaking CCR impoundments at power plants are subject to Clean Water Act permitting. On April 12, 2019, the EPA released regulatory clarification finding that Clean Water Act jurisdiction does not cover such discharges to groundwater. On January 23, 2020, the EPA announced a final rule modifying the jurisdictional scope of the Clean Water Act. The announced rule revises the definition of the "Waters of the United States," including a revision to exclude groundwater from the definition. In April 2020, the U.S. Supreme Court issued a ruling that Clean Water Act jurisdiction may apply to certain discharges to groundwater that result in the functional equivalent of a direct discharge to navigable waters. PPL, LG&E, and KU are unaware of any unpermitted releases from their facilities that are subject to Clean Water Act jurisdiction, but future regulatory developments and judicial rulings could potentially subject certain releases from CCR impoundments and landfills to additional permitting and remediation requirements, which could impose substantial costs. Any associated costs are expected to be subject to rate recovery. PPL, LG&E and KU are unable to predict the outcome or financial impact of future regulatory proceedings and litigation.

Waters of the United States

PPL, LG&E, and KU are subject to permitting and mitigation requirements for certain construction activities that impact “Waters of the United States.” On April 21, 2020, the EPA and U.S. Army Corps of Engineers published a final rule revising the definition of “Waters of the United Status” to exclude jurisdiction over certain surface waters. On August 30, 2021, a U.S. District Court in Arizona vacated and remanded the rule. On December 7, 2021, the EPA and U.S. Army Corps of Engineers proposed to repeal the rule and restore the definition of “Waters of the United States” that was in place prior to 2015. On January 24, 2022, the U.S. Supreme Court granted review of a case raising the issue of the appropriate scope of the definition of “Waters of the United States” under the Clean Water Act. PPL, LG&E and KU are unable to predict the outcome of current or future litigation or regulatory proceedings, but do not expect a material impact on operations.

Superfund and Other Remediation

(All Registrants)

From time to time, PPL's subsidiaries undertake testing, monitoring or remedial action in response to spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary to comply with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites not yet identified may result in significant additional costs for the Registrants. Insurance policies maintained by LG&E and KU may be available to cover certain of the costs or other obligations related to these matters, but the amount of insurance coverage or reimbursement cannot be estimated or assured.

See "Legal Matters" in Note 14 to the Financial Statements for additional information.

(All Registrants)

HUMAN CAPITAL

PPL, together with its subsidiaries, is committed to fostering an exceptional workplace for employees. PPL pledges to enable the success of its current and future workforce by cultivating a diverse, equitable and inclusive culture, fostering professional development, encouraging employee engagement, and ensuring a safe and healthy work environment. Matters related to these priorities and corporate culture are overseen by PPL's senior management, which provides updates to the PPL Board of Directors (the Board). Pursuant to its charter, the Compensation Committee of the Board of Directors also periodically reviews and assesses the Company's strategy for human capital management. PPL's investment in the success of our workforce is embodied in the following areas with dedicated leadership and Board oversight:

- Diversity, equity and inclusion (DEI) – Foster an inclusive, respectful and diverse workplace through a comprehensive DEI strategy and commitments. Senior management reviews demographic metrics, DEI objectives and associated programs semi-annually. The Board also receives periodic updates from senior management on PPL's DEI strategy and initiatives.
- Employee engagement – Create a workplace that fosters an engaged, high-quality workforce. PPL's operating companies regularly conduct assessments related to employee engagement, safety and culture. Senior management reviews corporate culture with the Board annually.
- Professional development –Invest in our current and future workforce through training and development, succession planning and creation of a pipeline for internal advancement. Senior management reviews succession planning with the Compensation Committee of the Board on an annual basis.
- Comprehensive benefits - In addition to challenging careers and competitive salaries, PPL offers competitive benefits programs to attract and retain talent and support employees' well-being. PPL offers competitive vacation time, expanded leave for new parents, retirement programs, and internal and external development opportunities, including tuition reimbursement offerings for undergraduate and certain graduate degrees. Senior management conduct annual benchmarking of employee compensation and benefits.
- Safety and Compliance - PPL is also committed to maintaining an ethical and safe workplace culture. Additional steps to ensure Board oversight in these areas include:

    - Safety – PPL carries out programs focused on health and safety, including emergency preparedness, vehicle safety and accident prevention. Employees receive safety training and are encouraged to share, implement, and follow best practices. Senior management receives monthly safety data updates to determine whether additional safety measures should be implemented. The Board annually reviews the company's safety programs and results. The Board is also immediately engaged in the event of a fatality.
    - Compliance – The Corporate Compliance Committee, including senior executives, meets quarterly to discuss metrics and other matters related to the compliance and ethics culture. Among the items discussed are statistics regarding Ethics Helpline reports and employee concerns. This information is also reviewed with the Audit Committee of the Board quarterly.

PPL will continue to engage with employees and to assess these priorities as we work to best position individuals and the company for future success. PPL had a turnover rate of 10.6% for the year ended December 31, 2021. Looking forward, we will maintain our strong focus on workforce planning to address future talent needs.

At December 31, 2021, PPL and its subsidiaries had the following full-time employees and employees represented by labor unions:

	Total Full-Time Employees	Number of Union Employees	Percentage of Total Workforce
PPL	5,607	1,744	31 %
PPL Electric	1,596	932	58 %
LG&E	1,001	627	63 %
KU	873	115	13 %

(PPL and PPL Electric)

For PPL and PPL Electric, labor agreement negotiations with the IBEW commenced in February 2022. The current five-year agreement expires in May 2022.

CYBERSECURITY MANAGEMENT

The Registrants and their subsidiaries are subject to risks from cyber-attacks that have the potential to cause significant interruptions to the operation of their businesses. The frequency of these attempted intrusions has increased in recent years and the sources, motivations and techniques of attack continue to evolve and change rapidly. PPL has adopted a variety of measures to monitor and address cyber-related risks and continues to implement and explore additional cybersecurity measures. Cybersecurity and the effectiveness of PPL's cybersecurity strategy are regular topics of discussion at Board of Directors meetings. PPL's strategy for managing cyber-related risks is risk-based and, where appropriate, integrated within PPL's enterprise risk management processes. PPL's Chief Information Security Officer (CISO), who reports directly to the Chief Operating Officer, leads a dedicated cybersecurity team and is responsible for the design, implementation, and execution of cyber-risk management strategy. In addition, among other things, the CISO and the cybersecurity team actively monitor the Registrants' systems, regularly review policies, compliance, regulations and best practices, perform penetration testing, conduct incident response exercises and internal ethical phishing campaigns, and provide training and communication across the organization to strengthen secure behavior and foster a culture of security. The cybersecurity team also routinely participates in industry-wide programs to further information sharing, intelligence gathering, and unity of effort in responding to potential or actual attacks. In addition, PPL has a formal internal policy and procedures for communicating cybersecurity incidents on an enterprise-wide basis.

In addition to these enterprise-wide initiatives, PPL's Kentucky and Pennsylvania operations are subject to extensive and rigorous mandatory cybersecurity requirements that are developed and enforced by NERC and approved by the FERC to protect grid security and reliability. LG&E is also subject to certain security directives related to cybersecurity issued by the Department of Homeland Security's Transportation Security Administration in 2021. See Note 14 to the Financial Statements for additional information on these directives. Finally, PPL purchases insurance to protect against a wide range of costs that could be incurred in connection with cyber-related incidents. There can be no assurance, however, that these efforts will be effective to prevent interruption of services or other damage to the Registrants' businesses or operations or that PPL's insurance coverage will cover all costs incurred in connection with any cyber-related incident.

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

(All Registrants)

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

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

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

- "Results of Operations" for all Registrants includes a "Statement of Income Analysis," which discusses significant changes in principal line items on the Statements of Income, comparing 2021 with 2020. For PPL, "Results of Operations" also includes "Segment Earnings" and "Adjusted Gross Margins," which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure.

- "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.

For comparison of the Registrants' results of operations and cash flows for the years ended December 31, 2020 to December 31, 2019, refer to "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2020 Form 10-K, filed with the SEC on February 18, 2021.

Overview

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

Business Strategy

(All Registrants)

PPL operates three fully regulated high-performing utilities. These utilities are located in Pennsylvania and Kentucky, constructive regulatory jurisdictions with distinct regulatory structures and customer classes.

PPL's strategy, which is supported by the other Registrants, is to achieve industry-leading performance in safety, reliability, customer satisfaction and operational efficiency; to advance a clean energy transition while maintaining affordability and reliability; to maintain a strong financial foundation and create long-term value for our shareowners; to foster a diverse and exceptional workplace; and to build strong communities in areas that we serve.

Central to PPL's and the other Registrants' strategy is recovering capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, and gas supply clause) and recovery on construction work-in-progress that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms operate to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

In March 2021, PPL entered into definitive agreements that strategically reposition the company as a U.S.-based energy company focused on building the utilities of the future. These transactions are intended to strengthen PPL’s credit metrics, enhance long-term earnings growth and predictability, and provide the company with greater financial flexibility to invest in sustainable energy solutions. See Note 9 to the Financial Statements, and the "Sale of the U.K. Utility Business" and "Share Purchase Agreement to Acquire Narragansett Electric" discussions in "Financial and Operational Developments" below for additional information.

Financial and Operational Developments

(PPL)

Sale of the U.K. Utility Business

On March 17, 2021, PPL WPD Limited (WPD Limited) entered into a share purchase agreement (WPD SPA) to sell PPL's U.K. utility business to National Grid Holdings One plc (National Grid U.K.), a subsidiary of National Grid plc. Pursuant to the WPD SPA, National Grid U.K. would acquire 100% of the issued share capital of PPL WPD Investments Limited (WPD Investments) for £7.8 billion in cash. WPD Limited would also receive an additional amount of £548,000 for each day during the period from January 1, 2021 to the closing date if the dividends usually declared by WPD Investments to WPD Limited were not paid for that period.

On June 14, 2021, the sale of the U.K. utility business was completed. The transaction resulted in cash proceeds of $10.7 billion inclusive of foreign currency hedges executed by PPL. PPL received net proceeds, after taxes and fees, of $10.4 billion, resulting in a pre-tax loss on sale of $1.6 billion. See Note 9 to the Financial Statements for additional information on the sale of the U.K. utility business.

WPD Limited and National Grid U.K. each made customary representations and warranties in the WPD SPA. National Grid U.K., at its expense, purchased warranty and indemnity insurance. WPD Limited agreed to indemnify National Grid U.K. for certain tax related matters. See Note 11 to the Financial Statements for additional information. PPL has not had and will not have any significant involvement with the U.K. utility business after completion of the sale.

Share Purchase Agreement to Acquire Narragansett Electric

On March 17, 2021, PPL and its subsidiary, PPL Energy Holdings, entered into a share purchase agreement (Narragansett SPA) with National Grid USA (National Grid U.S.), a subsidiary of National Grid plc, to acquire 100% of the outstanding shares of common stock of Narragansett Electric for approximately $3.8 billion in cash. On May 3, 2021, an Assignment and Assumption Agreement was entered into by PPL, PPL Energy Holdings, PPL Rhode Island Holdings and National Grid U.S. whereby certain interests of PPL Energy Holdings in the Narragansett SPA were assigned to and assumed by PPL Rhode Island Holdings. Pursuant to that Assignment and Assumption Agreement, PPL Rhode Island Holdings became the purchasing entity under the Narragansett SPA. The acquisition is expected to be funded with proceeds from the sale of the U.K. utility business. PPL has agreed to guarantee all obligations of PPL Energy Holdings and PPL Rhode Island Holdings under the Narragansett SPA and the related Assignment and Assumption Agreement.

The closing of the acquisition is subject to the receipt of certain U.S. regulatory approvals or waivers, and other customary conditions to closing. To date, several required regulatory approvals or waivers have been received, though the order granting the waiver by the Massachusetts Department of Public Utilities is subject to a pending appeal. See Note 9 to the Financial Statements for additional information regarding the current status of this appeal. PPL anticipates receiving a final order from the Rhode Island Division of Public Utilities and Carriers with respect to the acquisition by March 2022. The regulatory approvals remain subject to any applicable appeal periods. The consummation of the transaction is not subject to a financing condition.

See Note 9 to the Financial Statements for additional information on the Narragansett SPA.

Debt Redemption

PPL Capital Funding paid $3.883 billion to tender and/or redeem an aggregate total of $3.484 billion of outstanding debt during 2021, resulting in a loss on extinguishment of $395 million for the year ended December 31, 2021. See "Long Term Debt" in Note 8 to the Financial Statements for additional information.

Share Repurchases

PPL's Board of Directors authorized share repurchases of up to $3 billion of PPL common shares. During 2021, PPL repurchased 34.8 million shares at a cost of $1.0 billion. See "Equity Securities" in Note 8 to the Financial Statements for additional information.

LKE Debt Redemption

On July 1, 2021, LKE redeemed, at par, its $250 million 4.375% Senior Notes due 2021 and on July 9, 2021, LKE filed a Form 15 with the SEC to suspend its duty to file reports under sections 13 and 15(d) of the Securities Exchange Act of 1934. As a result, beginning with the June 30, 2021 Form 10-Q, LKE was no longer reported as a Registrant.

U.K. Corporation Tax Rate Change

In 2021, the U.K. Finance Act 2021 increased the U.K. corporation tax rate from 19% to 25%, effective April 1, 2023. The primary impact of the corporation tax rate increase was an increase in deferred tax liabilities of the U.K. utility business, which was sold on June 14, 2021, and a corresponding deferred tax expense of $383 million, which was recognized in continuing operations in the second quarter of 2021.

Regulatory Requirements

(All Registrants)

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

Environmental Considerations for Coal-Fired Generation (PPL, LG&E and KU)

The businesses of LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, and ELGs. See Notes 7, 14 and 20 to the Financial Statements for a discussion of these significant environmental matters. These and other environmental requirements led PPL, LG&E and KU to retire approximately 1,200 MW of coal-fired generating plants in Kentucky since 2010. As part of the long-term generation planning process, LG&E and KU evaluate a range of factors including the impact of potential stricter environmental regulations, fuel price scenarios, the cost of replacement generation, continued operations and major maintenance costs and the risk of major equipment failures in determining when to retire generation assets. As a result of environmental requirements and aging infrastructure, LG&E anticipates retiring two older coal-fired units at the Mill Creek Plant and KU anticipates retiring one coal-fired unit at the E.W. Brown plant. Mill Creek Unit 1 has 300 MW of capacity and is expected to be retired in 2024. Mill Creek Unit 2 and E.W. Brown Unit 3 have capacities of 297 MW and 412 MW and are expected to be retired in 2028. LG&E and KU anticipate earning recovery of and return on any remaining net book value of these assets through the Retired Asset Recovery (RAR) rider. See Note 7 to the Financial Statements for additional information related to the RAR rider.

PPL Electric Transmission Formula Rate Return on Equity (PPL and PPL Electric)

On May 21, 2020, PP&L Industrial Customer Alliance (PPLICA) filed a complaint with the FERC alleging that PPL Electric's base return on equity (ROE) of 11.18% used to determine PPL Electric's formula transmission rate was unjust and unreasonable.

On August 20, 2021, PPL Electric entered into a settlement agreement (the Settlement) with PPLICA and all other parties, including intervenors, with respect to the complaint filed by PPLICA on May 21, 2020.

The key aspects of the Settlement include:

- changes to PPL Electric’s base ROE:
    - beginning as of May 21, 2020 and continuing through May 31, 2022, the ROE shall be 9.90%;
    - beginning on June 1, 2022 and continuing through May 31, 2023, the ROE shall be 9.95%;
    - beginning on June 1, 2023, the ROE shall be 10.00%, which shall continue in effect unless and until changed as permitted by the terms of the Settlement;
- changes the equity component of PPL Electric’s capital structure to be the lower of (i) PPL Electric’s actual equity component, calculated in accordance with the formula rate template, or (ii) 56.00%;
- allows modification of the current rate year of June 1 to May 31 to a calendar year of January 1 to December 31; and
- allows modification of the current formula rate based on a historic test year to a projected test year.

In 2021, PPL Electric recorded a revenue reduction of $78 million ($55 million after-tax), of which $73 million ($52 million after-tax) represents revenue subject to refund for the period May 21, 2020 through November 30, 2021. The reduction recorded includes $28 million ($20 million after-tax) related to the period from May 21, 2020 to December 31, 2020. The $73 million of revenue to be refunded will be returned to customers from January 1, 2022 through May 31, 2022 and is based on the difference between charges that were calculated using the ROE in effect at the time and charges calculated using the revised ROE provided for the Settlement, plus interest at the FERC interest rate.

The FERC approved the Settlement on November 5, 2021. Interim rates reflecting the agreed-to-base ROE in the Settlement were effective December 1, 2021.

FERC Transmission Rate Filing (PPL, LG&E and KU)

In 2018, LG&E and KU applied to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application sought termination of LG&E's and KU's commitment to provide certain Kentucky municipalities mitigation for certain horizontal market power concerns arising out of the 1998 LG&E and KU merger and 2006 MISO withdrawal. The amounts at issue are generally waivers or credits granted to a limited number of Kentucky municipalities for either certain LG&E and KU or MISO transmission charges incurred for transmission service received. In 2019, the FERC granted LG&E's and KU's request to remove the ongoing credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, which was subsequently filed, modified, and approved by the FERC in 2020 and 2021. In 2020, LG&E and KU and other parties filed appeals with the D.C. Circuit Court of Appeals regarding FERC's orders on the elimination of the mitigation and required transition mechanism. Oral arguments in the appellate proceeding occurred on February 14, 2022. LG&E and KU cannot predict the outcome of the respective appellate and FERC proceedings. LG&E and KU currently receive recovery of the waivers and credits provided through other rate mechanisms and such rate recovery would be anticipated to be adjusted consistent with potential changes or terminations of the waivers and credits, as such become effective.

Rate Case Proceedings

(PPL, LG&E and KU)

On November 25, 2020, LG&E and KU filed requests with the KPSC for an increase in annual electricity and gas revenues of approximately $331 million ($131 million and $170 million in electricity revenues at LG&E and KU and $30 million in gas revenues at LG&E). The revenue increases represented an increase of 11.6% and 10.4% in electricity revenues at LG&E and KU, and an increase of 8.3% in gas revenues at LG&E. In recognition of the economic impact of COVID-19, LG&E and KU requested approval of a one-year billing credit which will credit customers approximately $53 million ($41 million at LG&E and $12 million at KU). The billing credit represents the return to customers of certain regulatory liabilities on LG&E’s and KU’s Balance Sheets and serves to partially mitigate the rate increases during the first year in which the new rates are in effect.

LG&E’s and KU’s applications also included a request for a CPCN to deploy Advanced Metering Infrastructure across LG&E’s and KU’s service territories in Kentucky.

The applications were based on a forecasted test year of July 1, 2021 through June 30, 2022 and requested an authorized return on equity of 10.0%.

On April 19, 2021, LG&E and KU entered into an agreement with all intervening parties to the proceedings resolving all matters in their applications, with the explicit exception of LG&E's and KU's net metering proposals.

On June 30, 2021 and December 6, 2021, the KPSC issued orders approving the proposed agreement filed in April 2021, with certain modifications. The orders provided for increases in annual revenues of $207 million ($74 million and $110 million in electricity revenues at LG&E and KU and $23 million in gas revenues at LG&E) based on an authorized return on equity of 9.425%. The orders grant an authorized 9.35% return on equity for the ECR and GLT mechanisms and do not modify the requested one-year billing credit. The orders approved the CPCN to deploy Advanced Metering Infrastructure and provide regulatory asset treatment for the remaining net book value of legacy meters upon full implementation of the Advanced Metering Infrastructure program. The orders also approved the establishment of a Retired Asset Recovery (RAR) rider to provide for recovery of and return on the remaining investment in certain electric generating units upon their retirement over a ten-year period following retirement. In respect of the RAR rider, LG&E and KU continue to use currently approved depreciation rates for Mill Creek Units 1 and 2 and Brown Unit 3. The orders also approved a four-year "stay out" commitment from LG&E and KU to refrain from effective base rate increases before July 1, 2025, subject to certain exceptions. On September 24, 2021, the KPSC issued orders providing adjustments to previous net metering proposals. These adjustments did not impact the annual revenue increases.

(KU)

On August 31, 2021, KU filed a request with the VSCC for an annual increase in Virginia base electricity rates of approximately $12 million. KU's request is based on an authorized 10.4% return on equity. A hearing on the matter is scheduled for March 17, 2022. Subject to regulatory review and approval, new rates would become effective June 1, 2022.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing 2021 with 2020. The "Segment Earnings" and "Adjusted Gross Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure.

PPL: Statement of Income Analysis, Segment Earnings and Adjusted Gross Margins

Statement of Income Analysis

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

	2021	2020	Change 2021 vs. 2020
Operating Revenues	$ 5,783	$ 5,474	$ 309
Operating Expenses			
Operation			
Fuel	710	632	78
Energy purchases	752	634	118
Other operation and maintenance	1,608	1,420	188
Depreciation	1,082	1,022	60
Taxes, other than income	207	180	27
Total Operating Expenses	4,359	3,888	471
Other Income (Expense) - net	15	2	13
Interest Expense	918	634	284
Income (Loss) from Continuing Operations Before Income Taxes	521	954	(433)
Income Taxes	503	314	189
Income (Loss) from Continuing Operations After Income Taxes	18	640	(622)
Income (Loss) from Discontinued Operations (net of income taxes) (Note 9)	(1,498)	829	(2,327)
Net Income (Loss)	$ (1,480)	$ 1,469	$ (2,949)

Operating Revenues

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

	2021 vs. 2020
PPL Electric distribution volume	$ 19
PPL Electric PLR (a)	83
PPL Electric transmission formula rate (b)	(35)
LG&E fuel and other energy prices (c)	53
LG&E volumes (d)	25
LG&E retail rates (e)	46
LG&E Economic relief billing credit, net of amortization of $9	(12)
KU fuel and other energy prices (c)	43
KU volumes (d)	27
KU retail rates (e)	53
Other	7
Total	$ 309

(a) The increase was primarily the result of higher energy prices and higher customer usage, partially offset by higher volumes of shopping customers.
(b) The decrease was primarily due to a reduction in the transmission formula rate return on equity and a lower PPL zonal peak load billing factor, partially offset by returns on additional transmission capital investments and return of related depreciation expense. See Note 7 to the Financial Statements for additional information on the transmission formula rate return on equity reduction.
(c) The increases were primarily due to higher recoveries of fuel and energy purchases due to higher commodity costs.
(d) The increases were primarily due to favorable weather.
(e) The increases were due to new base rates approved by the KPSC effective July 1, 2021.

Fuel

Fuel increased $78 million in 2021 compared with 2020, primarily due to a $59 million increase at KU due to a $39 million increase in commodity costs and a $19 million increase in volumes driven by weather as well a $19 million increase at LG&E due to a $10 million increase in volumes driven by weather and an $8 million increase in commodity costs.

Energy Purchases

Energy purchases increased $118 million in 2021 compared with 2020, primarily due to a $75 million increase at PPL Electric due to higher PLR prices of $40 million and higher PLR volumes of $28 million, and a $42 million increase at LG&E primarily due to a $35 million increase in commodity costs and a $6 million increase in gas volumes driven by weather.

Other Operation and Maintenance

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

	2021 vs. 2020
PPL Electric storm costs	$ 20
PPL Electric inventory adjustments	9
PPL Electric universal service programs	13
LG&E plant operations and maintenance	10
KU plant outages	8
KU plant operations and maintenance	6
KU distribution operations and maintenance	5
KU transmission operations and maintenance	6
Solar panel impairment (Note 1)	37
Charges related to the acquisition of Narragansett Electric	26
Charges related to the sale of the U. K. utility business	8
Stock compensation expense	6
Payroll-related	6
Other	28
Total	$ 188

Depreciation

The increase (decrease) in depreciation was due to:

	2021 vs. 2020
Additions to PP&E, net	$ 36
Depreciation rate change effective July 2021	11
Cost of removal and salvage amortization	12
Other	1
Total	$ 60

Taxes, Other Than Income

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

	2021 vs. 2020
State gross receipts tax (a)	$ 13
Domestic property tax expense	10
Other	4
Total	$ 27

(a) The increase was primarily due to a favorable settlement of 2008 - 2010 gross receipts tax assessments in 2020.

Other Income (Expense) - net

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

	2021 vs. 2020
Defined benefit plans - non-service credits (Note 12)	$ 23
Charitable contributions	(11)
Other	1
Total	$ 13

Interest Expense

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

		2021 vs. 2020
Loss on extinguishment of debt (Note 8)	$	395
Long-term debt interest		(93)
Other		(18)
Total	$	284

Income Taxes

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

		2021 vs. 2020
Change in pre-tax income	$	(116)
Valuation allowance adjustments (a)		24
Federal and state income tax return adjustments		6
Impact of the U.K. Finance Acts on deferred tax balances (b)		282
Amortization of excess deferred federal and state income taxes		(11)
Other		4
Total	$	189

(a) In 2021, PPL recorded a $31 million state deferred tax benefit on a net operating loss and an offsetting valuation allowance in connection with the loss on extinguishment associated with a tender offer to purchase and retire PPL Capital Funding's outstanding Senior Notes. See Note 8 for additional information on the tender offer.

(b) The U.K. corporation tax rate was scheduled to be reduced from 19% to 17%, effective April 1, 2020. In 2020, the U.K. Finance Act 2020 cancelled the tax rate reduction to 17%, thereby maintaining the corporation tax rate at 19% for financial years 2020 and 2021. The primary impact of the cancellation of the corporation tax rate reduction was an increase in deferred tax liabilities and a corresponding deferred tax expense of $106 million. In 2021, the U.K. Finance Act 2021 increased the U.K. corporation tax rate from 19% to 25%, effective April 1, 2023. The primary impact of the corporation tax rate increase was an increase in deferred tax liabilities of the U.K. utility business, which was sold on June 14, 2021, and a corresponding deferred tax expense of $383 million.

See Note 6 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) decreased $2,327 million in 2021 compared with 2020. The decrease was attributable primarily to the 2021 loss on sale of the U.K. utility business of $1,609 million and an increase in income tax expense of $571 million. See "Discontinued Operations" in Note 9 to the Financial Statements for summarized results of the operations of the U.K. utility business.

Segment Earnings

PPL's Net Income by reportable segments was as follows:

		2021		2020		Change 2021 vs. 2020
Kentucky Regulated	$	468	$	418	$	50
Pennsylvania Regulated		445		497		(52)
Corporate and Other (a)(b)		(895)		(275)		(620)
Discontinued Operations (c)		(1,498)		829		(2,327)
Net Income	$	(1,480)	$	1,469	$	(2,949)

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results.

(b) The amount for 2020 has been adjusted for certain costs that were previously included in the U.K. Regulated segment.

(c) See Note 9 to the Financial Statements for additional information.

Earnings from Ongoing Operations

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

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

- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Significant losses on early extinguishment of debt.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

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

	2021	2020	Change 2021 vs. 2020
Kentucky Regulated	$ 465	$ 423	$ 42
Pennsylvania Regulated	465	498	(33)
Corporate and Other (a)	(124)	(147)	23
Earnings from Ongoing Operations	$ 806	$ 774	$ 32

(a) The amount for 2020 has been adjusted for certain costs that were previously included in the U.K. Regulated segment.

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

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LG&E's and KU's regulated electricity generation, transmission and distribution operations, as well as LG&E's regulated distribution and sale of natural gas.

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

	2021	2020	Change 2021 vs. 2020
Operating revenues	$ 3,348	$ 3,106	$ 242
Fuel	710	632	78
Energy purchases	186	143	43
Other operation and maintenance	905	834	71
Depreciation	647	606	41
Taxes, other than income	87	77	10
Total operating expenses	2,535	2,292	243
Other Income (Expense) - net	(2)	2	(4)
Interest Expense	196	223	(27)
Interest Expense with Affiliate (a)	53	77	(24)
Income Taxes	94	98	(4)
Net Income	468	418	50
Less: Special Items	3	(5)	8
Earnings from Ongoing Operations	$ 465	$ 423	$ 42

(a) Borrowings between LKE and PPL were $2,166 million and $1,451 million as of December 31, 2021 and 2020.

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

	Income Statement Line Item	2021	2020
Valuation allowance adjustment (a)	Income taxes	$ 4	$ —
Strategic corporate initiatives, net of tax of $0, $0 (b)	Other Income (Expense)	(1)	—
COVID-19 impact, net of tax of $0, $2 (c)	Other operation and maintenance	—	(5)
Total		$ 3	$ (5)

(a) Adjustment of valuation allowances related to certain tax credits recorded in 2017 as a result of the TCJA.
(b) Costs incurred related to PPL's strategic repositioning.
(c) Incremental costs for outside services, customer payment processing, personal protective equipment and other safety related actions associated with the COVID-19 pandemic.

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

	2021 vs. 2020
Kentucky Adjusted Gross Margins	$ 174
Other operation and maintenance	(81)
Depreciation	(90)
Taxes, other than income	(11)
Other Income (Expense) - net	(3)
Interest Expense	27
Interest Expense with Affiliate	24
Income Taxes	2
Earnings from Ongoing Operations	42
Special Items, after-tax	8
Net Income	$ 50

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

- Higher other operation and maintenance expense in 2021 compared to 2020, primarily due to a $24 million increase in administrative and general expenses, an $18 million increase in plant operations and maintenance, an $8 million increase in electric distribution operations and maintenance, a $7 million increase in plant outage expenses, a $6 million increase in electric transmission operations and maintenance, a $6 million increase due to certain ECR and GLT expenses transferred to base rates as a result of the 2020 Kentucky rate case and various support costs and other items that were not individually significant.

- Higher depreciation expense in 2021 compared to 2020, primarily due to a $60 million increase related to certain ECR and GLT depreciation expenses transferred to base rates as a result of the 2020 Kentucky rate case, a $21 million increase due to additional assets placed into service, net of retirements and a $9 million increase due to higher depreciation rates, effective July 1, 2021.

- Lower interest expense, inclusive of affiliate interest, in 2021 compared to 2020, primarily due to $40 million of interest costs allocated to the Kentucky regulated segment in 2020 that were not allocated in 2021 and a $7 million decrease due to lower interest rates.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric.

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

	2021	2020	Change 2021 vs. 2020
Operating revenues	$ 2,402	$ 2,330	$ 72
Energy purchases	566	491	75
Other operation and maintenance	557	513	44
Depreciation	424	403	21
Taxes, other than income	120	107	13
Total operating expenses	1,667	1,514	153
Other Income (Expense) - net	26	20	6
Interest Expense	162	172	(10)
Income Taxes	154	167	(13)
Net Income	445	497	(52)
Less: Special Items	(20)	(1)	(19)
Earnings from Ongoing Operations	$ 465	$ 498	$ (33)

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

	Income Statement Line Item	2021	2020
Transmission formula rate return on equity settlement, net of tax of $8, $0 (a)	Operating revenues	$ (20)	$ —
COVID-19 impact, net of tax of $0, $0 (b)	Other operation and maintenance	—	(1)
Total		$ (20)	$ (1)

(a) Represents the portion of the revenue reduction recognized in the December 31, 2021, Statement of Income related to the period from May 21, 2020 through December 31, 2020. See Note 7 to the Financial Statements for additional information.
(b) Incremental costs for outside services, personal protective equipment and other safety related actions associated with the COVID-19 pandemic.

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 Adjusted Gross Margins and the items that management considers special on separate lines and not in their respective Statement of Income line items.

	2021 vs. 2020
Pennsylvania Adjusted Gross Margins	$ —
Other operation and maintenance	(24)
Depreciation	(22)
Taxes, other than income	(8)
Other Income (Expense) - net	6
Interest Expense	10
Income Taxes	5
Earnings from Ongoing Operations	(33)
Special Items, after-tax	(19)
Net Income	$ (52)

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

- Higher other operation and maintenance expense in 2021 compared with 2020 primarily due to an increase in Corporate support costs.

Reconciliation of Earnings from Ongoing Operations

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

	2021				
	KY Regulated	PA Regulated	Corporate and Other	Discontinued Operations (a)	Total
Net Income	$ 468	$ 445	$ (895)	$ (1,498)	$ (1,480)
Less: Special Items (expense) benefit:					
Income (loss) from Discontinued Operations (a)	—	—	—	(1,502)	(1,502)
Talen litigation costs, net of tax of $4 (b)	—	—	(16)	—	(16)
Strategic corporate initiatives, net of tax of $0, $0, $2 (c)	(1)	—	(8)	—	(9)
Valuation allowance adjustment (d)	4	—	(4)	4	4
Transmission formula rate return on equity settlement, net of tax of $8	—	(20)	—	—	(20)
Acquisition integration, net of tax of $6 (e)	—	—	(22)	—	(22)
U.K. tax rate change (f)	—	—	(383)	—	(383)
Solar panel impairment, net of tax of $9 (g)	—	—	(26)	—	(26)
Loss on early extinguishment of debt, net of tax of $83 (h)	—	—	(312)	—	(312)
Total Special Items	3	(20)	(771)	(1,498)	(2,286)
Earnings from Ongoing Operations	$ 465	$ 465	$ (124)	$ —	$ 806

	2020				
	KY Regulated	PA Regulated	Corporate and Other (j)	Discontinued Operations (a)	Total
Net Income	$ 418	$ 497	$ (275)	829	$ 1,469
Less: Special Items (expense) benefit:					
Income (loss) from Discontinued Operations (a)	—	—	—	829	829
Talen litigation costs, net of tax of $3 (b)	—	—	(13)	—	(13)
COVID-19 impact, net of tax of $2, $0, $0	(5)	(1)	(1)	—	(7)
U.K. tax rate change (f)	—	—	(102)	—	(102)
Strategic corporate initiatives, net of tax of $2 (c)	—	—	(6)	—	(6)
Executive retirement benefits, net of tax of $2 (i)	—	—	(6)	—	(6)
Total Special Items	(5)	(1)	(128)	829	695
Earnings from Ongoing Operations	$ 423	$ 498	$ (147)	$ —	$ 774

(a) See Note 9 to the Financial Statements for additional information.

(b) PPL incurred legal expenses related to litigation with its former affiliate, Talen Montana. See Note 14 to the Financial Statements for additional information.
(c) Costs incurred for 2021 are related to the sale of the U.K. utility business and PPL's strategic repositioning. Costs incurred for 2020 are related to the process to sell the U.K. utility business.
(d) Adjustment of valuation allowances related to certain tax credits recorded in 2017 as a result of the TCJA.
(e) Costs related to the integration of Narragansett Electric. See Note 9 to the Financial Statements for additional information.
(f) Impact of the U.K. Finance Acts on deferred tax balances. See Note 6 to the Financial Statements for additional information.
(g) See Note 1 to the Financial Statements for additional information.
(h) See Note 8 to the Financial Statements for additional information.
(i) Settlement charge from the remeasurement of the projected benefit obligation for the PPL Supplemental Executive Retirement Plan related to a lump-sum payment made to a former PPL executive.
(j) The amounts for 2020 have been adjusted for certain costs that were previously included in the U.K. Regulated segment.

Adjusted Gross Margins

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

- "Kentucky Adjusted Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, as well as the Kentucky Regulated segment's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in 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 Adjusted Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment. 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, Storm Damage and Universal Service program costs), "Depreciation" (which is primarily related to the Act 129 Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment'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.

Changes in Adjusted Gross Margins

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

	2021	2020	Change 2021 vs. 2020
Kentucky Regulated			
Kentucky Adjusted Gross Margins	$ 2,255	$ 2,081	$ 174
Pennsylvania Regulated			
Pennsylvania Adjusted Gross Margins			
Distribution	$ 915	$ 907	$ 8
Transmission	674	682	(8)
Total Pennsylvania Adjusted Gross Margins	$ 1,589	$ 1,589	$ —

Kentucky Adjusted Gross Margins

Kentucky Adjusted Gross Margins increased in 2021 compared with 2020, primarily due to higher base rates of $99 million, environmental and gas cost recoveries added to base rates of $66 million, $15 million of higher sales volumes primarily due to weather, and $9 million of higher commercial and industrial demand primarily due to the impacts of COVID-19 in 2020, partially offset by $17 million of lower adjusted gross margins as a result of the economic relief billing credit, net of amortization.

The increase in base rates was the result of new rates approved by the KPSC effective July 1, 2021. The environmental and gas cost recoveries added to base rates were the result of the transfer of certain ECR and GLT expenses into base rates as a result of the 2020 Kentucky rate case. This transfer results in depreciation and other operation and maintenance expenses associated with the ECR and GLT programs being excluded from margins in the second half of 2021, while the recovery of such costs remain in Kentucky Gross Margins through base rates.

Pennsylvania Adjusted Gross Margins

Distribution

Distribution Adjusted Gross Margins increased in 2021 compared with 2020. Higher sales volumes of $13 million were partially offset by $8 million of lower returns on distribution system improvement capital investments.

Transmission

Transmission Adjusted Gross Margins decreased in 2021 compared with 2020, primarily due to a $28 million decrease as a result of a lower PPL zonal peak load billing factor and a $50 million decrease due to a reduction in the transmission formula rate return on equity. Partially offsetting these unfavorable items was $48 million of returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and $20 million return of related depreciation expense. See Note 7 to the Financial Statements for additional information on the transmission formula rate return on equity reduction.

Reconciliation of Adjusted Gross Margins

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

	2021			
	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 3,348	$ 2,430	$ 5	$ 5,783
Operating Expenses				
Fuel	710	—	—	710
Energy purchases	186	566	—	752
Other operation and maintenance	88	111	1,409	1,608
Depreciation	105	52	925	1,082
Taxes, other than income	4	112	91	207
Total Operating Expenses	1,093	841	2,425	4,359
Total	$ 2,255	$ 1,589	$ (2,420)	$ 1,424

	2020			
	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 3,106	$ 2,331	$ 37	$ 5,474
Operating Expenses				
Fuel	632	—	—	632
Energy purchases	143	491	—	634
Other operation and maintenance	91	91	1,238	1,420
Depreciation	154	53	815	1,022
Taxes, other than income	5	107	68	180
Total Operating Expenses	1,025	742	2,121	3,888
Total	$ 2,081	$ 1,589	$ (2,084)	$ 1,586

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

Financial Condition

Liquidity and Capital Resources

(All Registrants)

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

The Registrants had the following at:

	PPL	PPL Electric	LG&E	KU
December 31, 2021				
Cash and cash equivalents	$ 3,571	$ 21	$ 9	$ 13
Short-term debt	69	—	69	—
Long-term debt due within one year	474	474	—	—
Notes payable with affiliates		—	324	294
December 31, 2020				
Cash and cash equivalents	$ 442	$ 40	$ 7	$ 22
Short-term debt	1,168	—	262	203
Long-term debt due within one year	1,074	400	292	132
Notes payable with affiliates		—	—	—

(All Registrants)

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

	PPL	PPL Electric	LG&E	KU
2021				
Operating activities	$ 1,544	$ 969	$ 458	$ 608
Investing activities	8,564	(1,400)	(466)	(556)
Financing activities	(7,344)	412	10	(61)
2020				
Operating activities	$ 1,872	$ 884	$ 483	$ 543
Investing activities	(2,266)	(1,151)	(456)	(507)
Financing activities	99	43	(35)	(26)
2021 vs. 2020 Change				
Operating activities	$ (328)	$ 85	$ (25)	$ 65
Investing activities	10,830	(249)	(10)	(49)
Financing activities	(7,443)	369	45	(35)

Operating Activities

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

	PPL	PPL Electric	LG&E	KU
2021 vs. 2020				
Change - Cash Provided (Used):				
Net income	$ (622)	$ (52)	$ 5	$ 16
Non-cash components	344	(13)	16	—
Working capital	(93)	160	(28)	20
Defined benefit plan funding	66	—	8	2
Other operating activities	(23)	(10)	(26)	27
Total	$ (328)	$ 85	$ (25)	$ 65

(PPL)

PPL cash provided by operating activities in 2020 decreased $328 million compared with 2019.

- Net income decreased $622 million between periods and included an increase in net non-cash charges of $344 million. The increase in non-cash charges was primarily due to the loss on extinguishment of debt and the impairment of solar panels, partially offset by a decrease in deferred income taxes and investment tax credits.

- The $93 million decrease in cash from changes in working capital was primarily due to a decrease in taxes payable and a decrease in other current assets and liabilities, partially offset by an increase in regulatory liabilities (primarily due to PPL Electric’s transmission formula rate return on equity reduction and the timing of rate recovery mechanisms).

- The $23 million decrease in cash provided by other operating activities was driven by a decrease in other non-current assets (primarily related to a decrease in pension plan assets, partially offset by an increase in non-current regulatory assets) and an increase in non-current liabilities (primarily related to an increase in ARO expenditures and accrued pension obligations, partially offset by a decrease in non-current regulatory liabilities).

(PPL Electric)

PPL Electric's cash provided by operating activities in 2021 increased $85 million compared with 2020.

- Net income decreased $52 million between the periods and included a decrease in non-cash components of $13 million. The decrease in non-cash components was primarily due to a decrease in other expenses (primarily due to a decrease in canceled projects).

- The $160 million increase in cash from changes in working capital was primarily due to an increase in regulatory liabilities (primarily due to a transmission formula rate return on equity reduction and the timing of rate recovery mechanisms).

- The $10 million decrease in cash provided by other operating activities was driven primarily by a decrease in accrued pension obligations.

(LG&E)

LG&E's cash provided by operating activities in 2021 decreased $25 million compared with 2020.

- Net income increased $5 million between the periods and included an increase in non-cash components of $16 million. The increase in non-cash components was primarily driven by an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements and higher depreciation rates effective July 1, 2021), partially offset by a decrease in amortization expense (primarily due to amortization of the economic relief billing credit regulatory liability).

- Cash from changes in working capital decreased by $28 million. The decrease was primarily due to an increase in regulatory assets and liabilities, net (primarily due to the timing of rate recovery mechanisms), an increase in fuel, materials and supplies (primarily due to higher commodity costs), an increase in accounts receivable from affiliates (primarily due to timing of payments) and a decrease in other current liabilities (primarily due to timing of payments), partially offset by an increase in accounts payable (primarily due to timing of payments).

- The decrease in cash provided by other operating activities was driven primarily by a decrease in other liabilities (primarily related to noncurrent regulatory liabilities).

(KU)

KU's cash provided by operating activities in 2021 increased $65 million compared with 2020.

- Net income increased $16 million between the periods and included no change in non-cash components. Non-cash components were primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences), offset by an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements and higher depreciation rates effective July 1, 2021).

- Cash from changes in working capital increased $20 million. The increase was primarily due to an increase in accounts payable to affiliates (primarily due to timing of payments), a decrease in accounts receivable (primarily due to weather and the impacts of COVID-19) and a decrease in unbilled revenues (primarily due to weather), partially offset by a decrease in accounts payable (primarily due to timing of payments), a decrease in other current liabilities (primarily due to timing of payments) and decrease in taxes payable (primarily due to timing of payments).

- The increase in cash provided by other operating activities was driven primarily by a decrease in ARO expenditures.

Investing Activities

(All Registrants)

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

	PPL	PPL Electric	LG&E	KU
2021 vs. 2020				
Change - Cash Provided (Used):				
Expenditures for PP&E	$ 297	$ 247	$ (10)	$ (50)
Proceeds from sale of discontinued operations, net of cash divested	10,560	—	—	—
Notes receivable from affiliate		(499)	—	—
Other investing activities	(27)	3	—	1
Total	$ 10,830	$ (249)	$ (10)	$ (49)

For PPL, in 2021 compared with 2020, the decrease in expenditures was due to lower project expenditures at and PPL Electric and Safari Energy, partially offset by an increase in expenditures at LG&E and KU. The decrease in expenditures for PPL Electric was primarily due to a planned reduction in capital spending projects related to ongoing efforts to improve reliability and replace aging infrastructure. The increase in expenditures at LG&E and KU was primarily due to higher spending on ELG projects and other projects that are not individually significant.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2022 through 2024.

For PPL Electric, the changes in "Notes receivable from affiliate" activity resulted from the funding of $499 million to an affiliate for general corporate purposes. See Note 15 to the Financial Statements for further discussion of intercompany borrowings.

Financing Activities

(All Registrants)

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

	PPL	PPL Electric	LG&E	KU
2021 vs. 2020				
Change - Cash Provided (Used):				
Long-term debt issuance/retirement, net	$ (4,829)	$ —	$ —	$ 2
Long-term debt issuance/retirement, affiliate		—	—	—
Proceeds from project financing	(154)	—	—	—
Stock issuances/redemptions, net	(25)	—	—	—
Dividends	(4)	66	(31)	(50)
Purchase of treasury stock	(1,003)	—	—	—
Capital contributions/distributions, net	—	306	(29)	(28)
Issuance of term loan	(300)	—	—	—
Issuance of commercial paper	(73)	—	(41)	(32)
Retirement of term loan	(300)	—	—	—
Retirement of commercial paper	(73)	—	(41)	(32)
Changes in net short-term debt	(683)	—	(135)	(192)
Note payable with affiliate		—	324	294
Other financing activities	1	(3)	(2)	3
Total	$ (7,443)	$ 369	$ 45	$ (35)

(All Registrants)

See Note 8 to the Financial Statements in this Form 10-K for information on 2021 activity.

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

Long-term Debt and Equity Securities

Long-term debt and equity securities activity for 2021 included:

	Debt		Stock	
	Issuances (a)	Retirements	Issuances	Repurchases
Cash Flow Impact:				
PPL	$ 650	$ 4,606	$ 9	$ 1,003
PPL Electric	650	400	—	—
LG&E	—	—	—	—
KU	—	—	—	—

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

See Note 8 to the Financial Statements for additional long-term debt information.

(PPL)

Equity Securities Activities

Share Repurchase

In August 2021, PPL's Board of Directors authorized share repurchases of up to $3 billion of PPL common shares. The actual amount repurchased will depend on various factors, including PPL’s share price, market conditions, and the determination of other uses for the proceeds from the sale of the U.K. utility business, including for incremental capital expenditures. PPL may purchase shares on each trading day subject to market conditions and principles of best execution.

During the year ended December 31, 2021, PPL repurchased 34.8 million shares at a cost of $1.0 billion. Commission fees incurred, which have been included in the cost of repurchases above, were insignificant through December 31, 2021.

See Note 8 to the Financial Statements for additional information.

ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of $1.0 billion of its common stock through an at-the-market offering program, including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. There were no issuances under the ATM program for the twelve months ended December 31, 2021 and 2020. The ATM program expired in February 2021.

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 to meet their requirements with respect to their contractual obligations and anticipated capital expenditures. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LG&E and KU anticipate receiving equity contributions from their parent or member in 2022.

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, 2021, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	$ 1,300	$ —	$ —	$ 1,300
PPL Electric Credit Facility	650	—	1	649
LG&E Credit Facilities	500	—	69	431
KU Credit Facilities	400	—	—	400
Total Credit Facilities (a) (b)	$ 2,850	$ —	$ 70	$ 2,780

(a) The syndicated credit facilities and PPL Capital Funding's bilateral facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LG&E and KU, as calculated in accordance with the facility, and other customary covenants.

The commitments under the 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 - 7%, PPL Electric - 7%, LG&E - 7% and KU - 7%.

(b) Each company pays customary fees under its respective syndicated credit facility. Borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

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, 2021, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 8 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (LG&E and KU)

	Committed Capacity	Borrowed	Commercial Paper Program Capacity	Unused Capacity
LG&E Money Pool (a)	$ 750	$ 324	$ 425	$ 1
KU Money Pool (a)	650	294	350	6

(a) LG&E and KU participate in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E, and LKE and/or LG&E make available to KU funds up to the difference between LG&E's and KU's FERC borrowing limit and LG&E's and KU's commercial paper capacity limit, at an interest rate based on the lower of a market index of commercial paper issues and two additional rate options based on LIBOR.

See Note 15 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

The Registrants 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 credit facilities. The following commercial paper programs were in place at:

	December 31, 2021		
	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	$ 1,500	$ —	$ 1,500
PPL Electric	650	—	650
LG&E (a)	425	69	356
KU	350	—	350
Total PPL	$ 2,925	$ 69	$ 2,856

(a) In March 2021, the capacity for the LG&E commercial paper program was increased from $350 million to $425 million.

Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries are authorized to issue, at the discretion of management and subject to market conditions, up to $2.45 billion of long-term debt and equity securities, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

(PPL Electric)

PPL Electric is authorized to issue, at the discretion of management and subject to market conditions and regulatory approvals, up to $650 million of long-term debt securities, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

(LG&E and KU)

LG&E is authorized to issue, at the discretion of management and subject to market conditions and regulatory approvals, up to $400 million of long-term debt securities, the proceeds of which would be used to repay short-term debt incurred to fund capital expenditures and for general corporate purposes.

KU is authorized to issue, at the discretion of management and subject to market conditions and regulatory approvals, up to $300 million of long-term debt securities, the proceeds of which would be used to repay short-term debt incurred to fund capital expenditures and for general corporate purposes.

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

From time to time, 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.

<u>Forecasted Uses of Cash</u>

(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, and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

PPL currently expects that capital expenditures for 2022 for its current businesses will be approximately $2.0 billion, including approximately $1.0 billion at PPL Electric, approximately $0.4 billion each at KU and LG&E (including approximately $95 million at KU and $47 million at LG&E expected to be covered by ECR plans), and the remainder in corporate and other, including investments in renewables, subject to market conditions. For the period 2023 through 2024, PPL currently anticipates capital expenditures of approximately $3.7 to $4.2 billion, with approximately $1.7 to $1.9 billion at PPL Electric Utilities, approximately $0.85 to $0.95 billion each at KU and LG&E (including approximately $73 million at KU and $46 million at LG&E expected to be covered by ECR plans), and the remainder in corporate and other, including investments in renewables, subject to market conditions. These later investments are anticipated to be spread approximately evenly over the two years in the period.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. The capital expenditure plans discussed in this section do not include anticipated capital expenditures with respect to Narragansett Electric. PPL expects to update its capital expenditure plans to include Narragansett Electric upon completion of the acquisition. See Note 9 to the Financial Statements for additional information on the pending Narragansett Electric acquisition.

Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2021, estimated contractual cash obligations were as follows:

	Total	2022	2023-2024	2025-2026	After 2026
PPL					
Long-term Debt (a)	$ 11,251	$ 474	$ 1,003	$ 1,454	$ 8,320
Interest on Long-term Debt (b)	8,322	408	807	771	6,336
Operating Leases (c)	74	23	35	11	5
Purchase Obligations (d)	2,711	921	1,011	436	343
Total Contractual Cash Obligations	$ 22,358	$ 1,826	$ 2,856	$ 2,672	$ 15,004
PPL Electric					
Long-term Debt (a)	$ 4,539	$ 474	$ 990	$ —	$ 3,075
Interest on Long-term Debt (b)	3,118	154	287	278	2,399
Unconditional Power Purchase Obligations	135	29	57	49	—
Total Contractual Cash Obligations	$ 7,792	$ 657	$ 1,334	$ 327	$ 5,474
LG&E					
Long-term Debt (a)	$ 2,024	$ —	$ —	$ 390	$ 1,634
Interest on Long-term Debt (b)	1,413	75	150	141	1,047
Operating Leases (c)	20	6	9	4	1
Coal and Natural Gas Purchase Obligations (e)	777	317	390	70	—
Unconditional Power Purchase Obligations (f)	330	23	45	44	218
Construction Obligations (g)	176	79	66	26	5
Other Obligations	87	29	6	45	7
Total Contractual Cash Obligations	$ 4,827	$ 529	$ 666	$ 720	$ 2,912
KU					
Long-term Debt (a)	$ 2,642	$ —	$ 13	$ 414	$ 2,215
Interest on Long-term Debt (b)	2,117	105	210	201	1,601
Operating Leases (c)	30	10	14	5	1
Coal and Natural Gas Purchase Obligations (e)	794	323	350	119	2
Unconditional Power Purchase Obligations (f)	146	10	20	20	96
Construction Obligations (g)	156	76	53	22	5
Other Obligations	103	33	22	40	8
Total Contractual Cash Obligations	$ 5,988	$ 557	$ 682	$ 821	$ 3,928

(a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 8 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. The Registrants do not have any significant finance lease obligations.

(b) Assumes interest payments through stated maturity or earlier put dates. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.

(c) See Note 10 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, natural gas and limestone, as well as certain construction expenditures, which are also included in the Capital Expenditures discussion above.

(e) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 14 to the Financial Statements for additional information.

(f) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 14 to the Financial Statements for additional information.

(g) Represents construction commitments, 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 intended to maintain a capitalization structure that supports investment grade credit ratings. In November 2021, PPL declared its quarterly common stock dividend, payable January 3, 2022, at 41.50 cents per share (equivalent to $1.66 per annum). On February 18, 2022, PPL announced a quarterly common stock dividend of 20.00 cents per share, payable April 1, 2022, to shareowners of record as of March 10, 2022. 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 factors.

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. At December 31, 2021, no interest payments were deferred.

(PPL Electric, LG&E and KU)

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

(All Registrants)

See Note 8 to the Financial Statements for these and other restrictions related to distributions on capital interests for the Registrants and their subsidiaries.

Purchase or Redemption of Debt Securities

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

Rating Agency Actions

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

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

The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2021.

Issuer	Senior Unsecured		Senior Secured		Commercial Paper	
	Moody's	S&P	Moody's	S&P	Moody's	S&P
PPL						
PPL Capital Funding	Baa2	BBB+			P-2	A-2
PPL and PPL Electric						
PPL Electric			A1	A	P-2	A-2
PPL, LG&E and KU						
LG&E			A1	A	P-2	A-2
KU			A1	A	P-2	A-2

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

(PPL)

In March 2021, Moody's revised its outlook to positive for PPL and PPL Capital Funding.

(PPL and PPL Electric)

In March 2021, S&P revised its outlook to positive for PPL Electric.

In June 2021, Moody’s and S&P assigned ratings of A1 and A to PPL Electric’s $650 million First Mortgage Bonds, Floating Rate Series, due 2024. The bonds were issued on June 24, 2021.

(PPL and LG&E)

In March 2021, Moody’s and S&P assigned ratings of A1 and A to the Louisville/Jefferson County Metro Government, Kentucky’s $128 million 2.00% Pollution Control Revenue Bonds, 2003 Series A, due 2033, previously issued on behalf of LG&E. The bonds were remarketed April 1, 2021.

In March 2021, Moody’s assigned a rating of A1 and in April 2021, S&P assigned a rating of A to the Louisville/Jefferson County Metro Government, Kentucky’s $35 million 1.35% Pollution Control Revenue Bonds, 2001 Series B, due 2027, previously issued on behalf of LG&E. The bonds were remarketed May 3, 2021.

In March 2021, Moody’s assigned a rating of A1 and in April 2021, S&P assigned a rating of A to the County of Trimble, Kentucky’s $35 million 1.35% Pollution Control Revenue Bonds, 2001 Series B, due 2027, previously issued on behalf of LG&E. The bonds were remarketed May 3, 2021.

In May 2021, Moody’s and S&P assigned ratings of A1/P-2 and A/A-2 to the Louisville/Jefferson County Metro Government, Kentucky’s $31 million Environmental Facilities Revenue Refunding Bonds, 2007 Series A, due 2033, previously issued on behalf of LG&E. The bonds were remarketed June 1, 2021.

In May 2021, Moody’s and S&P assigned ratings of A1/P-2 and A/A-2 to the Louisville/Jefferson County Metro Government, Kentucky’s $35 million Environmental Facilities Revenue Refunding Bonds, 2007 Series B, due 2033, previously issued on behalf of LG&E. The bonds were remarketed June 1, 2021.

In August 2021, Moody's and S&P assigned ratings of A1 and A to the County of Trimble, Kentucky's $28 million 0.625% Pollution Control Revenue Bonds, 2001 Series A, due 2026, previously issued on behalf of LG&E. The bonds were remarketed September 1, 2021.

(PPL and KU)

In May 2021, Moody's and S&P assigned ratings of A1 and A to the County of Carroll, Kentucky's $78 million 2.00% Environmental Facilities Revenue Bonds, 2008 Series A, due 2032, previously issued on behalf of KU. The bonds were remarketed June 1, 2021.

In May 2021, Moody's and S&P assigned ratings of A1 and A to the County of Carroll, Kentucky's $54 million 2.125% Environmental Facilities Revenue Bonds, 2006 Series B, due 2034, previously issued on behalf of KU. The bonds were remarketed June 1, 2021.

Ratings Triggers *(PPL, LG&E and KU)*

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, and interest rate instruments, contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 18 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL and LG&E for derivative contracts in a net liability position at December 31, 2021.

Guarantees for Subsidiaries *(PPL)*

PPL guarantees certain consolidated affiliate financing arrangements. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, accelerate maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL believes that these covenants will not limit access to relevant funding sources. See Note 14 to the Financial Statements for additional information about guarantees.

Other Contingent Obligations *(All Registrants)*

The Registrants have entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 14 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

(All Registrants)

See Notes 1, 17 and 18 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

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

Interest Rate Risk

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

The following interest rate hedges were outstanding at December 31:

	2021				2020		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
PPL and LG&E							
Economic hedges							
Interest rate swaps (c)	$ 64	$ (19)	$ (1)	2033	$ 64	$ (24)	$ —

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

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at December 31, 2021 and 2020 was insignificant for PPL, PPL Electric, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at December 31 is shown below.

	10% Adverse Movement in Rates	
	2021	2020
PPL	$ 394	$ 582
PPL Electric	164	175
LG&E	74	74
KU	115	118

(All Registrants)

Commodity Price Risk

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

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is insignificant and mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

Volumetric risk is the risk related to the changes in volume of retail sales due to weather, economic conditions or other factors. PPL is exposed to volumetric risk through its subsidiaries as described below.

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

Defined Benefit Plans - Equity Securities Price Risk

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

Credit Risk

(All Registrants)

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

(PPL and PPL Electric)

In January 2017, the PUC issued a Final Order approving PPL Electric's default service plan for the period June 2017 through May 2021, which included a total of eight semi-annual solicitations for electricity supply. Additionally, on December 17, 2020, the PUC approved PPL Electric's default service plan for the period of June 2021 through May 2025, which includes a total of eight solicitations for electricity supply held semiannually in April and October. The new plan also includes eight solicitations for alternative energy credits held semiannually in January and July with the first solicitation being in July 2021 and the final solicitation being in January 2025.

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, 2021, 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 Note 18 to the Financial Statements for additional information on credit risk.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2021, changes in this exchange rate resulted in a foreign currency translation gain of $495 million, which primarily reflected an $856 million increase to PP&E, a $151 million increase to goodwill and a $36 million increase to other net assets, partially offset by a $467 million increase to long-term debt, a $61 million increase to deferred income taxes and a $20 million increase to long-term debt due within one year. In 2020, changes in this exchange rate resulted in a foreign currency translation gain of $267 million, which reflected a $433 million increase to PP&E and a $76 million increase to goodwill partially offset by a $214 million increase to long-term debt and a $28 million increase to other net liabilities. In 2019, changes in this exchange rate resulted in a foreign currency translation gain of $106 million, which reflected a $181 million increase to PP&E, $34 million increase to goodwill and $12 million decrease to other net liabilities partially offset by a $121 million increase to long-term debt.

As a result of the sale of the U.K. utility business on June 14, 2021, accumulated foreign currency translation losses of $786 million were removed from PPL's Balance Sheets and realized as a component of "Income (Loss) from Discontinued

Operations (net of income taxes)” on PPL’s Statements of Income (Loss) for the year ended December 31, 2021. See Note 9 to the Financial Statements for additional information.

(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 15 to the Financial Statements for additional information on related party transactions for PPL Electric, LG&E and KU.

Acquisitions, Development and Divestitures

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures, and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 9 to the Financial Statements for additional information on the sale of the U.K. utility business and the share purchase agreement to acquire Narragansett Electric.

(All Registrants)

Environmental Matters

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

See "Legal Matters" in Note 14 to the Financial Statements for a discussion of the more significant environmental claims. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2022 through 2024. See Note 20 to the Financial Statements for information related to the impacts of CCRs on AROs. See "Business - Environmental Matters" for additional information.

Sustainability

Increasing attention has been focused on a broad range of corporate activities under the heading of “sustainability”, which has resulted in a significant increase in the number of requests from interested parties for information on sustainability topics. These parties range from investor groups focused on environmental, social, governance and other matters to non-investors concerned with a variety of public policy matters. Often the scope of the information sought is very broad and not necessarily relevant to an issuer’s business or industry. As a result, a number of private groups have proposed to standardize the subject matter constituting sustainability, either generally or by industry. Those efforts remain ongoing. In addition, certain of these private groups have advocated that the SEC promulgate regulations requiring specific sustainability reporting under the Securities

Exchange Act of 1934, as amended (the ’34 Act), or that issuers voluntarily include certain sustainability disclosure in their ’34 Act reports. To date, no new reporting requirements have been adopted or proposed by the SEC.

As has been PPL’s practice, to the extent sustainability issues have or may have a material impact on the Registrants’ financial condition or results of operation, PPL discloses such matters in accordance with applicable securities law and SEC regulations. With respect to other sustainability topics that PPL deems relevant to investors but that are not required to be reported under applicable securities law and SEC regulation, PPL will continue each spring to publish its annual sustainability report including tracking reductions related to the company's goal to reduce carbon emissions and post that report on its corporate website at www.pplweb.com and on www.pplsustainability.com. Neither the information in such annual sustainability report nor the information at such websites is incorporated in this Form 10-K by reference, and it should not be considered a part of this Form 10-K. In preparing its sustainability report, PPL is guided by the framework established by the Global Reporting Initiative, which identifies environmental, social, governance and other subject matter categories. PPL also participates in efforts by the Edison Electric Institute to provide the appropriate subset of sustainability information that can be applied consistently across the electric utility industry. Additionally, PPL publicly discloses its corporate political contributions and responds to the CDP climate survey.

Cybersecurity

See “Cybersecurity Management” in “Business” for a discussion of cybersecurity risks affecting the Registrants and the related strategies for managing these risks.

Competition

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

New Accounting Guidance

There has been no new accounting guidance adopted in 2021 and there is no new significant accounting guidance pending adoption as of December 31, 2021.

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.

Defined Benefits

(All Registrants)

Certain of the Registrants and/or their subsidiaries sponsor or participate in certain qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. See Notes 1, 7 and 12 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

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

Plan Sponsor	PPL	PPL Electric	LG&E	KU
PPL Services	S	P		
LKE			P	P

Management makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. As such, annual net periodic defined benefit costs are recorded in current earnings or regulatory assets and liabilities 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 significant assumptions are:

- Discount Rate - In selecting the discount rates for 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 Aa-rated non-callable (or callable with make-whole provisions) bonds that could be purchased for a hypothetical settlement portfolio. The plan sponsors then use the single discount rate derived from matching the discounted benefit payment stream to the market value of the selected bond portfolio.

- Expected Return on Plan Assets - The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement. In selecting a rate of compensation increase, plan sponsors consider past experience, the potential impact of movements in inflation rates and expectations of ongoing compensation practices.

See Note 12 to the Financial Statements for details of the assumptions selected for pension and other postretirement benefits. A variance in the assumptions could significantly impact accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities.

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

	Increase (Decrease)
Actuarial assumption	
Discount Rate	(0.25%)
Expected Return on Plan Assets	(0.25%)
Rate of Compensation Increase	0.25 %

Actuarial assumption	Increase (Decrease) Defined Benefit Asset	Increase (Decrease) Defined Benefit Liabilities	(Increase) Decrease AOCI (pre-tax)	Increase (Decrease) Net Regulatory Assets	Increase (Decrease) Defined Benefit Costs
PPL					
Discount rates	$ (128)	$ 13	$ 52	$ 89	$ 16
Expected return on plan assets	n/a	n/a	n/a	n/a	9
Rate of compensation increase	(11)	—	4	7	3
PPL Electric					
Discount rates	(50)	6	—	56	5
Expected return on plan assets	n/a	n/a	—	n/a	4
Rate of compensation increase	(4)	—	—	4	1
LG&E					
Discount rates	(16)	2	n/a	17	3
Expected return on plan assets	n/a	n/a	n/a	n/a	1
Rate of compensation increase	(1)	—	n/a	1	1
KU					
Discount rates	(14)	2	n/a	16	2
Expected return on plan assets	n/a	n/a	n/a	n/a	1
Rate of compensation increase	(1)	—	n/a	1	—

Income Taxes *(All Registrants)*

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 on tax returns and valuation allowances on deferred tax assets.

Additionally, significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. 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.

The need for valuation allowances to reduce deferred tax assets also requires significant management judgment. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers several factors in assessing the expected 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. When evaluating the need for valuation allowances, the uncertainty posed by political risk on such factors is also considered by management. 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.

The TCJA included new provisions requiring that certain income, referred to as global intangible low-taxed income (GILTI), earned by certain foreign subsidiaries be included in the gross income of their U.S. shareholder. The FASB allows an accounting policy election regarding the timing of inclusion of GILTI in an entity's financial statements. The election may be either to record deferred taxes for expected GILTI in future periods or record such taxes as a current-period expense when incurred. PPL has elected to record the tax effect of expected GILTI inclusions and thus, records deferred taxes relating to such inclusions. PPL does not expect to generate GILTI income following the disposition of U.K. utilities business.

See Note 6 to the Financial Statements for income tax disclosures.

Regulatory Assets and Liabilities

(All Registrants)

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

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to the Registrants and 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.

See Note 7 to the Financial Statements for regulatory assets and regulatory liabilities recorded at December 31, 2021 and 2020, as well as additional information on those regulatory assets and liabilities. 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.

Goodwill Impairment

(PPL, LG&E and KU)

Goodwill is tested for impairment at the reporting unit level. The reporting units of PPL include the Kentucky Regulated segment reporting unit and the LKE reporting unit. LG&E and KU are individually single operating and reportable segments and each are single reporting units. 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.

The fair value of a reporting unit is compared with the carrying value and an impairment charge is recognized if the carrying amount exceeds the fair value of the reporting unit.

PPL, for its Kentucky Regulated segment and LKE reporting units, and individually 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 quantitative test. See "Long-Lived and Intangible Assets - Asset Impairment (Excluding Investments)" in Note 1 to the Financial Statements for further discussion of goodwill impairment tests. See Note 19 to the Financial Statements for information on goodwill balances at December 31, 2021.

In the fourth quarter of 2021, PPL, for its Kentucky Regulated segment and LKE reporting units, and individually, LG&E and KU, elected to perform qualitative step zero evaluations for their annual goodwill impairment tests, as of October 1, 2021. Based on these evaluations, management concluded it was not "more likely than not" that the fair value of these reporting units was less than their carrying values. As such, quantitative impairment tests were not performed.

(PPL)

In the fourth quarter of 2021, PPL elected to perform a quantitative goodwill impairment test in conjunction with the annual goodwill impairment assessment for the Distributed Energy Resources reporting unit, which has a goodwill balance of $53 million at December 31, 2021. The test did not indicate impairment of the reporting unit. See Note 1 to the Financial Statements for additional information.

Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting unit. Significant assumptions used in the discounted cash flows include discount and growth rates and projected operating and capital cash flows. Projected operating and capital cash flows are based on internal business plans, which assume the occurrence of certain future events. Significant assumptions used in the market multiples include sector market performance and comparable transactions. A high degree of judgment is required to develop estimates related to fair value conclusions. A decrease in the forecasted cash flows of 10%, an increase in the discount rate of 10%, or a 10% decrease in the market multiples would not have resulted in an impairment of goodwill for the Distributed Energy Resources reporting unit as of October 1, 2021, however, it is possible that an impairment charge could occur in future periods if any of the assumptions used in determining fair value of the reporting unit are negatively impacted.

Asset Retirement Obligations *(LG&E and KU)*

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. Initial obligations are measured at 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 asset's useful life.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that consider estimated retirement costs in current period dollars, inflated to the anticipated retirement date and 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 ARO estimate. Any change to the capitalized asset is generally amortized over the remaining life of the associated long-lived asset.

See “Long-Lived and Intangible Assets - Asset Retirement Obligations” in Note 1, Note 7 and Note 20 to the Financial Statements for additional information on AROs.

At December 31, 2021, the total recorded balances and information on the most significant recorded AROs were as follows.

		Most Significant AROs		
	Total ARO Recorded	Amount Recorded	% of Total	Description
LG&E	$ 84	$ 66	79	Ponds, landfills and natural gas mains
KU	105	80	76	Ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including settlement dates and the timing of cash flows), discount and inflation rates. At December 31, 2021, a 10% increase to retirement cost would increase these ARO liabilities by $13 million at LG&E and $23 million at KU. A 0.25% decrease in the discount rate would increase these ARO liabilities by $4 million at LG&E and $1 million at KU and a 0.25% increase in the inflation rate would increase these ARO liabilities by $4 million at LG&E. 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.

Revenue Recognition - Unbilled Revenues *(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 actual meter reads taken throughout the month, estimates are recorded for unbilled revenues at the end of each reporting period. For LG&E and KU, such unbilled revenue amounts reflect estimates of deliveries to customers since the date of the last reading of their meters. The unbilled revenue estimates reflect consideration of factors including daily load models, estimated usage for each customer class, the effect of current and different rate schedules, the meter read schedule, the billing schedule, actual weather data, and, where applicable, the impact of weather normalization or other regulatory provisions of rate structures. See "Unbilled revenues" on the Registrants' Balance Sheets for balances at December 31, 2021 and 2020.

Other Information *(All Registrants)*

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Regulatory Assets and Liabilities – Impact of Rate Regulation on Various Account Balances and Disclosures – Refer to Notes 1 and 7 to the financial statements

Critical Audit Matter Description

As discussed in Note 1 to the financial statements, PPL Corporation owns and operates three cost-based rate-regulated utilities for which rates are set by the Federal Energy Regulatory Commission (FERC), the Kentucky Public Service Commission (KPSC), the Virginia State Corporation Commission (VSCC), and the Pennsylvania Public Utility Commission (PUC) to enable the regulated utilities to recover the costs of providing electric or gas services, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by generally accepted accounting principles 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. 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, KPSC, VSCC, and PUC. The accounting for the economics of rate-regulation also impacts other financial statement line items, including regulated utility plant, operating revenues, depreciation, and income taxes and impacts multiple note disclosures. As of December 31, 2021, PPL Corporation had a recorded regulatory assets balance of $1,300 million and regulatory liabilities balance of $2,604 million.

PPL Corporation's regulated utilities' rates are subject to cost-based rate-setting processes and annual earnings oversight. Rates are established based on an analysis of the costs incurred and the regulated utility's capital structure and must be approved by one or more federal or state regulatory commissions, including the FERC, KPSC, VSCC, and PUC. Regulatory decisions can have an impact on the recovery of costs, the rate earned on invested capital, and the timing and amount of assets to be recovered by rates. The FERC, KPSC, VSCC, and PUC regulation of rates is premised on the full recovery of prudently incurred costs and an adequate return on capital investments. Decisions to be made by the FERC, KPSC, VSCC, and PUC in the future will impact the accounting for regulated operations, including decisions about the amount of allowable costs and return on invested capital included in rates and any refunds that may be required. While PPL Corporation's utilities have indicated that they expect to recover costs from customers through regulated rates, there is a risk that the FERC, KPSC, VSCC, or PUC will not approve full recovery of such costs or approve recovery on a timely basis in future regulatory decisions.

We identified the impact of rate regulation as a critical audit matter due to the significant judgments made by management in continually assessing 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, and the status of any pending legislation. Auditing these judgments required specialized knowledge of accounting for rate regulation and the rate-setting process due to its inherent complexities.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the uncertainty of future decisions by the FERC, KPSC, VSCC, and PUC included the following, among others:

- We tested the effectiveness of management's internal controls over evaluating the likelihood of recovery in future rates of costs deferred as regulatory assets. We tested the effectiveness of management's controls over the recognition of amounts as regulated utility plant, regulatory assets or liabilities, operating revenues, depreciation, income taxes, and note disclosures. We tested the effectiveness of management's internal controls over the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates.

- We obtained and read relevant regulatory orders issued by the FERC, KPSC, VSCC, and PUC for PPL Corporation's regulated utilities and other public utilities, regulatory statutes, interpretations, procedural memorandums, filings made by interveners, and other publicly available information to assess the likelihood of recovery in future rates or of a future reduction in rates based on precedents of the treatment of similar costs under similar circumstances. We evaluated the external information and compared it to management's recorded regulatory asset and liability balances for completeness.

- We inquired of management about regulated utility plant that may be abandoned. We inspected minutes of the Board of Directors, other public information, regulatory orders, and other filings with the commissions to identify any evidence that could indicate utility plant may be abandoned.

- We evaluated PPL Corporation's disclosures related to the impacts of rate-regulation, including the balances recorded and regulatory developments, in the financial statements.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 18, 2022

We have served as the Company's auditor since 2015.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of PPL Corporation and subsidiaries (the "Company") as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2021, of the Company and our report dated February 18, 2022, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's 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 the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

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 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.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 18, 2022

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

(Millions of Dollars, except share data)

	2021	2020	2019
Operating Revenues	**$ 5,783**	$ 5,474	$ 5,602
Operating Expenses			
Operation			
Fuel	**710**	632	709
Energy purchases	**752**	634	723
Other operation and maintenance	**1,608**	1,420	1,509
Depreciation	**1,082**	1,022	949
Taxes, other than income	**207**	180	186
Total Operating Expenses	**4,359**	3,888	4,076
Operating Income	**1,424**	1,586	1,526
Other Income (Expense) - net	**15**	2	14
Interest Expense	**918**	634	621
Income (Loss) from Continuing Operations Before Income Taxes	**521**	954	919
Income Taxes	**503**	314	183
Income (Loss) from Continuing Operations After Income Taxes	**18**	640	736
Income (Loss) from Discontinued Operations (net of income taxes) (Note 9)	**(1,498)**	829	1,010
Net Income (Loss)	**$ (1,480)**	$ 1,469	$ 1,746
Earnings Per Share of Common Stock:			
Basic			
Income (Loss) from Continuing Operations After Income Taxes	**$ 0.03**	$ 0.83	$ 1.01
Income (Loss) from Discontinued Operations (net of income taxes)	**(1.96)**	1.08	1.38
Net Income (Loss) Available to PPL Common Shareowners	**$ (1.93)**	$ 1.91	$ 2.39
Diluted			
Income (Loss) from Continuing Operations After Income Taxes	**$ 0.03**	$ 0.83	$ 1.00
Income (Loss) from Discontinued Operations (net of income taxes)	**(1.96)**	1.08	1.37
Net Income (Loss) Available to PPL Common Shareowners	**$ (1.93)**	$ 1.91	$ 2.37
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	**762,902**	768,590	728,512
Diluted	**764,819**	769,384	736,754

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

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

(Millions of Dollars)

	2021	2020	2019
Net income (loss)	**$ (1,480)**	$ 1,469	$ 1,746
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of ($123), $0, $0	**372**	267	108
Qualifying derivatives, net of tax of $11, $5, $2	**(39)**	(19)	(11)
Defined benefit plans:			
Prior service costs, net of tax of $0, $0, $0	**—**	(1)	(1)
Net actuarial gain (loss), net of tax of $1, $74, $119	**(1)**	(341)	(592)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):			
Qualifying derivatives, net of tax of ($5), ($8), ($5)	**25**	24	13
Defined benefit plans:			
Prior service costs, net of tax of ($1), ($1), ($1)	**2**	3	2
Net actuarial (gain) loss, net of tax of ($33), ($51), ($22)	**126**	205	87
Reclassifications from AOCI due to sale of the U.K. utility business - (gains) losses, net of tax expense (benefit):			
Foreign currency translation adjustments, net of tax of $140, $0, $0	**786**	—	—
Qualifying derivatives, net of tax of $0, $0, $0	**15**	—	—
Defined benefit plans:			
Prior service costs, net of tax of ($2), $0, $0	**8**	—	—
Net actuarial (gain) loss, net of tax of ($798), $0, $0	**2,769**	—	—
Total other comprehensive income (loss)	**4,063**	138	(394)
Comprehensive income	**$ 2,583**	$ 1,607	$ 1,352

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)

	2021	2020	2019
Cash Flows from Operating Activities			
Net income (loss)	**$ (1,480)**	$ 1,469	$ 1,746
Loss (income) from discontinued operations (net of income taxes)	**1,498**	(829)	(1,010)
Income from continuing operations (net of income taxes)	**18**	640	736
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	**1,082**	1,022	949
Amortization	**39**	58	58
Deferred income taxes and investment tax credits	**87**	169	169
Impairment of solar panels	**37**	—	—
Loss on extinguishment of debt	**395**	—	—
Other	**20**	67	69
Change in current assets and current liabilities			
Accounts receivable	**(14)**	(70)	(3)
Accounts payable	**24**	(1)	(66)
Taxes payable	**27**	131	9
Regulatory assets and liabilities, net	**52**	(63)	(88)
Other	**(67)**	118	(29)
Other operating activities			
Defined benefit plans - funding	**(53)**	(119)	(73)
Other assets	**(111)**	(59)	(100)
Other liabilities	**8**	(21)	(24)
Net cash provided by operating activities - continuing operations	**1,544**	1,872	1,607
Net cash provided by operating activities - discontinued operations	**726**	874	820
Net cash provided by operating activities	**2,270**	2,746	2,427
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	**(1,973)**	(2,270)	(2,243)
Proceeds from sale of discontinued operations, net of cash divested	**10,560**	—	—
Other investing activities	**(23)**	4	10
Net cash provided by (used in) investing activities - continuing operations	**8,564**	(2,266)	(2,233)
Net cash provided by (used in) investing activities - discontinued operations	**(607)**	(992)	(847)
Net cash provided by (used in) investing activities	**7,957**	(3,258)	(3,080)
Cash Flows from Financing Activities			
Issuance of long-term debt	**650**	1,848	1,099
Retirement of long-term debt	**(4,606)**	(975)	(300)
Issuance of common stock	**9**	34	1,167
Proceeds from project financing	**19**	173	—
Payment of common stock dividends	**(1,279)**	(1,275)	(1,192)
Purchase of treasury stock	**(1,003)**	—	—
Issuance of term loan	**—**	300	—
Issuance of commercial paper	**—**	73	—
Retirement of term loan	**(300)**	—	—
Retirement of commercial paper	**(73)**	—	—
Net increase (decrease) in short-term debt	**(726)**	(43)	(341)
Other financing activities	**(35)**	(36)	(25)
Net cash provided by (used in) financing activities - continuing operations	**(7,344)**	99	408
Net cash provided by (used in) financing activities - discontinued operations	**(411)**	209	171
Contributions from discontinued operations	**365**	78	257
Net cash provided by (used in) financing activities	**(7,390)**	386	836
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash included in Discontinued Operations	**8**	17	10
Net (Increase) Decrease in Cash, Cash Equivalents and Restricted Cash included in Discontinued Operations	**284**	(108)	(154)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	**3,129**	(217)	39
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	**443**	660	621
Cash, Cash Equivalents and Restricted Cash at End of Period	**$ 3,572**	$ 443	$ 660
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	**$ 191**	$ 586	$ 552
Income taxes - net	**$ 284**	$ 4	$ (12)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	**$ 245**	$ 257	$ 292

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)

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,571**	$ 442
Accounts receivable (less reserve: 2021, $65; 2020, $71)		
Customer	**583**	603
Other	**58**	86
Unbilled revenues (less reserve: 2021, $2; 2020, $4)	**307**	301
Fuel, materials and supplies	**322**	302
Prepayments	**60**	53
Other current assets	**106**	130
Current assets held for sale (Note 9)	**—**	18,983
Total Current Assets	**5,007**	20,900
Property, Plant and Equipment		
Regulated utility plant	**30,477**	29,040
Less: accumulated depreciation - regulated utility plant	**6,488**	6,008
Regulated utility plant, net	**23,989**	23,032
Non-regulated property, plant and equipment	**266**	237
Less: accumulated depreciation - non-regulated property, plant and equipment	**41**	37
Non-regulated property, plant and equipment, net	**225**	200
Construction work in progress	**1,256**	1,268
Property, Plant and Equipment, net	**25,470**	24,500
Other Noncurrent Assets		
Regulatory assets	**1,236**	1,262
Goodwill	**716**	716
Other intangibles	**343**	351
Other noncurrent assets (less reserve for accounts receivable: 2021, $2; 2020, $0)	**451**	387
Total Other Noncurrent Assets	**2,746**	2,716
Total Assets	**$ 33,223**	$ 48,116

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)

	2021	2020
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 69**	$ 1,168
Long-term debt due within one year	**474**	1,074
Accounts payable	**679**	745
Taxes	**96**	69
Interest	**81**	113
Dividends	**305**	319
Regulatory liabilities	**182**	79
Other current liabilities	**437**	465
Current liabilities held for sale (Note 9)	**—**	11,023
Total Current Liabilities	**2,323**	15,055
Long-term Debt	**10,666**	13,615
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**3,151**	2,536
Investment tax credits	**119**	122
Accrued pension obligations	**183**	189
Asset retirement obligations	**157**	132
Regulatory liabilities	**2,422**	2,530
Other deferred credits and noncurrent liabilities	**479**	564
Total Deferred Credits and Other Noncurrent Liabilities	**6,511**	6,073
Commitments and Contingent Liabilities (Notes 7 and 14)		
Equity		
Common stock - $0.01 par value (a)	**8**	8
Additional paid-in capital	**12,303**	12,270
Treasury stock	**(1,003)**	—
Earnings reinvested	**2,572**	5,315
Accumulated other comprehensive loss	**(157)**	(4,220)
Total Equity	**13,723**	13,373
Total Liabilities and Equity	**$ 33,223**	$ 48,116

(a) 1,560,000 shares authorized; 769,890 shares issued and 735,112 shares outstanding at December 31, 2021. 1,560,000 shares authorized; 768,907 shares issued and outstanding at December 31, 2020.

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

CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries

(Millions of Dollars)

	PPL Shareowners						
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Treasury Stock	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2018	720,323	$ 7	$ 11,021	$ —	$ 4,593	$ (3,964)	$11,657
Common stock issued	46,910	1	1,184				1,185
Stock-based compensation			9				9
Net income (loss)					1,746		1,746
Dividends and dividend equivalents (b)					(1,212)		(1,212)
Other comprehensive income (loss)						(394)	(394)
December 31, 2019	767,233	$ 8	$ 12,214	$ —	$ 5,127	$ (4,358)	$12,991
Common stock issued	1,674		51				51
Stock-based compensation			5				5
Net income (loss)					1,469		1,469
Dividends and dividend equivalents (b)					(1,279)		(1,279)
Other comprehensive income (loss)						138	138
Adoption of financial instrument credit losses guidance cumulative effect adjustment (Note 1)					(2)		(2)
December 31, 2020	768,907	$ 8	$ 12,270	$ —	$ 5,315	$ (4,220)	$13,373
Common stock issued	983		29				29
Treasury stock	(34,778)			(1,003)			(1,003)
Stock-based compensation			4				4
Net income (loss)					(1,480)		(1,480)
Dividends and dividend equivalents (b)					(1,263)		(1,263)
Other comprehensive income (loss)						4,063	4,063
December 31, 2021	735,112	$ 8	$ 12,303	$ (1,003)	$ 2,572	$ (157)	$13,723

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.
(b) Dividends declared per share of common stock at December 31, 2021, 2020 and 2019 were: $1.66, $1.66 and $1.65.

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 each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

Business and Consolidation

(PPL)

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

On March 17, 2021, PPL WPD Limited entered into a share purchase agreement to sell PPL's U.K. utility business, which substantially represented PPL's U.K. Regulated segment, to a subsidiary of National Grid plc. The sale was completed on June 14, 2021. The results of operations of the U.K. utility business are classified as Discontinued Operations on PPL's Statements of Income. The assets and liabilities of the U.K. utility business as of December 31, 2020 are classified as assets and liabilities held for sale on PPL's Balance Sheets. PPL has elected to separately report the cash flows of continuing and discontinued operations on the Statements of Cash Flows. Unless otherwise noted, the notes to these financial statements exclude amounts related to discontinued operations and assets and liabilities held for sale for all periods presented. See Note 9 for additional information.

On July 1, 2021, LKE redeemed, at par, its $250 million 4.375% Senior Notes due 2021 and on July 9, 2021, LKE filed a Form 15 with the SEC to suspend its duty to file reports under sections 13 and 15(d) of the Securities Exchange Act of 1934. As a result, beginning with the June 30, 2021 Form 10-Q, LKE was no longer reported as a Registrant.

(PPL and PPL Electric)

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

(PPL, LG&E and KU)

LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name.

(All Registrants)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for Variable Interest Entities (VIEs). The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE and, as a result, are the primary beneficiary of the entity. Amounts consolidated under the VIE guidance are not material to the Registrants.

All significant intercompany transactions have been eliminated.

The financial statements of PPL, 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 13 for additional information.

Regulation

(All Registrants)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover expected future costs, 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 7 for additional details regarding regulatory matters.

Accounting Records

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.

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 uncertain future events and (2) the amount of 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.

Earnings Per Share *(PPL)*

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

Price Risk Management

(All Registrants)

Interest rate contracts are used to hedge exposure to changes in the fair value of debt instruments and to hedge exposure 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. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

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

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)

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

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions 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. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.

PPL also hedges anticipated transactions, including the previously completed sale of its U.K utility business and net investments.

(All Registrants)

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.

(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 17 and 18 for additional information on derivatives.

Revenue *(All Registrants)*

Operating revenues are primarily recorded based on energy deliveries through the end of each calendar month. Unbilled retail revenues result because customers' bills are rendered throughout the month, rather than bills being rendered at the end of the month. For LG&E and KU, unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh or Mcf by the estimated average cents per kWh or Mcf. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. For PPL Electric, unbilled revenues for a month are calculated by multiplying the actual unbilled volumes by the price per tariff.

PPL Electric's, LG&E's and KU's base rates are determined based on cost of service. Some regulators have also authorized the use of additional alternative revenue programs, which enable PPL Electric, LG&E and KU to adjust future rates based on past activities or completed events. Revenues from alternative revenue programs are recognized when the specific events permitting future billings have occurred. Revenues from alternative revenue programs are required to be presented separately from revenues from contracts with customers. These amounts are, however, presented as revenues from contracts with customers, with an offsetting adjustment to alternative revenue program revenue, when they are billed to customers in future periods. See Note 3 for additional information.

Financing and Other Receivables

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Financing receivables include accounts receivable, with the exception of those items within accounts receivable that are not subject to the credit loss model.

Financing receivable collectibility is evaluated using a current expected credit loss model, consisting of a combination of factors, including past due status based on contractual terms, trends in write-offs and the age of the receivable. Specific events, such as bankruptcies, are also considered when applicable. 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. The Registrants periodically evaluate the impact of observable external factors on the collectibility of the financing receivables to determine if adjustments to the allowance for doubtful accounts should be made based on current conditions or reasonable and supportable forecasts. Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

(PPL and PPL Electric)

PPL Electric has identified one class of financing receivables, "accounts receivable - customer", which includes financing receivables for all billed and unbilled sales with residential and non-residential customers. All other financing receivables are classified as other. Within the credit loss model for the residential customer accounts receivables, customers are disaggregated based on their projected propensity to pay, which is derived from historical trends and the current activity of the individual customer accounts. Conversely, the non-residential customer accounts receivables are not further segmented due to the varying nature of the individual customers, which lack readily identifiable risk characteristics for disaggregation.

(PPL, LG&E and KU)

LG&E and KU have identified one class of financing receivables, "accounts receivable - customer", which includes financing receivables for all billed and unbilled sales with customers. All other financing receivables are classified as other.

(All Registrants)

The changes in the allowance for doubtful accounts are included in the following table. Amounts relate to financing receivables, except as noted.

		Additions			
	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions (b)	Balance at End of Period
PPL					
2021	$ 73	$ 26	$ —	$ 30	$ 69 (d)
2020 (a)	58 (a)	28	—	13	73 (d)
2019	54	34	3	35	56
PPL Electric					
2021	$ 41	$ 13	$ —	$ 19	$ 35 (c)
2020	30 (a)	19	—	8	41 (c)
2019	27	26	—	25	28
LG&E					
2021	$ 3	$ 4	$ —	$ 4	$ 3
2020	1	4	—	2	3
2019	1	2	2	4	1
KU					
2021	$ 2	$ 8	$ —	$ 7	$ 3
2020	1	4	—	3	2
2019	2	4	1	6	1

(a) Adjusted for $2 million cumulative-effect adjustment upon adoption of current expected credit loss guidance.
(b) Primarily related to uncollectible accounts written off.
(c) Includes $3 million related to other accounts receivables at December 31, 2021 and 2020.
(d) Includes $32 million and $30 million related to other accounts receivables at December 31, 2021 and 2020.

Cash

(All Registrants)

Cash Equivalents

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

(PPL)

Restricted Cash and Cash Equivalents

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. On the Balance Sheets, the current portion of restricted cash and cash equivalents is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

Reconciliation of Cash, Cash Equivalents and Restricted Cash

The following provides a reconciliation of Cash, Cash Equivalents and Restricted Cash reported within the Balance Sheets to the amounts shown on the Statements of Cash Flows:

	December 31, 2021	December 31, 2020
Cash and cash equivalents	$ 3,571	$ 442
Restricted cash - current	1	1
Total Cash, Cash Equivalents and Restricted Cash	$ 3,572	$ 443

(All Registrants)

Fair Value Measurements

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

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

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

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

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

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

Investments

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.

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. These investments are included in "Other noncurrent assets" on the Balance Sheets. Earnings from these investments are recorded in "Other Income (Expense) - net" on the Statements of Income.

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 "Other current assets" on the Balance Sheets.

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. 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. Included in PP&E are capitalized costs of software projects that were developed or obtained for internal use. 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 work is performed and costs are incurred.

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 as a return is provided on construction work in progress.

(PPL and PPL Electric)

PPL and PPL Electric capitalize interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC, for the years ended December 31 is as follows:

	2021	2020	2019
PPL	$ 6	$ 7	$ 9
PPL Electric	6	7	8

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. 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. For LG&E and KU, all ARO depreciation expenses are reclassified to a regulatory asset or regulatory liability. See "Asset Retirement Obligations" below and Note 7 for additional information. PPL Electric records net costs of removal when incurred as a regulatory asset. The regulatory asset is subsequently amortized through depreciation over a five-year period, which is recoverable in customer rates in accordance with regulatory practices.

Following are the weighted-average annual rates of depreciation, for regulated utility plant, for the years ended December 31:

	2021	2020	2019
PPL	3.61 %	3.53 %	3.54 %
PPL Electric	3.05 %	2.99 %	3.05 %
LG&E	3.99 %	4.00 %	3.87 %
KU	4.17 %	4.00 %	4.02 %

Goodwill and Other Intangible Assets (*All Registrants)*

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.

Asset Impairment (Excluding Investments)

(All Registrants)

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

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

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

PPL, 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, LG&E's and KU's reporting units are primarily at the operating segment level.

PPL, for its Kentucky Regulated segment and LKE reporting units, and individually 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 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 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, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

In the fourth quarter of 2021, PPL, for its Kentucky Regulated segment and LKE reporting units, and individually, LG&E and KU, elected to perform qualitative step zero evaluations for their annual goodwill impairment tests, as of October 1, 2021. Based on these evaluations, management concluded it was not "more likely than not" that the fair value of these reporting units was less than their carrying values. As such, quantitative impairment tests were not performed.

(PPL)

During the three month-period ended June 30, 2021, Safari Energy determined that the carrying value of its solar panel inventory would not be fully recoverable due to a decrease in the net realizable value of the modules. The decrease was due primarily to the combination of the three following factors: (1) a continued decrease in the fair value of the modules on hand due to more efficient modules being available on the market, (2) the federal government's extension of certain investment tax credits which make modules on the open market eligible for those credits at higher levels of credits and (3) an increase in commodity prices for materials used in various types of solar projects, all of which place pressure on the economics of those projects, making the cost of Safari's solar panels uncompetitive. As a result, Safari Energy recorded a loss of $37 million ($28 million after-tax) in June 2021 to record the solar panels at fair value. The loss was recorded to "Other operation and maintenance" expense on the Statement of Income. Solar panel inventories of $32 million are included in "Other noncurrent assets" on PPL's Balance Sheet at December 31, 2021.

PPL considered whether the events and circumstances that led to the impairment of Safari Energy's solar panels would more likely than not reduce the fair value of PPL's Distributed Energy Resources reporting unit below its carrying amount. Based on PPL's assessment, a quantitative impairment test was not required as of June 30, 2021.

In the fourth quarter of 2021, PPL elected to perform a quantitative goodwill impairment test in conjunction with the annual goodwill impairment assessment for the Distributed Energy Resources reporting unit. The test did not indicate impairment of the reporting unit , however, it is possible that an impairment charge could occur in future periods if any of the assumptions used in determining fair value of the reporting unit are negatively impacted.

(*PPL, LG&E and KU*)

<u>Asset Retirement Obligations</u>

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. For LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset or regulatory liability. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, deferred accretion and depreciation expense is recovered through cost of removal.

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 7 and Note 20 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 required amortization period. 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 full required amortization period.

See Note 7 for a discussion of the regulatory treatment of defined benefit costs and Note 12 for a discussion of defined benefits.

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

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. Forfeitures of awards are recognized when they occur. See Note 11 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Electric 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 on tax returns and valuation allowances on deferred tax assets.

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 its 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%. Unrecognized tax benefits are classified as current to the extent management expects to settle the uncertain tax position by payment or receipt of cash within one year of the reporting date. 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. At December 31, 2021, no significant changes in unrecognized tax benefits were projected over the next 12 months.

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 income tax assets to the amounts that are more-likely-than-not to be realized. The need for valuation allowances requires significant management judgment. 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 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.

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

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

The Registrants use the portfolio approach method of accounting for deferred taxes related to pre-tax OCI transactions. The portfolio approach involves a strict period-by-period cumulative incremental allocation of income taxes to the change in income and losses reflected in OCI. Under this approach, the net cumulative tax effect is ignored. The net change in unrealized gains and losses recorded in AOCI under this approach would be eliminated only on the date the investment portfolio is classified as held for sale or is liquidated.

See Note 6 to the Financial Statements for income tax disclosures.

The provision for the Registrants' deferred income taxes related to regulatory assets and liabilities is based upon the ratemaking principles reflected in rates established by relevant regulators. The difference in the provision for deferred income taxes for regulatory assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in noncurrent "Regulatory assets" or "Regulatory liabilities."

(PPL Electric, LG&E and KU)

The income tax provision for PPL Electric, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if PPL Electric, 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:

	2021	2020
PPL Electric	$ (4)	$ (9)
LG&E	4	(1)
KU	1	(5)

Taxes, Other Than Income *(All Registrants)*

The Registrants present sales taxes in "Other current liabilities" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 6 for details of taxes included in "Taxes, other than income" on the Statements of Income.

Other

(All Registrants)

Leases

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 10 for additional information.

Fuel, Materials and Supplies

Fuel, natural gas stored underground and materials and supplies are valued using the average cost method. Fuel costs for electricity 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 7 for further discussion of the fuel adjustment clauses and gas supply clause.

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

	2021			
	PPL	PPL Electric	LG&E	KU
Fuel	$ 90	$ —	$ 32	$ 58
Natural gas stored underground	54	—	54	—
Materials and supplies	178	61	51	66
Total	$ 322	$ 61	$ 137	$ 124

	2020			
	PPL	PPL Electric	LG&E	KU
Fuel	$ 95	$ —	$ 38	$ 57
Natural gas stored underground	30	—	30	—
Materials and supplies	177	59	51	66
Total	$ 302	$ 59	$ 119	$ 123

Guarantees

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 14 for further discussion of recorded and unrecorded guarantees.

(PPL)

Treasury Stock

PPL generally restores all shares of common stock acquired to authorized but unissued shares of common stock upon or soon after acquisition. In connection with its recent share repurchases in the third and fourth quarter of 2021, PPL has not yet returned these shares to authorized but unissued shares, as it is determining if it will retain some portion of these shares as Treasury stock to use in connection with certain compensation plans.

Foreign Currency Translation and Transactions

Adjustments resulting from foreign currency translation are recorded in AOCI and reclassified to income when the related foreign entity is sold. See Note 21 for additional information.

2. Segment and Related Information

(PPL)

PPL is organized into two segments: Kentucky Regulated and Pennsylvania Regulated. PPL's segments are segmented by geographic location.

The Kentucky Regulated segment consists primarily of LG&E's and KU's regulated electricity generation, transmission and distribution operations, as well as LG&E's regulated distribution and sale of natural gas.

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric.

"Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments, certain other unallocated costs, as well as the financial results of Safari Energy, which is presented to reconcile segment information to PPL's consolidated results. For the periods ended December 31, 2020 and 2019, these amounts have been adjusted for certain costs that were previously included in the U.K. Regulated segment.

On March 17, 2021, PPL WPD Limited entered into a share purchase agreement to sell PPL's U.K. utility business, which substantially represented PPL's U.K. Regulated segment. As a result, PPL determined segment information for the U.K. Regulated segment would no longer be provided beginning with the March 31, 2021 Form 10-Q. The sale of the U.K. utility business was completed on June 14, 2021. See Note 9 for additional information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2021	2020	2019
Operating Revenues from external customers (a)			
Kentucky Regulated	$ 3,348	$ 3,106	$ 3,206
Pennsylvania Regulated	2,402	2,330	2,358
Corporate and Other	33	38	38
Total	$ 5,783	$ 5,474	$ 5,602
Depreciation			
Kentucky Regulated	$ 647	$ 606	$ 547
Pennsylvania Regulated	424	403	386
Corporate and Other	11	13	16
Total	$ 1,082	$ 1,022	$ 949
Amortization (b)			
Kentucky Regulated	$ 15	$ 19	$ 27

	2021	2020	2019
Pennsylvania Regulated	19	26	24
Corporate and Other	5	13	7
Total	$ 39	$ 58	$ 58
Interest Expense (c)			
Kentucky Regulated	$ 249	$ 300	$ 298
Pennsylvania Regulated	162	172	169
Corporate and Other (d)	507	162	154
Total	$ 918	$ 634	$ 621
Income Before Income Taxes			
Kentucky Regulated	$ 562	$ 516	$ 530
Pennsylvania Regulated	599	664	607
Corporate and Other	(640)	(226)	(218)
Total	$ 521	$ 954	$ 919
Income Taxes (e)			
Kentucky Regulated	$ 94	$ 98	$ 94
Pennsylvania Regulated	154	167	149
Corporate and Other	255	49	(60)
Total	$ 503	$ 314	$ 183
Deferred income taxes and investment tax credits (f)			
Kentucky Regulated	$ 272	$ 64	$ 82
Pennsylvania Regulated	79	82	90
Corporate and Other	(264)	23	(3)
Total	$ 87	$ 169	$ 169
Net Income			
Kentucky Regulated	$ 468	$ 418	$ 436
Pennsylvania Regulated	445	497	458
Corporate and Other (d)	(895)	(275)	(158)
Discontinued Operations	(1,498)	829	1,010
Total	$ (1,480)	$ 1,469	$ 1,746

(a) See Note 1 and Note 3 for additional information on Operating Revenues.
(b) Represents non-cash expense items that include amortization of operating lease right-of-use assets, regulatory assets and liabilities, debt discounts and premiums and debt issuance costs.
(c) Beginning in 2021, corporate level financing costs are no longer allocated to the reportable segments and are being reported in Corporate and Other. For the years ended December 31, 2020 and 2019, corporate level financing costs of $32 million, net of $8 million of income taxes, and $32 million, net of $9 million of income taxes, were allocated to the Kentucky Regulated segment. For the years ended December 31, 2020 and 2019, an immaterial amount of financing costs were allocated to the Pennsylvania Regulated segment.
(d) 2021 includes losses from the extinguishment of PPL Capital Funding debt. See Note 8 for additional information.
(e) Represents both current and deferred income taxes, including investment tax credits.
(f) Represents a non-cash expense item that is also included in "Income Taxes."

Cash Flow data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2021	2020	2019
Expenditures for long-lived assets			
Kentucky Regulated	$ 1,026	$ 966	$ 1,097
Pennsylvania Regulated	904	1,154	1,121
Corporate and Other	49	158	32
Total	$ 1,979	$ 2,278	$ 2,250

The following provides Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	As of December 31,	
	2021	2020
Total Assets		
Kentucky Regulated	$ 16,360	$ 15,943
Pennsylvania Regulated	13,336	12,347
Corporate and Other (a)	3,527	843
Assets held for sale (b)	—	18,983
Total	$ 33,223	$ 48,116

(a) Primarily consists of unallocated items, including cash, PP&E, goodwill, the elimination of inter-segment transactions as well as the assets of Safari Energy.
(b) See Note 9 for additional information.

(PPL Electric, LG&E and KU)

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

3. Revenue from Contracts with Customers

(All Registrants)

The following is a description of the principal activities from which the Registrants and PPL's segments generate their revenues.

(PPL and PPL Electric)

Pennsylvania Regulated Segment Revenue

The Pennsylvania Regulated Segment generates substantially all of its revenues from contracts with customers from PPL Electric's tariff-based distribution and transmission of electricity.

Distribution Revenue

PPL Electric provides distribution services to residential, commercial, industrial, municipal and governmental end users of energy. PPL Electric satisfies its performance obligation to its distribution customers and revenue is recognized over-time as electricity is delivered and simultaneously consumed by the customer. The amount of revenue recognized is the volume of electricity delivered during the period multiplied by the price per tariff, plus a monthly fixed charge. This method of recognition fairly presents PPL Electric's transfer of electric service to the customer as the calculation is based on actual volumes, and the price per tariff and the monthly fixed charge are set by the PUC. Customers are typically billed monthly and outstanding amounts are normally due within 21 days of the date of the bill.

Distribution customers are "at will" customers of PPL Electric with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with PPL Electric's retail account contracts.

Transmission Revenue

PPL Electric generates transmission revenues from a FERC-approved PJM Open Access Transmission Tariff. An annual revenue requirement for PPL Electric to provide transmission services is calculated using a formula-based rate. This revenue requirement is converted into a daily rate (dollars per day). PPL Electric satisfies its performance obligation to provide transmission services and revenue is recognized over-time as transmission services are provided and consumed. This method of recognition fairly presents PPL Electric's transfer of transmission services as the daily rate is set by a FERC approved formula-based rate. PJM remits payment on a weekly basis.

PPL Electric's agreement to provide transmission services contains no minimum purchase commitment. The performance obligation is limited to the service requested and received to date. Accordingly, PPL Electric has no unsatisfied performance obligations.

(PPL, LG&E and KU)

Kentucky Regulated Segment Revenue

The Kentucky Regulated Segment generates substantially all of its revenues from contracts with customers from LG&E's and KU's regulated tariff-based sales of electricity and LG&E's regulated tariff-based sales of natural gas.

LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. Revenue from these activities is generated from tariffs approved by applicable regulatory authorities including the FERC, KPSC and VSCC. LG&E and KU satisfy their performance obligations upon LG&E's and KU's delivery of electricity and LG&E's delivery of natural gas to customers. This revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by LG&E and KU. The amount of revenue recognized is the billed volume of electricity or natural gas delivered multiplied by a tariff rate per-unit of energy, plus any applicable fixed charges or additional regulatory mechanisms. Customers are billed monthly and outstanding amounts are typically due within 22 days of the date of the bill. Additionally, unbilled revenues are recognized as a result of customers' bills rendered throughout the month, rather than bills being rendered at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh or Mcf delivered but not yet billed by the estimated average cents per kWh or Mcf. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. This method of recognition fairly presents LG&E's and KU's transfer of electricity and LG&E's transfer of natural gas to the customer as the amount recognized is based on actual and estimated volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges or regulatory mechanisms as set by the respective regulatory body.

LG&E's and KU's customers generally have no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with these customers.

(All Registrants)

The following table reconciles "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the years ended December 31:

	2021			
	PPL	PPL Electric	LG&E	KU
Operating Revenues (a)	$ 5,783	$ 2,402	$ 1,569	$ 1,826
Revenues derived from:				
Alternative revenue programs (b)	77	83	(3)	(3)
Other (c)	(22)	(3)	(8)	(9)
Revenues from Contracts with Customers	$ 5,838	$ 2,482	$ 1,558	$ 1,814

	2020			
	PPL	PPL Electric	LG&E	KU
Operating Revenues (a)	$ 5,474	$ 2,331	$ 1,456	$ 1,690
Revenues derived from:				
Alternative revenue programs (b)	(24)	(12)	(8)	(4)
Other (c)	(21)	(3)	(7)	(10)
Revenues from Contracts with Customers	$ 5,429	$ 2,316	$ 1,441	$ 1,676

	2019			
	PPL	PPL Electric	LG&E	KU
Operating Revenues (a)	$ 5,602	$ 2,358	$ 1,500	$ 1,740
Revenues derived from:				
Alternative revenue programs (b)	(30)	(6)	(10)	(14)
Other (c)	(31)	(10)	(9)	(12)
Revenues from Contracts with Customers	$ 5,541	$ 2,342	$ 1,481	$ 1,714

(a) Amounts for PPL Electric represent revenues from external customers reported by the Pennsylvania Regulated segment and amounts for LG&E and KU, net of intercompany power sales and transmission revenues, represent revenues from external customers reported by the Kentucky Regulated segment. See Note 2 for additional information.

(b) Alternative revenue programs include the transmission formula rate for PPL Electric, the ECR and DSM programs for LG&E and KU, the GLT and GSC programs for LG&E, and the generation formula rate for KU. For PPL Electric, revenue in 2021 was reduced by $78 million for a reduction in the transmission formula rate return on equity. See Note 7 for additional information. This line item shows the over/under collection of these rate mechanisms with over-collections of revenue shown as positive amounts in the table above and under-collections shown as negative amounts.

(c) Represents additional revenues outside the scope of revenues from contracts with customers such as leases and other miscellaneous revenues.

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31:

	2021							
	Residential	Commercial	Industrial	Other (a)	Wholesale - municipality	Wholesale - other (b)	Transmission	Revenues from Contracts with Customers
PPL								
PA Regulated	$ 1,299	$ 350	$ 53	$ 50	$ —	$ —	$ 730	$ 2,482
KY Regulated	1,416	928	586	305	24	66	—	3,325
Corp and Other	—	—	—	31	—	—	—	31
Total PPL	$ 2,715	$ 1,278	$ 639	$ 386	$ 24	$ 66	$ 730	$ 5,838
PPL Electric	$ 1,299	$ 350	$ 53	$ 50	$ —	$ —	$ 730	$ 2,482
LG&E	$ 711	$ 473	$ 180	$ 145	$ —	$ 49	$ —	$ 1,558
KU	$ 705	$ 455	$ 406	$ 160	$ 24	$ 64	$ —	$ 1,814

	2020							
	Residential	Commercial	Industrial	Other (a)	Wholesale - municipality	Wholesale - other (b)	Transmissio n	Revenues from Contracts with Customers
PPL								
PA Regulated	$ 1,238	$ 314	$ 44	$ 50	$ —	$ —	$ 670	$ 2,316
KY Regulated	1,347	871	538	261	20	40	—	3,077
Corp and Other	—	—	—	36	—	—	—	36
Total PPL	$ 2,585	$ 1,185	$ 582	$ 347	$ 20	$ 40	$ 670	$ 5,429
PPL Electric	$ 1,238	$ 314	$ 44	$ 50	$ —	$ —	$ 670	$ 2,316
LG&E	$ 676	$ 444	$ 173	$ 114	$ —	$ 34	$ —	$ 1,441
KU	$ 671	$ 427	$ 365	$ 147	$ 20	$ 46	$ —	$ 1,676

	2019							
	Residential	Commercial	Industrial	Other (a)	Wholesale - municipality	Wholesale - other (b)	Transmissio n	Revenues from Contracts with Customers
PPL								
PA Regulated	$ 1,288	$ 349	$ 59	$ 52	$ —	$ —	$ 594	$ 2,342
KY Regulated	1,322	908	562	277	43	49	—	3,161
Corp and Other	—	—	—	38	—	—	—	38
Total PPL	$ 2,610	$ 1,257	$ 621	$ 367	$ 43	$ 49	$ 594	$ 5,541
PPL Electric	$ 1,288	$ 349	$ 59	$ 52	$ —	$ —	$ 594	$ 2,342
LG&E	$ 668	$ 466	$ 180	$ 121	$ —	$ 46	$ —	$ 1,481
KU	$ 654	$ 442	$ 382	$ 156	$ 43	$ 37	$ —	$ 1,714

(a) Primarily includes revenues from pole attachments, street lighting, other public authorities and other non-core businesses.

(b) Includes wholesale power and transmission revenues. LG&E and KU amounts include intercompany power sales and transmission revenues, which are eliminated upon consolidation at PPL.

As discussed in Note 2, PPL segments its business by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the footnotes to the tables above. PPL Electric's revenues from contracts with customers are further disaggregated by distribution and transmission as indicated in the above tables.

Contract receivables from customers are primarily included in "Accounts receivable - Customer" and "Unbilled revenues" on the Balance Sheets.

The following table shows the accounts receivable and unbilled revenues balances that were impaired for the year ended December 31:

	2021	2020	2019
PPL	$ 22	$ 25	$ 27
PPL Electric	10	17	21
LG&E	4	4	2
KU	8	4	4

The following table shows the balances and certain activity of contract liabilities resulting from contracts with customers:

	PPL	PPL Electric	LG&E	KU
Contract liabilities as of December 31, 2021	$ 42	$ 25	$ 6	$ 6
Contract liabilities as of December 31, 2020	40	23	5	6
Revenue recognized during the year ended December 31, 2021 that was included in the contract liability balance at December 31, 2020	24	11	5	6
Contract liabilities as of December 31, 2020	$ 40	$ 23	$ 5	$ 6
Contract liabilities as of December 31, 2019	37	21	5	4
Revenue recognized during the year ended December 31, 2020 that was included in the contract liability balance at December 31, 2019	22	9	5	4
Contract liabilities as of December 31, 2019	$ 37	$ 21	$ 5	$ 4
Contract liabilities as of December 31, 2018	40	23	5	4
Revenue recognized during the year ended December 31, 2019 that was included in the contract liability balance at December 31, 2018	25	11	5	4

Contract liabilities result from recording contractual billings in advance for customer attachments to the Registrants' infrastructure and payments received in excess of revenues earned to date. Advanced billings for customer attachments are recognized as revenue ratably over the billing period. Payments received in excess of revenues earned to date are recognized as revenue as services are delivered in subsequent periods.

At December 31, 2021, PPL had $46 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately $41 million within the next 12 months.

4. Preferred Securities

(PPL)

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2021, 2020 or 2019.

(PPL Electric)

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2021, 2020 or 2019.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a $25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2021, 2020 or 2019.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2021, 2020 or 2019.

5. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below. These securities also included the remaining shares of PPL common stock forward sale agreements, which were settled in 2019. The forward sale agreements were dilutive under the Treasury Stock Method to the extent the average stock price of PPL's common shares exceeded the forward sale price prescribed in the agreements.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended December 31, used in the EPS calculation are:

	2021	2020	2019
Income (Numerator)			
Income from continuing operations after income taxes	$ 18	$ 640	$ 736
Less amounts allocated to participating securities	—	1	1
Income from continuing operations after income taxes available to PPL common shareowners - Basic and Diluted	$ 18	$ 639	$ 735
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	$ (1,498)	$ 829	$ 1,010
Net income (loss) attributable to PPL	$ (1,480)	$ 1,469	1,746
Less amounts allocated to participating securities	—	1	1
Net income (loss) available to PPL common shareowners - Basic and Diluted	$ (1,480)	$ 1,468	$ 1,745
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	762,902	768,590	728,512
Add incremental non-participating securities:			
Add: Dilutive share-based payment awards (a)	1,917	794	1,101
Add: Forward sale agreements	—	—	7,141
Weighted-average shares - Diluted EPS	764,819	769,384	736,754
Basic EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$ 0.03	$ 0.83	$ 1.01
Income (loss) from discontinued operations (net of income taxes)	(1.96)	1.08	1.38
Net Income (Loss) available to PPL common shareowners	$ (1.93)	$ 1.91	$ 2.39
Diluted EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$ 0.03	$ 0.83	$ 1.00
Income (loss) from discontinued operations (net of income taxes)	(1.96)	1.08	1.37
Net Income (Loss) available to PPL common shareowners	$ (1.93)	$ 1.91	$ 2.37

(a) The Treasury Stock Method was applied to non-participating share-based payment awards.

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

	2021	2020
Stock-based compensation plans (a)	983	731
DRIP	—	943

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

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

	2021	2020	2019
Stock-based compensation awards	1,783	452	8

6. Income and Other Taxes

(PPL)

"Income (Loss) from Continuing Operations Before Income Taxes" is from domestic operations.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 7 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income.

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

	2021	2020
Deferred Tax Assets		
Deferred investment tax credits	$ 30	$ 30
Regulatory liabilities	94	68
Income taxes due to customers	422	444
Accrued pension and postretirement costs	75	106
Federal loss carryforwards (a)	—	234
State loss carryforwards	483	448
Federal and state tax credit carryforwards (a)	15	401
Leases	67	68
Contributions in aid of construction	120	115
Other	84	68
Valuation allowances	(462)	(536)
Total deferred tax assets	928	1,446
Deferred Tax Liabilities		
Plant - net	3,812	3,700
Regulatory assets	180	195
Other	75	70
Total deferred tax liabilities	4,067	3,965
Net deferred tax liability	$ 3,139	$ 2,519

(a) PPL utilized federal net operating losses of $1,115 million and tax credit carryforwards of $272 million in June 2021 as a result of the completion of the sale of the U.K. utility business on June 14, 2021. The related deferred tax assets decreased by approximately $506 million, with a corresponding reduction in current income taxes.

State deferred taxes are determined by entity and by jurisdiction. As a result, $12 million and $17 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheets for 2021 and 2020.

At December 31, 2021, PPL had the following loss and tax credit carryforwards, related deferred tax assets and valuation allowances recorded against the deferred tax assets:

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss and other carryforwards				
State net operating losses	$ 6,468	$ 483	$ (459)	2022-2041
Credit carryforwards				
State recycling credit		14	—	2028
State - other		1	—	Indefinite

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

		Additions			
	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions	Balance at End of Period
2021	$ 536	$ 48 (a)	$ —	$ 122 (b)	$ 462
2020	514	26	—	4	536
2019	495	24	—	5	514

(a) In 2021, PPL recorded a $31 million increase in a valuation allowance on a state net operating loss carryforward in connection with the loss on extinguishment associated with a tender offer to purchase and retire PPL Capital Funding's outstanding Senior Notes. See Note 8 for additional information on the tender offer.

(b) In light of the disposition of PPL's U.K. utility business, there was a decrease in the valuation allowance of approximately $113 million.

A U.S. based company with foreign subsidiaries may be required to record deferred taxes associated with the differences in the outside book-tax basis of those subsidiaries. The primary component of such outside basis differences is ordinarily accumulated unremitted earnings. In anticipation of the WPD sale, indefinite reinvestment of accumulated unremitted earnings of WPD was no longer relevant and, in the first quarter of 2021, PPL recorded a deferred tax liability reflecting the expected tax cost associated with the realization of the outside book-tax basis difference in the investment in WPD. In the second quarter of 2021, following completion of the WPD sale, that deferred tax was recorded to current tax expense.

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

	2021	2020	2019
Income Tax Expense (Benefit)			
Current - Federal	$ (1)	$ (8)	$ (10)
Current - State	36	24	19
Current - Foreign	(1)	(2)	—
Total Current Expense (Benefit)	34	14	9
Deferred - Federal	28	135	141
Deferred - State	105	94	76
Deferred - Foreign (a)	383	101	(14)
Total Deferred Expense (Benefit), excluding operating loss carryforwards	516	330	203
Amortization of investment tax credit	(3)	(3)	(3)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	12	6	7
Deferred - State	(56)	(33)	(33)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(44)	(27)	(26)
Total income tax expense (benefit)	$ 503	$ 314	$ 183
Total income tax expense (benefit) - Federal	$ 36	$ 130	$ 135
Total income tax expense (benefit) - State	85	85	62
Total income tax expense (benefit) - Foreign	382	99	(14)
Total income tax expense (benefit)	$ 503	$ 314	$ 183

(a) In 2021, the U.K. Finance Act 2021 increased the U.K. corporation tax rate from 19% to 25%, effective April 1, 2023. The primary impact of the corporation tax rate increase was an increase in deferred tax liabilities of the U.K. utility business, which was sold on June 14, 2021, and a corresponding deferred tax expense of $383 million, which was recognized in continuing operations in the second quarter of 2021.
In 2020, the U.K. Finance Act 2020 cancelled the tax rate reduction from 19% to 17%. The primary impact of the cancellation of the corporation tax rate reduction was an increase in deferred tax liabilities and a corresponding deferred tax expense of $106 million.

In the table above, the following income tax expense (benefit) are excluded from income taxes:

	2021	2020	2019
Discontinued operations - PPL U.K. utility business	$ 759	$ 188	$ 226
Reclassification from AOCI due to sale of UK utility business	660	—	—
Other comprehensive income	150	(19)	(93)
Total	$ 1,569	$ 169	$ 133

	2021	2020	2019
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 109	$ 200	$ 193
State income taxes, net of federal income tax benefit	23	48	45
Valuation allowance adjustments (a)	48	24	22
Federal and state income tax return adjustments	(3)	(9)	1
Impact of the U.K. Finance Acts on deferred tax balances (b)	383	101	(14)
Depreciation and other items not normalized	(5)	(5)	(10)
Amortization of excess deferred federal and state income taxes	(54)	(43)	(40)
Non-deductible officer's salary	6	7	4
Kentucky recycling credit, net of federal income tax expense (c)	—	—	(18)
Other	(4)	(9)	—
Total increase (decrease)	394	114	(10)
Total income tax expense (benefit)	$ 503	$ 314	$ 183
Effective income tax rate	96.5%	32.9%	19.9%

(a) In 2021, PPL recorded a $31 million state deferred tax benefit on a net operating loss and an offsetting valuation allowance in connection with the loss on extinguishment associated with a tender offer to purchase and retire PPL Capital Funding's outstanding Senior Notes. See Note 8 for additional information on the tender offer.

In 2021, 2020, and 2019, PPL recorded deferred income tax expense of $15 million, $24 million and $25 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

(b) In 2020, the U.K. Finance Act 2020 cancelled the tax rate reduction to 17%, thereby maintaining the corporation tax rate at 19% for financial years 2020 and 2021. The primary impact of the cancellation of the corporation tax rate reduction was an increase in deferred tax liabilities and a corresponding deferred tax expense of $106 million.

In 2021, the U.K. Finance Act 2021 increased the U.K. corporation tax rate from 19% to 25%, effective April 1, 2023. The primary impact of the corporation tax rate increase was an increase in deferred tax liabilities of the U.K. utility business, which was sold on June 14, 2021, and a corresponding deferred tax expense of $383 million, which was recognized in continuing operations in the second quarter of 2021.

(c) In 2019, LG&E recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky.

	2021	2020	2019
Taxes, other than income			
State gross receipts	$ 113	$ 100	$ 107
Domestic - other	94	80	79
Total	$ 207	$ 180	$ 186

(PPL Electric)

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

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

	2021	2020
Deferred Tax Assets		
Accrued pension and postretirement costs	$ 14	$ 25
Contributions in aid of construction	95	91
Regulatory liabilities	52	24
Income taxes due to customers	154	162
Federal loss carryforwards (a)	—	52
Other	21	29
Total deferred tax assets	336	383
Deferred Tax Liabilities		
Electric utility plant - net	1,891	1,826
Regulatory assets	74	86
Other	39	30
Total deferred tax liabilities	2,004	1,942
Net deferred tax liability	$ 1,668	$ 1,559

(a) PPL Electric utilized their remaining federal net operating losses and recorded the related deferred tax assets to current expense in June 2021 as a result of the completion of the sale of the U.K. utility business on June 14, 2021.

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

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

	2021	2020	2019
Income Tax Expense (Benefit)			
Current - Federal	$ 40	$ 61	$ 44
Current - State	35	23	15
Total Current Expense (Benefit)	75	84	59
Deferred - Federal	59	45	51
Deferred - State	20	38	39
Total Deferred Expense (Benefit), excluding operating loss carryforwards	79	83	90
Total income tax expense (benefit)	$ 154	$ 167	$ 149
Total income tax expense (benefit) - Federal	$ 99	$ 106	$ 95
Total income tax expense (benefit) - State	55	61	54
Total income tax expense (benefit)	$ 154	$ 167	$ 149

	2021	2020	2019
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 126	$ 139	$ 127
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	46	52	47
Federal and state income tax return adjustments	—	(4)	1
Depreciation and other items not normalized	(5)	(5)	(10)
Amortization of excess deferred federal income taxes (a)	(14)	(16)	(18)
Other	1	1	2
Total increase (decrease)	28	28	22
Total income tax expense (benefit)	$ 154	$ 167	$ 149
Effective income tax rate	25.7%	25.2%	24.6%

(a) In 2021, 2020 and 2019, PPL Electric recorded lower income tax expense for the amortization of excess deferred taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA. This amortization represents each year's refund amount, prior to a tax gross-up, to be paid to customers for previously collected deferred taxes at higher income tax rates.

	2021	2020	2019
Taxes, other than income			
State gross receipts	$ 113	$ 100	$ 107
Property and other	7	7	5
Total	$ 120	$ 107	$ 112

(LG&E)

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

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

	2021	2020
Deferred Tax Assets		
Contributions in aid of construction	$ 15	$ 15
Regulatory liabilities	18	20
Deferred investment tax credits	8	8
Income taxes due to customers	125	132
State tax credit carryforwards	11	12
Lease liabilities	4	5
Valuation allowances	(11)	(12)
Other	11	11
Total deferred tax assets	181	191
Deferred Tax Liabilities		
Plant - net	854	833
Regulatory assets	65	66
Lease right-of-use assets	4	4
Other	9	4
Total deferred tax liabilities	932	907
Net deferred tax liability	$ 751	$ 716

At December 31, 2021 LG&E had $11 million of state credit carryforwards that expire in 2028 and an $11 million valuation allowance related to state credit carryforwards due to insufficient projected Kentucky taxable income.

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

	2021	2020	2019
Income Tax Expense (Benefit)			
Current - Federal	$ 41	$ 53	$ 4
Current - State	5	7	4
Total Current Expense (Benefit)	46	60	8
Deferred - Federal	1	(4)	46
Deferred - State	8	7	10
Total Deferred Expense (Benefit)	9	3	56
Amortization of investment tax credit - Federal	(1)	(1)	(1)
Total income tax expense (benefit)	$ 54	$ 62	$ 63
Total income tax expense (benefit) - Federal	$ 41	$ 48	$ 49
Total income tax expense (benefit) - State	13	14	14
Total income tax expense (benefit)	$ 54	$ 62	$ 63

	2021	2020	2019
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 64	$ 64	$ 62
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	12	12	12
Amortization of excess deferred federal and state income taxes	(20)	(11)	(10)
Kentucky recycling credit, net of federal income tax expense (a)	—	—	(14)
Valuation allowance adjustments (a)	—	—	14
Other	(2)	(3)	(1)
Total increase (decrease)	(10)	(2)	1
Total income tax expense (benefit)	$ 54	$ 62	$ 63
Effective income tax rate	17.8%	20.3%	21.4%

(a) In 2019, LG&E recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky. This amount has been reserved due to insufficient Kentucky taxable income projected at LG&E.

	2021	2020	2019
Taxes, other than income			
Property and other	$ 46	$ 40	$ 39
Total	$ 46	$ 40	$ 39

(KU)

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

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2021	2020
Deferred Tax Assets		
Contributions in aid of construction	$ 9	$ 8
Regulatory liabilities	23	23
Deferred investment tax credits	22	22
Income taxes due to customers	143	150
State tax credit carryforwards	4	5
Lease liabilities	7	8
Valuation allowances	(3)	(4)
Other	4	4
Total deferred tax assets	209	216
Deferred Tax Liabilities		
Plant - net	1,012	992
Regulatory assets	41	43
Pension and postretirement costs	13	8
Lease right-of-use assets	6	7
Other	2	1
Total deferred tax liabilities	1,074	1,051
Net deferred tax liability	$ 865	$ 835

At December 31, 2021 KU had $4 million of state credit carryforwards of which $3 million will expire in 2028 and $1 million that has an indefinite carryforward period. At December 31, 2021 KU had a $3 million valuation allowance related to state credit carryforwards due to insufficient projected Kentucky taxable income.

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

	2021	2020	2019
Income Tax Expense (Benefit)			
Current - Federal	$ 58	$ 40	$ 35
Current - State	8	3	5
Total Current Expense (Benefit)	66	43	40
Deferred - Federal	(4)	11	28
Deferred - State	7	11	13
Total Deferred Expense (Benefit)	3	22	41
Amortization of investment tax credit - Federal	(2)	(2)	(2)
Total income tax expense (benefit)	$ 67	$ 63	$ 79
Total income tax expense (benefit) - Federal	$ 52	$ 49	$ 61
Total income tax expense (benefit) - State	15	14	18
Total income tax expense (benefit)	$ 67	$ 63	$ 79

	2021	2020	2019
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 76	$ 72	$ 78
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	14	14	15
Amortization of investment tax credit	(2)	(2)	(2)
Amortization of excess deferred federal and state income taxes	(20)	(17)	(13)
Kentucky recycling credit, net of federal income tax expense (a)	—	—	(4)
Valuation allowance adjustments (a)	—	—	4
Other	(1)	(4)	1
Total increase (decrease)	(9)	(9)	1
Total income tax expense (benefit)	$ 67	$ 63	$ 79
Effective income tax rate	18.4%	18.4%	21.2%

(a) In 2019, KU recorded a deferred income tax benefit associated with a project placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky. This amount has been reserved due to insufficient Kentucky taxable income projected at KU.

	2021	2020	2019
Taxes, other than income			
Property and other	$ 41	$ 37	$ 35
Total	$ 41	$ 37	$ 35

(All Registrants)

Unrecognized Tax Benefits

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LG&E and KU indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2021, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

	PPL	PPL Electric	LG&E	KU
U.S. (federal)	2017 and prior	2017 and prior	2017 and prior	2017 and prior
Pennsylvania (state)	2017 and prior	2017 and prior		
Kentucky (state)	2014 and prior		2014 and prior	2014 and prior
U.K. (foreign)	2019 and prior			

7. Utility Rate Regulation

Regulatory Assets and Liabilities

(All Registrants)

PPL, PPL Electric, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to an item will be recovered or refunded within a year of the balance sheet date.

(PPL, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC and VSCC.

LG&E's and KU's Kentucky base rates are calculated based on recovery of costs as well as 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.

(PPL and KU)

KU's Virginia base rates are calculated based on recovery of costs as well as a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except for regulatory assets and liabilities related to the levelized fuel factor, accumulated deferred income taxes, pension and postretirement benefits, and AROs related to certain CCR impoundments, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

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

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on recovery of costs as well as a return on distribution rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions) and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations at December 31:

	PPL		PPL Electric	
	2021	2020	2021	2020
Current Regulatory Assets:				
Plant outage costs	$ —	$ 46	$ —	$ —
Gas supply clause	21	4	—	—
Smart meter rider	11	17	11	17
Transmission formula rate	6	15	6	15
Storm costs	—	7	—	7
Fuel adjustment clause	11	—	—	—
Other	15	10	5	1
Total current regulatory assets (a)	$ 64	$ 99	$ 22	$ 40
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 523	$ 570	$ 256	$ 290
Plant outage cost	54	—	—	—
Storm costs	11	17	—	—
Unamortized loss on debt	24	30	4	8
Interest rate swaps	18	23	—	—
Terminated interest rate swaps	70	75	—	—
Accumulated cost of removal of utility plant	228	240	228	240
AROs	302	300	—	—
Other	6	7	—	3
Total noncurrent regulatory assets	$ 1,236	$ 1,262	$ 488	$ 541

	PPL		PPL Electric	
	2021	2020	2021	2020
Current Regulatory Liabilities:				
Generation supply charge	$ 10	$ 21	$ 10	$ 21
Transmission service charge	21	1	21	1
Universal service rider	17	22	17	22
TCJA customer refund	22	11	22	11
Act 129 compliance rider	10	7	10	7
Transmission formula rate return on equity (b)	73	—	73	—
Economic relief billing rate	27	—	—	—
Other	2	17	—	6
Total current regulatory liabilities	$ 182	$ 79	$ 153	$ 68
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 639	$ 653	$ —	$ —
Power purchase agreement - OVEC	35	43	—	—
Net deferred taxes	1,591	1,690	531	560
Defined benefit plans	95	60	28	18
Terminated interest rate swaps	62	66	—	—
Other	—	18	—	—
Total noncurrent regulatory liabilities	$ 2,422	$ 2,530	$ 559	$ 578

	LG&E		KU	
	2021	2020	2021	2020
Current Regulatory Assets:				
Gas supply clause	$ 21	$ 4	$ —	$ —
Fuel adjustment clause	4	—	7	—
Gas line tracker	3	4	—	—
Generation formula rate	—	—	2	2
Plant outage costs	—	12	—	34
Other	5	3	—	—
Total current regulatory assets	$ 33	$ 23	$ 9	$ 36
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 164	$ 174	$ 103	$ 106
Storm costs	8	11	3	6
Unamortized loss on debt	12	13	8	9
Interest rate swaps	18	23	—	—
Terminated interest rate swaps	41	44	29	31
AROs	75	85	227	215
Plant outage costs	15	—	39	—
Other	4	1	2	3
Total noncurrent regulatory assets	$ 337	$ 351	$ 411	$ 370

	LG&E		KU	
	2021	2020	2021	2020
Current Regulatory Liabilities:				
Economic relief billing credit	$ 21	$ —	$ 6	$ —
Fuel adjustment clauses	—	—	—	5
Environmental cost recovery	—	—	—	4
Other	—	—	2	2
Total current regulatory liabilities	$ 21	$ —	$ 8	$ 11
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 262	$ 274	$ 377	$ 379
Power purchase agreement - OVEC	24	30	11	13
Net deferred taxes	491	528	569	602
Defined benefit plans	10	—	57	42
Terminated interest rate swaps	31	33	31	33
Other	—	17	—	1
Total noncurrent regulatory liabilities	$ 818	$ 882	$ 1,045	$ 1,070

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.
(b) See “Regulatory Matters - Federal Matters - PPL Electric Transmission Formula Rate Return on Equity” below for additional information.

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

Defined Benefit Plans

(All Registrants)

Defined benefit plan regulatory assets and liabilities represent prior service cost and net actuarial gains and losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and, generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is remeasured.

(PPL, LG&E and KU)

As a result of previous rate case settlements and orders, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15-year amortization period for actuarial gains and losses and settlements are recorded as a regulatory asset. As of December 31, 2021, the balances were $98 million for PPL, $54 million for LG&E and $44 million for KU. As of December 31, 2020, the balances were $79 million for PPL, $44 million for LG&E and $35 million for KU.

(All Registrants)

<u>Storm Costs</u>

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once such authority is granted, LG&E and KU can request recovery of those expenses in a base rate case and begin amortizing the costs when recovery starts. PPL Electric can recover qualifying expenses caused by major storm events, as defined in its retail tariff, over three years through the Storm Damage Expense Rider commencing in the application year after the storm occurred. Storm costs incurred in PPL Electric's territory from a March 2018 storm were amortized through 2021. LG&E's and KU's regulatory assets for storm costs are being amortized through various dates ending in 2031.

<u>Unamortized Loss on Debt</u>

Unamortized loss on reacquired debt represents losses on long-term debt refinanced, reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric, through 2042 for KU, and through 2044 for LG&E.

<u>Accumulated Cost of Removal of Utility Plant</u>

LG&E and KU charge costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

<u>Net Deferred Taxes</u>

Regulatory liabilities associated with net deferred taxes represent the future revenue impact from the adjustment of deferred income taxes required primarily for excess deferred taxes and unamortized investment tax credits, largely a result of the TCJA enacted in 2017.

(PPL and PPL Electric)

<u>Generation Supply Charge (GSC)</u>

The GSC is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply, as well as administration of the acquisition process. In addition, the GSC contains a reconciliation mechanism whereby any over- or under-recovery from prior periods is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent rate filing period.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Transmission Formula Rate

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

Storm Damage Expense Rider (SDER)

The SDER is a reconcilable automatic adjustment clause under which PPL Electric annually will compare actual storm costs to storm costs allowed in base rates and refund or recover any differences from customers. In the 2015 rate case settlement approved by the PUC in November 2015, it was determined that reportable storm damage expenses to be recovered annually through base rates will be set at $20 million. The SDER will recover from or refund to customers the applicable expenses from reportable storms as compared to the $20 million recovered annually through base rates.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, PPL Electric is currently in Phase IV of the energy efficiency and conservation plan which was approved in March 2021. Phase IV allows PPL Electric to recover the maximum $313 million over the five-year period, June 1, 2021 through May 31, 2026. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The actual Phase IV program costs are reconcilable after each 12 month period, and any over- or under-recovery from customers will be refunded or recovered over the next rate filing period. PPL Electric's Act 129 Phase III plan ended May 31, 2021 and any over-or under-recovery from customers related to Phase III will be refunded or recovered over the next rate filing period.

Smart Meter Rider (SMR)

Act 129 requires each electric distribution company (EDC) with more than 100,000 customers to have a PUC approved Smart Meter Technology Procurement and Installation Plan (SMP). As of December 31, 2019, PPL Electric replaced substantially all of its old meters with meters that meet the Act 129 requirements under its SMP. In accordance with Act 129, EDCs are able to recover the costs and earn a return on capital of providing smart metering technology. PPL Electric uses the SMR to recover the costs to implement its SMP. The SMR is a reconciliation mechanism whereby any over- or under-recovery from prior years is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarters.

Universal Service Rider (USR)

The USR provides for recovery of costs associated with universal service programs, OnTrack and Winter Relief Assistance Program (WRAP), provided by PPL Electric to residential customers. OnTrack is a special payment program for low-income households and WRAP provides low-income customers a means to reduce electric bills through energy saving methods. The

USR rate is applied to residential customers who receive distribution service. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

TCJA Customer Refund

As a result of the reduced U.S federal corporate income tax rate as enacted by the TCJA, the PUC ruled that these tax benefits should be refunded to customers. Timing differences between the recognition of these tax benefits and the refund of the benefit to the customer creates a regulatory liability. PPL Electric's liability is being credited back to distribution customers through a temporary negative surcharge and remains in place until PPL Electric files and the PUC approves new base rates. The TCJA is reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

(PPL, LG&E and KU)

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements, which apply to coal combustion wastes and by-products from coal-fired electricity generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. The KPSC has authorized return on equity of 9.35% for existing approved ECR projects. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered or refunded within 12 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in power purchases and the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires formal reviews at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, may conduct public hearings and reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs and load for the fuel year (12 months ending March 31). The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the fuel year plus an adjustment for any under- or over-recovery of fuel expenses from the prior fuel year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered or refunded within 12 months.

Economic Relief Billing Credit

The Economic Relief Billing Credit represents regulatory liabilities to be returned to customers through June 30, 2022, as agreed to in the Kentucky rate case in recognition of the economic impact of COVID-19. See "Regulatory Matters - Kentucky Activities - Rate Case Proceedings" below for additional information.

AROs

As discussed in Note 1, for LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset or regulatory liability. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, deferred accretion and depreciation expense is recovered through cost of removal.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LG&E and KU, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition. LG&E's and KU's customer rates continue to reflect the original contracts. See Notes 14 and 19 for additional discussion of the power purchase agreement.

Interest Rate Swaps

LG&E's unrealized gains and losses are recorded as regulatory assets or regulatory liabilities until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures in 2033.

Terminated Interest Rate Swaps

Net realized gains and losses on all interest rate swaps are recovered through regulated rates. As such, any gains and losses on these derivatives are included in regulatory assets or liabilities and are primarily recognized in "Interest Expense" on the Statements of Income over the life of the associated debt.

Plant Outage Costs

From July 1, 2017 through June 30, 2021, plant outage costs in Kentucky were normalized for ratemaking purposes based on an average level of expenses. Plant outage expenses that were greater or less than the average will be collected from or returned to customers, through future base rates. Effective July 1, 2021 under-recovered plant outage costs are being amortized through 2029 for LG&E and KU.

Gas Supply Clause *(PPL and LG&E)*

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs and customer usage from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause also includes a separate natural gas procurement incentive mechanism, which allows LG&E's rates to be adjusted annually to share savings between the actual cost of gas purchases and market indices, with the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered or refunded within 18 months.

Regulatory Matters

Kentucky Activities *(PPL, LG&E and KU)*

Rate Case Proceedings

On November 25, 2020, LG&E and KU filed requests with the KPSC for an increase in annual electricity and gas revenues of approximately $331 million ($131 million and $170 million in electricity revenues at LG&E and KU and $30 million in gas revenues at LG&E). The revenue increases represented an increase of 11.6% and 10.4% in electricity revenues at LG&E and KU, and an increase of 8.3% in gas revenues at LG&E. In recognition of the economic impact of COVID-19, LG&E and KU requested approval of a one-year billing credit which will credit customers approximately $53 million ($41 million at LG&E and $12 million at KU). The billing credit represents the return to customers of certain regulatory liabilities on LG&E’s and KU’s Balance Sheets and serves to partially mitigate the rate increases during the first year in which the new rates are in effect.

LG&E's and KU's applications also included a request for a CPCN to deploy Advanced Metering Infrastructure across LG&E's and KU's service territories in Kentucky.

The applications were based on a forecasted test year of July 1, 2021 through June 30, 2022 and requested an authorized return on equity of 10.0%.

On April 19, 2021, LG&E and KU entered into an agreement with all intervening parties to the proceedings resolving all matters in their applications, with the explicit exception of LG&E's and KU's net metering proposals.

On June 30, 2021 and December 6, 2021, the KPSC issued orders approving the proposed agreement filed in April 2021, with certain modifications. The orders provided for increases in annual revenues of $207 million ($74 million and $110 million in electricity revenues at LG&E and KU and $23 million in gas revenues at LG&E) based on an authorized return on equity of 9.425%. The orders grant an authorized 9.35% return on equity for the ECR and GLT mechanisms and do not modify the requested one-year billing credit. The orders approved the CPCN to deploy Advanced Metering Infrastructure and provide regulatory asset treatment for the remaining net book value of legacy meters upon full implementation of the Advanced Metering Infrastructure program. The orders also approved the establishment of a Retired Asset Recovery (RAR) rider to provide for recovery of and return on the remaining investment in certain electric generating units upon their retirement over a ten-year period following retirement. In respect of the RAR rider, LG&E and KU continue to use currently approved depreciation rates for Mill Creek Units 1 and 2 and Brown Unit 3. The orders also approved a four-year "stay out" commitment from LG&E and KU to refrain from effective base rate increases before July 1, 2025, subject to certain exceptions. On September 24, 2021, the KPSC issued orders providing adjustments to previous net metering proposals. These adjustments did not impact the annual revenue increases.

Pennsylvania Activities *(PPL and PPL Electric)*

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet, by specified dates, specified goals for reduction in customer electricity usage and peak demand. EDCs not meeting the requirements of Act 129 are subject to significant penalties. PPL Electric filed with the PUC its Act 129 Phase IV Energy Efficiency and Conservation Plan on November 30, 2020, for the five-year period starting June 1, 2021 and ending on May 31, 2026. PPL Electric's Phase IV Act 129 Plan was approved by the PUC at its March 25, 2021, public meeting.

Act 129 also requires EDCs to act as a default service provider (DSP), which provides electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan. A DSP is able to recover the costs associated with its default service procurement plan.

Federal Matters

PPL Electric Transmission Formula Rate Return on Equity (PPL and PPL Electric)

On May 21, 2020, PP&L Industrial Customer Alliance (PPLICA) filed a complaint with the FERC alleging that PPL Electric's base return on equity (ROE) of 11.18% used to determine PPL Electric's formula transmission rate was unjust and unreasonable.

On August 20, 2021, PPL Electric entered into a settlement agreement (the Settlement) with PPLICA and all other parties, including intervenors, with respect to the complaint filed by PPLICA on May 21, 2020.

The key aspects of the Settlement include:

- changes to PPL Electric's base ROE:
    - beginning as of May 21, 2020 and continuing through May 31, 2022, the ROE shall be 9.90%;

    - beginning on June 1, 2022 and continuing through May 31, 2023, the ROE shall be 9.95%;
    - beginning on June 1, 2023, the ROE shall be 10.00%, which shall continue in effect unless and until changed as permitted by the terms of the Settlement;
- changes the equity component of PPL Electric's capital structure to be the lower of (i) PPL Electric's actual equity component, calculated in accordance with the formula rate template, or (ii) 56.00%;
- allows modification of the current rate year of June 1 to May 31 to a calendar year of January 1 to December 31; and
- allows modification of the current formula rate based on a historic test year to a projected test year.

In 2021, PPL Electric recorded a revenue reduction of $78 million ($55 million after-tax), of which $73 million ($52 million after-tax) represents revenue subject to refund for the period May 21, 2020 through November 30, 2021. The reduction recorded includes $28 million ($20 million after-tax) related to the period from May 21, 2020 to December 31, 2020. The $73 million of revenue to be refunded will be returned to customers from January 1, 2022 through May 31, 2022 and is based on the difference between charges that were calculated using the ROE in effect at the time and charges calculated using the revised ROE provided for the Settlement, plus interest at the FERC interest rate.

The FERC approved the Settlement on November 5, 2021. Interim rates reflecting the agreed-to-base ROE in the Settlement were effective December 1, 2021.

(PPL, LG&E and KU)

FERC Transmission Rate Filing

In 2018, LG&E and KU applied to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application sought termination of LG&E's and KU's commitment to provide certain Kentucky municipalities mitigation for certain horizontal market power concerns arising out of the 1998 LG&E and KU merger and 2006 MISO withdrawal. The amounts at issue are generally waivers or credits granted to a limited number of Kentucky municipalities for either certain LG&E and KU or MISO transmission charges incurred for transmission service received. In 2019, the FERC granted LG&E's and KU's request to remove the ongoing credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, which was subsequently filed, modified, and approved by the FERC in 2020 and 2021. In 2020, LG&E and KU and other parties filed appeals with the D.C. Circuit Court of Appeals regarding FERC's orders on the elimination of the mitigation and required transition mechanism. Oral arguments in the appellate proceeding occurred on February 14, 2022. LG&E and KU cannot predict the outcome of the respective appellate and FERC proceedings. LG&E and KU currently receive recovery of the waivers and credits provided through other rate mechanisms and such rate recovery would be anticipated to be adjusted consistent with potential changes or terminations of the waivers and credits, as such become effective.

Other

Purchase of Receivables Program

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During 2021, 2020 and 2019, PPL Electric purchased $1.2 billion, $1.1 billion and $1.2 billion of accounts receivable from alternative suppliers.

8. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LG&E and KU also apply to PPL. The amounts listed in the borrowed column below are recorded as "Short-term debt" on the Balance Sheets except for borrowings under PPL Capital Funding's term loan agreement due March 2022, which are reflected in "Long-term debt" at December 31, 2020. The following credit facilities were in place at:

	December 31, 2021					December 31, 2020	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
PPL							
PPL Capital Funding							
Syndicated Credit Facility (a) (b)	Dec 2026	$ 1,250	$ —	$ —	$ 1,250	$ —	$ 402
Bilateral Credit Facility (a) (b)	Mar 2022	50	—	—	50	—	—
Bilateral Credit Facility (a) (b)	Mar 2022	50	—	15	35	—	15
Term Loan Credit Facility (a) (b)	Mar 2021	—	—	—	—	200	—
Term Loan Credit Facility (a) (b)	Mar 2021	—	—	—	—	100	—
Term Loan Credit Facility (a) (b)	Mar 2022	—	—	—	—	100	—
Total PPL Capital Funding Credit Facilities		$ 1,350	$ —	$ 15	$ 1,335	$ 400	$ 417
PPL Electric							
Syndicated Credit Facility (a) (b)	Dec 2026	$ 650	$ —	$ 1	$ 649	$ —	$ 1
LG&E							
Syndicated Credit Facility (a) (b)	Dec 2026	$ 500	$ —	$ 69	$ 431	$ —	$ 262
KU							
Syndicated Credit Facility (a) (b)	Dec 2026	$ 400	$ —	$ —	$ 400	$ —	$ 203

(a) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
(b) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, subject to certain conditions, PPL Capital Funding may request that the capacity of one of its bilateral credit facilities expiring in March 2022 be increased by up to $30 million and PPL Capital Funding, PPL Electric, LG&E and KU may each request up to a $250 million increase in its syndicated credit facility's capacity. Participation in any such increase is at the sole discretion of each lender.

(PPL)

In December 2021, PPL Capital Funding amended and restated its existing $1.450 billion revolving credit facility to extend the termination date from January 26, 2024 to December 6, 2026, to decrease the borrowing capacity to $1.250 billion and to provide for the option to add Narragansett Electric as an additional borrower upon acquisition by PPL Rhode Island Holdings, LLC.

(PPL and PPL Electric)

In December 2021, PPL Electric Utilities Corporation amended and restated its existing $650 million revolving credit facility to extend the termination date from January 26, 2024 to December 6, 2026.

(PPL and LG&E)

In December 2021, LG&E amended and restated its existing $500 million revolving credit facility to extend the termination date from January 26, 2024 to December 6, 2026.

(PPL and KU)

In December 2021, KU amended and restated its existing $400 million revolving credit facility to extend the termination date from January 26, 2024 to December 6, 2026.

(All Registrants)

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

	December 31, 2021				December 31, 2020	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding		$ 1,500	$ —	$ 1,500	0.25%	$ 402
PPL Electric		650	—	650		—
LG&E (a)	0.31%	425	69	356	0.28%	262
KU		350	—	350	0.28%	203
Total		$ 2,925	$ 69	$ 2,856		$ 867

(a) In March 2021, the capacity for the LG&E commercial paper program was increased from $350 million to $425 million.

(PPL Electric, LG&E and KU)

See Note 15 for a discussion of intercompany borrowings.

Long-term Debt *(All Registrants)*

	Weighted-Average Rate (d)	Maturities (d)	December 31, 2021	December 31, 2020
PPL				
Senior Unsecured Notes	3.81 %	2026 - 2047	$ 1,566	$ 4,850
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.59 %	2022 - 2050	9,205	8,955
Junior Subordinated Notes	2.89 %	2067	480	930
Term Loan Credit Facility			—	100
Total Long-term Debt before adjustments			11,251	14,835
Unamortized premium and (discount), net			(34)	(40)
Unamortized debt issuance costs			(77)	(106)
Total Long-term Debt			11,140	14,689

	Weighted-Average Rate (d)	Maturities (d)	December 31, 2021		December 31, 2020	
Less current portion of Long-term Debt				474		1,074
Total Long-term Debt, noncurrent			$	10,666	$	13,615
PPL Electric						
Senior Secured Notes/First Mortgage Bonds (a) (b)	3.37 %	2022 - 2049	$	4,539	$	4,289
Total Long-term Debt Before Adjustments				4,539		4,289
Unamortized discount				(22)		(23)
Unamortized debt issuance costs				(33)		(30)
Total Long-term Debt				4,484		4,236
Less current portion of Long-term Debt				474		400
Total Long-term Debt, noncurrent			$	4,010	$	3,836
LG&E						
First Mortgage Bonds (a) (c)	3.59 %	2025 - 2049	$	2,024	$	2,024
Total Long-term Debt Before Adjustments				2,024		2,024
Unamortized discount				(4)		(4)
Unamortized debt issuance costs				(14)		(13)
Total Long-term Debt				2,006		2,007
Less current portion of Long-term Debt				—		292
Total Long-term Debt, noncurrent			$	2,006	$	1,715
KU						
First Mortgage Bonds (a) (c)	3.97 %	2023 - 2050	$	2,642	$	2,642
Total Long-term Debt Before Adjustments				2,642		2,642
Unamortized premium				5		5
Unamortized discount				(9)		(9)
Unamortized debt issuance costs				(20)		(20)
Total Long-term Debt				2,618		2,618
Less current portion of Long-term Debt				—		132
Total Long-term Debt, noncurrent			$	2,618	$	2,486

(a) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all of PPL Electric’s tangible distribution properties and certain of its tangible transmission properties located in Pennsylvania, subject to certain exceptions and exclusions. The carrying value of PPL Electric's property, plant and equipment was approximately $11.3 billion and $10.8 billion at December 31, 2021 and 2020.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was $5.7 billion and $5.5 billion at December 31, 2021 and 2020.

Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was $6.9 billion and $6.7 billion at December 31, 2021 and 2020.

(b) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (a) above. This amount includes $224 million of which PPL Electric is allowed to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, or term rate of at least one year and $90 million which is subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.

Includes $250 million of notes that may be called on or after September 28, 2021 and $650 million of notes that may be called on or after June 24, 2022, at a redemption price equal to 100% of the principal amount of the bonds, plus accrued and unpaid interest to, but excluding, such redemption date.

(c) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amounts, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (a) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2021, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled $782 million for PPL, comprised of $473 million and $309 million for LG&E and KU. At December 31, 2021, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled $66 million and $33 million for LG&E and KU. These variable rate tax-exempt revenue bonds are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

(d) The table reflects principal maturities only, based on stated maturities or earlier put dates, and the weighted-average rates as of December 31, 2021.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2022 through 2026 and thereafter are as follows:

	PPL	PPL Electric	LG&E	KU
2022	$ 474	$ 474	$ —	$ —
2023	353	340	—	13
2024	650	650	—	—
2025	550	—	300	250
2026	904	—	90	164
Thereafter	8,320	3,075	1,634	2,215
Total	$ 11,251	$ 4,539	$ 2,024	$ 2,642

(PPL)

In April 2021, PPL Capital Funding repaid its $100 million term loan expiring in March 2022.

In June 2021, PPL Capital Funding commenced a tender offer to purchase for cash and retire (1) any and all of its outstanding 4.20% Senior Notes due 2022, 3.50% Senior Notes due 2022, 3.40% Senior Notes due 2023 and 3.95% Senior Notes due 2024 and (2) up to $1 billion aggregate purchase price of its outstanding 4.70% Senior Notes due 2043, 5.00% Senior Notes due 2044, 4.00% Senior Notes due 2047, 4.125% Senior Notes due 2030 and 3.10% Senior Notes due 2026.

In June 2021, in connection with the tender offer, PPL Capital Funding retired $1,962 million combined aggregate principal amount of its outstanding Senior Notes for $2,293 million aggregate cash purchase price that included the tender premium and accrued interest. These Senior Notes had a weighted average interest rate of 4.14%. The loss on extinguishment associated with the transaction was $322 million, which included the tender premium, bank fees and unamortized fees, hedges and discounts. This loss on extinguishment was recorded to "Interest Expense" on the Statements of Income.

In July 2021, PPL Capital Funding redeemed the remaining $1,072 million combined aggregate principal amount of its outstanding 4.20% Senior Notes due 2022, 3.50% Senior Notes due 2022, 3.40% Senior Notes due 2023 and 3.95% Senior Notes due 2024 that had not been validly tendered for an aggregate cash purchase price of $1,133 million, which included make-whole premiums and accrued interest. These Senior Notes had a weighted average interest rate of 3.71%. The loss on extinguishment associated with the transaction was $58 million, which included make-whole premiums, unamortized fees, hedges and discounts. PPL Capital Funding also redeemed its $450 million of 5.90% Junior Subordinated Notes due in 2073 at par. The loss on extinguishment associated with this transaction was $15 million, which included unamortized fees.

In July 2021, LKE redeemed at par the $250 million 4.375% Senior Notes due 2021.

PPL has guaranteed PPL Capital Funding's obligations under the credit agreement and notes.

(PPL and PPL Electric)

In June 2021, PPL Electric issued $650 million of First Mortgage Bonds, Floating Rate Series due 2024. PPL Electric received proceeds of $647 million, net of underwriting fees, which were used to redeem its $400 million outstanding First Mortgage Bonds, 3% Series due 2021 in July 2021 and for general corporate purposes.

(PPL and LG&E)

In April 2021, the Louisville/Jefferson County Metro Government of Kentucky remarketed $128 million of Pollution Control Revenue Bonds, 2003 Series A due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.00% through their maturity date of October 1, 2033.

In May 2021, the County of Trimble, Kentucky remarketed $35 million of Pollution Control Revenue Bonds, 2001 Series B due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.35% through their maturity date of November 1, 2027.

In May 2021, the Louisville/Jefferson County Metro Government of Kentucky remarketed $35 million of Pollution Control Revenue Bonds, 2001 Series B due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.35% through their maturity date of November 1, 2027.

In June 2021, LG&E converted the $31 million of Louisville/Jefferson County Metro Government of Kentucky Environmental Facilities Revenue Refunding Bonds, 2007 Series A issued on its behalf to a weekly interest rate. The bonds mature on June 1, 2033.

In June 2021, LG&E converted the $35 million of Louisville/Jefferson County Metro Government, of Kentucky Environmental Facilities Revenue Refunding Bonds, 2007 Series B issued on its behalf to a weekly interest rate. The bonds mature on June 1, 2033.

In September 2021, the County of Trimble, Kentucky remarketed $28 million of Pollution Control Revenue Bonds, 2001 Series A due 2026, previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 0.625% through their maturity date of September 1, 2026.

(PPL and KU)

In June 2021, the County of Carroll, Kentucky remarketed $54 million of Environmental Facilities Revenue Refunding Bonds, 2006 Series B due 2034 previously issued on behalf of KU. The bonds were remarketed at a long-term rate and will bear interest at 2.125% though their maturity date of October 1, 2034.

In June 2021, the County of Carroll, Kentucky remarketed $78 million of Environmental Facilities Revenue Bonds 2008 Series A due 2032 previously issued on behalf of KU. The bonds were remarketed at a long-term rate and will bear interest at 2.00% through their maturity date of February 1, 2032.

See Note 15 for additional information related to intercompany borrowings.

Legal Separateness *(All Registrants)*

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Electric are each separate legal entities. These subsidiaries are not liable for the debts of PPL Electric. Accordingly, creditors of PPL Electric may not satisfy its debts from the assets of its subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, PPL Electric is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Electric (or its other subsidiaries) absent a specific contractual undertaking by PPL Electric or any such other subsidiary to pay such creditors or as required by applicable law or regulation.

(PPL)

Equity Securities

Share Repurchases

In August 2021, PPL's Board of Directors authorized share repurchases of up to $3 billion of PPL common shares. The actual amount repurchased will depend on various factors, including PPL’s share price, market conditions, and the determination of other uses for the proceeds from the sale of the U.K. utility business, including for incremental capital expenditures. PPL may purchase shares on each trading day subject to market conditions and principles of best execution.

During the year ended December 31, 2021, PPL repurchased 34.8 million shares at a cost of $1.0 billion. Commission fees incurred, which have been included in the cost of repurchases above, were insignificant through December 31, 2021.

ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of $1.0 billion of its common stock through an at-the-market offering program, including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. There were no issuances under the ATM program for the twelve months ended December 31, 2021 and 2020. The ATM program expired in February 2021.

Distributions and Related Restrictions

In November 2021, PPL declared its quarterly common stock dividend, payable January 3, 2022, at 41.50 cents per share (equivalent to $1.66 per annum). On February 18, 2022, PPL announced a quarterly common stock dividend of 20.00 cents per share, payable April 1, 2022, to shareowners of record as of March 10, 2022. 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 factors.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067. At December 31, 2021, no interest payments were deferred.

(All Registrants)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL

Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for PPL's 2010 acquisition of LG&E and KU. In May 2012, the FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2021, net assets of $1.4 billion for LG&E and $1.9 billion for KU were restricted for purposes of paying dividends to LKE, and net assets of $1.7 billion for LG&E and $2.0 billion for KU were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

9. Acquisitions, Development and Divestitures

(PPL)

Discontinued Operations

Sale of the U.K. Utility Business

On March 17, 2021, PPL WPD Limited (WPD Limited) entered into a share purchase agreement (WPD SPA) to sell PPL's U.K. utility business to National Grid Holdings One plc (National Grid U.K.), a subsidiary of National Grid plc. Pursuant to the WPD SPA, National Grid U.K. would acquire 100% of the issued share capital of PPL WPD Investments Limited (WPD Investments) for £7.8 billion in cash. WPD Limited would also receive an additional amount of £548,000 for each day during the period from January 1, 2021 to the closing date if the dividends usually declared by WPD Investments to WPD Limited were not paid for that period.

On June 14, 2021, the sale of the U.K. utility business was completed. The transaction resulted in cash proceeds of $10.7 billion inclusive of foreign currency hedges executed by PPL. PPL received net proceeds, after taxes and fees, of $10.4 billion.

WPD Limited and National Grid U.K. each made customary representations and warranties in the WPD SPA. National Grid U.K., at its expense, purchased warranty and indemnity insurance. WPD Limited agreed to indemnify National Grid U.K. for certain tax related matters. See Note 14 for additional information. PPL has not had and will not have any significant involvement with the U.K. utility business after completion of the sale.

Loss on Sale

The following table summarizes the pre-tax loss recorded upon completion of the sale.

	Loss on sale for the year ended December 31, 2021
Sales proceeds, net of realized foreign currency hedge losses (a)	$ 10,732
Unrealized foreign currency hedge losses recognized in 2020	125
Less: Costs to sell (b)	69
Less: Carrying value (c)	12,397
Loss on sale	$ (1,609)

(a) Includes the fixed and additional consideration of £7,881 million specified in the WPD SPA, converted at a spot rate of $1.4107 per GBP, offset by $386 million of realized foreign currency hedge losses to hedge the proceeds from the sale.

(b) Includes bank advisory, legal and accounting fees to facilitate the transaction.
(c) Represents the carrying value of the U.K. utility business at the time of sale and includes the realization of AOCI of $3.6 billion, which arose primarily from currency translation adjustments and defined benefit plans associated with the U.K. utility business.

Summarized Results of Discontinued Operations

The operations of the U.K. utility business are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. Following are the components of discontinued operations in the Statements of Income for the years ended December 31:

	2021	2020	2019
Operating Revenues	$ 1,344	$ 2,133	$ 2,167
Operating Expenses	467	916	853
Other Income (Expense) - net	202	167	295
Interest Expense (a)	209	367	373
Income before income taxes	870	1,017	1,236
Loss on sale	(1,609)	—	—
Income Taxes	759	188	226
Income (Loss) from Discontinued Operations (net of income taxes)	$ (1,498)	$ 829	$ 1,010

(a) No interest from corporate level debt was allocated to discontinued operations.

Summarized Assets and Liabilities Held for Sale

The following major classes of assets and liabilities of the U.K. utility business were reclassified on PPL's Balance Sheet to "Current assets held for sale" and "Current liabilities held for sale" as of December 31, 2020:

	Held for Sale at December 31, 2020
Cash and cash equivalents	$ 266
Accounts receivable and unbilled revenues	389
Price risk management assets	146
Property, plant and equipment, net (a)	14,392
Goodwill	2,558
Other intangibles	413
Pension benefit asset	682
Other assets	137
Total Assets	$ 18,983
Short-term debt and long-term debt due within one year	$ 994
Accounts payable	220
Customer deposits	217
Accrued interest	190
Long-term debt	7,938
Total deferred income taxes	1,032
Price risk management liabilities	137
Other deferred credits and liabilities	295
Total Liabilities	$ 11,023
Net assets (b)	$ 7,960

(a) Depreciation of fixed assets ceased upon classification as held for sale in the first quarter of 2021.
(b) The net assets and liabilities held for sale exclude $4.0 billion of AOCI related to the U.K. utility business that is required to be included in the carrying value of an entity classified as held for sale when assessing impairment and determining the gain or loss on sale. Prior to the sale, AOCI related to the U.K. utility business was reported as a component of PPL's equity.

Acquisitions

Share Purchase Agreement to Acquire Narragansett Electric

On March 17, 2021, PPL and its subsidiary, PPL Energy Holdings, entered into a share purchase agreement (Narragansett SPA) with National Grid USA (National Grid U.S.), a subsidiary of National Grid plc, to acquire 100% of the outstanding shares of common stock of Narragansett Electric for approximately $3.8 billion in cash. On May 3, 2021, an Assignment and Assumption Agreement was entered into by PPL, PPL Energy Holdings, PPL Rhode Island Holdings and National Grid U.S. whereby certain interests of PPL Energy Holdings in the Narragansett SPA were assigned to and assumed by PPL Rhode Island Holdings. Pursuant to that Assignment and Assumption Agreement, PPL Rhode Island Holdings became the purchasing entity under the Narragansett SPA. The acquisition is expected to be funded with proceeds from the sale of the U.K. utility business. PPL has agreed to guarantee all obligations of PPL Energy Holdings and PPL Rhode Island Holdings under the Narragansett SPA and the related Assignment and Assumption Agreement.

The closing of the acquisition is subject to the receipt of certain U.S. regulatory approvals or waivers, including, among others, authorizations or waivers from the Rhode Island Division of Public Utilities and Carriers, the Massachusetts Department of Public Utilities, the Federal Communications Commission (FCC), and the FERC, as well as review under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and other customary conditions to closing, including the execution and delivery of certain related transaction documents. The waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, with respect to the acquisition, expired on June 2, 2021. On July 14, 2021, the FCC consented to the Transfer of Control Application for the transfer of control of certain communications licenses held by Narragansett Electric from National Grid U.S. to PPL. On July 16, 2021, the Massachusetts Department of Public Utilities (MDPU) granted a waiver of jurisdiction with respect to the acquisition, finding that the acquisition would not adversely impact Massachusetts ratepayers. On December 3, 2021, the MPDU denied the request by the Attorney General of Massachusetts (AG) to stay the order granting the waiver, and on December 31, 2021, the AG then moved for the Massachusetts Supreme Judicial Court (SJC) to stay the final MDPU order. That request remains pending. If a stay is issued, PPL would not be able to close the acquisition until any stay is lifted or the appeal is resolved. On September 23, 2021, the FERC issued an order authorizing, as consistent with the public interest, the disposition of jurisdictional facilities that will result in PPL Rhode Island Holdings, LLC, acquiring 100% of the outstanding shares of common stock of Narragansett Electric. The regulatory approvals remain subject to any applicable appeal periods. PPL anticipates receiving a final order from the Rhode Island Division of Public Utilities and Carriers with respect to the acquisition by March 2022, however, no assurance can be given as to ultimate outcome of that review or the timing of any final decision.

PPL Energy Holdings and PPL Rhode Island Holdings and National Grid U.S. have each made customary representations, warranties and covenants in the Narragansett SPA, including, among others, customary indemnification provisions and covenants by National Grid U.S. to conduct the Narragansett Electric business in the ordinary course between the execution of the Narragansett SPA and the closing of the acquisition. The consummation of the transaction is not subject to a financing condition.

In connection with the acquisition, National Grid U.S. and one or more of its subsidiaries and Narragansett Electric will enter into a transition services agreement, pursuant to which National Grid U.S. and/or one or more of its affiliates will agree to provide certain transition services to Narragansett Electric and its affiliates to facilitate the operation of Narragansett Electric following the consummation of the acquisition and the transition of operations to PPL, as agreed upon in the Narragansett SPA.

10. Leases

(All Registrants)

The Registrants determine whether contractual arrangements contain a lease by evaluating whether those arrangements either implicitly or explicitly identify an asset, whether the Registrants have the right to obtain substantially all of the economic benefits from use of the asset throughout the term of the arrangement, and whether the Registrants have the right to direct the use of the asset. Renewal options are included in the lease term if it is reasonably certain the Registrants will exercise those options. Periods for which the Registrants are reasonably certain not to exercise termination options are also included in the lease term. The Registrants have certain agreements with lease and non-lease components, such as office space leases, which are generally accounted for separately.

LG&E and KU have entered into various operating leases primarily for office space, vehicles and railcars. The leases generally have fixed payments with expiration dates ranging from 2022 to 2033, some of which have options to extend the leases from one year to ten years and some have options to terminate at LG&E's and KU's discretion.

PPL has also entered into various operating leases primarily for office and warehouse space. These leases generally have fixed payments with expiration dates ranging from 2024 through 2030.

PPL Electric also has operating leases which do not have a significant impact to its operations.

Short-term Leases

Short-term leases are leases with a term that is 12 months or less and do not include a purchase option or option to extend the initial term of the lease to greater than 12 months that the Registrants are reasonably certain to exercise. The Registrants have made an accounting policy election to not recognize the right-of-use asset and the lease liability arising from leases classified as short-term. Expenses related to short-term leases are included in the tables below.

Discount Rate

The discount rate for a lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the Registrants are required to use their incremental borrowing rate, which is the rate the Registrants would have to pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

The Registrants receive secured borrowing rates from financial institutions based on their applicable credit profiles. The Registrants use the secured rate which corresponds with the term of the applicable lease.

(PPL, LG&E and KU)

Lessee Transactions

The following table provides the components of lease cost for the Registrants' operating leases for the years ended December 31:

	2021	2020	2019
PPL			
Lease cost:			
Operating lease cost	$ 24	$ 28	$ 30
Short-term lease cost	6	7	5
Total lease cost	$ 30	$ 35	$ 35
LG&E			
Lease cost:			
Operating lease cost	$ 6	$ 8	$ 12
Short-term lease cost	1	1	1
Total lease cost	$ 7	$ 9	$ 13
KU			
Lease cost:			
Operating lease cost	$ 10	$ 13	$ 13
Short-term lease cost	1	1	1
Total lease cost	$ 11	$ 14	$ 14

The following table provides other key information related to the Registrants' operating leases at December 31:

	2021	2020	2019
PPL			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 23	$ 24	$ 26
Right-of-use asset obtained in exchange for new operating lease liabilities	12	17	45
LG&E			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 6	$ 7	$ 9
Right-of-use asset obtained in exchange for new operating lease liabilities	4	6	5
KU			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 10	$ 11	$ 11
Right-of-use asset obtained in exchange for new operating lease liabilities	7	9	11

The following table provides the total future minimum rental payments for operating leases, as well as a reconciliation of these undiscounted cash flows to the lease liabilities recognized on the Balance Sheets as of December 31, 2021.

	PPL	LG&E	KU
2022	$ 23	$ 6	$ 10
2023	20	5	8
2024	15	4	6
2025	8	3	4
2026	3	1	1
Thereafter	5	1	1
Total	$ 74	$ 20	$ 30
Weighted-average discount rate	3.38%	3.48%	3.67%
Weighted-average remaining lease term (in years)	4	4	4
Current lease liabilities (a)	$ 22	$ 6	$ 9
Non-current lease liabilities (a)	47	12	17
Right-of-use assets (b)	62	15	24

(a) Current lease liabilities are included in "Other Current Liabilities" on the Balance Sheets. Non-current lease liabilities are included in "Other deferred credits and noncurrent liabilities" on the Balance Sheets. The difference between the total future minimum lease payments and the recorded lease liabilities is due to the impact of discounting.
(b) Right-of-use assets are included in "Other noncurrent assets" on the Balance Sheets.

Lessor Transactions

Third parties leased land from LG&E and KU at certain generation plants to produce refined coal used to generate electricity. The leases were operating leases and expired in 2021. Payments were allocated among lease and non-lease components as stated in the agreements. Lease payments were fixed or determined based on the amount of refined coal used in electricity generation at the facility. Payments received were primarily recorded as a regulatory liability and amortized in accordance with regulatory approvals.

The following table shows the lease income recognized for the years ended December 31:

	PPL	LG&E	KU
Lease income recognized for the twelve months ended December 31, 2021	$ 11	$ 5	$ 5
Lease income recognized for the twelve months ended December 31, 2020	16	6	9
Lease income recognized for the twelve months ended December 31, 2019	14	5	8

11. Stock-Based Compensation

(PPL and PPL Electric)

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Electric and other affiliated companies. Awards under the Plans are made by the Compensation Committee of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the Plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards: For awards denominated in shares (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards: For awards denominated in cash (in dollars)
SIP	15,000,000		2,000,000	750,000	$ 15,000,000
ICPKE	14,199,796	2 %	3,000,000		

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, the rights of the participant terminate, or, with respect to certain awards, is forfeited, and the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock Units

Restricted stock units represent the right to receive shares of PPL common stock in the future, generally three years after the date of grant, in an amount based on the fair value of PPL common stock on the date of grant.

Under the SIP, each restricted stock unit entitles the grant recipient to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units are deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICPKE are currently paid in cash when dividends are declared by PPL.

The fair value of restricted stock units granted is recognized on a straight-line basis over the restriction period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units granted under the ICPKE may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restrictions lapse on restricted stock units fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock units granted was:

	2021	2020	2019
PPL	$ 28.00	$ 35.30	$ 31.95
PPL Electric	27.96	35.37	32.33

Restricted stock unit activity for 2021 was:

	Restricted Shares/Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	896,336	$ 32.56
Granted	458,610	28.00
Vested	(303,890)	30.57
Forfeited	(46,473)	30.23
Nonvested, end of period	1,004,583	31.19
PPL Electric		
Nonvested, beginning of period	210,720	$ 32.73
Transfer between registrants	(92,596)	32.99
Granted	51,587	27.96
Vested	(32,266)	29.98
Forfeited	(6,158)	32.16
Nonvested, end of period	131,287	31.50

Substantially all restricted stock unit awards are expected to vest.

The total fair value of restricted stock units vesting for the years ended December 31 was:

	2021	2020	2019
PPL	$ 8	$ 19	$ 13
PPL Electric	1	3	2

Performance Units - Total Shareowner Return

Performance units based on relative Total Shareowner Return (TSR) are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on TSR during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the TSR of the companies included in the PHLX Utility Sector Index. Awards are payable on a graduated basis based on thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each year's awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the Compensation Committee's determination of achievement of the performance goals. Under the plan provisions, TSR performance units are subject to forfeiture upon termination of employment other than retirement, one year or more from commencement of the performance period, disability or death of an employee.

The fair value of TSR performance units granted to retirement-eligible employees is recognized as compensation expense on a straight-line basis over a one-year period, the minimum vesting period required for an employee to be entitled to payout of the awards with no proration. For employees who are not retirement-eligible, compensation expense is recognized over the shorter of the three-year performance period or the period until the employee is retirement-eligible, with a minimum vesting and recognition period of one-year. If an employee retires before the one-year vesting period, the performance units are forfeited. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL uses a mix of historic and implied volatility to value awards.

The weighted-average assumptions used in the model were:

	2021	2020	2019
Expected stock volatility	27.81%	15.64%	17.57%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of TSR performance units granted was:

	2021	2020	2019
PPL	$ 32.44	$ 37.63	$ 35.83
PPL Electric	32.92	38.64	35.68

TSR performance unit activity for 2021 was:

	TSR Performance Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	626,254	$ 36.98
Granted	306,009	32.44
Vested	(53,340)	34.47
Forfeited (a)	(245,150)	37.75
Nonvested, end of period	633,773	34.68
PPL Electric		
Nonvested, beginning of period	61,807	$ 37.44
Transfer between registrants	(53,663)	37.42
Granted	10,010	32.92
Forfeited (a)	(2,800)	38.47
Nonvested, end of period	15,354	34.36

(a) Primarily related to the forfeiture of 2018 domestic performance units as performance during the period was below the minimum established performance threshold, which resulted in no payout.

For the year ended December 31, 2021, $2 million of TSR performance units vested. All awards vested were associated with the sale of the U.K. utility business. See Note 9 for additional information on the sale of the U.K. utility business. No TSR performance units vested for the years ended December 31, 2020 and 2019. Amounts for PPL Electric are insignificant.

Performance Units - Return on Equity

Beginning in 2017, PPL changed its executive compensation mix to add performance units based on achievement of a corporate Return on Equity (ROE). ROE performance units are intended to further align compensation with the company's strategy and reward for future corporate performance.

Payout of these performance units will be based on the calculated average of the annual corporate ROE for each year of the three-year performance period for PPL Corporation. In light of the transformational nature of the potential sale of the U.K. utility business in 2021, PPL's ROE-based performance units issued for 2021 were based on a one-year performance period from January 1, 2021 to December 31, 2021; however, these units retained the three year vesting schedule and other characteristics. ROE performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable ROE performance goal. ROE performance units can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the Compensation Committee's determination of achievement of the performance goals. Under the plan provisions, these performance units are subject to forfeiture upon termination of employment other than retirement, disability or death of an employee.

The fair value of each ROE performance unit is based on the closing price of PPL Common Stock on the date of grant. The fair value of ROE performance units is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value awards granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. As these awards are based on performance conditions, the level of attainment is monitored each reporting period and compensation expense is adjusted based on the expected attainment level.

The weighted-average grant date fair value of ROE performance units granted was:

	2021	2020	2019
PPL	$ 30.08	$ 34.95	$ 30.89
PPL Electric	29.39	35.59	30.76

ROE performance unit activity for 2021 was:

	ROE Performance Unit	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	728,664	$ 32.81
Granted	572,571	30.08
Vested	(570,722)	32.02
Forfeited	(8,160)	30.44
Nonvested, end of period	722,353	31.28
PPL Electric		
Nonvested, beginning of period	61,807	$ 33.01
Transfer between registrants	(53,663)	33.00
Granted	12,895	29.39
Vested	(5,685)	32.27
Nonvested, end of period	15,354	30.27

The total fair value of ROE performance units vesting for the years ended December 31 was:

	2021	2020
PPL	$ 16	$ 8
PPL Electric	—	1

Stock Options

PPL's Compensation, Governance and Nominating Committee, now known as the Compensation Committee, eliminated the use of stock options due to changes in its long-term incentive mix beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2021, are fully vested. All options expire no later than 10 years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans.

Stock option activity for 2021 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
PPL				
Outstanding at beginning of period	1,103,016	$ 26.22		
Exercised	(337,014)	25.42		
Outstanding and exercisable at end of period	766,002	26.57	1	$ 3

For 2021, 2020 and 2019, PPL received $10 million, $8 million and $53 million in cash from stock options exercised. The total intrinsic value of stock options exercised was insignificant in 2021 and 2020 and $11 million in 2019. The related income tax benefits realized were not significant.

Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards, which for PPL Electric includes an allocation of PPL Services' expense, was:

	2021	2020	2019
PPL	$ 34	$ 28	$ 35
PPL Electric	11	10	12

The income tax benefit related to above compensation expense was as follows:

	2021	2020	2019
PPL	$ 10	$ 8	$ 10
PPL Electric	3	3	3

At December 31, 2021, unrecognized compensation expense related to nonvested stock awards was:

	Unrecognized Compensation Expense	Weighted-Average Period for Recognition
PPL	$ 19	1.7
PPL Electric	2	1.8

12. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

Certain employees of PPL's subsidiaries are eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's primary defined benefit pension plan was closed to all newly hired salaried employees. Effective July 1, 2014, PPL's primary defined benefit pension plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer contributions.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans. The pension plans sponsored by LKE and LG&E were merged effective January 1, 2020 into the LG&E and KU Pension Plan. The merged plan is sponsored by LKE. LG&E and KU participate in this plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

Certain employees of PPL's subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Pension Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds.

(PPL)

The following table provides the components of net periodic defined benefit costs (credits) for PPL's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2021	2020	2019	2021	2020	2019
Net periodic defined benefit costs (credits):						
Service cost	$ 56	$ 56	$ 50	$ 6	$ 6	$ 6
Interest cost	121	146	164	16	19	22
Expected return on plan assets	(255)	(246)	(245)	(23)	(21)	(18)
Amortization of:						
Prior service cost (credit)	8	9	8	1	1	(1)
Actuarial (gain) loss	93	89	56	(1)	—	1
Net periodic defined benefit costs (credits) prior to settlements and termination benefits	23	54	33	(1)	5	10
Settlements (a)	18	23	1	—	—	—
Net periodic defined benefit costs (credits)	$ 41	$ 77	$ 34	$ (1)	$ 5	$ 10
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:						
Settlement	(18)	(23)	(1)	—	—	—
Net (gain) loss	42	(221)	(121)	(53)	(6)	(18)
Prior service cost (credit)	3	1	2	—	5	—
Amortization of:						
Prior service (cost) credit	(8)	(9)	(8)	(1)	(1)	1
Actuarial gain (loss)	(93)	(89)	(56)	1	—	(1)
Total recognized in OCI and regulatory assets/liabilities	(74)	(341)	(184)	(53)	(2)	(18)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	$ (33)	$ (264)	$ (150)	$ (54)	$ 3	$ (8)

(a) 2021 and 2020 include a settlement charge for a retired PPL executive as well as a settlement charge incurred as a result of the amount of lump sum payment distributions from the LKE qualified pension plan. In accordance with existing regulatory accounting treatment, LG&E and KU have primarily maintained the settlement charge in regulatory assets to be amortized in accordance with existing regulatory practice. The portion of the settlement attributed to LKE's operations outside of the jurisdiction of the KPSC has been charged to expense.

For PPL's pension and postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2021	2020	2019	2021	2020	2019
OCI	$ (70)	$ (428)	$ (194)	$ (42)	$ (12)	$ (13)
Regulatory assets/liabilities	(4)	87	10	(11)	10	(5)
Total recognized in OCI and regulatory assets/liabilities	$ (74)	$ (341)	$ (184)	$ (53)	$ (2)	$ (18)

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the year ended December 31.

	Pension Benefits
	2019 (a)
Net periodic defined benefit costs (credits):	
Service cost	$ 1
Interest cost	11
Expected return on plan assets	(21)
Amortization of:	
Prior service cost (credit)	5
Actuarial loss (b)	9
Net periodic defined benefit costs (credits) (c)	$ 5
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:	
Net (gain) loss	$ (19)
Amortization of:	
Prior service credit	(5)
Actuarial gain	(9)
Total recognized in regulatory assets/liabilities	(33)
Total recognized in net periodic defined benefit costs and regulatory assets	$ (28)

(a) The pension plans sponsored by LKE and LG&E were merged effective January 1, 2020 into the LG&E and KU Pension Plan, sponsored by LKE.

(b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LG&E's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was $3 million in 2019.

(c) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, settlement charges of $5 million in 2019 was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts.

	Pension Benefits			Other Postretirement Benefits		
	2021	2020	2019	2021	2020	2019
PPL	$ 12	$ 40	$ 18	$ (1)	$ 4	$ 8
PPL Electric (a)	(9)	(2)	(4)	(1)	2	4
LG&E (a) (b)	(1)	4	3	2	2	2
KU (a) (b)	(3)	1	(1)	—	—	—

(a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. Effective January 1, 2020, the LKE and LG&E defined benefit pension plans were merged into a combined defined benefit pension plan, sponsored by LKE, therefore LG&E does not directly sponsor any defined benefit plans. LG&E and KU were allocated these costs of defined benefit plans sponsored by LKE, based on their participation in those plans, which management believes are reasonable. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 15 for additional information on costs allocated to LG&E and KU from LKS.

(b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between net periodic defined benefit costs calculated in accordance with LG&E's and KU's pension accounting policy and the net periodic defined benefit costs calculated using a 15 year amortization period for gains and losses is recorded as a regulatory asset. Of the costs charged to Other operation and maintenance, Other Income (Expense) - net or regulatory assets, excluding amounts charged to construction and other non-expense accounts, insignificant amounts for LG&E and KU were recorded as regulatory assets in 2021, $3 million for LG&E and $1 million for KU were recorded as regulatory assets in 2020 and $2 million for LG&E and $1 million for KU were recorded as regulatory assets in 2019.

(PPL and LG&E)

PPL and LG&E use base mortality tables issued by the Society of Actuaries for all defined benefit pension and other postretirement benefit plans. In 2019, PPL and LG&E used RP-2014 base tables with collar and factor adjustments, where applicable, and the MP-2017 mortality improvement scale from 2006 on a generational basis. In 2020, PPL updated to the Pri-2012 base table and the MP-2020 projection scale with varying adjustment factors based on the underlying demographic and geographic differences and experience of the plan participants.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31.

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
PPL				
Discount rate	3.15 %	2.92 %	3.13 %	2.84 %
Rate of compensation increase	3.76 %	3.76 %	3.77 %	3.75 %

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2021	2020	2019	2021	2020	2019
PPL						
Discount rate	2.92 %	3.64 %	4.35 %	2.84 %	3.60 %	4.31 %
Rate of compensation increase	3.76 %	3.79 %	3.79 %	3.75 %	3.76 %	3.76 %
Expected return on plan assets	7.25 %	7.25 %	7.25 %	6.48 %	6.44 %	6.46 %
LG&E						
Discount rate	— %	— %	4.33 %			
Expected return on plan assets (a)	— %	— %	7.25 %			

(a) The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

(PPL)

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2021	2020	2019
PPL			
Health care cost trend rate assumed for next year			
– obligations	6.25 %	6.50 %	6.60 %
– cost	6.50 %	6.60 %	6.60 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
– obligations	5.00 %	5.00 %	5.00 %
– cost	5.00 %	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate			
– obligations	2027	2027	2024
– cost	2027	2024	2023

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
Change in Benefit Obligation				
Benefit Obligation, beginning of period	$ 4,251	$ 4,146	$ 573	$ 557
Service cost	56	56	6	6
Interest cost	121	146	16	19
Participant contributions	—	—	14	15
Plan amendments	2	2	—	5
Actuarial (gain) loss	(88)	256	(50)	29
Settlements	(106)	(114)	—	—
Gross benefits paid	(247)	(241)	(55)	(58)
Benefit Obligation, end of period	3,989	4,251	504	573
Change in Plan Assets				
Plan assets at fair value, beginning of period	4,068	3,585	367	340
Actual return on plan assets	125	723	25	56
Employer contributions	47	115	18	18
Participant contributions	—	—	11	11
Settlements	(106)	(114)	—	—
Gross benefits paid	(247)	(241)	(54)	(58)
Plan assets at fair value, end of period	3,887	4,068	367	367
Funded Status, end of period	$ (102)	$ (183)	$ (137)	$ (206)
Amounts recognized in the Balance Sheets consist of:				
Noncurrent asset	$ 91	$ 24	$ —	$ —
Current liability	(10)	(18)	(15)	(22)
Noncurrent liability	(183)	(189)	(122)	(184)
Net amount recognized, end of period	$ (102)	$ (183)	$ (137)	$ (206)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost (credit)	$ 22	$ 27	$ 12	$ 14
Net actuarial (gain) loss	626	695	(51)	—
Total	$ 648	$ 722	$ (39)	$ 14
Total accumulated benefit obligation for defined benefit pension plans	$ 3,786	$ 4,024		

For PPL's pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
AOCI	$ 239	$ 270	$ (2)	$ 10
Regulatory assets/liabilities	409	452	(37)	4
Total	$ 648	$ 722	$ (39)	$ 14

The actuarial gain for pension plans in 2021 was primarily related to a change in the discount rate used to measure the benefit obligations of those plans. The actuarial loss for pension plans in 2020 was related to a change in the discount rate used to measure the benefit obligations of those plans offset by gains resulting from the updated mortality assumptions noted above and other demographic assumption changes resulting from the completion of a tri-annual demographic experience study.

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2021	2020
Projected benefit obligation	$ 193	$ 1,875
Fair value of plan assets	—	1,668

	ABO in excess of plan assets	
	2021	2020
Accumulated benefit obligation	$ 177	$ 184
Fair value of plan assets	—	—

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retirees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in assets/(liabilities) at December 31 as follows:

	2021	2020
Pension	$ 42	$ 4
Other postretirement benefits	(78)	(99)

(LG&E)

Although LG&E does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE. LG&E is also allocated costs of defined benefits plans from LKS for defined benefit plans sponsored by LKE. See Note 15 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of LG&E are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in assets/(liabilities) at December 31 as follows:

	2021	2020
Pension	$ 85	$ 78
Other postretirement benefits	(51)	(68)

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 15 for additional information on costs allocated to KU from LKS. These allocations are based on KU's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in assets/(liabilities) at December 31 as follows.

	2021	2020
Pension	$ 75	$ 62
Other postretirement benefits	(6)	(16)

Plan Assets - Pension Plans

(PPL)

PPL's primary legacy pension plan and the pension plan sponsored by LKE are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2021 are presented below.

The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		2021
	2021	2020	Target Asset Allocation
Growth Portfolio	**55 %**	**56 %**	**55 %**
Equity securities	32 %	34 %	
Debt securities (a)	13 %	13 %	
Alternative investments	10 %	9 %	
Immunizing Portfolio	**43 %**	**43 %**	**43 %**
Debt securities (a)	35 %	33 %	
Derivatives	8 %	10 %	
Liquidity Portfolio	**2 %**	**1 %**	**2 %**
Total	100 %	100 %	100 %

(a) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(PPL)

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2021				December 31, 2020			
	Fair Value Measurements Using				Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	$ 266	$ 266	$ —	$ —	$ 300	$ 300	$ —	$ —
Equity securities:								
U.S. Equity	41	41	—	—	60	60	—	—
U.S. Equity fund measured at NAV (a)	754	—	—	—	742	—	—	—
International equity fund at NAV (a)	511	—	—	—	566	—	—	—
Commingled debt measured at NAV (a)	677	—	—	—	712	—	—	—
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	281	280	1	—	336	335	1	—
Corporate	1,039	—	1,019	20	1,045	—	1,030	15

	December 31, 2021				December 31, 2020			
	Fair Value Measurements Using				Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Other	14	—	14	—	13	—	13	—
Alternative investments:								
Real estate measured at NAV (a)	69	—	—	—	76	—	—	—
Private equity measured at NAV (a)	94	—	—	—	68	—	—	—
Hedge funds measured at NAV (a)	236	—	—	—	223	—	—	—
Limited Partnerships at NAV (a)	—	—	—	—	6	—	—	—
Derivatives	35	—	35	—	(37)	—	(37)	—
PPL Services Corporation Master Trust assets, at fair value	4,017	$ 587	$ 1,069	$ 20	4,110	$ 695	$ 1,007	$ 15
Receivables and payables, net (b)	25				116			
401(h) accounts restricted for other postretirement benefit obligations	(155)				(158)			
Total PPL Services Corporation Master Trust pension assets	$ 3,887				$ 4,068			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables, net represents amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2021 is as follows:

	Corporate debt	Total
Balance at beginning of period	$ 15	$ 15
Purchases, sales and settlements	5	5
Balance at end of period	$ 20	$ 20

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2020 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	$ 20	$ 4	$ 24
Purchases, sales and settlements	(5)	(4)	(9)
Balance at end of period	$ 15	$ —	$ 15

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The strategy is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. The partnerships have limited lives of at least 10 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. At December 31, 2021, the Master Trust had unfunded commitments of $111 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in limited partnerships include Term Asset-Backed Securities Loan Facility (TALF) funds. The Master Trust received notice that the TALF funds are liquidating in an orderly manner and distributing capital back to the partners. Therefore, the Master Trust has no unfunded commitment related to the TALF funds. Fair value of the funds is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed with 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in treasury futures, total return swaps, interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on quoted prices, changes in the value of the underlying exposure or on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

In 2019, obligations underlying an investment in an immediate participation guaranteed group annuity contract, classified as Level 3, were assumed by the insurance company, with a residual amount remaining in the general account of the insurer that was paid into the master trust or distributed to participants in 2020.

Plan Assets - Other Postretirement Benefit Plans

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers and, therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts and the target allocation, by asset class, at December 31 are detailed below.

	Percentage of plan assets		Target Asset Allocation
	2021	2020	2021
Asset Class			
U.S. Equity securities	45 %	42 %	45 %
Debt securities (a)	52 %	55 %	50 %
Cash and cash equivalents (b)	3 %	3 %	5 %
Total	100 %	100 %	100 %

(a) Includes commingled debt funds and debt securities.
(b) Includes money market funds.

The fair value of assets in the other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2021				December 31, 2020			
	Fair Value Measurement Using				Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds	$ 6	$ 6	$ —	$ —	$ 5	$ 5	$ —	$ —
U.S. Equity securities:								
Large-cap equity fund measure at NAV (a)	96	—	—	—	89	—	—	—
Commingled debt fund measured at NAV (a)	75	—	—	—	77	—	—	—
Debt securities:								
Corporate bonds	38	—	38	—	37	—	37	—
U.S. Treasury and U.S. government sponsored agency	—	—	—	—	2	—	2	—
Total VEBA trust assets, at fair value	215	$ 6	$ 38	$ —	210	$ 5	$ 39	$ —
Receivables and payables, net (b)	(3)				(1)			
401(h) account assets	155				158			
Total other postretirement benefit plan assets	$ 367				$ 367			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made daily on these funds.

Investments in corporate bonds represent investment in a diversified portfolio of investment grade long-duration fixed income securities. The fair value of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences.

Investments in U.S. Treasury and U.S. government sponsored agencies represent securities included in a portfolio of investment-grade long-duration fixed income. The fair value of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences.

Expected Cash Flows - Defined Benefit Plans *(PPL)*

PPL does not plan to contribute to its pension plans in 2022, as PPL's defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately $10 million of benefit payments under these plans in 2022.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute $22 million to its other postretirement benefit plans in 2022.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by PPL.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2022	$ 207	$ 44	$ 1
2023	207	42	—
2024	204	41	—
2025	204	40	—
2026	202	38	—
2027-2030	946	176	1

Savings Plans *(All Registrants)*

Substantially all employees of PPL's subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	2021	2020	2019
PPL	$ 29	$ 29	$ 30
PPL Electric	5	6	6
LG&E	7	6	6
KU	5	5	5

13. Jointly Owned Facilities

(PPL, LG&E and KU)

At December 31, 2021 and 2020, the Balance Sheets reflect the owned interests in the generating plants listed below.

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
PPL				
December 31, 2021				
Trimble County Unit 1	75.00 %	$ 457	$ 79	$ —
Trimble County Unit 2	75.00 %	1,360	247	121
December 31, 2020				
Trimble County Unit 1	75.00 %	$ 440	$ 64	$ 2
Trimble County Unit 2	75.00 %	1,340	227	106
LG&E				
December 31, 2021				
E.W. Brown Units 6-7	38.00 %	$ 53	$ 24	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00 %	51	25	—
Trimble County Unit 1	75.00 %	457	79	—
Trimble County Unit 2	14.25 %	379	57	64
Trimble County Units 5-6	29.00 %	36	15	—
Trimble County Units 7-10	37.00 %	81	34	—
Cane Run Unit 7	22.00 %	125	19	—
E.W. Brown Solar Unit	39.00 %	10	2	—
Solar Share	44.00 %	2	—	—
December 31, 2020				
E.W. Brown Units 6-7	38.00 %	$ 46	$ 22	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00 %	51	22	—
Trimble County Unit 1	75.00 %	440	64	2
Trimble County Unit 2	14.25 %	370	51	54
Trimble County Units 5-6	29.00 %	33	14	1
Trimble County Units 7-10	37.00 %	77	31	1
Cane Run Unit 7	22.00 %	123	15	—
E.W. Brown Solar Unit	39.00 %	10	2	—
Solar Share	44.00 %	2	—	—
KU				
December 31, 2021				
E.W. Brown Units 6-7	62.00 %	$ 88	$ 40	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00 %	45	22	—
Trimble County Unit 2	60.75 %	981	190	57
Trimble County Units 5-6	71.00 %	84	36	—
Trimble County Units 7-10	63.00 %	133	57	—
Cane Run Unit 7	78.00 %	444	70	—
E.W. Brown Solar Unit	61.00 %	16	4	—
Solar Share	56.00 %	3	—	—
December 31, 2020				
E.W. Brown Units 6-7	62.00 %	$ 76	$ 37	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00 %	45	20	—
Trimble County Unit 2	60.75 %	970	176	52
Trimble County Units 5-6	71.00 %	77	33	4
Trimble County Units 7-10	63.00 %	129	53	2
Cane Run Unit 7	78.00 %	443	57	2
E.W. Brown Solar Unit	61.00 %	16	3	—
Solar Share	56.00 %	2	—	—

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

14. Commitments and Contingencies

Energy Purchase Commitments *(PPL, LG&E and KU)*

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's retail natural gas supply operations. These contracts include the following commitments:

Contract Type	Maximum Maturity Date
Natural Gas Fuel	2024
Natural Gas Retail Supply	2023
Coal	2026
Coal Transportation and Fleeting Services	2027
Natural Gas Transportation	2026

LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. See footnote (c) to the table in "Guarantees and Other Assurances" below for information on the OVEC power purchase contract, including recent developments in credit or debt conditions relating to OVEC. Future obligations for power purchases from OVEC are demand payments, comprised of debt-service payments and contractually-required reimbursements of plant operating, maintenance and other expenses, and are projected as follows:

	LG&E	KU	Total
2022	$ 23	$ 10	$ 33
2023	23	10	33
2024	22	10	32
2025	22	10	32
2026	22	10	32
Thereafter	218	96	314
Total	$ 330	$ 146	$ 476

LG&E and KU had total energy purchases under the OVEC power purchase agreement for the years ended December 31 as follows:

	2021	2020	2019
LG&E	$ 13	$ 12	$ 15
KU	6	6	7
Total	$ 19	$ 18	$ 22

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

Talen Litigation *(PPL)*

Background

In September 2013, one of PPL's former subsidiaries, PPL Montana entered into an agreement to sell its hydroelectric generating facilities. In June 2014, PPL and PPL Energy Supply, the parent company of PPL Montana, entered into various definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and ultimately combine it with Riverstone's competitive power generation businesses to form a stand-alone company named Talen Energy. In November 2014, after executing the spinoff agreements but prior to the closing of the spinoff transaction, PPL Montana closed the sale of its hydroelectric generating facilities. Subsequently, on June 1, 2015, the spinoff of PPL Energy Supply was completed. Following the spinoff transaction, PPL had no continuing ownership interest in or control of PPL Energy Supply. In connection with the spinoff transaction, PPL Montana became Talen Montana, LLC (Talen Montana), a subsidiary of Talen Energy. Talen Energy Marketing also became a subsidiary of Talen Energy as a result of the June 2015 spinoff of PPL Energy Supply. Talen Energy has owned and operated both Talen Montana and Talen Energy Marketing since the spinoff. At the time of the spinoff, affiliates of Riverstone acquired a 35% ownership interest in Talen Energy. Riverstone subsequently acquired the remaining interests in Talen Energy in a take private transaction in December 2016.

Talen Montana Retirement Plan and Talen Energy Marketing, LLC, Individually and on Behalf of All Others Similarly Situated v. PPL Corporation et al.

On October 29, 2018, Talen Montana Retirement Plan and Talen Energy Marketing filed a putative class action complaint on behalf of current and contingent creditors of Talen Montana who allegedly suffered harm or allegedly will suffer reasonably foreseeable harm as a result of the November 2014 distribution of proceeds from the sale of then-PPL Montana's hydroelectric generating facilities. The action was filed in the Sixteenth Judicial District of the State of Montana, Rosebud County, against PPL and certain of its affiliates and current and former officers and directors (Talen Putative Class Action). Plaintiff asserts claims for, among other things, fraudulent transfer, both actual and constructive; recovery against subsequent transferees; civil conspiracy; aiding and abetting tortious conduct; and unjust enrichment. Plaintiff is seeking avoidance of the purportedly fraudulent transfer, unspecified damages, including punitive damages, the imposition of a constructive trust, and other relief. In December 2018, PPL removed the Talen Putative Class Action from the Sixteenth Judicial District of the State of Montana to the United States District Court for the District of Montana, Billings Division (MT Federal Court). In January 2019, the plaintiff moved to remand the Talen Putative Class Action back to state court, and dismissed without prejudice all current and former PPL Corporation directors from the case. In September 2019, the MT Federal Court granted plaintiff's motion to remand the case back to state court. Although, the PPL defendants petitioned the Ninth Circuit Court of Appeals to grant an appeal of the remand decision, in November 2019, the Ninth Circuit Court of Appeals denied that request and in December 2019, Talen Montana Retirement Plan filed a Second Amended Complaint in the Sixteenth Judicial District of the State of Montana, Rosebud County, which removed Talen Energy Marketing as a plaintiff. In January 2020, PPL defendants filed a motion to dismiss the Second Amended Complaint or, in the alternative, to stay the proceedings pending the resolution of the below mentioned Delaware Action. The Court held a hearing on June 24, 2020 regarding the motions. On September 11, 2020, the Court granted PPL defendants' alternative Motion for a Stay of the proceedings.

PPL Corporation et al. vs. Riverstone Holdings LLC, Talen Energy Corporation et al.

On November 30, 2018, PPL, certain PPL affiliates, and certain current and former officers and directors (PPL plaintiffs) filed a complaint in the Court of Chancery of the State of Delaware seeking various forms of relief against Riverstone, Talen Energy and certain of their affiliates (Delaware Action), in response to and as part of the defense strategy for an action filed by Talen Montana, LLC (the Talen Direct Action, since dismissed) and the Talen Putative Class Action described above (together, the Montana Actions) originally filed in Montana state court in October 2018. In the complaint, the PPL plaintiffs ask the Delaware Court of Chancery for declaratory and injunctive relief. This includes a declaratory judgment that, under the separation agreement governing the spinoff of PPL Energy Supply, all related claims that arise must be heard in Delaware; that the statute of limitations in Delaware and the spinoff agreement bar these claims at this time; that PPL is not liable for the claims in either the Talen Direct Action or the Talen Putative Class Action as PPL Montana was solvent at all relevant times; and that the separation agreement requires that Talen Energy indemnify PPL for all losses arising from the debts of Talen Montana, among other things. PPL's complaint also seeks damages against Riverstone for interfering with the separation agreement and against Riverstone affiliates for breach of the implied covenant of good faith and fair dealing. The complaint was subsequently amended on January 11, 2019 and March 20, 2019, to include, among other things, claims related to indemnification with respect to the Montana Actions, request a declaration that the Montana Actions are time-barred under the spinoff agreements, and allege additional facts to support the tortious interference claim. In April 2019, the defendants filed motions to dismiss the amended complaint. In July 2019, the Court heard oral arguments from the parties regarding the motions to dismiss, and in October 2019, the Delaware Court of Chancery issued an opinion sustaining all of the PPL plaintiffs' claims except for the claim for breach of implied covenant of good faith and fair dealing. As a result of the dismissal of the Talen Direct Action in December 2019, in January 2020, Talen Energy filed a new motion to dismiss five of the remaining eight claims in the amended complaint. The Court heard oral argument on the motion to dismiss on May 28, 2020, and on June 22, 2020, issued an opinion denying the motion in its entirety. Discovery is proceeding, and the parties have filed certain motions and cross-motions for summary judgment, which are not yet scheduled for hearing. The trial was previously scheduled for February 2022, but has been rescheduled for July 2022.

With respect to each of the Talen-related matters described above, PPL believes that the 2014 distribution of proceeds was made in compliance with all applicable laws and that PPL Montana was solvent at all relevant times. Additionally, the agreements entered into in connection with the spinoff, which PPL and affiliates of Talen Energy and Riverstone negotiated and executed prior to the 2014 distribution, directly address the treatment of the proceeds from the sale of PPL Montana's hydroelectric generating facilities; in those agreements, Talen Energy and Riverstone definitively agreed that PPL was entitled to retain the proceeds.

PPL believes that it has meritorious defenses to the claims made in the Talen Putative Class Action and intends to continue to vigorously defend against this action. The Talen Putative Class Action was stayed at an early stage of litigation. While the Delaware Action is progressing, at this time PPL cannot predict the outcome of either of these matters or estimate the range of possible losses, if any, that PPL might incur as a result of the claims, although they could be material.

<u>Cane Run Environmental Claims</u> *(PPL and LG&E)*

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky (U.S. District Court) alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. In July 2014, the U.S. District Court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In February 2017, the U.S. District Court dismissed PPL as a defendant and dismissed the final federal claim against LG&E, and in April 2017, issued an Order declining to exercise supplemental jurisdiction on the state law claims dismissing the case in its entirety. In June 2017, the plaintiffs filed a class action complaint in Jefferson County, Kentucky Circuit Court, against LG&E alleging state law nuisance, negligence and trespass tort claims. The plaintiffs sought compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. On January 8, 2020, the Jefferson Circuit Court issued an order denying the plaintiffs' request for class certification. On January 14, 2020, the plaintiffs filed a notice of appeal in the Kentucky Court of Appeals. On December 11, 2020, the Court of Appeals issued an order affirming the lower court's denial of class certification. In December 2020, plaintiffs filed a petition for discretionary review with the Kentucky Supreme Court. On April 20, 2021, the Kentucky Supreme Court denied further review of the lower court order. The case was remanded to the Jefferson Circuit Court for the claims of the three remaining petitioners. Settlements with two of the three remaining petitioners were reached with none of the settlements having or expected to have a significant impact on LG&E's operations or financial condition.

<u>E.W. Brown Environmental Claims</u> *(PPL and KU)*

In July 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky (U.S. District Court) alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. In December 2017, the U.S. District Court issued an Order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. In January 2018, the plaintiffs appealed the dismissal Order to the U.S. Court of Appeals for the Sixth Circuit. In September 2018, the U.S. Court of Appeals for the Sixth Circuit issued its ruling affirming the lower court's decision to dismiss the Clean Water Act claims but reversing its dismissal of the RCRA claims against KU and remanding the latter to the U.S. District Court. In January 2019, KU filed an answer to plaintiffs' complaint in the U.S. District Court. In May 2021, the U.S. District Court issued an order granting KU's motion for summary judgment and dismissed the case. In June 2021, the plaintiffs appealed the district court's order to the U.S. Court of Appeals for the Sixth Circuit. In September 2021, the parties entered into a settlement agreement, providing for dismissal of the appellate proceedings and release of other claims.

KU is undertaking extensive remedial measures at the E.W. Brown plant including closure of the former ash pond, implementation of a groundwater remedial action plan and performance of a corrective action plan including aquatic study of adjacent surface waters and risk assessment. The aquatic study and risk assessment are being undertaken pursuant to a 2017 agreed Order with the Kentucky Energy and Environment Cabinet (KEEC). KU conducted sampling of Herrington Lake in 2017 and 2018. In June 2019, KU submitted to the KEEC the required aquatic study and risk assessment, conducted by an independent third-party consultant, finding that discharges from the E.W. Brown plant have not had any significant impact on Herrington Lake and that the water in the lake is safe for recreational use and meets safe drinking water standards. On May 31, 2021, the KEEC approved the report and released a response to public comments. On August 6, 2021, KU submitted a Supplemental Remedial Alternatives Analysis (SRAA) report to the KEEC that outlines proposed additional fish, water, and sediment testing. KU has submitted a response to the KEEC's comments and expects to undertake the proposed testing in the spring of 2022.

Air *(PPL and LG&E)*

Sulfuric Acid Mist Emissions

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. On July 31, 2020, the U.S. Department of Justice and Louisville Metro Air Pollution Control District filed a complaint in the U.S. District Court for the Western District of Kentucky alleging violations specified in the EPA notice of violation and seeking civil penalties and injunctive relief. In October 2020, LG&E filed a motion to dismiss the complaint. In December 2020, the U.S. Department of Justice and the Louisville Metro Air Pollution Control District filed an amended complaint. In February 2021, LG&E filed a renewed motion to dismiss regarding the amended complaint. In September 2021, the parties reached a tentative agreement providing for dismissal of the court action, the payment by LG&E of a penalty amount and performance of a supplemental environmental project (SEP). The parties have entered a Consent Decree, which is awaiting approval from the U.S. District Court for the Western District of Kentucky. PPL and LG&E are unable to predict the final outcome of this matter but do not believe the matter, including the agreed penalty and SEP, will have a significant impact on LG&E's operations or financial condition.

Water/Waste *(PPL, LG&E and KU)*

ELGs

In 2015, the EPA finalized ELGs for wastewater discharge permits for new and existing steam electricity generating facilities. These guidelines require deployment of additional control technologies providing physical, chemical and biological treatment and mandate operational changes including "no discharge" requirements for certain wastewaters. The implementation date for individual generating stations was to be determined by the states on a case-by-case basis according to criteria provided by the EPA. Legal challenges to the final rule were consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA issued a rule to postpone the compliance date for certain requirements. On October 13, 2020, the EPA published final revisions to its best available technology standards for certain wastewaters and potential extensions to compliance dates (the Reconsideration Rule). The rule is expected to be implemented by the states or applicable permitting authorities in the course of their normal permitting activities. LG&E and KU are currently implementing responsive compliance strategies and schedules. Certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Certain costs are included in the Registrants' capital plans and expected to be recovered from customers through rate recovery mechanisms, but additional costs and recovery will depend on further regulatory developments at the state level. In August 2021, the EPA published a notice of rulemaking announcing that it will propose revisions to the Reconsideration Rule and determine "whether more stringent limitations and standards are appropriate." Compliance with the Reconsideration Rule is required during the pendency of the rulemaking process.

CCRs

In 2015, the EPA issued a final rule governing management of CCRs which include fly ash, bottom ash and sulfur dioxide scrubber wastes. The CCR Rule imposes extensive new requirements for certain CCR impoundments and landfills, including public notifications, location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements, and specifies restrictions relating to the beneficial use of CCRs. In July 2018, the EPA issued a final rule extending the deadline for closure of certain impoundments and adopting other substantive changes. In August 2018, the D.C. Circuit Court of Appeals vacated and remanded portions of the CCR Rule. In December 2019, the EPA addressed the deficiencies identified by the court and proposed amendments to change the closure deadline. In August 2020, the EPA published a final rule extending the deadline to initiate closure to April 11, 2021, while providing for certain extensions. The EPA is conducting ongoing rulemaking actions regarding various other amendments to the rule. Certain ongoing legal challenges to various provisions of the CCR Rule have been held in abeyance pending review by the EPA pursuant to the President's executive order. PPL, LG&E, and KU are monitoring the EPA’s ongoing efforts to refine and implement the regulatory program under the CCR Rule. In January 2022, the EPA issued several proposed regulatory determinations, facility notifications, and public announcements which indicate increased scrutiny by the EPA to determine the adequacy of measures taken by facility owners and operators to achieve closure of CCR surface impoundments and landfills. In particular, the agency indicated that it will focus on certain practices which it views as posing a threat of continuing groundwater contamination. Future guidance, regulatory determinations, rulemakings, and other developments could potentially require revisions to current LG&E and KU compliance plans including additional monitoring and remediation at surface impoundments and landfills, the cost of which could be substantial. PPL, LG&E and KU are unable to predict the outcome of the ongoing litigation, rulemaking, and regulatory determinations or potential impacts on current LG&E and KU compliance plans. The Registrants are currently finalizing closure plans and schedules.

In January 2017, Kentucky issued a new state rule relating to CCR management, effective May 2017, aimed at reflecting the requirements of the federal CCR rule. As a result of a subsequent legal challenge, in January 2018, the Franklin County, Kentucky Circuit Court issued an opinion invalidating certain procedural elements of the rule. LG&E and KU presently operate their facilities under continuing permits authorized under the former program and do not currently anticipate material impacts as a result of the judicial ruling. Associated costs are expected to be subject to rate recovery.

LG&E and KU received KPSC approval for a compliance plan providing for the closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with the federal CCR rule, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law. As of April 2021, LG&E and KU have commenced closure of all of the subject impoundments and have completed closure of some of their smaller impoundments. LG&E and KU generally expect to complete impoundment closures within five years of commencement, although a longer period may be required to complete closure of some facilities. Associated costs are expected to be subject to rate recovery.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs beginning in 2015 and continue to record adjustments as required. See Note 20 for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are expected to be subject to rate recovery.

(All Registrants)

Superfund and Other Remediation

PPL Electric, LG&E and KU are potentially responsible for investigating and remediating contamination under the federal Superfund program and similar state programs. Actions are under way at certain sites including former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated by, or currently owned by predecessors or affiliates of, PPL Electric, LG&E and KU. PPL Electric is potentially responsible for a share of clean-up costs at certain sites including the Columbia Gas Plant site and the Brodhead site. Cleanup actions have been or are being undertaken at these sites as requested by governmental agencies, the costs of which have not been and are not expected to be significant to PPL Electric.

At December 31, 2021 and December 31, 2020, PPL Electric had a recorded liability of $10 million representing its best estimate of the probable loss incurred to remediate the sites identified above. Depending on the outcome of investigations at identified sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred. PPL Electric, LG&E and KU lack sufficient information about such additional sites to estimate any potential liability or range of reasonably possible losses, if any, related to these sites. Such costs, however, are not currently expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result, individual states may establish stricter standards for water quality and soil cleanup, that could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. The Registrants cannot reasonably estimate a range of possible losses, if any, related to these matters.

Regulatory Issues

See Note 7 for information on regulatory matters related to utility rate regulation.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

PPL Electric, LG&E and KU monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and an estimate or range of possible losses cannot be determined.

Gas - Security Directives *(PPL and LG&E)*

In May and July of 2021, the Department of Homeland Security's (DHS) Transportation Security Administration (TSA) released two security directives applicable to certain notified owners and operators of natural gas pipeline facilities (including local distribution companies) that TSA has determined to be critical. The first security directive required notified owners/operators to implement cybersecurity incident reporting to the DHS, designate a cybersecurity coordinator, and perform a gap assessment of current entity cybersecurity practices against certain voluntary TSA security guidelines and report relevant results and proposed mitigation to applicable DHS agencies. The second security directive requires notified entities to implement a significant number of specified cyber security controls and processes. LG&E does not believe the security directives will have a significant impact on LG&E's operations or financial condition.

Other

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Examples of such agreements include: guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt obligations of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of December 31, 2021. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote. For reporting purposes, on a consolidated basis, the guarantees of PPL include the guarantees of its subsidiary Registrants.

	Exposure at December 31, 2021		Expiration Date
PPL			
Indemnifications related to the sale of the U.K. utility business		(a)	
Indemnifications related to certain tax liabilities related to the sale of the U.K. utility business	£ 50	(b)	2028
LG&E and KU			
LG&E and KU obligation of shortfall related to OVEC		(c)	

(a) PPL WPD Limited agreed to provide a standard indemnity regarding "leakage" amounts, which included amounts taken out of the sold assets through dividends, return of capital, bonuses or similar method, received or waived by WPD (or its affiliates defined as members of the Sellers Group in the SPA) during the period from April 1, 2020 through June 14, 2021, except such amounts permitted under the WPD SPA. The amount of the cap on this indemnity was £7,881 million, the amount paid to PPL WPD Limited at closing. This indemnification expired in December 2021 and no claims have been made.

(b) PPL WPD Limited entered into a Tax Deed dated June 9, 2021 in which it agreed to a tax indemnity regarding certain potential tax liabilities of the entities sold with respect to periods prior to the completion of the sale, subject to customary exclusions and limitations. Because National Grid Holdings One plc, the buyer, agreed to purchase indemnity insurance, the amount of the cap on the indemnity for these liabilities is £1, except with respect to certain surrenders of tax losses, for which the amount of the cap on the indemnity is £50 million.

(c) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. PPL's proportionate share of OVEC's outstanding debt was $92 million at December 31, 2021, consisting of LG&E's share of $64 million and KU's share of $28 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" above for additional information on the OVEC power purchase contract.

In March 2018, a sponsor with a 4.85% pro-rata share of OVEC obligations filed for bankruptcy under Chapter 11 and, in August 2018, received a rejection order for the OVEC power purchase contract in the bankruptcy proceeding. OVEC and other entities challenged the contract rejection, the bankruptcy plan confirmation and regulatory aspects of the plan in various forums. In May 2020, OVEC and the relevant sponsor announced a settlement resolving all disputed matters in the bankruptcy and other proceedings, including providing that the sponsor will withdraw its request to reject the power purchase agreement. The settlement was implemented in July 2020.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of $225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

Risks and Uncertainties *(All Registrants)*

The COVID-19 pandemic has disrupted the U.S. and global economies and continues to present challenges to businesses, communities, workforces, markets and increasingly to supply chains. In the U.S. and throughout the world, governmental authorities have taken actions to contain the spread of the virus and mitigate known or foreseeable impacts. In the Registrants' service territories, mitigation measures have included quarantines, stay-at-home orders, travel restrictions, reduced operations or closures of businesses, schools and governmental agencies, and executive, legislative or regulatory actions to address health or other pandemic-related concerns. Many restrictions that had been imposed have been lifted but may be reenacted in the future. These actions have the potential to adversely impact the Registrants' business and operations, especially if these measures remain in effect for a prolonged period of time.

To date, there has been no material impact on the Registrants' operations, financial condition, liquidity or on their supply chain as a result of COVID-19; however, the duration and severity of the outbreak and its ultimate effects on the global economy, the financial markets, or the Registrants' workforce, customers and suppliers are uncertain. A protracted slowdown of broad sectors of the economy, prolonged or pervasive restrictions on businesses and their workforces, or significant changes in legislation or regulatory policy to address the COVID-19 pandemic all present significant risks to the Registrants. These or other unpredictable events resulting from the pandemic could reduce customer demand for electricity and gas, impact the Registrants' employees and supply chains, result in an increase in certain costs, delay payments or increase bad debts, or result in changes in the fair value of their assets and liabilities, which could materially and adversely affect the Registrants' business, results of operations, financial condition or liquidity.

15. Related Party Transactions

Wholesale Sales and Purchases *(LG&E and KU)*

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E and vice versa. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost plus any split savings. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its retail customers' needs and its available generation.

Support Costs *(PPL Electric, LG&E and KU)*

PPL Services, PPL EU Services, prior to its merger into PPL Services as of December 31, 2021, and LKS provide the Registrants and each other with administrative, management and support services. For all services companies, the costs of directly assignable and attributable services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. PPL Services may also use a ratio of overall direct and indirect costs or a weighted average cost ratio. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the years ended December 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	2021	2020	2019
PPL Electric from PPL Services	$ 54	$ 50	$ 59
PPL Electric from PPL EU Services	222	176	152
LG&E from LKS	169	170	160
KU from LKS	179	180	178

In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between PPL and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a $1,200 million revolving line of credit with a PPL Electric subsidiary. At December 31, 2021, PPL Energy Funding had borrowings outstanding in the amount of $499 million. This balance is reflected in "Notes receivable from affiliate" on the PPL Electric balance sheet. No balance was outstanding at December 31, 2020. The interest rates on borrowings are equal to one-month LIBOR plus a spread. Interest income is reflected in "Interest Income from Affiliate" on the Income Statements.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to the difference between LG&E's FERC borrowing limit and LG&E's commercial paper limit at an interest rate based on the lower of a market index of commercial paper issues and two additional rate options based on LIBOR. LG&E's money pool borrowing limit is $325 million. At December 31, 2021, LG&E had borrowings outstanding from LKE in the amount of $324 million. This balance is reflected in "Notes payable with affiliates" on the LG&E balance sheets. No balances were outstanding at December 31, 2020.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to the difference between KU's FERC borrowing limit and KU's commercial paper limit at an interest rate based on the lower of a market index of commercial paper issues and two additional rate options based on LIBOR. KU's money pool borrowing limit is $300 million. At December 31, 2021, KU had borrowings outstanding from LKE in the amount of $294 million. This balance is reflected in "Notes payable with affiliates" on the KU balance sheets. No balances were outstanding at December 31, 2020.

VEBA Funds Receivable *(PPL Electric)*

In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA, to be used to pay medical claims of active bargaining unit employees. Based on PPL Electric's participation in PPL's Other Postretirement Benefit plan, PPL Electric was allocated a portion of the excess funds from PPL Services. These funds have been recorded as an intercompany receivable on the Balance Sheets. The receivable balance decreases as PPL Electric pays incurred medical claims and is reimbursed by PPL Services. The intercompany receivable balance associated with these funds was $11 million as of December 31, 2021, of which $10 million was reflected in "Accounts receivable from affiliates" and $1 million was reflected in "Other noncurrent assets" on the Balance Sheets. The intercompany receivable balance associated with these funds was $22 million as of December 31, 2020, of which $10 million was reflected in "Accounts receivable from affiliates" and $12 million was reflected in "Other noncurrent assets" on the Balance Sheets.

Other *(PPL Electric, LG&E and KU)*

See Note 1 for discussions regarding the intercompany tax sharing agreement (for PPL Electric, LG&E and KU) and intercompany allocations of stock-based compensation expense (for PPL Electric). For PPL Electric, LG&E and KU, see Note 12 for discussions regarding intercompany allocations associated with defined benefits.

16. Other Income (Expense) - net

(PPL)

The components of "Other Income (Expense) - net" for the years ended December 31, were:

	2021	2020	2019
Other Income			
Defined benefit plans - non-service credits (Note 12)	$ 21	$ (2)	$ 8
Interest income	12	9	15
AFUDC - equity component	18	20	23
Miscellaneous	10	7	7
Total Other Income	61	34	53
Other Expense			
Charitable contributions	14	3	17
Miscellaneous	32	29	22
Total Other Expense	46	32	39
Other Income (Expense) - net	$ 15	$ 2	$ 14

(PPL Electric)

The components of "Other Income (Expense) - net" for the years ended December 31, were:

	2021	2020	2019
Other Income			
Defined benefit plans - non-service credits (Note 12)	$ 9	$ 4	$ 4
Interest income	—	2	2
AFUDC - equity component	18	19	23
Total Other Income	27	25	29
Other Expense			
Charitable contributions	3	3	3
Miscellaneous	3	4	1
Total Other Expense	6	7	4
Other Income (Expense) - net	$ 21	$ 18	$ 25

17. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. See Note 1 for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2021				December 31, 2020			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 3,571	$ 3,571	$ —	$ —	$ 442	$ 442	$ —	$ —
Restricted cash and cash equivalents (a)	1	1	—	—	1	1	—	—
Special use funds (a):								
Money market fund	2	2	—	—	—	—	—	—
Commingled debt fund measured at NAV (b)	22	—	—	—	26	—	—	—
Commingled equity fund measured at NAV (b)	21	—	—	—	25	—	—	—
Total special use funds	45	2	—	—	51	—	—	—
Total assets	$ 3,617	$ 3,574	$ —	$ —	$ 494	$ 443	$ —	$ —
Liabilities								
Price risk management liabilities (c):								
Interest rate swaps	$ 18	$ —	$ 18	$ —	$ 23	$ —	$ 23	$ —
Total price risk management liabilities	$ 18	$ —	$ 18	$ —	$ 23	$ —	$ 23	$ —
PPL Electric								
Assets								
Cash and cash equivalents	$ 21	$ 21	$ —	$ —	$ 40	$ 40	$ —	$ —
Total assets	$ 21	$ 21	$ —	$ —	$ 40	$ 40	$ —	$ —
LG&E								
Assets								
Cash and cash equivalents	$ 9	$ 9	$ —	$ —	$ 7	$ 7	$ —	$ —
Total assets	$ 9	$ 9	$ —	$ —	$ 7	$ 7	$ —	$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$ 18	$ —	$ 18	$ —	$ 23	$ —	$ 23	$ —
Total price risk management liabilities	$ 18	$ —	$ 18	$ —	$ 23	$ —	$ 23	$ —
KU								
Assets								
Cash and cash equivalents	$ 13	$ 13	$ —	$ —	$ 22	$ 22	$ —	$ —
Total assets	$ 13	$ 13	$ —	$ —	$ 22	$ 22	$ —	$ —

(a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) In accordance with accounting guidance, certain investments that are measured at fair value using net asset value per share (NAV), or its equivalent, have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
(c) Current portion is included in "Other current liabilities" and noncurrent portion is included in "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

Special Use Funds

(PPL)

The special use funds are investments restricted for paying active union employee medical costs. In 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA to be used to pay medical claims of active bargaining unit employees. The funds are invested primarily in commingled debt and equity funds measured at NAV and are classified as investments in equity securities. Changes in the fair value of the funds are recorded to the Statement of Income.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps
(PPL, LG&E and KU)

To manage interest rate risk, PPL, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options, and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Financial Instruments Not Recorded at Fair Value *(All Registrants)*

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	December 31, 2021		December 31, 2020	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	$ 11,140	$ 12,955	$ 14,689	$ 17,774
PPL Electric	4,484	5,272	4,236	5,338
LG&E	2,006	2,363	2,007	2,499
KU	2,618	3,120	2,618	3,334

(a) Amounts are net of debt issuance costs.

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

18. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of these contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest Rate Risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. Prior to the sale of the U.K. utility business on June 14, 2021, PPL and WPD held over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and, prior to the sale of the U.K. utility business on June 14, 2021, for certain plans at WPD due to the recovery methods in place.

Foreign Currency Risk (PPL)

- PPL was exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

(All Registrants)

Commodity Price Risk

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

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is insignificant and mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

Volumetric risk is the risk related to the changes in volume of retail sales due to weather, economic conditions or other factors. PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD was exposed to volumetric risk which was significantly mitigated as a result of the method of regulation in the U.K.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Equity Securities Price Risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with the fair value of the defined benefit plans' assets. This risk is significantly mitigated due to the recovery methods in place.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" transactions with counterparties, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of PPL Electric, LG&E or KU defaults on its obligation, those Registrants would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thereby mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements *(PPL, LG&E and KU)*

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had no obligation and an immaterial obligation to return cash collateral under master netting arrangements at December 31, 2021 and 2020.

PPL had no obligation to post cash collateral under master netting arrangements at December 31, 2021 and 2020.

LG&E and KU had no obligation to return cash collateral under master netting arrangements at December 31, 2021 and 2020.

LG&E and KU had no cash collateral posted under master netting arrangements at December 31, 2021 and 2020.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

(All Registrants)

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

Cash Flow Hedges *(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL had no such contracts at December 31, 2021.

As of December 31, 2021, PPL had no aggregate notional value in cross-currency interest rate swap contracts. In March 2021, $500 million of WPD's U.S. dollar-denominated senior notes were repaid prior to maturity and $500 million notional value of cross-currency interest rate swap contracts matured.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

For 2021, 2020 and 2019, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At December 31, 2021, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity *(PPL and LG&E)*

LG&E enters into interest rate swap contracts that economically hedge interest payments. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At December 31, 2021, LG&E held contracts with a notional amount of $64 million that mature in 2033.

Foreign Currency Risk

(PPL)

PPL was exposed to foreign currency risk, primarily through investments in and earnings of U.K affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions, including the sale of its U.K utility business and net investments. In addition, PPL entered into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

Net Investment Hedges

PPL entered into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no contracts outstanding at December 31, 2021.

At December 31, 2020, PPL had $33 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI. The remaining balance was transferred out of AOCI and realized in discontinued operations as a result of the sale of the U.K. utility business.

Economic Activity

PPL entered into foreign currency contracts on behalf of subsidiaries to economically hedge foreign-denominated anticipated earnings and anticipated transactions, including the sale of its U.K. utility business.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless the Normal Purchase Normal Sale scope exception (NPNS) is elected. NPNS contracts include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 7 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2021 and 2020.

See Note 1 for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets:

	December 31, 2021				December 31, 2020			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	$ —	$ —	$ —	$ 1	$ —	$ —	$ —	$ 2
Cross-currency swaps (c)	—	—	—	—	94	—	—	—
Foreign currency contracts (c)	—	—	—	—	—	—	—	137
Total current	—	—	—	1	94	—	—	139
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	17	—	—	—	21
Cross-currency swaps (c)	—	—	—	—	52	—	—	—
Total noncurrent	—	—	—	17	52	—	—	21
Total derivatives	$ —	$ —	$ —	$ 18	$ 146	$ —	$ —	$ 160

(a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
(b) Excludes accrued interest, if applicable.
(c) Included in "Current assets held for sale" and "Current liabilities held for sale" on the Balance Sheet.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities:

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income
2021			
Cash Flow Hedges:			
Interest rate swaps	$ —	Interest Expense	$ 11
		Income (Loss) from Discontinued operations (net of taxes)	(2)
Cross-currency swaps	(50)	Income (Loss) from Discontinued operations (net of taxes)	(39)
Total	$ (50)		$ (30)
Net Investment Hedges:			
Foreign currency contracts in Discontinued operations	$ 1		
2020			
Cash Flow Hedges:			
Interest rate swaps	$ (9)	Interest Expense	$ (8)
		Income (Loss) from Discontinued operations (net of taxes)	(2)
Cross-currency swaps	(15)	Income (Loss) from Discontinued operations (net of taxes)	(22)
Total	$ (24)		$ (32)
Net Investment Hedges:			
Foreign currency contracts in Discontinued operations	$ 1		
2019			
Cash Flow Hedges:			
Interest rate swaps	$ (30)	Interest Expense	$ (9)
Cross-currency swaps	17	Income (Loss) from Discontinued operations (net of taxes)	(9)
Total	$ (13)		$ (18)
Net Investment Hedges:			
Foreign currency contracts in Discontinued operations	$ 2		

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2021	2020	2019
Foreign currency contracts	Income (Loss) from Discontinued Operations (net of taxes)	$ (266)	$ (98)	$ (14)
Interest rate swaps	Interest Expense	(2)	(5)	(5)
	Total	$ (268)	$ (103)	$ (19)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2021	2020	2019
Interest rate swaps	Regulatory assets - noncurrent	$ 5	$ (2)	$ (1)

The following table presents the effect of cash flow hedge activity on the Statement of Income for the year ended December 31, 2021:

	Location and Amount of Gain (Loss) Recognized in Income on Hedging Relationships	
	Interest Expense	Income (Loss) from Discontinued Operations (net of income taxes)
Total income and expense line items presented in the income statement in which the effect of cash flow hedges are recorded	$ 918	$ (1,498)
The effects of cash flow hedges:		
Gain (Loss) on cash flow hedging relationships:		
Interest rate swaps:		
Amount of gain (loss) reclassified from AOCI to income	11	(2)
Cross-currency swaps:		
Hedged items	—	39
Amount of gain (loss) reclassified from AOCI to income	—	(39)

The following table presents the effect of cash flow hedge activity on the Statement of Income for the year ended December 31, 2020:

	Location and Amount of Gain (Loss) Recognized in Income on Hedging Relationships	
	Interest Expense	Income (Loss) from Discontinued Operations (net of income taxes)
Total income and expense line items presented in the income statement in which the effect of cash flow hedges are recorded	$ 634	$ 829
The effects of cash flow hedges:		
Gain (Loss) on cash flow hedging relationships:		
Interest rate swaps:		
Amount of gain (loss) reclassified from AOCI to income	(8)	(2)
Cross-currency swaps:		
Hedged items	—	22
Amount of gain (loss) reclassified from AOCI to income	—	(22)

The following table presents the effect of cash flow hedge activity on the Statement of Income for the year ended December 31,2019:

	Location and Amount of Gain (Loss) Recognized in Income on Hedging Relationships	
	Interest Expense	Income (Loss) from Discontinued Operations (net of income taxes)
Total income and expense line items presented in the income statement in which the effect of cash flow hedges are recorded	$ 621	$ 1,010
The effects of cash flow hedges:		
Gain (Loss) on cash flow hedging relationships:		
Interest rate swaps:		
Amount of gain (loss) reclassified from AOCI to income	(9)	—
Cross-currency swaps:		
Hedged items	—	9
Amount of gain (loss) reclassified from AOCI to income	—	(9)

(LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments:

	December 31, 2021		December 31, 2020	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management Assets/Liabilities:				
Interest rate swaps	$ —	$ 1	$ —	$ 2
Total current	—	1	—	2
Noncurrent:				
Price Risk Management Assets/Liabilities:				
Interest rate swaps	—	17	—	21
Total noncurrent	—	17	—	21
Total derivatives	$ —	$ 18	$ —	$ 23

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets:

Derivative Instruments	Location of Gain (Loss)	2021	2020	2019
Interest rate swaps	Interest Expense	$ (2)	$ (5)	$ (5)

Derivative Instruments	Location of Gain (Loss)	2021	2020	2019
Interest rate swaps	Regulatory assets - noncurrent	$ 5	$ (2)	$ (1)

(PPL, LG&E and KU)

Offsetting Derivative Instruments

PPL, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
		Eligible for Offset				Eligible for Offset		
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2021								
Treasury Derivatives								
PPL	$ —	$ —	$ —	$ —	$ 18	$ —	$ —	$ 18
LG&E	—	—	—	—	18	—	—	18
December 31, 2020								
Treasury Derivatives								
PPL	$ 146	$ 34	$ —	$ 112	$ 160	$ 34	$ —	$ 126
LG&E	—	—	—	—	23	—	—	23

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL)

At December 31, 2021, there were no derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade.

19. Goodwill and Other Intangible Assets

Goodwill

(PPL)

Goodwill for the Kentucky Regulated segment was $662 million at December 31, 2021 and 2020. Goodwill for Corporate and Other was $53 million at December 31, 2021 and 2020. There were no accumulated impairment losses related to goodwill.

Other Intangible Assets

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2021		December 31, 2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	$ 125	$ 90	$ 125	$ 82
Land rights and easements	406	135	401	133
Licenses and other	20	6	21	4
Total subject to amortization	551	231	547	219
Not subject to amortization due to indefinite life:				
Land rights and easements	17	—	17	—
Other	6	—	6	—
Total not subject to amortization due to indefinite life	23	—	23	—
Total	$ 574	$ 231	$ 570	$ 219

(a) Gross carrying amount in 2021 and 2020 includes the fair value at the acquisition date of the OVEC power purchase contract with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2021	2020	2019
Intangible assets with no regulatory offset	$ 9	$ 7	$ 6
Intangible assets with regulatory offset	8	8	9
Total	$ 17	$ 15	$ 15

Amortization expense for each of the next five years is estimated to be:

	2022	2023	2024	2025	2026
Intangible assets with no regulatory offset	$ 5	$ 5	$ 5	$ 5	$ 5
Intangible assets with regulatory offset	8	8	9	9	2
Total	$ 13	$ 13	$ 14	$ 14	$ 7

(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2021		December 31, 2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	$ 382	$ 130	$ 379	$ 129
Licenses and other	2	1	2	1
Total subject to amortization	384	131	381	130
Not subject to amortization due to indefinite life:				
Land rights and easements	17	—	17	—
Total	$ 401	$ 131	$ 398	$ 130

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2021	2020	2019
Intangible assets with no regulatory offset	$ 4	$ 4	$ 4

Amortization expense for each of the next five years is estimated to be:

	2022	2023	2024	2025	2026
Intangible assets with no regulatory offset	$ 4	$ 4	$ 4	$ 4	$ 4

(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2021		December 31, 2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	$ 7	$ 1	$ 7	$ 1
OVEC power purchase agreement (a)	86	62	86	57
Total subject to amortization	$ 93	$ 63	$ 93	$ 58

(a) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2021	2020	2019
Intangible assets with regulatory offset	$ 5	$ 6	$ 6

Amortization expense for each of the next five years is estimated to be:

	2022	2023	2024	2025	2026
Intangible assets with regulatory offset	$ 6	$ 6	$ 6	$ 6	$ 1

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2021		December 31, 2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	$ 16	$ 4	$ 15	$ 3
OVEC power purchase agreement (a)	39	28	39	25
Total subject to amortization	$ 55	$ 32	$ 54	$ 28

(a) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2021	2020	2019
Intangible assets with no regulatory offset	$ 1	$ —	$ —
Intangible assets with regulatory offset	3	2	3

Amortization expense for each of the next five years is estimated to be:

	2022	2023	2024	2025	2026
Intangible assets with regulatory offset	$ 2	$ 2	$ 3	$ 3	$ 1

20. Asset Retirement Obligations

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LG&E and KU)

PPL's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 14 for information on the CCR rule. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements, which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. For LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset or regulatory liability. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, deferred accretion and depreciation expense is recovered through cost of removal.

The changes in the carrying amounts of AROs were as follows:

	PPL		LG&E		KU	
	2021	2020	2021	2020	2021	2020
ARO at beginning of period	$ 182	$ 215	$ 67	$ 73	$ 115	$ 142
Accretion	16	15	5	5	11	10
Changes in estimated timing or cost	56	40	40	13	16	27
Obligations settled	(65)	(88)	(28)	(24)	(37)	(64)
ARO at end of period	$ 189	$ 182	$ 84	$ 67	$ 105	$ 115

21. Accumulated Other Comprehensive Income (Loss)

(PPL)

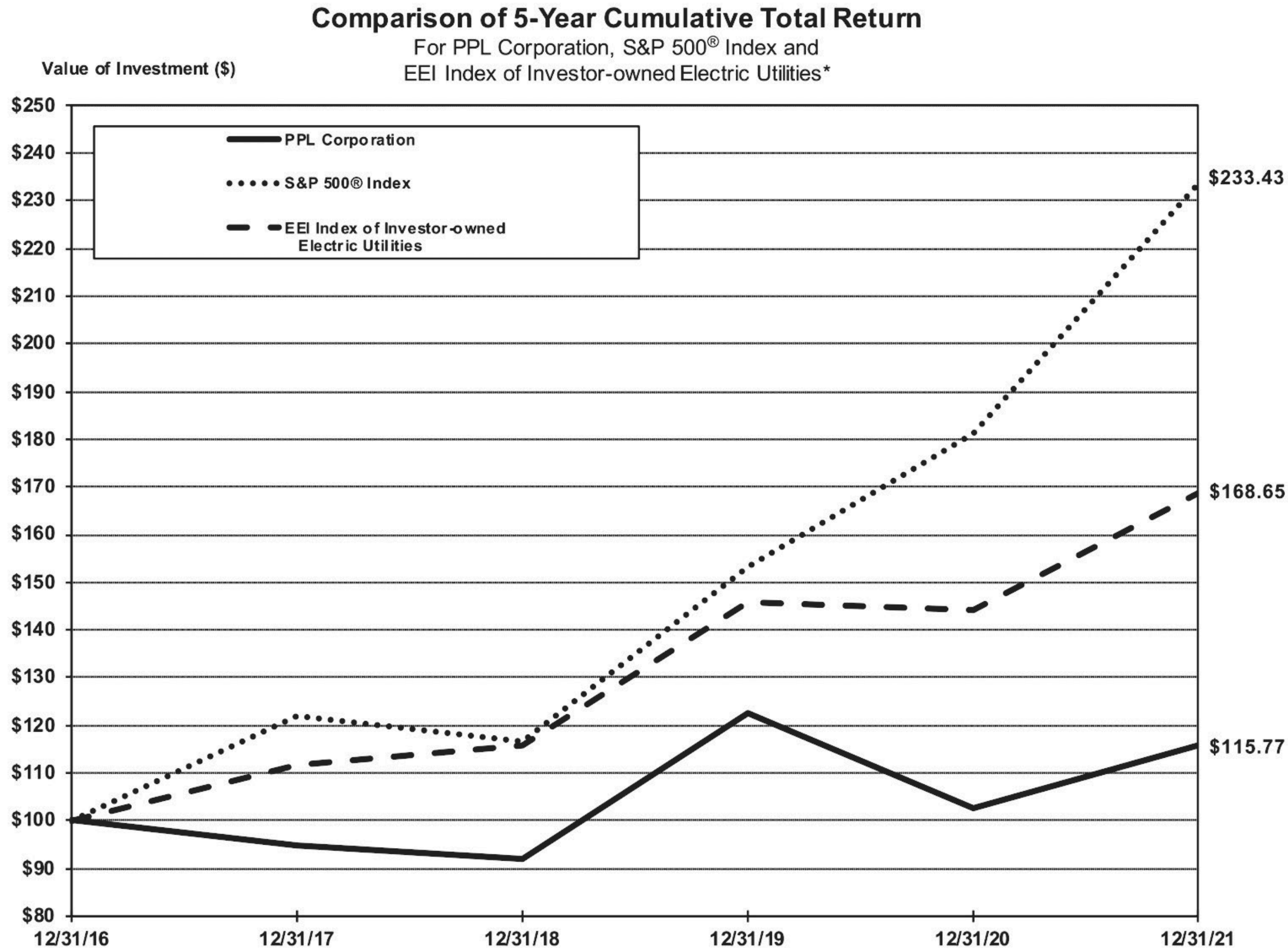
The after-tax changes in AOCI by component for the years ended December 31 were as follows:

			Defined benefit plans		
	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Prior service costs	Actuarial gain (loss)	Total
PPL					
December 31, 2018	$ (1,533)	$ (7)	$ (19)	$ (2,405)	$ (3,964)
Amounts arising during the year	108	(11)	(1)	(592)	(496)

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Defined benefit plans: Prior service costs	Defined benefit plans: Actuarial gain (loss)	Total
Reclassifications from AOCI	—	13	2	87	102
Net OCI during the year	108	2	1	(505)	(394)
December 31, 2019	$ (1,425)	$ (5)	$ (18)	$ (2,910)	$ (4,358)
Amounts arising during the year	267	(19)	(1)	(341)	(94)
Reclassifications from AOCI	—	24	3	205	232
Net OCI during the year	267	5	2	(136)	138
December 31, 2020	$ (1,158)	$ —	$ (16)	$ (3,046)	$ (4,220)
Amounts arising during the year	372	(39)	—	(1)	332
Reclassifications from AOCI	—	25	2	126	153
Reclassifications from AOCI due to the sale of the U.K. utility business (Note 9)	786	15	8	2,769	3,578
Net OCI during the year	1,158	1	10	2,894	4,063
December 31, 2021	$ —	$ 1	$ (6)	$ (152)	$ (157)

The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2021, 2020 and 2019. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 12 for additional information.

Details about AOCI	PPL 2021	PPL 2020	PPL 2019	Affected Line Item on the Statements of Income
Qualifying derivatives				
Interest rate swaps	$ 11	$ (8)	$ (9)	Interest Expense
	(2)	(2)	—	Income (Loss) from Discontinued Operations (net of income taxes)
Cross-currency swaps	(39)	(22)	(9)	Income (Loss) from Discontinued Operations (net of income taxes)
Total Pre-tax	(30)	(32)	(18)	
Income Taxes	5	8	5	
Total After-tax	(25)	(24)	(13)	
Defined benefit plans				
Prior service costs	(3)	(4)	(3)	
Net actuarial loss	(159)	(256)	(109)	
Total Pre-tax	(162)	(260)	(112)	
Income Taxes	34	52	23	
Total After-tax	(128)	(208)	(89)	
Sale of the U.K. utility business (Note 9)				
Foreign currency translation adjustments	(646)	—	—	Income (Loss) from Discontinued Operations (net of income taxes)
Qualifying derivatives	(15)	—	—	Income (Loss) from Discontinued Operations (net of income taxes)
Defined benefit plans	(3,577)	—	—	Income (Loss) from Discontinued Operations (net of income taxes)
Total Pre-tax	(4,238)	—	—	
Income Taxes	660	—	—	
Total After-tax	(3,578)	—	—	
Total reclassifications during the year	$ (3,731)	$ (232)	$ (102)	



* Assumes investing $100 on December 31, 2016, and reinvesting dividends in PPL common stock, S&P 500® Index and EEI Index of Investor-owned Electric Utilities.

Management's Report on Internal Control over Financial Reporting

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), our management concluded that our internal control over financial reporting was effective December 31, 2021. The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm.

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

PPL Energy Holdings - PPL Energy Holdings, LLC, a subsidiary of PPL and the parent holding company of PPL Energy Funding, LKE and other subsidiaries. As of January 1, 2022, PPL Energy Holdings became the parent holding company of PPL Electric and PPL Services.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provided administrative, management and support services primarily to PPL Electric. On December 31, 2021, PPL EU Services merged into PPL Services.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, prior to the sale of the U.K. utility business on June 14, 2021, primarily through its subsidiaries, owned and operated WPD, PPL's regulated electricity distribution businesses in the U.K. PPL Global was not included in the sale of the U.K. utility business on June 14, 2021.

PPL Rhode Island Holdings - PPL Rhode Island Holdings, LLC, a subsidiary of PPL Energy Holdings formed for the purpose of acquiring Narragansett Electric to which certain interests of PPL Energy Holdings in the Narragansett SPA were assigned.

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

PPL WPD Limited - PPL WPD Limited, a U.K. subsidiary of PPL Global. Prior to the sale of the U.K. utility business on June 14, 2021, PPL WPD Limited was an indirect parent to WPD. PPL WPD Limited was not included in the sale of the U.K. utility business on June 14, 2021.

Safari Energy - Safari Energy, LLC, a subsidiary of PPL that provides solar energy solutions for commercial customers in the U.S.

Other terms and abbreviations

£ - British pound sterling.

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

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

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

Act 129 Smart Meter program - PPL Electric's system-wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

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

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

AFUDC - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - at-the-market stock offering program.

Cane Run Unit 7 - a natural gas combined-cycle generating unit in Kentucky, jointly owned by LG&E and KU.

CCR(s) - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

CDP - a not-for-profit organization based in the United Kingdom formerly known as the Carbon Disclosure Project; that runs the global disclosure system that enables investors, companies, cities, states and regions to measure and manage their environmental impacts.

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

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

COVID-19 - the disease caused by the novel coronavirus identified in 2019 that has caused a global pandemic.

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. A CPCN is required for any capital addition, subject to KPSC jurisdiction, in excess of $100 million.

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.

DNO - Distribution Network Operator in the U.K.

DRIP - PPL Amended and Restated Direct Stock Purchase and Dividend Reinvestment Plan.

DSIC - 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 programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

Earnings from Ongoing Operations - a non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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 byproducts from the production of energy from coal.

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

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

EPS - earnings per share.

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

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

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

GLT - gas line tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines and leak mitigation.

Green Tariff - a KPSC approved rate schedule, permitting customers to contract with LG&E or KU for the purchase of renewable energy certificates, construction of solar generation and use of the energy produced, or the purchase of energy from a renewable energy generator.

GWh - gigawatt-hour, one million kilowatt hours.

IBEW - International Brotherhood of Electrical Workers.

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

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

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

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

kVA - kilovolt ampere.

kWh - kilowatt hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

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

LIBOR - London Interbank Offered Rate.

Mcf - one thousand cubic feet, a unit of measure for natural gas.

MMBtu - one million British Thermal Units.

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

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

Narragansett Electric - The Narragansett Electric Company, an entity that serves electric and natural gas customers in Rhode Island. In March 2021, PPL and its subsidiary, PPL Energy Holdings announced a pending acquisition of Narragansett Electric.

NERC - North American Electric Reliability Corporation.

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.

OCI - other comprehensive income or loss.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LG&E owns a 5.63% interest and KU owns a 2.50% interest, which are recorded at cost. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined capacities of 2,120 MW.

PEDFA - Pennsylvania Economic Development Financing Authority.

Performance unit - stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of (i) relative total shareowner return (TSR) over a three-year performance period as compared to companies in the PHLX Utility Sector Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period. In light of the transformational nature of the potential sale of the U.K. utility business in 2021, PPL's ROE-based performance units issued for 2021 were based on a one-year performance period from January 1, 2021 to December 31, 2021; however, these units retained the three year vesting schedule and other characteristics.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PPL EnergyPlus - prior to the June 1, 2015 spinoff of PPL Energy Supply, LLC, PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that marketed and traded wholesale and retail electricity and gas, and supplied energy and energy services in competitive markets.

PPL Energy Supply - prior to the June 1, 2015 spinoff, PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the indirect parent company of PPL Montana, LLC.

PPL Montana - prior to the June 1, 2015 spinoff of PPL Energy Supply, PPL Montana, LLC, an indirect subsidiary of PPL Energy Supply that generated electricity for wholesale sales in Montana and the Pacific Northwest.

PPL WPD Investments Limited - PPL WPD Investments Limited, which was, prior to the sale of the U.K. utility business on June 14, 2021, a subsidiary of PPL WPD Limited and parent to WPD plc. PPL WPD Investments Limited was included in the sale of the U.K. utility business on June 14, 2021.

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

RCRA - Resource Conservation and Recovery Act of 1976.

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

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and, as of December 6, 2016, ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy.

RTO - Regional Transmission Operator, an electric power transmission system operator that coordinates, controls and monitors a multi-state electric grid.

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.

SIP - PPL Corporation's Amended and Restated 2012 Stock Incentive Plan.

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.

S&P - S&P Global Ratings, a credit rating agency.

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

Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone, which as of December 6, 2016, became wholly owned by Riverstone.

Talen Energy Marketing - Talen Energy Marketing, LLC, the successor name of PPL EnergyPlus, after the spinoff of PPL Energy Supply that marketed and traded wholesale and retail electricity and gas, and supplied energy and energy services in competitive markets, after the June 1, 2015 spinoff of PPL Energy Supply.

TCJA - Tax Cuts and Jobs Act. Comprehensive U.S. federal tax legislation enacted on December 22, 2017.

Total shareowner return - the change in market value of a share of the company's common stock plus the value of all dividends paid on a share of the common stock during the applicable performance period, divided by the price of the common stock as of the beginning of the performance period. The price used for purposes of this calculation is the average share price for the 20 trading days at the beginning and end of the applicable period.

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.

U.K. utility business - PPL WPD Investments Limited and its subsidiaries, including, notably, WPD plc and the four DNOs, which substantially represented PPL's U.K. Regulated segment. The U.K. utility business was sold on June 14, 2021.

VEBA - Voluntary Employee Beneficiary Association. A tax-exempt trust under the Internal Revenue Code Section 501 (c)(9) used by employers to fund and pay eligible medical, life and similar benefits.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

WPD - Prior to the sale of the U.K. utility business on June 14, 2021, refers to PPL WPD Limited and its subsidiaries. WPD was included in the sale of the U.K. utility business on June 14, 2021.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company. WPD (East Midlands) was included in the sale of the U.K. utility business on June 14, 2021.

WPD plc - Western Power Distribution plc, a U.K. indirect subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands). WPD plc was included in the sale of the U.K. utility business on June 14, 2021.

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively. WPD Midlands was included in the sale of the U.K. utility business on June 14, 2021.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company. WPD (South Wales) was included in the sale of the U.K. utility business on June 14, 2021.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company. WPD (South West) was included in the sale of the U.K. utility business on June 14, 2021.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company. WPD (West) Midlands) was included in the sale of the U.K. utility business on June 14, 2021.

DIRECTORS & OFFICERS

DIRECTORS

Arthur P. Beattie, 67, retired Executive Vice President, Chief Financial Officer and Chief Risk Officer of The Southern Company, an American gas and electric utility holding company based in the southern United States.

Steven G. Elliott, 75, retired Senior Vice Chairman of The Bank of New York Mellon Corporation, an investment management and investment servicing company.

Raja Rajamannar, 60, Chief Marketing & Communications Officer and President, Healthcare, of MasterCard Incorporated, a technology company in the global payments industry.

Heather B. Redman, 57, Co-Founder and Managing Partner of Flying Fish Partners, a venture capital firm investing in early-stage artificial intelligence and machine learning startups, including energy-related applications.

Craig A. Rogerson, 65, Chairman, President and Chief Executive Officer of Hexion Holdings Corporation and of Hexion Inc., a global producer of thermoset resins as well as other chemical platforms serving a wide range of market applications. Effective March 1, 2021, he serves as the independent Chair of the PPL Board.

Vincent Sorgi, 50, President and Chief Executive Officer of PPL Corporation.

Natica von Althann, 71, former financial and risk executive at Bank of America and Citigroup, investment banks and financial services companies.

Keith H. Williamson, 69, President of the Centene Charitable Foundation and former Executive Vice President, Secretary and General Counsel of Centene Corporation, a provider of managed healthcare services, primarily through Medicaid, commercial and Medicare products.

Phoebe A. Wood, 68, Principal of CompaniesWood, a consulting firm specializing in early stage investments. She is the former Vice Chairman and Chief Financial Officer of Brown-Forman Corporation, a diversified consumer products manufacturer.

Armando Zagalo de Lima, 63, retired Executive Vice President of Xerox Corporation, a multinational enterprise for business process and document management.

BOARD COMMITTEES

Executive Committee
Craig A. Rogerson, Chair
Arthur P. Beattie
Vincent Sorgi
Natica von Althann
Phoebe A. Wood
Armando Zagalo de Lima

Audit Committee
Arthur P. Beattie, Chair
Steven G. Elliott
Heather B. Redman
Keith H. Williamson
Phoebe A. Wood

Compensation Committee
Natica von Althann, Chair
Raja Rajamannar
Craig A. Rogerson

Finance Committee
Armando Zagalo de Lima, Chair
Arthur P. Beattie
Steven G. Elliott
Heather B. Redman
Natica von Althann

Governance, Nominating and Sustainability Committee
Phoebe A. Wood, Chair
Raja Rajamannar
Keith H. Williamson
Armando Zagalo de Lima

EXECUTIVE OFFICERS

Vincent Sorgi, President and Chief Executive Officer, PPL Corporation

Joseph P. Bergstein, Jr., Executive Vice President and Chief Financial Officer, PPL Corporation

Gregory N. Dudkin, Executive Vice President and Chief Operating Officer, PPL Corporation

Angela K. Gosman, Senior Vice President and Chief Human Resources Officer, PPL Corporation

Wendy E. Stark, Senior Vice President, General Counsel, Corporate Secretary and Chief Legal Officer, PPL Corporation

Stephanie R. Raymond, President, PPL Electric Utilities Corporation

John R. Crockett III, President, LG&E and KU Energy LLC

Marlene C. Beers, Vice President and Controller, PPL Corporation

Tadd J. Henninger, Vice President-Finance and Treasurer, PPL Corporation

SHAREOWNER INFORMATION

Annual Meeting
Shareowners are invited to participate in PPL Corporation's Annual Meeting of Shareowners on Wednesday, May 18, 2022, via a live webcast beginning at 9 a.m. Eastern Time.

Stock Exchange Listing
PPL Corporation common stock is listed on the New York Stock Exchange (NYSE). The symbol is PPL. On Feb. 28, 2022, the closing price per share was $26.17, and there were 48,310 shareowners of record.

The company has paid cash dividends on its common stock in every quarter since 1946. The annualized dividend was $1.66 per share in 2020 and 2021. On Feb. 18, 2022, PPL declared a quarterly dividend of $0.20 per share payable April 1, 2022, to shareowners of record on March 10, 2022.

The April 1 dividend was updated to align with PPL's existing business operations in Pennsylvania and Kentucky following the sale of the U.K. utility business, which previously accounted for more than half of PPL's earnings. The company aligned its quarterly dividend with a previously announced targeted payout ratio (dividends paid relative to net income) that's consistent with the broader utility sector. The company plans to provide updated annualized dividend expectations and future dividend growth projections that are in line with earnings per share growth at an investor day following completion of the Narragansett Electric acquisition.

Dividend Calendar
Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee, dividends are paid on the first business day of April, July, October and January. The record dates for dividends for the balance of 2022 are expected to be June 10, September 9 and December 9.

PPL's Website: www.pplweb.com
Shareowners can access PPL publications, such as annual and quarterly reports to the Securities and Exchange Commission (SEC Forms 10-K and 10-Q), other PPL filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website may subscribe to receive automated email alerts for SEC filings, earnings news releases, daily stock prices and other financial news.

Financial reports, which are available at www.pplweb.com, will be mailed without charge upon request by contacting:

PPL Treasury Dept.
Two North Ninth Street, Allentown, PA 18101
Email: invserv@pplweb.com
Telephone: 1-800-345-3085

Lost Dividend Checks
Dividend checks lost by investors, or those that may be lost in the mail, will be replaced if the check has not been located by the 10th business day following the payment date.

Direct Stock Purchase and Dividend Reinvestment Plan (Plan)
PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to $25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL Corporation common stock fully or partially reinvested in PPL common stock, or can receive full payment of cash dividends by check or EFT. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System
PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

Online Account Access
Registered shareowners can activate their account for online access by visiting shareowneronline.com.

Shareowner Inquiries, Transfer Agent and Registrar; Dividend Disbursing Agent; Plan Administrator
Equiniti Trust Company
EQ Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120
Toll-free: 1-800-345-3085
Outside U.S.: 1-651-450-4064
Website: shareowneronline.com

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