

PPL Corp  
 Form 10-Q  
 August 07, 2018

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
 OF 1934 for the quarterly period ended June 30, 2018.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
 OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

|                        |   |                                    |
|------------------------|---|------------------------------------|
| Commission File Number | Registrant; State of Incorporation;<br>Address and Telephone Number | IRS Employer<br>Identification No. |
|------------------------|---|------------------------------------|

|         |   |            |
|---------|---|------------|
| 1-11459 | PPL Corporation<br>(Exact name of Registrant as specified in its charter)<br>(Pennsylvania)<br>Two North Ninth Street<br>Allentown, PA 18101-1179<br>(610) 774-5151 | 23-2758192 |
|---------|---|------------|

|       |  |            |
|-------|--|------------|
| 1-905 | PPL Electric Utilities Corporation<br>(Exact name of Registrant as specified in its charter)<br>(Pennsylvania)<br>Two North Ninth Street<br>Allentown, PA 18101-1179<br>(610) 774-5151 | 23-0959590 |
|-------|--|------------|

|            |   |            |
|------------|---|------------|
| 333-173665 | LG&E and KU Energy LLC<br>(Exact name of Registrant as specified in its charter)<br>(Kentucky)<br>220 West Main Street<br>Louisville, KY 40202-1377<br>(502) 627-2000 | 20-0523163 |
|------------|---|------------|

|        |  |            |
|--------|--|------------|
| 1-2893 | Louisville Gas and Electric Company<br>(Exact name of Registrant as specified in its charter)<br>(Kentucky)<br>220 West Main Street<br>Louisville, KY 40202-1377<br>(502) 627-2000 | 61-0264150 |
|--------|--|------------|

|        |   |            |
|--------|---|------------|
| 1-3464 | Kentucky Utilities Company<br>(Exact name of Registrant as specified in its charter)<br>(Kentucky and Virginia) | 61-0247570 |
|--------|---|------------|

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

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

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

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

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

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

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



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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

|                                     |  |
|-------------------------------------|--|
| PPL Corporation                     | Common stock, \$0.01 par value, 699,570,660 shares outstanding at July 31, 2018.                                   |
| PPL Electric Utilities Corporation  | Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 31, 2018.        |
| LG&E and KU Energy LLC              | PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.                          |
| Louisville Gas and Electric Company | Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 31, 2018. |
| Kentucky Utilities Company          | Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 31, 2018. |

This document is available free of charge at the Investors section of PPL Corporation's website at [www.pplweb.com](http://www.pplweb.com). However, information on this website does not constitute a part of this Form 10-Q.

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

FORM 10-Q  
FOR THE QUARTER ENDED JUNE 30, 2018

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global. Following a reorganization in October 2015 and October 2017, PPL WPD Limited is an indirect parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

2017 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2017.

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 "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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

AFUDC - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - at-the-market stock offering program.

CCR(s) - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

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

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

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.

CPIH - Consumer Price Index including owner-occupiers' housing costs. An aggregate measure of changes in the cost of living in the U.K., including a measure of owner-occupiers' housing costs.

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.

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

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DNO - Distribution Network Operator in the U.K.

DRIP - PPL Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan.

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

DSM - Demand Side Management. 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.

DUoS - Distribution Use of System, the charge to licensed third party energy suppliers who are WPD's customers and use WPD's networks to deliver electricity to their customers, the end-users.

Earnings from Ongoing Operations - a non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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, gas risers, leak mitigation, and gas main replacements.

HB 487 - House Bill 487. Comprehensive Kentucky state tax legislation enacted on April 27, 2018.

IBEW - International Brotherhood of Electrical Workers.

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.

kWh - kilowatt hour, basic unit of electrical energy.

LIBOR - London Interbank Offered Rate.

Mcf - one thousand cubic feet, a unit of measure for natural gas.

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

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MPR - Mid-period review, which is a review of output requirements in RIIO-ED1 that can be initiated by Ofgem halfway through the price control covering material changes to existing outputs that can be justified by clear changes in government policy or new outputs that may be needed to meet the needs of consumers and other network users. On April 30, 2018, Ofgem decided not to engage in a mid-period review of the RIIO-ED1 price-control period.

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

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.

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

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

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) total shareholder return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility 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.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

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

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions have been and continue to be based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally

included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

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

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

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

RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

RPI - retail price index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

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.

SCRs - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gas.

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

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

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

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

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

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

TCJA - Tax Cuts and Jobs Act. Comprehensive U.S. federal tax legislation enacted on December 22, 2017.

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. Finance Acts - refers to U.K. Finance Act of 2015 and 2016, enacted in November 2015 and September 2016 respectively, which collectively reduced the U.K. statutory corporate income tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 17%, effective April 1, 2020.

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.

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Forward-looking Information

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2017 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially and adversely from the forward-looking statements:

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

the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;

- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

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



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

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

|   | Three Months    |                 | Six Months     |         |
|---|-----------------|-----------------|----------------|---------|
|   | Ended June 30,  |                 | Ended June 30, |         |
|   | 2018            | 2017            | 2018           | 2017    |
| Operating Revenues  | \$1,848         | \$1,725         | \$3,974        | \$3,676 |
| Operating Expenses  |                 |                 |                |         |
| Operation   |                 |                 |                |         |
| Fuel  | 189             | 183             | 403            | 374     |
| Energy purchases  | 148             | 136             | 389            | 351     |
| Other operation and maintenance                                       | 506             | 432             | 974            | 902     |
| Depreciation  | 273             | 246             | 542            | 488     |
| Taxes, other than income  | 74              | 70              | 157            | 145     |
| Total Operating Expenses  | 1,190           | 1,067           | 2,465          | 2,260   |
| Operating Income  | 658             | 658             | 1,509          | 1,416   |
| Other Income (Expense) - net  | 234             | (68 )           | 191            | (77 )   |
| Interest Expense  | 235             | 222             | 474            | 439     |
| Income Before Income Taxes  | 657             | 368             | 1,226          | 900     |
| Income Taxes  | 142             | 76              | 259            | 205     |
| Net Income  | \$515           | \$292           | \$967          | \$695   |
| Earnings Per Share of Common Stock:                                   |                 |                 |                |         |
| Net Income Available to PPL Common Shareowners:                       |                 |                 |                |         |
| Basic   | \$0.74          | \$0.43          | \$1.39         | \$1.02  |
| Diluted   | \$0.73          | \$0.43          | \$1.38         | \$1.01  |
| Dividends Declared Per Share of Common Stock                          | \$0.41          | \$0.395         | \$0.82         | \$0.79  |
| Weighted-Average Shares of Common Stock Outstanding<br>(in thousands) |                 |                 |                |         |
| Basic   | 699,006,683,841 | 696,772,682,370 |                |         |
| Diluted   | 700,976,686,351 | 698,161,684,725 |                |         |

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



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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|   | Three<br>Months<br>Ended June<br>30, |       | Six Months<br>Ended June<br>30, |       |
|---|--------------------------------------|-------|---------------------------------|-------|
|   | 2018                                 | 2017  | 2018                            | 2017  |
| Net income  | \$515                                | \$292 | \$967                           | \$695 |
| Other comprehensive income (loss):  |                                      |       |                                 |       |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit:     |                                      |       |                                 |       |
| Foreign currency translation adjustments, net of tax of (\$2), \$0, (\$2), (\$1)      | (250 )                               | 231   | (134 )                          | 207   |
| Qualifying derivatives, net of tax of (\$4), \$5, \$0, \$7                            | 19                                   | (24 ) | (1 )                            | (30 ) |
| Defined benefit plans:  |                                      |       |                                 |       |
| Prior service costs, net of tax of \$0, \$0, \$0, \$0                                 | (1 )                                 | —     | (1 )                            | —     |
| Net actuarial gain (loss), net of tax of \$0, \$7, \$0, \$7                           | —                                    | (11 ) | (1 )                            | (11 ) |
| Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):           |                                      |       |                                 |       |
| Qualifying derivatives, net of tax of \$3, (\$7), \$1, (\$7)                          | (19 )                                | 25    | (7 )                            | 24    |
| Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0 | —                                    | 1     | —                               | 1     |
| Defined benefit plans:  |                                      |       |                                 |       |
| Prior service costs, net of tax of \$0, \$0, \$0, \$0                                 | 1                                    | 1     | 1                               | 1     |
| Net actuarial (gain) loss, net of tax of (\$9), (\$9), (\$18), (\$18)                 | 34                                   | 31    | 70                              | 63    |
| Total other comprehensive income (loss)   | (216 )                               | 254   | (73 )                           | 255   |
| Comprehensive income  | \$299                                | \$546 | \$894                           | \$950 |

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|  | Six Months<br>Ended June<br>30,<br>2018 2017 |         |
|--|--|---------|
| Cash Flows from Operating Activities   |  |         |
| Net income   | \$967  | \$695   |
| Adjustments to reconcile net income to net cash provided by operating activities |  |         |
| Depreciation   | 542  | 488     |
| Amortization   | 34   | 45      |
| Defined benefit plans - (income)   | (101 )                                       | (45 )   |
| Deferred income taxes and investment tax credits                                 | 171  | 201     |
| Unrealized (gains) losses on derivatives, and other hedging activities           | (91 )  | 135     |
| Stock-based compensation expense   | 16   | 22      |
| Other  | (9 )   | (5 )    |
| Change in current assets and current liabilities                                 |  |         |
| Accounts receivable  | 46   | 26      |
| Accounts payable   | (90 )  | (92 )   |
| Unbilled revenues  | 91   | 70      |
| Fuel, materials and supplies   | 32   | 42      |
| Prepayments  | (60 )  | (66 )   |
| Taxes payable  | 28   | (27 )   |
| Regulatory assets and liabilities, net   | 42   | (19 )   |
| Accrued interest   | (79 )  | (77 )   |
| Other current liabilities  | (47 )  | (52 )   |
| Other  | (16 )  | 13      |
| Other operating activities   |  |         |
| Defined benefit plans - funding  | (206 )                                       | (552 )  |
| Proceeds from transfer of excess benefit plan funds                              | 65   | —       |
| Other assets   | (67 )  | (1 )    |
| Other liabilities  | 57   | (11 )   |
| Net cash provided by operating activities  | 1,325  | 790     |
| Cash Flows from Investing Activities   |  |         |
| Expenditures for property, plant and equipment                                   | (1,527)                                      | (1,373) |
| Purchase of available-for-sale securities  | (65 )  | —       |
| Other investing activities   | (57 )  | (12 )   |
| Net cash used in investing activities  | (1,649)                                      | (1,385) |
| Cash Flows from Financing Activities   |  |         |
| Issuance of long-term debt   | 584  | 594     |
| Retirement of long-term debt   | (250 )                                       | (60 )   |
| Issuance of common stock   | 147  | 177     |
| Payment of common stock dividends  | (558 )                                       | (529 )  |
| Net increase in short-term debt  | 788  | 554     |
| Other financing activities   | (16 )  | (25 )   |
| Net cash provided by financing activities  | 695  | 711     |

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|  |       |   |       |
|--|-------|---|-------|
| Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash | (7    | ) | 7     |
| Net Increase in Cash, Cash Equivalents and Restricted Cash             | 364   |   | 123   |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Period      | 511   |   | 367   |
| Cash, Cash Equivalents and Restricted Cash at End of Period            | \$875 |   | \$490 |

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

|  |       |  |       |
|--|-------|--|-------|
| Accrued expenditures for property, plant and equipment at June 30, | \$329 |  | \$284 |
| Accrued expenditures for intangible assets at June 30,             | \$59  |  | \$56  |

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

|  | June 30, December 31, |           |
|--|-----------------------|-----------|
|  | 2018                  | 2017      |
| Assets   |                       |           |
| Current Assets   |                       |           |
| Cash and cash equivalents  | \$852                 | \$ 485    |
| Accounts receivable (less reserve: 2018, \$55; 2017, \$51)                   |                       |           |
| Customer   | 675                   | 681       |
| Other  | 66                    | 100       |
| Unbilled revenues  | 453                   | 543       |
| Fuel, materials and supplies   | 288                   | 320       |
| Prepayments  | 126                   | 66        |
| Price risk management assets   | 78                    | 49        |
| Other current assets   | 62                    | 50        |
| Total Current Assets   | 2,600                 | 2,294     |
| Property, Plant and Equipment  |                       |           |
| Regulated utility plant  | 38,999                | 38,228    |
| Less: accumulated depreciation - regulated utility plant                     | 7,083                 | 6,785     |
| Regulated utility plant, net   | 31,916                | 31,443    |
| Non-regulated property, plant and equipment                                  | 370                   | 384       |
| Less: accumulated depreciation - non-regulated property, plant and equipment | 108                   | 110       |
| Non-regulated property, plant and equipment, net                             | 262                   | 274       |
| Construction work in progress  | 1,645                 | 1,375     |
| Property, Plant and Equipment, net   | 33,823                | 33,092    |
| Other Noncurrent Assets  |                       |           |
| Regulatory assets  | 1,530                 | 1,504     |
| Goodwill   | 3,308                 | 3,258     |
| Other intangibles  | 694                   | 697       |
| Pension benefit asset  | 498                   | 284       |
| Price risk management assets   | 185                   | 215       |
| Other noncurrent assets  | 192                   | 135       |
| Total Other Noncurrent Assets  | 6,407                 | 6,093     |
| Total Assets   | \$42,830              | \$ 41,479 |

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

|   | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| Liabilities and Equity                                  |                  |                      |
| Current Liabilities                                     |                  |                      |
| Short-term debt   | \$1,864          | \$ 1,080             |
| Long-term debt due within one year                      | 203              | 348                  |
| Accounts payable  | 804              | 924                  |
| Taxes   | 132              | 105                  |
| Interest  | 203              | 282                  |
| Dividends   | 287              | 273                  |
| Customer deposits                                       | 271              | 292                  |
| Regulatory liabilities                                  | 137              | 95                   |
| Other current liabilities                               | 547              | 624                  |
| Total Current Liabilities                               | 4,448            | 4,023                |
| Long-term Debt  | 20,217           | 19,847               |
| Deferred Credits and Other Noncurrent Liabilities       |                  |                      |
| Deferred income taxes                                   | 2,632            | 2,462                |
| Investment tax credits                                  | 128              | 129                  |
| Accrued pension obligations                             | 665              | 800                  |
| Asset retirement obligations                            | 297              | 312                  |
| Regulatory liabilities                                  | 2,747            | 2,704                |
| Other deferred credits and noncurrent liabilities       | 456              | 441                  |
| Total Deferred Credits and Other Noncurrent Liabilities | 6,925            | 6,848                |
| Commitments and Contingent Liabilities (Notes 7 and 10) |                  |                      |
| Equity  |                  |                      |
| Common stock - \$0.01 par value (a)                     | 7                | 7                    |
| Additional paid-in capital                              | 10,462           | 10,305               |
| Earnings reinvested                                     | 4,266            | 3,871                |
| Accumulated other comprehensive loss                    | (3,495 )         | (3,422 )             |
| Total Equity  | 11,240           | 10,761               |
| Total Liabilities and Equity                            | \$42,830         | \$ 41,479            |

(a) 1,560,000 shares authorized; 699,128 and 693,398 shares issued and outstanding at June 30, 2018 and December 31, 2017.

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





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## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|                                    | Common<br>stock<br>shares<br>outstanding<br>(a) | Common<br>stock | Additional<br>paid-in<br>capital | Earnings<br>reinvested | Accumulated<br>other<br>comprehensive<br>loss | Total     |
|------------------------------------|---|-----------------|----------------------------------|------------------------|---|-----------|
| December 31, 2017                  | 693,398   | \$ 7            | \$ 10,305                        | \$ 3,871               | \$ (3,422 )                                   | \$ 10,761 |
| Common stock issued                | 5,730   |                 | 163                              |                        |   | 163       |
| Stock-based compensation           |   |                 | (6 )                             |                        |   | (6 )      |
| Net income                         |   |                 |                                  | 967                    |   | 967       |
| Dividends and dividend equivalents |   |                 |                                  | (572 )                 |   | (572 )    |
| Other comprehensive income (loss)  |   |                 |                                  |                        | (73 )   | (73 )     |
| June 30, 2018                      | 699,128   | \$ 7            | \$ 10,462                        | \$ 4,266               | \$ (3,495 )                                   | \$ 11,240 |
| December 31, 2016                  | 679,731   | \$ 7            | \$ 9,841                         | \$ 3,829               | \$ (3,778 )                                   | \$ 9,899  |
| Common stock issued                | 5,742   |                 | 202                              |                        |   | 202       |
| Stock-based compensation           |   |                 | (20 )                            |                        |   | (20 )     |
| Net income                         |   |                 |                                  | 695                    |   | 695       |
| Dividends and dividend equivalents |   |                 |                                  | (541 )                 |   | (541 )    |
| Other comprehensive income (loss)  |   |                 |                                  |                        | 255   | 255       |
| June 30, 2017                      | 685,473   | \$ 7            | \$ 10,023                        | \$ 3,983               | \$ (3,523 )                                   | \$ 10,490 |

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareholders' meeting.

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

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## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|                                 | Three<br>Months<br>Ended June<br>30, |       | Six Months<br>Ended June 30, |         |
|---------------------------------|--------------------------------------|-------|------------------------------|---------|
|                                 | 2018                                 | 2017  | 2018                         | 2017    |
| Operating Revenues              | \$517                                | \$500 | \$1,156                      | \$1,073 |
| Operating Expenses              |                                      |       |                              |         |
| Operation                       |                                      |       |                              |         |
| Energy purchases                | 115                                  | 107   | 276                          | 253     |
| Other operation and maintenance | 159                                  | 139   | 292                          | 302     |
| Depreciation                    | 88                                   | 76    | 173                          | 151     |
| Taxes, other than income        | 22                                   | 23    | 54                           | 52      |
| Total Operating Expenses        | 384                                  | 345   | 795                          | 758     |
| Operating Income                | 133                                  | 155   | 361                          | 315     |
| Other Income (Expense) - net    | 7                                    | 4     | 13                           | 4       |
| Interest Income from Affiliate  | 1                                    | 1     | 1                            | 1       |
| Interest Expense                | 39                                   | 36    | 76                           | 69      |
| Income Before Income Taxes      | 102                                  | 124   | 299                          | 251     |
| Income Taxes                    | 27                                   | 47    | 76                           | 95      |
| Net Income (a)                  | \$75                                 | \$77  | \$223                        | \$156   |

(a) Net income equals comprehensive income.

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|  | Six Months<br>Ended June<br>30, |        |
|--|---------------------------------|--------|
|  | 2018                            | 2017   |
| <b>Cash Flows from Operating Activities</b>                                      |                                 |        |
| Net income   | \$223                           | \$156  |
| Adjustments to reconcile net income to net cash provided by operating activities |                                 |        |
| Depreciation   | 173                             | 151    |
| Amortization   | 11                              | 15     |
| Defined benefit plans - expense  | —                               | 7      |
| Deferred income taxes and investment tax credits                                 | 53                              | 84     |
| Other  | (9 )                            | (4 )   |
| Change in current assets and current liabilities                                 |                                 |        |
| Accounts receivable  | 37                              | 13     |
| Accounts payable   | (60 )                           | (59 )  |
| Unbilled revenues  | 30                              | 17     |
| Prepayments  | (47 )                           | (52 )  |
| Regulatory assets and liabilities, net   | (27 )                           | (12 )  |
| Taxes payable  | (1 )                            | (4 )   |
| Other  | 1                               | (6 )   |
| Other operating activities   |                                 |        |
| Defined benefit plans - funding  | (28 )                           | (24 )  |
| Other assets   | (41 )                           | (4 )   |
| Other liabilities  | 49                              | 1      |
| Net cash provided by operating activities  | 364                             | 279    |
| <b>Cash Flows from Investing Activities</b>                                      |                                 |        |
| Expenditures for property, plant and equipment                                   | (518 )                          | (550 ) |
| Net decrease in notes receivable from affiliate                                  | —                               | (270 ) |
| Other investing activities   | (3 )                            | (4 )   |
| Net cash used in investing activities  | (521 )                          | (824 ) |
| <b>Cash Flows from Financing Activities</b>                                      |                                 |        |
| Issuance of long-term debt   | 398                             | 470    |
| Contributions from parent  | 425                             | 575    |
| Payment of common stock dividends to parent                                      | (222 )                          | (154 ) |
| Net decrease in short-term debt  | —                               | (295 ) |
| Other financing activities   | (4 )                            | (5 )   |
| Net cash provided by financing activities  | 597                             | 591    |
| Net Increase in Cash, Cash Equivalents and Restricted Cash                       | 440                             | 46     |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Period                | 51                              | 15     |
| Cash, Cash Equivalents and Restricted Cash at End of Period                      | \$491                           | \$61   |

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

|  |       |       |
|--|-------|-------|
| Accrued expenditures for property, plant and equipment at June 30, | \$180 | \$157 |
|--|-------|-------|

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

|  | June 30, December 31, |           |
|--|-----------------------|-----------|
|  | 2018                  | 2017      |
| Assets   |                       |           |
| Current Assets   |                       |           |
| Cash and cash equivalents                                  | \$489                 | \$ 49     |
| Accounts receivable (less reserve: 2018, \$27; 2017, \$24) |                       |           |
| Customer   | 289                   | 279       |
| Other  | 23                    | 71        |
| Accounts receivable from affiliates                        | 11                    | —         |
| Unbilled revenues  | 97                    | 127       |
| Materials and supplies                                     | 28                    | 34        |
| Prepayments  | 53                    | 6         |
| Regulatory assets  | 16                    | 16        |
| Other current assets                                       | 13                    | 6         |
| Total Current Assets                                       | 1,019                 | 588       |
| Property, Plant and Equipment                              |                       |           |
| Regulated utility plant                                    | 11,140                | 10,785    |
| Less: accumulated depreciation - regulated utility plant   | 2,815                 | 2,778     |
| Regulated utility plant, net                               | 8,325                 | 8,007     |
| Construction work in progress                              | 586                   | 508       |
| Property, Plant and Equipment, net                         | 8,911                 | 8,515     |
| Other Noncurrent Assets                                    |                       |           |
| Regulatory assets  | 737                   | 709       |
| Intangibles  | 260                   | 259       |
| Other noncurrent assets                                    | 56                    | 11        |
| Total Other Noncurrent Assets                              | 1,053                 | 979       |
| Total Assets   | \$10,983              | \$ 10,082 |

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

|   | June 30, December 31, |           |
|---|-----------------------|-----------|
|   | 2018                  | 2017      |
| Liabilities and Equity                                  |                       |           |
| Current Liabilities                                     |                       |           |
| Accounts payable  | \$374                 | \$ 386    |
| Accounts payable to affiliates                          | 29                    | 31        |
| Taxes   | 7                     | 8         |
| Interest  | 37                    | 36        |
| Regulatory liabilities                                  | 66                    | 86        |
| Other current liabilities                               | 99                    | 98        |
| Total Current Liabilities                               | 612                   | 645       |
| Long-term Debt  | 3,693                 | 3,298     |
| Deferred Credits and Other Noncurrent Liabilities       |                       |           |
| Deferred income taxes                                   | 1,225                 | 1,154     |
| Accrued pension obligations                             | 212                   | 246       |
| Regulatory liabilities                                  | 692                   | 668       |
| Other deferred credits and noncurrent liabilities       | 131                   | 79        |
| Total Deferred Credits and Other Noncurrent Liabilities | 2,260                 | 2,147     |
| Commitments and Contingent Liabilities (Notes 7 and 10) |                       |           |
| Equity  |                       |           |
| Common stock - no par value (a)                         | 364                   | 364       |
| Additional paid-in capital                              | 3,154                 | 2,729     |
| Earnings reinvested                                     | 900                   | 899       |
| Total Equity  | 4,418                 | 3,992     |
| Total Liabilities and Equity                            | \$10,983              | \$ 10,082 |

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2018 and December 31, 2017.

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



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## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|                                    | Common<br>stock<br>shares<br>outstanding<br>(a) | Common<br>stock | Additional<br>paid-in<br>capital | Earnings<br>reinvested | Total   |
|------------------------------------|---|-----------------|----------------------------------|------------------------|---------|
| December 31, 2017                  | 66,368  | \$ 364          | \$ 2,729                         | \$ 899                 | \$3,992 |
| Net income                         |   |                 |                                  | 223                    | 223     |
| Capital contributions from PPL     |   |                 | 425                              |                        | 425     |
| Dividends declared on common stock |   |                 |                                  | (222 )                 | (222 )  |
| June 30, 2018                      | 66,368  | \$ 364          | \$ 3,154                         | \$ 900                 | \$4,418 |
| December 31, 2016                  | 66,368  | \$ 364          | \$ 2,154                         | \$ 873                 | \$3,391 |
| Net income                         |   |                 |                                  | 156                    | 156     |
| Capital contributions from PPL     |   |                 | 575                              |                        | 575     |
| Dividends declared on common stock |   |                 |                                  | (154 )                 | (154 )  |
| June 30, 2017                      | 66,368  | \$ 364          | \$ 2,729                         | \$ 875                 | \$3,968 |

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 LG&E and KU Energy LLC and Subsidiaries  
 (Unaudited)  
 (Millions of Dollars)

|                                 | Three<br>Months<br>Ended June<br>30, |       | Six Months<br>Ended June 30, |         |
|---------------------------------|--------------------------------------|-------|------------------------------|---------|
|                                 | 2018                                 | 2017  | 2018                         | 2017    |
| Operating Revenues              | \$743                                | \$723 | \$1,615                      | \$1,532 |
| Operating Expenses              |                                      |       |                              |         |
| Operation                       |                                      |       |                              |         |
| Fuel                            | 189                                  | 183   | 403                          | 374     |
| Energy purchases                | 33                                   | 29    | 113                          | 98      |
| Other operation and maintenance | 211                                  | 192   | 416                          | 397     |
| Depreciation                    | 118                                  | 105   | 235                          | 210     |
| Taxes, other than income        | 18                                   | 16    | 35                           | 32      |
| Total Operating Expenses        | 569                                  | 525   | 1,202                        | 1,111   |
| Operating Income                | 174                                  | 198   | 413                          | 421     |
| Other Income (Expense) - net    | 1                                    | (4 )  | (2 )                         | (8 )    |
| Interest Expense                | 52                                   | 50    | 102                          | 99      |
| Interest Expense with Affiliate | 6                                    | 4     | 11                           | 8       |
| Income Before Income Taxes      | 117                                  | 140   | 298                          | 306     |
| Income Taxes                    | 31                                   | 53    | 70                           | 116     |
| Net Income                      | \$86                                 | \$87  | \$228                        | \$190   |

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

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

|   | Three<br>Months<br>Ended<br>June 30, |      | Six Months<br>Ended June<br>30, |       |
|---|--------------------------------------|------|---------------------------------|-------|
|   | 2018                                 | 2017 | 2018                            | 2017  |
| Net income  | \$86                                 | \$87 | \$228                           | \$190 |
| Other comprehensive income (loss):  |                                      |      |                                 |       |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit:     |                                      |      |                                 |       |
| Defined benefit plans:  |                                      |      |                                 |       |
| Net actuarial gain (loss), net of tax of \$0, \$7, \$0, \$7                           | 1                                    | (11) | —                               | (11)  |
| Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):           |                                      |      |                                 |       |
| Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0 | —                                    | —    | —                               | 1     |
| Defined benefit plans:  |                                      |      |                                 |       |
| Prior service costs, net of tax of \$0, \$0, \$0, \$0                                 | 1                                    | 1    | 1                               | 1     |
| Net actuarial (gain) loss, net of tax of \$0, (\$1), (\$1), (\$2)                     | (1)                                  | 1    | 1                               | 2     |
| Total other comprehensive income (loss)   | 1                                    | (9)  | 2                               | (7)   |
| Comprehensive income  | \$87                                 | \$78 | \$230                           | \$183 |

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

|  | Six Months<br>Ended June<br>30, |        |
|--|---------------------------------|--------|
|  | 2018                            | 2017   |
| Cash Flows from Operating Activities   |                                 |        |
| Net income   | \$228                           | \$190  |
| Adjustments to reconcile net income to net cash provided by operating activities |                                 |        |
| Depreciation   | 235                             | 210    |
| Amortization   | 9                               | 14     |
| Defined benefit plans - expense  | 8                               | 12     |
| Deferred income taxes and investment tax credits                                 | 30                              | 91     |
| Other  | (1 )                            | —      |
| Change in current assets and current liabilities                                 |                                 |        |
| Accounts receivable  | 16                              | 13     |
| Accounts payable   | (10 )                           | (28 )  |
| Accounts payable to affiliates   | 1                               | —      |
| Unbilled revenues  | 40                              | 23     |
| Fuel, materials and supplies   | 26                              | 41     |
| Regulatory assets and liabilities, net   | 69                              | (7 )   |
| Taxes payable  | (25 )                           | 3      |
| Other  | (40 )                           | (14 )  |
| Other operating activities   |                                 |        |
| Defined benefit plans - funding  | (122 )                          | (29 )  |
| Expenditures for asset retirement obligations                                    | (26 )                           | (12 )  |
| Other assets   | (1 )                            | (2 )   |
| Other liabilities  | 3                               | 6      |
| Net cash provided by operating activities  | 440                             | 511    |
| Cash Flows from Investing Activities   |                                 |        |
| Expenditures for property, plant and equipment                                   | (564 )                          | (355 ) |
| Net cash used in investing activities  | (564 )                          | (355 ) |
| Cash Flows from Financing Activities   |                                 |        |
| Net increase (decrease) in notes payable with affiliate                          | (126 )                          | (4 )   |
| Issuance of long-term debt with affiliate  | 250                             | —      |
| Issuance of long-term debt   | 100                             | 60     |
| Retirement of long-term debt   | —                               | (60 )  |
| Distributions to member  | (161 )                          | (218 ) |
| Net increase in short-term debt  | 72                              | 73     |
| Other financing activities   | (2 )                            | (1 )   |
| Net cash provided by (used in) financing activities                              | 133                             | (150 ) |
| Net Increase in Cash and Cash Equivalents  | 9                               | 6      |
| Cash and Cash Equivalents at Beginning of Period                                 | 30                              | 13     |
| Cash and Cash Equivalents at End of Period                                       | \$39                            | \$19   |

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

|  |       |      |
|--|-------|------|
| Accrued expenditures for property, plant and equipment at June 30, | \$112 | \$83 |
|--|-------|------|

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

|  | June 30, December 31, |           |
|--|-----------------------|-----------|
|  | 2018                  | 2017      |
| Assets   |                       |           |
| Current Assets   |                       |           |
| Cash and cash equivalents                                  | \$39                  | \$ 30     |
| Accounts receivable (less reserve: 2018, \$26; 2017, \$25) |                       |           |
| Customer   | 229                   | 246       |
| Other  | 45                    | 44        |
| Unbilled revenues  | 163                   | 203       |
| Fuel, materials and supplies                               | 229                   | 254       |
| Prepayments  | 31                    | 25        |
| Regulatory assets  | 11                    | 18        |
| Other current assets                                       | 6                     | 8         |
| Total Current Assets                                       | 753                   | 828       |
| Property, Plant and Equipment                              |                       |           |
| Regulated utility plant                                    | 13,346                | 13,187    |
| Less: accumulated depreciation - regulated utility plant   | 1,955                 | 1,785     |
| Regulated utility plant, net                               | 11,391                | 11,402    |
| Construction work in progress                              | 880                   | 627       |
| Property, Plant and Equipment, net                         | 12,271                | 12,029    |
| Other Noncurrent Assets                                    |                       |           |
| Regulatory assets  | 793                   | 795       |
| Goodwill   | 996                   | 996       |
| Other intangibles  | 82                    | 86        |
| Other noncurrent assets                                    | 75                    | 68        |
| Total Other Noncurrent Assets                              | 1,946                 | 1,945     |
| Total Assets   | \$14,970              | \$ 14,802 |

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

|   | June 30, December 31, |           |
|---|-----------------------|-----------|
|   | 2018                  | 2017      |
| Liabilities and Equity                                  |                       |           |
| Current Liabilities                                     |                       |           |
| Short-term debt   | \$316                 | \$ 244    |
| Long-term debt due within one year                      | 203                   | 98        |
| Notes payable with affiliates                           | 99                    | 225       |
| Accounts payable  | 266                   | 338       |
| Accounts payable to affiliates                          | 8                     | 7         |
| Customer deposits                                       | 59                    | 58        |
| Taxes   | 41                    | 66        |
| Price risk management liabilities                       | 4                     | 4         |
| Regulatory liabilities                                  | 71                    | 9         |
| Interest  | 32                    | 32        |
| Asset retirement obligations                            | 84                    | 85        |
| Other current liabilities                               | 124                   | 161       |
| Total Current Liabilities                               | 1,307                 | 1,327     |
| Long-term Debt  |                       |           |
| Long-term debt  | 4,657                 | 4,661     |
| Long-term debt to affiliate                             | 650                   | 400       |
| Total Long-term Debt                                    | 5,307                 | 5,061     |
| Deferred Credits and Other Noncurrent Liabilities       |                       |           |
| Deferred income taxes                                   | 878                   | 866       |
| Investment tax credits                                  | 127                   | 129       |
| Price risk management liabilities                       | 17                    | 22        |
| Accrued pension obligations                             | 259                   | 365       |
| Asset retirement obligations                            | 248                   | 271       |
| Regulatory liabilities                                  | 2,055                 | 2,036     |
| Other deferred credits and noncurrent liabilities       | 140                   | 162       |
| Total Deferred Credits and Other Noncurrent Liabilities | 3,724                 | 3,851     |
| Commitments and Contingent Liabilities (Notes 7 and 10) |                       |           |
| Member's Equity   | 4,632                 | 4,563     |
| Total Liabilities and Equity                            | \$14,970              | \$ 14,802 |

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





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## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

|                            | Member's<br>Equity |
|----------------------------|--------------------|
| December 31, 2017          | \$ 4,563           |
| Net income                 | 228                |
| Distributions to member    | (161 )             |
| Other comprehensive income | 2                  |
| June 30, 2018              | \$ 4,632           |
| December 31, 2016          | \$ 4,667           |
| Net income                 | 190                |
| Distributions to member    | (218 )             |
| Other comprehensive income | (7 )               |
| June 30, 2017              | \$ 4,632           |

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

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## CONDENSED STATEMENTS OF INCOME

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

|                                 | Three<br>Months<br>Ended June<br>30,<br>2018 |       | Six Months<br>Ended June<br>30,<br>2017 |       |
|---------------------------------|--|-------|---|-------|
| Operating Revenues              |  |       |   |       |
| Retail and wholesale            | \$331  | \$320 | \$738                                   | \$694 |
| Electric revenue from affiliate | 4  | 4     | 16                                      | 21    |
| Total Operating Revenues        | 335  | 324   | 754                                     | 715   |
| Operating Expenses              |  |       |   |       |
| Operation                       |  |       |   |       |
| Fuel                            | 72   | 69    | 151                                     | 149   |
| Energy purchases                | 28   | 25    | 104                                     | 89    |
| Energy purchases from affiliate | 2  | 3     | 8                                       | 5     |
| Other operation and maintenance | 93   | 86    | 182                                     | 171   |
| Depreciation                    | 49   | 45    | 97                                      | 89    |
| Taxes, other than income        | 9  | 9     | 18                                      | 17    |
| Total Operating Expenses        | 253  | 237   | 560                                     | 520   |
| Operating Income                | 82   | 87    | 194                                     | 195   |
| Other Income (Expense) - net    | (1 )   | 1     | (2 )                                    | (3 )  |
| Interest Expense                | 19   | 19    | 37                                      | 36    |
| Income Before Income Taxes      | 62   | 69    | 155                                     | 156   |
| Income Taxes                    | 12   | 27    | 33                                      | 60    |
| Net Income (a)                  | \$50   | \$42  | \$122                                   | \$96  |

(a) Net income equals comprehensive income.

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

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## CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

|  | Six Months<br>Ended June<br>30, |       |
|--|---------------------------------|-------|
|  | 2018                            | 2017  |
| Cash Flows from Operating Activities   |                                 |       |
| Net income   | \$122                           | \$96  |
| Adjustments to reconcile net income to net cash provided by operating activities |                                 |       |
| Depreciation   | 97                              | 89    |
| Amortization   | 7                               | 7     |
| Defined benefit plans - expense  | 2                               | 3     |
| Deferred income taxes and investment tax credits                                 | 18                              | 57    |
| Change in current assets and current liabilities                                 |                                 |       |
| Accounts receivable  | 11                              | 9     |
| Accounts receivable from affiliates  | 6                               | 11    |
| Accounts payable   | (12 )                           | (17 ) |
| Accounts payable to affiliates   | (3 )                            | (3 )  |
| Unbilled revenues  | 24                              | 14    |
| Fuel, materials and supplies   | 31                              | 33    |
| Regulatory assets and liabilities, net   | 32                              | (3 )  |
| Taxes payable  | (2 )                            | (23 ) |
| Other  | (7 )                            | —     |
| Other operating activities   |                                 |       |
| Defined benefit plans - funding  | (57 )                           | (3 )  |
| Expenditures for asset retirement obligations                                    | (10 )                           | (7 )  |
| Other liabilities  | (4 )                            | 1     |
| Net cash provided by operating activities  | 255                             | 264   |
| Cash Flows from Investing Activities   |                                 |       |
| Expenditures for property, plant and equipment                                   | (296 )                          | (177) |
| Net cash used in investing activities  | (296 )                          | (177) |
| Cash Flows from Financing Activities   |                                 |       |
| Issuance of long-term debt   | 100                             | 60    |
| Retirement of long-term debt   | —                               | (60 ) |
| Net increase (decrease) in short-term debt                                       | (16 )                           | 38    |
| Payment of common stock dividends to parent                                      | (81 )                           | (122) |
| Contributions from parent  | 43                              | —     |
| Other financing activities   | (1 )                            | (1 )  |
| Net cash provided by (used in) financing activities                              | 45                              | (85 ) |
| Net Increase in Cash and Cash Equivalents  | 4                               | 2     |
| Cash and Cash Equivalents at Beginning of Period                                 | 15                              | 5     |
| Cash and Cash Equivalents at End of Period                                       | \$19                            | \$7   |

## Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30, \$57 \$40

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

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## CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

|  | June 30, December 31, |          |
|--|-----------------------|----------|
|  | 2018                  | 2017     |
| Assets   |                       |          |
| Current Assets   |                       |          |
| Cash and cash equivalents                                | \$ 19                 | \$ 15    |
| Accounts receivable (less reserve: 2018, \$1; 2017, \$1) |                       |          |
| Customer   | 104                   | 116      |
| Other  | 14                    | 13       |
| Unbilled revenues  | 67                    | 91       |
| Accounts receivable from affiliates                      | 18                    | 24       |
| Fuel, materials and supplies                             | 100                   | 131      |
| Prepayments  | 16                    | 11       |
| Regulatory assets  | 11                    | 12       |
| Other current assets                                     | 2                     | 3        |
| Total Current Assets                                     | 351                   | 416      |
| Property, Plant and Equipment                            |                       |          |
| Regulated utility plant                                  | 5,653                 | 5,587    |
| Less: accumulated depreciation - regulated utility plant | 678                   | 614      |
| Regulated utility plant, net                             | 4,975                 | 4,973    |
| Construction work in progress                            | 455                   | 305      |
| Property, Plant and Equipment, net                       | 5,430                 | 5,278    |
| Other Noncurrent Assets                                  |                       |          |
| Regulatory assets  | 406                   | 411      |
| Goodwill   | 389                   | 389      |
| Other intangibles  | 50                    | 53       |
| Other noncurrent assets                                  | 23                    | 12       |
| Total Other Noncurrent Assets                            | 868                   | 865      |
| Total Assets   | \$ 6,649              | \$ 6,559 |

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

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## CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

|   | June 30, December 31, |          |
|---|-----------------------|----------|
|   | 2018                  | 2017     |
| Liabilities and Equity                                  |                       |          |
| Current Liabilities                                     |                       |          |
| Short-term debt   | \$ 183                | \$ 199   |
| Long-term debt due within one year                      | 194                   | 98       |
| Accounts payable  | 132                   | 179      |
| Accounts payable to affiliates                          | 21                    | 23       |
| Customer deposits                                       | 28                    | 27       |
| Taxes   | 23                    | 25       |
| Price risk management liabilities                       | 4                     | 4        |
| Regulatory liabilities                                  | 34                    | 3        |
| Interest  | 11                    | 11       |
| Asset retirement obligations                            | 17                    | 24       |
| Other current liabilities                               | 47                    | 52       |
| Total Current Liabilities                               | 694                   | 645      |
| Long-term Debt  | 1,614                 | 1,611    |
| Deferred Credits and Other Noncurrent Liabilities       |                       |          |
| Deferred income taxes                                   | 581                   | 572      |
| Investment tax credits                                  | 34                    | 35       |
| Price risk management liabilities                       | 17                    | 22       |
| Accrued pension obligations                             | —                     | 45       |
| Asset retirement obligations                            | 95                    | 97       |
| Regulatory liabilities                                  | 922                   | 919      |
| Other deferred credits and noncurrent liabilities       | 81                    | 86       |
| Total Deferred Credits and Other Noncurrent Liabilities | 1,730                 | 1,776    |
| Commitments and Contingent Liabilities (Notes 7 and 10) |                       |          |
| Stockholder's Equity                                    |                       |          |
| Common stock - no par value (a)                         | 424                   | 424      |
| Additional paid-in capital                              | 1,755                 | 1,712    |
| Earnings reinvested                                     | 432                   | 391      |
| Total Equity  | 2,611                 | 2,527    |
| Total Liabilities and Equity                            | \$ 6,649              | \$ 6,559 |

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 2018 and December 31, 2017.

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





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## CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

|  | Common<br>stock<br>shares<br>outstanding<br>(a) | Common<br>stock | Additional<br>paid-in<br>capital | Earnings<br>reinvested | Total   |
|--|---|-----------------|----------------------------------|------------------------|---------|
| December 31, 2017  | 21,294  | \$ 424          | \$ 1,712                         | \$ 391                 | \$2,527 |
| Net income   |   |                 |                                  | 122                    | 122     |
| Capital contributions from LKE                           |   |                 | 43                               |                        | 43      |
| Cash dividends declared on common stock<br>June 30, 2018 | 21,294  | \$ 424          | \$ 1,755                         | (81 )                  | (81 )   |
|  |   |                 |                                  | \$ 432                 | \$2,611 |
| December 31, 2016  | 21,294  | \$ 424          | \$ 1,682                         | \$ 370                 | \$2,476 |
| Net income   |   |                 |                                  | 96                     | 96      |
| Cash dividends declared on common stock<br>June 30, 2017 | 21,294  | \$ 424          | \$ 1,682                         | (122 )                 | (122 )  |
|  |   |                 |                                  | \$ 344                 | \$2,450 |

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

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

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## CONDENSED STATEMENTS OF INCOME

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

|                                 | Three<br>Months<br>Ended June<br>30,<br>2018 2017 |       | Six Months<br>Ended June<br>30,<br>2018 2017 |       |
|---------------------------------|---|-------|--|-------|
| Operating Revenues              |   |       |  |       |
| Retail and wholesale            | \$412   | \$403 | \$877  | \$838 |
| Electric revenue from affiliate | 2   | 3     | 8  | 5     |
| Total Operating Revenues        | 414   | 406   | 885  | 843   |
| Operating Expenses              |   |       |  |       |
| Operation                       |   |       |  |       |
| Fuel                            | 117   | 114   | 252  | 225   |
| Energy purchases                | 5   | 4     | 9  | 9     |
| Energy purchases from affiliate | 4   | 4     | 16   | 21    |
| Other operation and maintenance | 112   | 100   | 217  | 208   |
| Depreciation                    | 70  | 61    | 138  | 121   |
| Taxes, other than income        | 9   | 7     | 17   | 15    |
| Total Operating Expenses        | 317   | 290   | 649  | 599   |
| Operating Income                | 97  | 116   | 236  | 244   |
| Other Income (Expense) - net    | 3   | (2 )  | —  | (4 )  |
| Interest Expense                | 25  | 24    | 50   | 48    |
| Income Before Income Taxes      | 75  | 90    | 186  | 192   |
| Income Taxes                    | 14  | 34    | 38   | 73    |
| Net Income (a)                  | \$61  | \$56  | \$148  | \$119 |

(a) Net income approximates comprehensive income.

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

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## CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

|  | Six Months<br>Ended June<br>30, |        |
|--|---------------------------------|--------|
|  | 2018                            | 2017   |
| Cash Flows from Operating Activities   |                                 |        |
| Net income   | \$148                           | \$119  |
| Adjustments to reconcile net income to net cash provided by operating activities |                                 |        |
| Depreciation   | 138                             | 121    |
| Amortization   | 2                               | 6      |
| Defined benefit plans - expense  | —                               | 2      |
| Deferred income taxes and investment tax credits                                 | 9                               | 70     |
| Other  | (1 )                            | —      |
| Change in current assets and current liabilities                                 |                                 |        |
| Accounts receivable  | 4                               | 5      |
| Accounts payable   | 11                              | (1 )   |
| Accounts payable to affiliates   | (12 )                           | (15 )  |
| Unbilled revenues  | 16                              | 9      |
| Fuel, materials and supplies   | (5 )                            | 8      |
| Regulatory assets and liabilities, net   | 37                              | (4 )   |
| Taxes payable  | 4                               | (29 )  |
| Other  | (11 )                           | (9 )   |
| Other operating activities   |                                 |        |
| Defined benefit plans - funding  | (52 )                           | (21 )  |
| Expenditures for asset retirement obligations                                    | (16 )                           | (5 )   |
| Other assets   | (1 )                            | (3 )   |
| Other liabilities  | 3                               | 4      |
| Net cash provided by operating activities  | 274                             | 257    |
| Cash Flows from Investing Activities   |                                 |        |
| Expenditures for property, plant and equipment                                   | (266 )                          | (177 ) |
| Net cash used in investing activities  | (266 )                          | (177 ) |
| Cash Flows from Financing Activities   |                                 |        |
| Net increase in short-term debt  | 88                              | 35     |
| Payment of common stock dividends to parent                                      | (136 )                          | (110 ) |
| Contributions from parent  | 45                              | —      |
| Net cash used in financing activities  | (3 )                            | (75 )  |
| Net Increase in Cash and Cash Equivalents  | 5                               | 5      |
| Cash and Cash Equivalents at Beginning of Period                                 | 15                              | 7      |
| Cash and Cash Equivalents at End of Period                                       | \$20                            | \$12   |
| Supplemental Disclosure of Cash Flow Information                                 |                                 |        |
| Significant non-cash transactions:   |                                 |        |
| Accrued expenditures for property, plant and equipment at June 30,               | \$55                            | \$43   |

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

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## CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

|  | June 30, December 31, |          |
|--|-----------------------|----------|
|  | 2018                  | 2017     |
| Assets   |                       |          |
| Current Assets   |                       |          |
| Cash and cash equivalents                                | \$ 20                 | \$ 15    |
| Accounts receivable (less reserve: 2018, \$1; 2017, \$1) |                       |          |
| Customer   | 125                   | 130      |
| Other  | 31                    | 30       |
| Unbilled revenues  | 96                    | 112      |
| Fuel, materials and supplies                             | 129                   | 123      |
| Prepayments  | 15                    | 14       |
| Regulatory assets  | —                     | 6        |
| Other current assets                                     | 4                     | 5        |
| Total Current Assets                                     | 420                   | 435      |
| Property, Plant and Equipment                            |                       |          |
| Regulated utility plant                                  | 7,683                 | 7,592    |
| Less: accumulated depreciation - regulated utility plant | 1,275                 | 1,170    |
| Regulated utility plant, net                             | 6,408                 | 6,422    |
| Construction work in progress                            | 424                   | 321      |
| Property, Plant and Equipment, net                       | 6,832                 | 6,743    |
| Other Noncurrent Assets                                  |                       |          |
| Regulatory assets  | 387                   | 384      |
| Goodwill   | 607                   | 607      |
| Other intangibles  | 32                    | 33       |
| Other noncurrent assets                                  | 75                    | 52       |
| Total Other Noncurrent Assets                            | 1,101                 | 1,076    |
| Total Assets   | \$ 8,353              | \$ 8,254 |

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

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## CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

|   | June 30, December 31, |          |
|---|-----------------------|----------|
|   | 2018                  | 2017     |
| Liabilities and Equity                                  |                       |          |
| Current Liabilities                                     |                       |          |
| Short-term debt   | \$ 133                | \$ 45    |
| Long-term debt due within one year                      | 9                     | —        |
| Accounts payable  | 121                   | 137      |
| Accounts payable to affiliates                          | 42                    | 53       |
| Customer deposits                                       | 31                    | 31       |
| Taxes   | 23                    | 19       |
| Regulatory liabilities                                  | 37                    | 6        |
| Interest  | 16                    | 16       |
| Asset retirement obligations                            | 67                    | 61       |
| Other current liabilities                               | 35                    | 46       |
| Total Current Liabilities                               | 514                   | 414      |
| Long-term Debt  | 2,320                 | 2,328    |
| Deferred Credits and Other Noncurrent Liabilities       |                       |          |
| Deferred income taxes                                   | 690                   | 691      |
| Investment tax credits                                  | 93                    | 94       |
| Accrued pension obligations                             | —                     | 36       |
| Asset retirement obligations                            | 153                   | 174      |
| Regulatory liabilities                                  | 1,133                 | 1,117    |
| Other deferred credits and noncurrent liabilities       | 36                    | 43       |
| Total Deferred Credits and Other Noncurrent Liabilities | 2,105                 | 2,155    |
| Commitments and Contingent Liabilities (Notes 7 and 10) |                       |          |
| Stockholder's Equity                                    |                       |          |
| Common stock - no par value (a)                         | 308                   | 308      |
| Additional paid-in capital                              | 2,661                 | 2,616    |
| Earnings reinvested                                     | 445                   | 433      |
| Total Equity  | 3,414                 | 3,357    |
| Total Liabilities and Equity                            | \$ 8,353              | \$ 8,254 |

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2018 and December 31, 2017.

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





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## CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

|   | Common<br>stock<br>shares<br>outstanding<br>(a) | Common<br>stock | Additional<br>paid-in<br>capital | Earnings<br>reinvested | Accumulated<br>other<br>comprehensive<br>loss | Total   |
|---|---|-----------------|----------------------------------|------------------------|---|---------|
| December 31, 2017                       | 37,818  | \$ 308          | \$ 2,616                         | \$ 433                 | \$ —  | \$3,357 |
| Capital contributions from LKE          |   |                 | 45                               |                        |   | 45      |
| Net income                              |   |                 |                                  | 148                    |   | 148     |
| Cash dividends declared on common stock |   |                 |                                  | (136 )                 |   | (136 )  |
| June 30, 2018                           | 37,818  | \$ 308          | \$ 2,661                         | \$ 445                 | \$ —  | \$3,414 |
| December 31, 2016                       | 37,818  | \$ 308          | \$ 2,616                         | \$ 400                 | \$ (1 )                                       | \$3,323 |
| Net income                              |   |                 |                                  | 119                    |   | 119     |
| Cash dividends declared on common stock |   |                 |                                  | (110 )                 |   | (110 )  |
| Other comprehensive income (loss)       |   |                 |                                  |                        | 1   | 1       |
| June 30, 2017                           | 37,818  | \$ 308          | \$ 2,616                         | \$ 409                 | \$ —  | \$3,333 |

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

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

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Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed 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.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2017 is derived from that Registrant's 2017 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2017 Form 10-K. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2017 Form 10-K and should be read in conjunction with those disclosures.

New Accounting Guidance Adopted (All Registrants)

Accounting for Revenue from Contracts with Customers

Effective January 1, 2018, the Registrants adopted accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Registrants adopted this guidance using the modified retrospective transition method. No cumulative effect adjustment was required as of the January 1, 2018 adoption date.

The adoption of this guidance did not have a material impact on the Registrants' revenue recognition policies. See Note 4 for the required disclosures as a result of the adoption of this standard.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Effective January 1, 2018, the Registrants adopted accounting guidance that changes the income statement presentation of net periodic benefit cost. Retrospectively, this guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits are presented separately from the line items that include the service cost and outside of any subtotal of operating income. Prospectively, the guidance limits the capitalization to the service cost component of net periodic benefit costs.

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For PPL, the non-service cost components of net periodic benefit costs were in a net credit position for the three and six months ended June 30, 2018. The non-service cost credits that would have been capitalized under previous guidance, but are now recorded as income within "Other Income (Expense) - net," were \$6 million (\$5 million after-tax or \$0.01 per share) and \$11 million (\$9 million after-tax or \$0.01 per share) for the three and six months ended June 30, 2018. For PPL Electric, LG&E and KU, non-service costs or credits that would have been capitalized under previous guidance are now recognized as a regulatory asset or regulatory liability, as applicable, in accordance with regulatory approvals.

The following provides the non-service cost components of net periodic benefits (costs) or credits presented in "Other Income (Expense) - net" in 2018 and reclassified from "Other operation and maintenance" to "Other Income (Expense) - net" in 2017 on the Statements of Income as a result of the adoption.

|                | Three Months |       | Six Months |      |
|----------------|--------------|-------|------------|------|
|                | 2018         | 2017  | 2018       | 2017 |
| PPL            | \$66         | \$ 44 | \$134      | \$82 |
| PPL Electric 1 | 1            | 3     | —          | —    |
| LKE            | —            | —     | 2          | (2 ) |
| LG&E           | (2 )         | —     | (1 )       | (2 ) |
| KU             | 1            | —     | 2          | (1 ) |

PPL and PPL Electric elected to use the practical expedient that permits using the amounts disclosed in the defined benefit plan note for the prior comparative period as the estimation basis for applying the retrospective presentation requirements.

## Presentation of Restricted Cash in the Statement of Cash Flows (PPL and PPL Electric)

Effective January 1, 2018, PPL and PPL Electric adopted accounting guidance that changes the cash flow statement presentation of restricted cash. Under the new guidance, amounts considered restricted cash are presented with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts on the Statements of Cash Flows. The guidance requires a reconciliation of the total cash, cash equivalents and restricted cash from the Statement of Cash Flows to amounts on the Balance Sheets and disclosure of the nature of the restrictions. PPL and PPL Electric have applied this guidance on a retrospective basis for all periods presented. The adoption of this guidance did not have a material impact on the Statements of Cash Flows.

## 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 that sum to the total of the same amounts shown on the Statements of Cash Flows:

|  | PPL           |                   | PPL Electric  |                   |
|--|---------------|-------------------|---------------|-------------------|
|  | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| Cash and cash equivalents                        | \$852         | \$ 485            | \$489         | \$ 49             |
| Restricted cash - current (a)                    | 3             | 3                 | 2             | 2                 |
| Restricted cash - noncurrent (a)                 | 20            | 23                | —             | —                 |
| Total Cash, Cash Equivalents and Restricted Cash | \$875         | \$ 511            | \$491         | \$ 51             |

(a)

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

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## 3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2017 Form 10-K for a discussion of reportable segments and related information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the periods ended June 30 are as follows:

|  | Three Months |         | Six Months |         |
|--|--------------|---------|------------|---------|
|  | 2018         | 2017    | 2018       | 2017    |
| Operating Revenues from external customers |              |         |            |         |
| U.K. Regulated                             | \$584        | \$502   | \$1,199    | \$1,070 |
| Kentucky Regulated                         | 743          | 723     | 1,615      | 1,532   |
| Pennsylvania Regulated                     | 517          | 500     | 1,156      | 1,073   |
| Corporate and Other                        | 4            | —       | 4          | 1       |
| Total                                      | \$1,848      | \$1,725 | \$3,974    | \$3,676 |
| Net Income                                 |              |         |            |         |
| U.K. Regulated (a)                         | \$394        | \$148   | \$591      | \$434   |
| Kentucky Regulated                         | 77           | 79      | 210        | 174     |
| Pennsylvania Regulated                     | 75           | 77      | 223        | 156     |
| Corporate and Other                        | (31 )        | (12 )   | (57 )      | (69 )   |
| Total                                      | \$515        | \$292   | \$967      | \$695   |

(a) Includes unrealized gains and losses from hedging foreign currency economic activity. See Note 14 for additional information.

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

|                         | June 30, December 31, |           |
|-------------------------|-----------------------|-----------|
|                         | 2018                  | 2017      |
| Assets                  |                       |           |
| U.K. Regulated (a)      | \$16,839              | \$ 16,813 |
| Kentucky Regulated      | 14,636                | 14,468    |
| Pennsylvania Regulated  | 10,995                | 10,082    |
| Corporate and Other (b) | 360                   | 116       |
| Total                   | \$42,830              | \$ 41,479 |

(a) Includes \$12.6 billion and \$12.5 billion of net PP&E as of June 30, 2018 and December 31, 2017. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E, goodwill and the elimination of inter-segment transactions.

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

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

## 4. 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.

U.K. Regulated Segment Revenue (PPL)

The U.K. Regulated Segment generates revenues from contracts with customers primarily from WPD's DUoS operations.

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DUoS revenues result from WPD charging licensed third-party energy suppliers for their use of WPD's distribution systems to deliver energy to their customers. WPD satisfies its performance obligation and DUoS revenue is recognized over-time as electricity is delivered. The amount of revenue recognized is based on actual and forecasted volumes of electricity delivered during the period multiplied by a per-unit energy tariff, plus fixed charges. This method of recognition fairly presents WPD's transfer of electric service to the customer as the calculation is based on volumes, and the tariff rate is set by WPD using a methodology prescribed by Ofgem. Customers are billed monthly and outstanding amounts are typically due within 14 days of the invoice date.

DUoS customers are "at will" customers of WPD 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 WPD's DUoS contracts.

### Pennsylvania Regulated Segment Revenue (PPL and PPL Electric)

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 a per-unit of energy 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 per-unit of energy tariff rate and the monthly fixed charge are set by the PUC. Customers are typically billed monthly and outstanding amounts are typically 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.

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



The Kentucky Regulated Segment generates substantially all of its revenues from contracts with customers primarily 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

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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 tables reconcile "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the periods ended June 30, 2018.

|  | Three Months |                 |         |       |       |
|--|--------------|-----------------|---------|-------|-------|
|  | PPL          | PPL<br>Electric | LKE     | LG&E  | KU    |
| Operating Revenues (a)                 | \$1,848      | \$ 517          | \$743   | \$335 | \$414 |
| Revenues derived from:                 |              |                 |         |       |       |
| Alternative revenue programs (b)       | 9            | —               | 9       | 6     | 3     |
| Other (c)                              | (13 )        | (2 )            | (4 )    | (2 )  | (2 )  |
| Revenues from Contracts with Customers | \$1,844      | \$ 515          | \$748   | \$339 | \$415 |
|  | Six Months   |                 |         |       |       |
|  | PPL          | PPL<br>Electric | LKE     | LG&E  | KU    |
| Operating Revenues (a)                 | \$3,974      | \$1,156         | \$1,615 | \$754 | \$885 |
| Revenues derived from:                 |              |                 |         |       |       |
| Alternative revenue programs (b)       | 41           | 2               | 39      | 20    | 19    |
| Other (c)                              | (28 )        | (6 )            | (9 )    | (3 )  | (6 )  |
| Revenues from Contracts with Customers | \$3,987      | \$1,152         | \$1,645 | \$771 | \$898 |

(a) PPL includes \$584 million and \$1,199 million for the three and six months ended June 30, 2018 of revenues from external customers reported by the U.K. Regulated segment. PPL Electric and LKE represent revenues from external customers reported by the Pennsylvania Regulated and Kentucky Regulated segments. See Note 3 for additional information.

Alternative revenue programs for PPL Electric include the over/under-collection of its transmission formula rate. Alternative revenue programs for LKE, LG&E and KU include the over/under collection for the ECR and DSM (b) programs as well as LG&E's over/under collection of its GLT program and KU's over/under collection of its generation formula rate. Over-collections of revenue are shown as positive amounts in the table above; under-collections are shown as negative amounts.

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

As discussed in Note 2 in PPL's 2017 Form 10-K, PPL's segments are segmented by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the table above. For PPL Electric, revenues from contracts with customers are further disaggregated by

distribution and transmission, which were \$414 million and \$101 million for the three months ended June 30, 2018 and \$946 million and \$206 million for the six months ended June 30, 2018.

The following tables show revenues from contracts with customers disaggregated by customer class for the periods ended June 30, 2018.

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|  | Three Months |                 |       |        |       |
|--|--------------|-----------------|-------|--------|-------|
|  | PPL          | PPL<br>Electric | LKE   | LG&E   | KU    |
| Licensed energy suppliers (a)          | \$547        | \$ —            | \$—   | \$ —   | \$—   |
| Residential                            | 588          | 300             | 288   | 146    | 142   |
| Commercial                             | 296          | 89              | 207   | 107    | 100   |
| Industrial                             | 155          | 12              | 143   | 45     | 98    |
| Other (b)                              | 114          | 13              | 67    | 30     | 37    |
| Wholesale - municipal                  | 31           | —               | 31    | —      | 31    |
| Wholesale - other (c)                  | 12           | —               | 12    | 11     | 7     |
| Transmission                           | 101          | 101             | —     | —      | —     |
| Revenues from Contracts with Customers | \$1,844      | \$ 515          | \$748 | \$ 339 | \$415 |

|  | Six Months |                 |         |        |        |
|--|------------|-----------------|---------|--------|--------|
|  | PPL        | PPL<br>Electric | LKE     | LG&E   | KU     |
| Licensed energy suppliers (a)          | \$1,131    | \$ —            | \$—     | \$ —   | \$—    |
| Residential                            | 1,392      | 708             | 684     | 343    | 341    |
| Commercial                             | 621        | 187             | 434     | 231    | 203    |
| Industrial                             | 310        | 25              | 285     | 89     | 196    |
| Other (b)                              | 220        | 26              | 135     | 61     | 74     |
| Wholesale - municipal                  | 61         | —               | 61      | —      | 61     |
| Wholesale - other (c)                  | 46         | —               | 46      | 47     | 23     |
| Transmission                           | 206        | 206             | —       | —      | —      |
| Revenues from Contracts with Customers | \$3,987    | \$ 1,152        | \$1,645 | \$ 771 | \$ 898 |

(a) Represents customers of WPD.

(b) Primarily includes revenues from pole attachments, street lighting and other public authorities.

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

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 balances that were impaired for the periods ended June 30, 2018.

|              | Three<br>Months | Six<br>Months |
|--------------|-----------------|---------------|
| PPL          | \$ 3            | \$ 13         |
| PPL Electric | 3               | 10            |
| LKE          | 1               | 3             |
| LG&E         | —               | 1             |
| KU           | 1               | 2             |

The following table shows the balances of contract liabilities resulting from contracts with customers.

|  | PPL  | PPL<br>Electric | LKE  | LG&E | KU   |
|--|------|-----------------|------|------|------|
| Contract liabilities as of December 31, 2017 | \$29 | \$ 19           | \$ 8 | \$ 4 | \$ 4 |
| Contract liabilities as of June 30, 2018     | 38   | 14              | 8    | 4    | 3    |

The following table shows the revenue recognized during the period ended June 30, 2018 that was included in the contract liability balance at December 31, 2017.

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|              |        |
|--------------|--------|
|              | Six    |
|              | Months |
| PPL          | \$ 18  |
| PPL Electric | 8      |
| LKE          | 8      |
| LG&E         | 4      |
| KU           | 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 June 30, 2018, PPL had \$70 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately \$50 million within the next 12 months.

## 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. In 2018, these securities also included the PPL common stock forward sale agreements. See Note 8 for additional information on these agreements. The forward sale agreements are dilutive under the Treasury Stock Method to the extent the average stock price of PPL's common shares exceeds 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 June 30 used in the EPS calculation are:

|  | Three Months |         | Six Months |         |
|--|--------------|---------|------------|---------|
|  | 2018         | 2017    | 2018       | 2017    |
| Income (Numerator)   |              |         |            |         |
| Net income   | \$515        | \$ 292  | \$967      | \$ 695  |
| Less amounts allocated to participating securities                 | —            | —       | 1          | 1       |
| Net income available to PPL common shareowners - Basic and Diluted | \$515        | \$ 292  | \$966      | \$ 694  |
| Shares of Common Stock (Denominator)                               |              |         |            |         |
| Weighted-average shares - Basic EPS                                | 699,006      | 683,841 | 696,778    | 682,370 |
| Add incremental non-participating securities:                      |              |         |            |         |
| Share-based payment awards   | 173          | 2,510   | 491        | 2,355   |
| Forward sale agreements  | 1,797        | —       | 898        | —       |
| Weighted-average shares - Diluted EPS                              | 700,976      | 686,351 | 698,166    | 684,725 |
| Basic EPS  |              |         |            |         |
| Net Income available to PPL common shareowners                     | \$0.74       | \$ 0.43 | \$ 1.39    | \$ 1.02 |

Diluted EPS

|  |        |         |        |         |
|--|--------|---------|--------|---------|
| Net Income available to PPL common shareowners | \$0.73 | \$ 0.43 | \$1.38 | \$ 1.01 |
|--|--------|---------|--------|---------|

For the periods ended June 30, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

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|                                    | Three<br>Months |      | Six Months |       |
|------------------------------------|-----------------|------|------------|-------|
|                                    | 2018            | 2017 | 2018       | 2017  |
| Stock-based compensation plans (a) | 12              | 564  | 488        | 1,451 |
| DRIP                               | 526             | 369  | 1,011      | 814   |

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

See Note 8 for additional information on common stock issued under the ATM Program.

For the periods ended June 30, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

|                        | Three<br>Months |      | Six<br>Months |      |
|------------------------|-----------------|------|---------------|------|
|                        | 2018            | 2017 | 2018          | 2017 |
| Stock options          | 441             | 696  | 336           | 696  |
| Restricted stock units | 23              | —    | 21            | —    |

## 6. Income Taxes

Reconciliations of income taxes for the periods ended June 30 are as follows.  
(PPL)

|   | Three<br>Months |        | Six Months |        |
|---|-----------------|--------|------------|--------|
|   | 2018            | 2017   | 2018       | 2017   |
| Federal income tax on Income Before Income Taxes at statutory tax rate (a)  | \$ 138          | \$ 129 | \$ 257     | \$ 315 |
| Increase (decrease) due to:   |                 |        |            |        |
| State income taxes, net of federal income tax benefit                       | 10              | 10     | 25         | 23     |
| Valuation allowance adjustments   | 5               | —      | 12         | 5      |
| Impact of lower U.K. income tax rates relative to U.S. income tax rates (a) | (6 )            | (40 )  | (13 )      | (88 )  |
| U.S. income tax on foreign earnings - net of foreign tax credit (a) (b)     | —               | (7 )   | 1          | (16 )  |
| Federal and state tax reserve adjustments                                   | 3               | —      | 3          | —      |
| Impact of the U.K. Finance Acts   | (2 )            | (6 )   | (3 )       | (9 )   |
| Depreciation and other items not normalized                                 | (2 )            | (2 )   | (4 )       | (5 )   |
| Amortization of excess deferred income taxes (a)                            | (9 )            | —      | (19 )      | —      |
| Deferred tax impact of state tax reform (c)                                 | 9               | —      | 9          | —      |
| Interest benefit on U.K. financing entities                                 | (4 )            | (4 )   | (9 )       | (8 )   |
| Stock-based compensation  | —               | (4 )   | 1          | (7 )   |
| Other   | —               | —      | (1 )       | (5 )   |
| Total increase (decrease)   | 4               | (53 )  | 2          | (110 ) |
| Total income taxes  | \$ 142          | \$ 76  | \$ 259     | \$ 205 |

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Lower income taxes in 2017 primarily due to the tax benefit of accelerated pension contributions made in the first (b)quarter of 2017. The related tax benefit was recognized over the annual period as a result of utilizing an estimated annual effective tax rate.



During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's (c) non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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(PPL Electric)

|  | Three<br>Months |      | Six<br>Months |      |
|--|-----------------|------|---------------|------|
|  | 2018            | 2017 | 2018          | 2017 |
| Federal income tax on Income Before Income Taxes at statutory tax rate (a) | \$22            | \$44 | \$63          | \$88 |
| Increase (decrease) due to:  |                 |      |               |      |
| State income taxes, net of federal income tax benefit                      | 8               | 9    | 24            | 17   |
| Depreciation and other items not normalized                                | (1 )            | (2 ) | (3 )          | (4 ) |
| Amortization of excess deferred income taxes (a)                           | (3 )            | —    | (8 )          | —    |
| Stock-based compensation   | —               | (3 ) | —             | (5 ) |
| Other  | 1               | (1 ) | —             | (1 ) |
| Total increase (decrease)  | 5               | 3    | 13            | 7    |
| Total income taxes   | \$27            | \$47 | \$76          | \$95 |

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(LKE)

|  | Three<br>Months |      | Six Months |       |
|--|-----------------|------|------------|-------|
|  | 2018            | 2017 | 2018       | 2017  |
| Federal income tax on Income Before Income Taxes at statutory tax rate (a) | \$25            | \$49 | \$63       | \$107 |
| Increase (decrease) due to:  |                 |      |            |       |
| State income taxes, net of federal income tax benefit (b)                  | 3               | 5    | 11         | 11    |
| Deferred tax impact of state tax reform (c)                                | 9               | —    | 9          | —     |
| Amortization of excess deferred income taxes (a)                           | (6 )            | —    | (11 )      | —     |
| Other  | —               | (1 ) | (2 )       | (2 )  |
| Total increase (decrease)  | 6               | 4    | 7          | 9     |
| Total income taxes   | \$31            | \$53 | \$70       | \$116 |

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

(c) During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

(LG&amp;E)

|  | Three<br>Months |      | Six<br>Months |      |
|--|-----------------|------|---------------|------|
|  | 2018            | 2017 | 2018          | 2017 |
| Federal income tax on Income Before Income Taxes at statutory tax rate (a) | \$13            | \$24 | \$33          | \$55 |
| Increase (decrease) due to:  |                 |      |               |      |
| State income taxes, net of federal income tax benefit (b)                  | 2               | 3    | 6             | 6    |
| Amortization of excess deferred income taxes (a)                           | (3 )            | —    | (5 )          | —    |
| Other  | —               | —    | (1 )          | (1 ) |
| Total increase (decrease)  | (1 )            | 3    | —             | 5    |
| Total income taxes   | \$12            | \$27 | \$33          | \$60 |

- (a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.
- (b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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(KU)

|  | Three<br>Months |      | Six<br>Months |      |
|--|-----------------|------|---------------|------|
|  | 2018            | 2017 | 2018          | 2017 |
| Federal income tax on Income Before Income Taxes at statutory tax rate (a) | \$16            | \$32 | \$39          | \$67 |
| Increase (decrease) due to:  |                 |      |               |      |
| State income taxes, net of federal income tax benefit (b)                  | 2               | 3    | 7             | 7    |
| Amortization of excess deferred income taxes (a)                           | (3 )            | —    | (6 )          | —    |
| Other  | (1 )            | (1 ) | (2 )          | (1 ) |
| Total increase (decrease)  | (2 )            | 2    | (1 )          | 6    |
| Total income taxes   | \$14            | \$34 | \$38          | \$73 |

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

## Kentucky State Tax Reform (All Registrants)

HB 487, which became law on April 27, 2018, provides for significant changes to the Kentucky tax code including (1) adopting mandatory combined reporting for corporate members of unitary business groups for taxable years beginning on or after January 1, 2019 (members of a unitary business group may make an eight-year binding election to file consolidated corporate income tax returns with all members of their federal affiliated group) and (2) a reduction in the Kentucky corporate income tax rate from 6% to 5% for taxable years beginning after December 31, 2017. LKE recognized a deferred tax charge of \$9 million in the second quarter of 2018 primarily associated with the remeasurement of non-regulated accumulated deferred income tax balances.

As indicated in Note 1 in the Registrants' 2017 Form 10-K, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In the second quarter of 2018, LG&E and KU recorded the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, as an increase in regulatory liabilities of \$16 million and \$19 million. LG&E and KU continue to evaluate other impacts of Kentucky state tax reform along with the associated regulatory considerations. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

## U.S. Tax Reform (All Registrants)

On August 1, 2018, the Department of Treasury and the IRS issued proposed regulations under Internal Revenue Code Section 965 to provide guidance relating to the transition tax upon the mandatory deemed repatriation of certain deferred foreign earnings. On August 3, 2018, the Department of Treasury and the IRS also issued proposed regulations on the new 100 percent depreciation deduction effective for assets placed in service after September 27, 2017. The Registrants are currently reviewing the proposed regulations to determine what impact the newly issued guidance may have on their financial statements.

## 7. Utility Rate Regulation

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

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|  | PPL           |                   | PPL Electric  |                   |
|--|---------------|-------------------|---------------|-------------------|
|  | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| <b>Current Regulatory Assets:</b>            |               |                   |               |                   |
| Environmental cost recovery                  | \$—           | \$ 5              | \$—           | \$ —              |
| Generation formula rate                      | —             | 6                 | —             | —                 |
| Smart meter rider                            | 15            | 15                | 15            | 15                |
| Plant outage costs                           | 6             | 3                 | —             | —                 |
| Gas supply clause                            | 5             | 4                 | —             | —                 |
| Other  | 1             | 1                 | 1             | 1                 |
| Total current regulatory assets (a)          | \$27          | \$ 34             | \$16          | \$ 16             |
| <b>Noncurrent Regulatory Assets:</b>         |               |                   |               |                   |
| Defined benefit plans                        | \$857         | \$ 880            | \$491         | \$ 504            |
| Taxes recoverable through future rates       | 3             | 3                 | 3             | 3                 |
| Storm costs (b)                              | 47            | 33                | 21            | —                 |
| Unamortized loss on debt                     | 49            | 54                | 25            | 29                |
| Interest rate swaps                          | 21            | 26                | —             | —                 |
| Terminated interest rate swaps               | 89            | 92                | —             | —                 |
| Accumulated cost of removal of utility plant | 182           | 173               | 182           | 173               |
| AROs   | 260           | 234               | —             | —                 |
| Act 129 compliance rider                     | 15            | —                 | 15            | —                 |
| Other  | 7             | 9                 | —             | —                 |
| Total noncurrent regulatory assets           | \$1,530       | \$ 1,504          | \$737         | \$ 709            |
| <b>Current Regulatory Liabilities:</b>       |               |                   |               |                   |
| Generation supply charge                     | \$30          | \$ 34             | \$30          | \$ 34             |
| Transmission service charge                  | 4             | 9                 | 4             | 9                 |
| Environmental cost recovery                  | 25            | 1                 | —             | —                 |
| Universal service rider                      | 20            | 26                | 20            | 26                |
| Transmission formula rate                    | 11            | 9                 | 11            | 9                 |
| Fuel adjustment clause                       | 5             | 3                 | —             | —                 |
| TCJA customer refund (c)                     | 33            | —                 | —             | —                 |
| Storm damage expense rider                   | 1             | 8                 | 1             | 8                 |
| Other  | 8             | 5                 | —             | —                 |
| Total current regulatory liabilities         | \$137         | \$ 95             | \$66          | \$ 86             |
| <b>Noncurrent Regulatory Liabilities:</b>    |               |                   |               |                   |
| Accumulated cost of removal of utility plant | \$678         | \$ 677            | \$—           | \$ —              |
| Power purchase agreement - OVEC (d)          | 64            | 68                | —             | —                 |
| Net deferred taxes (e)                       | 1,858         | 1,853             | 652           | 668               |
| Defined benefit plans                        | 31            | 27                | —             | —                 |
| Terminated interest rate swaps               | 72            | 74                | —             | —                 |
| TCJA customer refund (f)                     | 37            | —                 | 37            | —                 |
| Other  | 7             | 5                 | 3             | —                 |
| Total noncurrent regulatory liabilities      | \$2,747       | \$ 2,704          | \$692         | \$ 668            |



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|  | LKE           |                   | LG&E          |                   | KU            |                   |
|--|---------------|-------------------|---------------|-------------------|---------------|-------------------|
|  | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| <b>Current Regulatory Assets:</b>            |               |                   |               |                   |               |                   |
| Environmental cost recovery                  | \$—           | \$ 5              | \$—           | \$ 5              | \$—           | \$ —              |
| Generation formula rate                      | —             | 6                 | —             | —                 | —             | 6                 |
| Plant outage costs                           | 6             | 3                 | 6             | 3                 | —             | —                 |
| Gas supply clause                            | 5             | 4                 | 5             | 4                 | —             | —                 |
| Total current regulatory assets              | \$11          | \$ 18             | \$11          | \$ 12             | \$—           | \$ 6              |
| <b>Noncurrent Regulatory Assets:</b>         |               |                   |               |                   |               |                   |
| Defined benefit plans                        | \$366         | \$ 376            | \$231         | \$ 234            | \$135         | \$ 142            |
| Storm costs                                  | 26            | 33                | 14            | 18                | 12            | 15                |
| Unamortized loss on debt                     | 24            | 25                | 15            | 16                | 9             | 9                 |
| Interest rate swaps                          | 21            | 26                | 21            | 26                | —             | —                 |
| Terminated interest rate swaps               | 89            | 92                | 52            | 54                | 37            | 38                |
| AROs   | 260           | 234               | 71            | 61                | 189           | 173               |
| Other  | 7             | 9                 | 2             | 2                 | 5             | 7                 |
| Total noncurrent regulatory assets           | \$793         | \$ 795            | \$406         | \$ 411            | \$387         | \$ 384            |
|  | LKE           |                   | LG&E          |                   | KU            |                   |
|  | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| <b>Current Regulatory Liabilities:</b>       |               |                   |               |                   |               |                   |
| Environmental cost recovery                  | \$25          | \$ 1              | \$14          | \$ —              | \$11          | \$ 1              |
| Fuel adjustment clause                       | 5             | 3                 | 1             | —                 | 4             | 3                 |
| Gas line tracker                             | 2             | 3                 | 2             | 3                 | —             | —                 |
| TCJA customer refund (c)                     | 33            | —                 | 15            | —                 | 18            | —                 |
| Other  | 6             | 2                 | 2             | —                 | 4             | 2                 |
| Total current regulatory liabilities         | \$71          | \$ 9              | \$34          | \$ 3              | \$37          | \$ 6              |
| <b>Noncurrent Regulatory Liabilities:</b>    |               |                   |               |                   |               |                   |
| Accumulated cost of removal of utility plant | \$678         | \$ 677            | \$280         | \$ 282            | \$398         | 395               |
| Power purchase agreement - OVEC (d)          | 64            | 68                | 44            | 47                | 20            | 21                |
| Net deferred taxes (e)                       | 1,206         | 1,185             | 561           | 552               | 645           | 633               |
| Defined benefit plans                        | 31            | 27                | —             | —                 | 31            | 27                |
| Terminated interest rate swaps               | 72            | 74                | 36            | 37                | 36            | 37                |
| Other  | 4             | 5                 | 1             | 1                 | 3             | 4                 |
| Total noncurrent regulatory liabilities      | \$2,055       | \$ 2,036          | \$922         | \$ 919            | \$1,133       | \$ 1,117          |

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.

(b) Storm costs incurred in PPL Electric's territory from a March 2018 storm will be amortized from 2019 through 2021.

(c) Relates to estimated amounts owed to LG&E and KU customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, effective January 1, 2018. Amounts owed will be distributed through the TCJA bill credit.

(d) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.



(e) Primarily relates to excess deferred taxes recorded as a result of the TCJA, which reduced the U.S. federal corporate income tax rate effective January 1, 2018, requiring deferred tax balances and the associated regulatory liabilities to be remeasured as of December 31, 2017. LG&E and KU began distributing amounts through the TCJA bill credit effective April 1, 2018.

(f) Relates to amounts owed to PPL Electric customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, for the period of January 1, 2018 through June 30, 2018 which is not yet reflected in customer rates. The distribution method back to customers of this liability must be proposed to the PUC at the earlier of May 2021 or PPL Electric's next rate case.

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Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

CPCN Filing

On January 10, 2018, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to implement Advanced Metering Systems across their Kentucky service territories, including gas operations for LG&E. The full deployment is expected to be completed in 2021 with estimated capital costs of \$155 million and \$104 million for KU and LG&E electric service and \$62 million for LG&E gas service. The full Advanced Metering Systems deployment is expected to result in incremental operation and maintenance costs during the deployment phase of \$17 million and \$11 million for KU and LG&E electric service and \$3 million for LG&E gas service. A hearing on this matter was held July 24, 2018. LG&E and KU cannot predict the outcome of this proceeding.

TCJA Impact on LG&E and KU Rates

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues (\$70 million through the new bill credit and \$21 million through existing rate mechanisms), \$69 million in LG&E electricity revenues (\$49 million through the new bill credit and \$20 million through existing rate mechanisms) and \$17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. Ongoing tax savings are also expected to be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019.

On March 20, 2018, the KPSC issued an order approving, with certain modifications, the settlement agreement reached between LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General. The KPSC estimates that, pursuant to its modifications, electricity revenues would incorporate reductions of approximately \$108 million for KU (\$87 million through the new bill credit and \$21 million through existing rate mechanisms) and \$79 million for LG&E (\$59 million through the new bill credit and \$20 million through existing rate mechanisms). This represents \$27 million (\$17 million at KU and \$10 million at LG&E) in additional reductions from the amounts proposed by the settlement. The KPSC's modifications to the settlement include certain changes in assumptions or inputs used in assessing tax reform or calculating LG&E's and KU's electricity rates. LG&E gas rate reductions were not modified significantly from the amount included in the settlement agreement.

On March 26, 2018, LG&E and KU filed a petition for reconsideration and request for hearing with the KPSC, taking exception to the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. On March 28, 2018, the Office of the Attorney General filed a response to the petition and gave notice of its withdrawal from the settlement agreement.

On March 28, 2018, the KPSC issued an Order granting LG&E's and KU's request for reconsideration and amending its March 20, 2018 Order by suspending the approved rates, allowing LG&E and KU, on an interim basis, to return savings related to the TCJA at the rates agreed to in the January 29, 2018 settlement. On March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issues related to the TCJA. A hearing on this matter was held May 24, 2018. Post-hearing briefs have been filed and the case is now submitted to the KPSC for a decision.

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LG&E and KU cannot predict the outcome of these proceedings.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate. On March 22, 2018, KU reached a settlement agreement regarding its rate case in Virginia. New rates, inclusive of TCJA impacts, were effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect would be addressed through KU's annual information filing for calendar year 2018. On May 8, 2018, the VSCC approved the settlement agreement. The TCJA and rate case are not expected to have a significant impact on KU's financial condition or results of operations related to Virginia.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA on FERC-jurisdictional rates. LG&E and KU have not made any submission in response to the Notice of Inquiry, but do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

Gas Franchise (LKE and LG&E)

LG&E's gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's Louisville/Jefferson county customers in the franchise areas as a separate line item on their bill, the franchise fee will revert to zero. In August 2016, LG&E filed an application requesting the KPSC to review and rule upon the recoverability of the franchise fee.

On March 14, 2018, the KPSC issued an order authorizing the franchise fee to be recovered only from LG&E's Louisville/Jefferson County customers in the franchise area. As a result, the franchise fee will continue to be zero in accordance with the terms of the August 2016, 5-year gas franchise agreement.

(PPL and PPL Electric)

Pennsylvania Activities

TCJA Impact on PPL Electric Rates

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 which required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to include a negative surcharge of 0.56%, which was based on PPL Electric's 2017 taxable income, to be effective July 1, 2018, and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to increase the negative surcharge proposed in the May 17, 2018

Order from 0.56% to 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. The estimated 2018 full year impact of the rate reduction is \$72 million in PPL Electric's operating revenues of which \$37 million relates to the period January 1, 2018 through June 30, 2018 and has been recorded as a noncurrent regulatory liability to be distributed to customers pursuant to a future rate adjustment. The remaining \$35 million is the estimated impact for the period July 1, 2018 through December 31, 2018 and will be passed back to customers through the negative surcharge beginning July 1, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, to accelerate incorporation of the changes to the federal corporate

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income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM joint transmission owners filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing submitted by the PJM joint transmission owners requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. PPL Electric is currently awaiting FERC's decision on this matter. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

### Federal Matters

(PPL, LKE, LG&E and KU)

### FERC Transmission Rate Filing

On August 3, 2018, LG&E and KU submitted an application 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 seeks termination of LG&E's and KU's commitment to provide mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky or Tennessee. The amounts at issue are generally waivers or credits for either LG&E and KU or for MISO transmission charges depending upon the direction of transmission service incurred by the municipalities. LG&E and KU estimate that such charges may average approximately \$22 million annually, depending upon actual transmission customer and market volumes, structures and prices, with such charges allocated according to LG&E and KU's respective transmission system ownership ratio. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. LG&E and KU currently receive recovery of such expenses in other rate mechanisms. LG&E and KU cannot predict the outcome of the proceeding, including any effects on their financial condition or results of operations.

### 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 the three and six months ended June 30, 2018, PPL Electric purchased \$297 million and \$673 million of accounts receivable from alternate suppliers. During the three and six months ended June 30, 2017, PPL Electric purchased \$288 million and \$644 million of accounts receivable from alternate suppliers.

## 8. Financing Activities

## Credit Arrangements and Short-term Debt

(All Registrants)

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

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|   | June 30, 2018   |          |          |   | December 31, 2017 |          |   |  |
|---|-----------------|----------|----------|---|-------------------|----------|---|--|
|   | Expiration Date | Capacity | Borrowed | Letters of Credit and Commercial Paper Issued | Unused Capacity   | Borrowed | Letters of Credit and Commercial Paper Issued |  |
| PPL   |                 |          |          |   |                   |          |   |  |
| U.K.  |                 |          |          |   |                   |          |   |  |
| WPD plc                                     |                 |          |          |   |                   |          |   |  |
| Syndicated Credit Facility (a)              | Jan. 2023       | £ 210    | £ 150    | £ —   | £ 60              | £ 148    | £ —   |  |
| Term Loan Facility (b)                      | Dec. 2018       | 130      | 130      | —   | —                 | —        | —   |  |
| WPD (South West)                            |                 |          |          |   |                   |          |   |  |
| Syndicated Credit Facility                  | July 2021       | 245      | —        | —   | 245               | —        | —   |  |
| WPD (East Midlands)                         |                 |          |          |   |                   |          |   |  |
| Syndicated Credit Facility (c)              | July 2021       | 300      | 99       | —   | 201               | 180      | —   |  |
| WPD (West Midlands)                         |                 |          |          |   |                   |          |   |  |
| Syndicated Credit Facility (d)              | July 2021       | 300      | 34       | —   | 266               | 120      | —   |  |
| Uncommitted Credit Facilities               |                 | 130      | —        | 4   | 126               | —        | 4   |  |
| Total U.K. Credit Facilities (e)            |                 | £ 1,315  | £ 413    | £ 4   | £ 898             | £ 448    | £ 4   |  |
| U.S.  |                 |          |          |   |                   |          |   |  |
| PPL Capital Funding                         |                 |          |          |   |                   |          |   |  |
| Syndicated Credit Facility                  | Jan. 2023       | \$ 950   | \$ —     | \$ 950  | \$ —              | \$—      | \$ 230  |  |
| Syndicated Credit Facility                  | Nov. 2018       | 300      | —        | 49  | 251               | —        | —   |  |
| Bilateral Credit Facility                   | Mar. 2019       | 100      | —        | 20  | 80                | —        | 18  |  |
| Total PPL Capital Funding Credit Facilities |                 | \$ 1,350 | \$ —     | \$ 1,019                                      | \$ 331            | \$—      | \$ 248  |  |
| PPL Electric                                |                 |          |          |   |                   |          |   |  |
| Syndicated Credit Facility                  | Jan. 2023       | \$ 650   | \$ —     | \$ 1  | \$ 649            | \$—      | \$ 1  |  |
| LKE   |                 |          |          |   |                   |          |   |  |
| Syndicated Credit Facility                  | Oct. 2018       | \$ 75    | \$ —     | \$ —  | \$ 75             | \$—      | \$ —  |  |
| LG&E  |                 |          |          |   |                   |          |   |  |
| Syndicated Credit Facility                  | Jan. 2023       | \$ 500   | \$ —     | \$ 183  | \$ 317            | \$—      | \$ 199  |  |
| Term Loan Credit Facility                   | Oct. 2019       | 200      | 200      | —   | —                 | 100      | —   |  |
| Total LG&E Credit Facilities                |                 | \$ 700   | \$ 200   | \$ 183  | \$ 317            | \$ 100   | \$ 199  |  |
| KU  |                 |          |          |   |                   |          |   |  |
| Syndicated Credit Facility                  | Jan. 2023       | \$ 400   | \$ —     | \$ 133  | \$ 267            | \$—      | \$ 45   |  |
| Letter of Credit Facility                   | Oct. 2020       | 198      | —        | 198   | —                 | —        | 198   |  |
| Total KU Credit Facilities                  |                 | \$ 598   | \$ —     | \$ 331  | \$ 267            | \$—      | \$ 243  |  |

The amounts borrowed at June 30, 2018 and December 31, 2017 were USD-denominated borrowings of \$200 (a) million for both periods, which bore interest at 2.81% and 2.17%. The unused capacity reflects the amount borrowed in GBP of £150 million as of the date borrowed.

(b)



The amount borrowed at June 30, 2018 was a GBP-denominated borrowing which equated to \$173 million and bore interest at 1.75%.

- (c) The amounts borrowed at June 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$132 million and \$244 million and bore interest at 0.90% and 0.89%.
- (d) The amounts borrowed at June 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$45 million and \$162 million and bore interest at 0.90% and 0.89%.
- (e) At June 30, 2018, the unused capacity under the U.K. credit facilities was \$1.2 billion.

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

|                     | June 30, 2018                          |          |                                  | December 31, 2017  |  |                                  |
|---------------------|--|----------|----------------------------------|--------------------|--|----------------------------------|
|                     | Weighted -<br>Average<br>Interest Rate | Capacity | Commercial<br>Paper<br>Issuances | Unused<br>Capacity | Weighted -<br>Average<br>Interest Rate | Commercial<br>Paper<br>Issuances |
| PPL Capital Funding | 2.42%                                  | \$ 1,000 | \$ 999                           | \$ 1               | 1.64%                                  | \$ 230                           |
| PPL Electric        |  | 650      | —                                | 650                |  | —                                |
| LG&E                | 2.33%                                  | 350      | 183                              | 167                | 1.83%                                  | 199                              |
| KU                  | 2.34%                                  | 350      | 133                              | 217                | 1.97%                                  | 45                               |
| Total               |  | \$ 2,350 | \$ 1,315                         | \$ 1,035           |  | \$ 474                           |

(PPL Electric, LKE, and LG&E)

See Note 11 for discussion of intercompany borrowings.

#### Long-term Debt

(PPL)

In March 2018, WPD (South Wales) issued £30 million of 0.01% Index-linked Senior Notes due 2036. WPD (South Wales) received proceeds of £31 million, which equated to \$44 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In May 2018, WPD (West Midlands) issued £30 million of 0.01% Index-linked Senior Notes due 2028. WPD (West Midlands) received proceeds of £31 million, which equated to \$41 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In June 2018, PPL Capital Funding repaid the entire \$250 million principal amount of its 1.90% Senior Notes upon maturity.

(PPL and PPL Electric)

In June 2018, PPL Electric issued \$400 million of 4.15% First Mortgage Bonds due 2048. PPL Electric received proceeds of \$394 million, net of a discount and underwriting fees, which were used to repay short-term debt and for general corporate purposes.

(PPL, LKE and LG&E)

In March 2018, the County of Trimble, Kentucky remarketed \$28 million of Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.30% through their mandatory purchase date of September 1, 2021.

In May 2018, the County of Trimble, Kentucky remarketed \$35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

In May 2018, the County of Jefferson, Kentucky remarketed \$35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

(PPL, LKE and KU)

In July 2018, KU redeemed, at par, its \$9 million County of Trimble, Kentucky, Environmental Facilities Revenue Bonds, 2007 Series A (Kentucky Utilities Company Project) due 2037.

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(LKE)

In May 2018, LKE borrowed \$250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary. See Note 11 for additional information related to intercompany borrowings.

(PPL)

Equity Securities

Equity Forward Contracts

In May 2018, PPL completed a registered underwritten public offering of 55 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 8.25 million additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Settlement of these forward sale agreements will occur no later than November 2019. Upon any physical settlement of any forward sale agreement, PPL will issue and deliver to the applicable forward counterparty shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of \$26.7057 per share reduced during the period the applicable forward contract is outstanding as specified in such forward sale agreement. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under each forward sale agreement. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to any settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the Treasury Stock Method. See Note 5 for information on the forward sale agreements impact on the calculation of diluted EPS.

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. PPL issued 1.2 million and 4.2 million shares of common stock and received gross proceeds of \$34 million and \$119 million for the three and six months ended June 30, 2018.

Distributions

In May 2018, PPL declared a quarterly common stock dividend, payable July 2, 2018, of 41.0 cents per share (equivalent to \$1.64 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.



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## 9. Defined Benefits

(PPL, LKE and LG&amp;E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and its subsidiaries, and LG&E for the periods ended June 30:

|  | Pension Benefits |       |        |        |            |       |        |        |
|--|------------------|-------|--------|--------|------------|-------|--------|--------|
|  | Three Months     |       |        |        | Six Months |       |        |        |
|  | U.S.             |       | U.K.   |        | U.S.       |       | U.K.   |        |
|  | 2018             | 2017  | 2018   | 2017   | 2018       | 2017  | 2018   | 2017   |
| PPL  |                  |       |        |        |            |       |        |        |
| Service cost   | \$15             | \$15  | \$21   | \$18   | \$31       | \$32  | \$42   | \$37   |
| Interest cost  | 39               | 42    | 47     | 44     | 78         | 84    | 94     | 87     |
| Expected return on plan assets   | (62 )            | (58 ) | (150 ) | (127 ) | (124)      | (115) | (300)  | (252 ) |
| Amortization of:   |                  |       |        |        |            |       |        |        |
| Prior service cost   | 3                | 3     | —      | —      | 5          | 5     | —      | —      |
| Actuarial loss   | 19               | 14    | 38     | 36     | 41         | 34    | 77     | 71     |
| Net periodic defined benefit costs (credits) before special termination benefits | 14               | 16    | (44 )  | (29 )  | 31         | 40    | (87 )  | (57 )  |
| Special termination benefits (a)   | —                | (1 )  | —      | —      | —          | 1     | —      | —      |
| Net periodic defined benefit costs (credits)                                     | \$14             | \$15  | \$(44) | \$(29) | \$31       | \$41  | \$(87) | \$(57) |

(a) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

|  | Pension Benefits |      |            |      |
|--|------------------|------|------------|------|
|  | Three Months     |      | Six Months |      |
|  | 2018             | 2017 | 2018       | 2017 |
| LKE                                    |                  |      |            |      |
| Service cost                           | \$5              | \$5  | \$12       | \$12 |
| Interest cost                          | 16               | 18   | 32         | 34   |
| Expected return on plan assets         | (25)             | (24) | (51)       | (46) |
| Amortization of:                       |                  |      |            |      |
| Prior service cost                     | 2                | 2    | 4          | 4    |
| Actuarial loss (a)                     | 8                | 4    | 18         | 15   |
| Net periodic defined benefit costs (b) | \$6              | \$5  | \$15       | \$19 |

(a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LKE's accounting policy and actuarial loss calculated using a 15-year amortization period was \$2 million and \$6 million for the three and six months ended June 30, 2018 and \$5 million for the six months ended June 30, 2017. This difference is recorded as a regulatory asset.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$4 million 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.



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|  | Pension Benefits |      |        |      |
|--|------------------|------|--------|------|
|  | Three            |      | Six    |      |
|  | Months           |      | Months |      |
|  | 2018             | 2017 | 2018   | 2017 |
| LG&E                                   |                  |      |        |      |
| Service cost                           | \$1              | \$1  | \$1    | \$1  |
| Interest cost                          | 3                | 3    | 6      | 6    |
| Expected return on plan assets         | (6)              | (6)  | (11)   | (11) |
| Amortization of:                       |                  |      |        |      |
| Prior service cost                     | 2                | 1    | 3      | 2    |
| Actuarial loss (a)                     | 1                | 1    | 3      | 4    |
| Net periodic defined benefit costs (b) | \$1              | \$—  | \$2    | \$2  |

As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with (a) LG&E's accounting policy and actuarial loss calculated using a 15-year amortization period was \$1 million for the six months ended June 30, 2018 and 2017. This difference is recorded as a regulatory asset.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$4 million 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.

|                                    | Other Postretirement Benefits |      |        |      |
|------------------------------------|-------------------------------|------|--------|------|
|                                    | Three                         |      | Six    |      |
|                                    | Months                        |      | Months |      |
|                                    | 2018                          | 2017 | 2018   | 2017 |
| PPL                                |                               |      |        |      |
| Service cost                       | \$3                           | \$2  | \$4    | \$4  |
| Interest cost                      | 7                             | 6    | 10     | 12   |
| Expected return on plan assets     | (9)                           | (5)  | (13)   | (11) |
| Amortization of prior service cost | 1                             | (1)  | —      | (1)  |
| Net periodic defined benefit costs | \$2                           | \$2  | \$1    | \$4  |

|                                    |     |     |     |     |
|------------------------------------|-----|-----|-----|-----|
| LKE                                |     |     |     |     |
| Service cost                       | \$1 | \$1 | \$2 | \$2 |
| Interest cost                      | 2   | 2   | 4   | 4   |
| Expected return on plan assets     | (2) | (2) | (4) | (3) |
| Amortization of:                   |     |     |     |     |
| Prior service cost                 | 1   | —   | 1   | —   |
| Actuarial gain                     | (1) | —   | (1) | —   |
| Net periodic defined benefit costs | \$1 | \$1 | \$2 | \$3 |

(PPL Electric, LG&E and KU)

In addition to the specific plan it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 11 for additional information on costs allocated to LG&E and KU from LKS. These allocations are based on



participation in those plans, which management believes are reasonable. For the periods ended June 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

|              | Three<br>Months |      | Six<br>Months |       |
|--------------|-----------------|------|---------------|-------|
|              | 2018            | 2017 | 2018          | 2017  |
| PPL Electric | \$ 3            | \$ 5 | \$ 7          | \$ 13 |
| LG&E         | 2               | 2    | 4             | 5     |
| KU           | 1               | 1    | 2             | 5     |

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(All Registrants)

The non-service cost components of net periodic defined benefit costs (credits) (interest cost, expected return on plan assets, amortization of prior service cost and amortization of actuarial loss) are presented in "Other Income (Expense) - net" on the Statements of Income. See Note 12 for details.

10. Commitments and Contingencies

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.

Cane Run Environmental Claims (PPL, LKE 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 alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant, which had three coal-fired units retired in 2015. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In July 2014, the court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, the plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E. On April 13, 2017, the federal District Court issued an order declining to exercise supplemental jurisdiction on the state law claims and dismissed the case in its entirety. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E alleging state law nuisance, negligence and trespass tort claims. The plaintiffs seek 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. Proceedings are currently underway regarding potential class certification, for which a decision may occur in late 2018 or in 2019. PPL, LKE and LG&E cannot predict the outcome of this matter and an estimate or range of possible losses cannot be determined.

E.W. Brown Environmental Claims (PPL, LKE and KU)

On July 12, 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 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. On December 28, 2017 the U.S. District Court for the Eastern District of Kentucky issued an order

dismissing the Clean Water Act and RCRA complaints against KU in their entirety. On January 26, 2018, the plaintiffs appealed the dismissal order to the U.S. Court of Appeals for the Sixth Circuit. The case has been briefed and oral argument was presented on August 2, 2018. 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. PPL, LKE and KU cannot predict the outcome of these matters and an estimate or range of possible losses cannot be determined.

Regulatory Issues (All Registrants)

See Note 7 for information on regulatory matters related to utility rate regulation.

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### 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 (including RFC or SERC) 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.

### Environmental Matters

#### (All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

### Air

(PPL, LKE, LG&E and KU)

#### NAAQS

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel generation plants. Among other things, the Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six pollutants to protect public health and welfare. The six pollutants are carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

Federal environmental regulations of these six pollutants require states to adopt implementation plans, known as state implementation plans, which detail how the state will attain the standards that are mandated by the relevant law or regulation.

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Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

### Ozone

The EPA issued the current ozone standard in October 2015. The states and the EPA are required to determine (based on ambient air monitoring data) those areas that meet the standard and those that are in nonattainment. The EPA was scheduled to designate areas as being in attainment or nonattainment of the current ozone standard by no later than October 2017 which was to be followed by further regulatory proceedings identifying compliance measures and deadlines. However, the current implementation and compliance schedule is uncertain because the EPA failed to make nonattainment designations by the applicable deadline. In addition, some industry groups have requested the EPA to defer implementation of the 2015 ozone standard, but the EPA has not yet acted on this request. Although implementation of the 2015 ozone standard could potentially require the addition of SCRs at some LG&E and KU generating units, PPL, LKE, LG&E and KU are currently unable to determine what the compliance measures and deadlines may ultimately be with respect to the new standard.

States are also obligated to address interstate transport issues associated with ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. Although PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross-State Air Pollution Rule.

### Sulfur Dioxide

In 2010, the EPA issued the current NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in nonattainment. In July 2013, the EPA finalized nonattainment designations for parts of the country, including part of Jefferson County in Kentucky. As a result of scrubber replacements completed by LG&E at the Mill Creek plant in 2016, all Jefferson County monitors now indicate compliance with the sulfur dioxide standards. Additionally, LG&E accepted a new sulfur dioxide emission limit to ensure continuing compliance with the NAAQS. PPL, LKE, LG&E and KU do not anticipate any further measures to achieve compliance with the new sulfur dioxide standards.

### Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, President Obama announced that the United States, Canada and Mexico established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect

the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's rules issued in 2015 imposing GHG emission standards for both new and existing power plants, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020.

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Additionally, the March 2017 Executive Order directed the EPA to review its 2015 greenhouse gas rules for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is not significant and is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act, including the EPA's Clean Power Plan

There continues to be uncertainty about the EPA's regulation of existing coal-fired power plants. In 2015, the EPA had finalized rules imposing GHG emission standards for both new and existing power plants and had proposed a federal implementation plan that would apply to any states that failed to submit an acceptable state implementation plan to reduce GHG emissions on a state-by-state basis (the 2015 EPA Rules).

Following legal challenges to the 2015 EPA Rules, a stay of those rules by the U.S. Supreme Court and the March 2017 Executive Order requiring the EPA to review the 2015 EPA Rules, in October 2017, the EPA proposed to rescind the 2015 EPA Rules and, in December 2017, released an advanced notice of proposed rulemaking for a replacement (Replacement Rules) which contemplates GHG reductions based on "inside the fence" measures implemented at individual plants. The contemplated approach in the Replacement Rules is a more limited approach than that taken in the 2015 EPA Rules which had included assumed increased levels of fuel switching and renewable energy in determining the level of emission reduction required by each state. At present, the 2015 EPA Rules remain stayed and the Replacement Rules have not yet been published.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the 2015 EPA Rules, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions are consistent with the EPA's notice of proposed rulemaking on the Replacement Rules.

LG&E and KU are monitoring developments at the state and federal level. Until there is more clarity about the potential requirements that may be imposed under the Replacement Rules and Kentucky's implementation plan, PPL, LKE, LG&E and KU cannot predict the potential impact, if any, on plant operations, future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

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. Discussions between the EPA and LG&E are ongoing. The parties have entered into a tolling agreement with respect to this matter through December 2018. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant,



including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

CCRs

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed.

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Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals. On March 1, 2018, the EPA proposed amendments to the CCR rule primarily relating to impoundment closure and remediation requirements. On July 18, 2018, the EPA released a pre-publication copy of a signed final rule extending the deadline for closure of certain impoundments to October 2020 and adopting substantive changes relating to certifications, suspensions of groundwater monitoring and groundwater protection standards for certain constituents. PPL, LKE, LG&E and KU are unable to predict the outcome of the ongoing rulemaking or potential impacts on current LG&E and KU compliance plans. Revisions to the current rule could potentially result in additional costs.

In January 2017, Kentucky issued a new state rule relating to CCR matters, effective May 2017, aimed at reflecting the requirements of the federal CCR rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in Franklin County, Kentucky Circuit Court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. On January 31, 2018, the state court issued an opinion invalidating certain procedural elements of the new rule but finding the substantive requirements of the new rule to be consistent with those of the federal CCR rule. This ruling was not appealed by any party to the litigation and is now final. Accordingly, LG&E and KU presently operate their facilities under continuing permits authorized via the former program and do not currently anticipate material impacts as a result of the judicial ruling. Separately, in December 2016, federal legislation was enacted that authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR rule. The Kentucky Energy and Environmental Cabinet has indicated it may propose rules under such authority in the future.

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. On January 26, 2018, KU filed an application requesting a CPCN and approval of amendments to the second phase of its compliance plan for the landfill at the E.W. Brown station. On July 9, 2018, the KPSC granted approval to KU for amendments to the second phase of its compliance plan for the landfill at the E.W. Brown station.

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 16 below and Note 19 in the Registrants' 2017 Form 10-K 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 subject to rate recovery.

## Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to 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, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are

subject to rate recovery.

On February 20, 2018, the EPA issued a notice requesting comment on the scope of discharges subject to regulation under the Clean Water Act. Specifically, the EPA seeks comments on whether Clean Water Act jurisdiction should cover discharges to groundwater that reach surface water via a direct hydrologic connection. Extending Clean Water Act jurisdiction to such discharges could potentially subject certain releases from CCR impoundments to additional permitting and remediation requirements. PPL, LKE, LG&E and KU are unable to predict the future regulatory developments or potential impacts on current LG&E and KU compliance plans.

ELGs

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion

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residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been 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 published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing. Additionally, 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. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

### Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant. LG&E and KU cannot currently estimate a possible loss or range of possible losses related to this matter.

(All Registrants)

### Other Issues

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. Only the second part of the rule is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant. Currently, the EPA is planning a review of part two later in 2018.

### Superfund and Other Remediation

PPL Electric, LG&E and KU are potentially responsible for investigating, responding to agency inquiries, implementing various preventative measures, and/or remediating contamination under programs other than those described in the sections above. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information about such additional sites to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

As of June 30, 2018 and December 31, 2017, PPL Electric had a recorded liability of \$11 million and \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted in the paragraph above. Depending on the outcome of investigations at 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; however, such costs are not expected to be significant.

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The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, 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 under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, 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.

Other

Labor Union Agreements

(LKE and KU)

KU has 68 employees that are represented by the IBEW labor union. Contract negotiations with the IBEW commenced in July 2018. The current three-year agreement, scheduled to expire on August 1, 2018, was extended to August 9, 2018. Although union members voted to reject a recent agreement reached by KU and the IBEW, negotiations are continuing. KU cannot predict the outcome of these negotiations but does not expect the ultimate outcome of this matter, including terms of any potential new agreement, or lack thereof, to have a material impact on KU.

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. Such agreements include, for example, 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 securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of June 30, 2018. "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 except for "WPD guarantee of pension and other obligations of unconsolidated entities." The total recorded liability at June 30, 2018 was \$6 million for PPL and not significant for LKE. The total recorded liability at December 31, 2017 was \$17 million for PPL and \$11 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

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|   | Exposure<br>at<br>June 30,<br>2018 | Expiration<br>Date |
|---|------------------------------------|--------------------|
| PPL   |                                    |                    |
| Indemnifications related to the WPD Midlands acquisition                  | (a)                                |                    |
| WPD indemnifications for entities in liquidation and sales of assets      | \$ 10 (b)                          | 2020               |
| WPD guarantee of pension and other obligations of unconsolidated entities | 82 (c)                             |                    |
| PPL Electric  |                                    |                    |
| Guarantee of inventory value  | 20 (d)                             | 2020               |
| LKE   |                                    |                    |
| Indemnification of lease termination and other divestitures               | 200 (e)                            | 2021               |
| LG&E and KU   |                                    |                    |
| LG&E and KU guarantee of shortfall related to OVEC                        | (f)                                |                    |

Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the (a) acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.

Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent (b) either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At June 30, 2018, WPD has recorded an estimated discounted liability for which the (c) expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.

A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to (d) the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.

(e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum



exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses.

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. LKE's (f) proportionate share of OVEC's outstanding debt was \$115 million at June 30, 2018, consisting of LG&E's share of \$80 million and KU's share of \$35 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2017 Form 10-K for additional information on the OVEC power purchase contract.

In March 2018, a sponsor with a pro-rata share of certain OVEC obligations of 4.85% filed for bankruptcy under Chapter 11 and is seeking to reject the OVEC power purchase contract, which action OVEC and certain sponsors are contesting. OVEC and certain of its sponsors, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs, establishing or continuing debt reserve accounts or other changes involving OVEC's existing short and long-term debt. The ultimate outcome of these matters, including the sponsor bankruptcy and related proceedings and any other potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

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.

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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.

## 11. Related Party Transactions

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

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric, LKE, their respective subsidiaries, including LG&E and KU, and each other with administrative, management and support services. For all service companies, the costs of these 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 periods ended June 30, 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.

|                                   | Three<br>Months<br>2018 |      | Six<br>Months<br>2017 |      |
|-----------------------------------|-------------------------|------|-----------------------|------|
| PPL Electric from PPL Services    | \$15                    | \$44 | \$31                  | \$95 |
| LKE from PPL Services             | 7                       | 5    | 14                    | 11   |
| PPL Electric from PPL EU Services | 41                      | 15   | 76                    | 33   |
| LG&E from LKS                     | 39                      | 38   | 77                    | 82   |
| KU from LKS                       | 43                      | 47   | 85                    | 91   |

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 LKE and LG&E and KU are reimbursed through LKS.

## Intercompany Borrowings

## (PPL Electric)

PPL Energy Funding maintains a revolving line of credit with a PPL Electric subsidiary. In June 2018, the revolving line of credit was increased by \$250 million and the limit as of June 30, 2018 was \$650 million. No balance was outstanding at June 30, 2018 and December 31, 2017. The interest rates on borrowings are equal to one-month LIBOR plus a spread.

## (LKE)

LKE maintains a \$300 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At June 30, 2018 and December 31, 2017, \$99 million and \$225 million were outstanding and

reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rates on the outstanding borrowings at June 30, 2018 and December 31, 2017 were 3.50% and 2.87%.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market based rates. No balance was outstanding at June 30, 2018 and December 31, 2017. The interest rate on the loan is based on the PPL affiliates credit rating and equal to one-month LIBOR plus a spread.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At June 30, 2018 and December 31, 2017, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was \$3 million and \$7 million for the three and six months ending June 30, 2018 and 2017.

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In May 2018, LKE borrowed \$250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028 with interest due in May and November. At June 30, 2018, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary. Interest expense on this note was \$2 million for the three and six months ending June 30, 2018.

Other (PPL Electric, LG&E and KU)

See Note 9 for discussions regarding intercompany allocations associated with defined benefits.

## 12. Other Income (Expense) - net

(PPL)

The details of "Other Income (Expense) - net" for the periods ended June 30, were:

|  | Three<br>Months |         | Six Months |         |
|--|-----------------|---------|------------|---------|
|  | 2018            | 2017    | 2018       | 2017    |
| Other Income   |                 |         |            |         |
| Economic foreign currency exchange contracts (Note 14) | \$164           | \$(113) | \$52       | \$(156) |
| Defined benefit plans - non-service credits (Note 9)   | 66              | 44      | 134        | 82      |
| Interest income  | 2               | —       | 2          | 1       |
| AFUDC - equity component                               | 5               | 4       | 10         | 6       |
| Miscellaneous  | —               | —       | 1          | 9       |
| Total Other Income                                     | 237             | (65)    | 199        | (58)    |
| Other Expense  |                 |         |            |         |
| Charitable contributions                               | 1               | 1       | 5          | 5       |
| Miscellaneous  | 2               | 2       | 3          | 14      |
| Total Other Expense                                    | 3               | 3       | 8          | 19      |
| Other Income (Expense) - net                           | \$234           | \$(68)  | \$191      | \$(77)  |

(PPL Electric)

The details of "Other Income (Expense) - net" for the periods ended June 30, were:

|  | Three<br>Months |      | Six<br>Months |      |
|--|-----------------|------|---------------|------|
|  | 2018            | 2017 | 2018          | 2017 |
| Other Income   |                 |      |               |      |
| AFUDC - equity component                             | \$5             | \$4  | \$10          | \$6  |
| Defined benefit plans - non-service credits (Note 9) | 1               | 1    | 3             | —    |
| Miscellaneous  | 1               | —    | 1             | —    |
| Total Other Income                                   | 7               | 5    | 14            | 6    |
| Other Expense  |                 |      |               |      |
| Charitable contributions                             | —               | —    | 1             | 1    |
| Miscellaneous  | —               | 1    | —             | 1    |
| Total Other Expense                                  | —               | 1    | 1             | 2    |
| Other Income (Expense) - net                         | \$7             | \$4  | \$13          | \$4  |

## 13. 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

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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. Transfers between levels are recognized at end-of-reporting-period values. During the three and six months ended June 30, 2018 and 2017, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2017 Form 10-K for information on the levels in the fair value hierarchy.

## Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

|  | June 30, 2018 |         |         | December 31, 2017 |        |         |         |         |
|--|---------------|---------|---------|-------------------|--------|---------|---------|---------|
|  | Total         | Level 1 | Level 2 | Level 3           | Total  | Level 1 | Level 2 | Level 3 |
| <b>PPL</b>                               |               |         |         |                   |        |         |         |         |
| Assets                                   |               |         |         |                   |        |         |         |         |
| Cash and cash equivalents                | \$852         | \$852   | \$—     | \$—               | -\$485 | \$485   | \$—     | \$—     |
| Restricted cash and cash equivalents (a) | 23            | 23      | —       | —                 | 26     | 26      | —       | —       |
| Special use funds (a)                    | 65            | 65      | —       | —                 | —      | —       | —       | —       |
| Price risk management assets (b):        |               |         |         |                   |        |         |         |         |
| Foreign currency contracts               | 163           | —       | 163     | —                 | 163    | —       | 163     | —       |
| Cross-currency swaps                     | 100           | —       | 100     | —                 | 101    | —       | 101     | —       |
| Total price risk management assets       | 263           | —       | 263     | —                 | 264    | —       | 264     | —       |
| Total assets                             | \$1,203       | \$940   | \$263   | \$—               | -\$775 | \$511   | \$264   | \$—     |
| Liabilities                              |               |         |         |                   |        |         |         |         |
| Price risk management liabilities (b):   |               |         |         |                   |        |         |         |         |
| Interest rate swaps                      | \$21          | \$—     | \$21    | \$—               | -\$26  | \$—     | \$26    | \$—     |
| Foreign currency contracts               | 53            | —       | 53      | —                 | 148    | —       | 148     | —       |
| Total price risk management liabilities  | \$74          | \$—     | \$74    | \$—               | -\$174 | \$—     | \$174   | \$—     |
| <b>PPL Electric</b>                      |               |         |         |                   |        |         |         |         |
| Assets                                   |               |         |         |                   |        |         |         |         |
| Cash and cash equivalents                | \$489         | \$489   | \$—     | \$—               | -\$49  | \$49    | \$—     | \$—     |
| Restricted cash and cash equivalents (a) | 2             | 2       | —       | —                 | 2      | 2       | —       | —       |
| Total assets                             | \$491         | \$491   | \$—     | \$—               | -\$51  | \$51    | \$—     | \$—     |
| <b>LKE</b>                               |               |         |         |                   |        |         |         |         |
| Assets                                   |               |         |         |                   |        |         |         |         |
| Cash and cash equivalents                | \$39          | \$39    | \$—     | \$—               | -\$30  | \$30    | \$—     | \$—     |
| Total assets                             | \$39          | \$39    | \$—     | \$—               | -\$30  | \$30    | \$—     | \$—     |
| Liabilities                              |               |         |         |                   |        |         |         |         |
| Price risk management liabilities:       |               |         |         |                   |        |         |         |         |
| Interest rate swaps                      | \$21          | \$—     | \$21    | \$—               | -\$26  | \$—     | \$26    | \$—     |
| Total price risk management liabilities  | \$21          | \$—     | \$21    | \$—               | -\$26  | \$—     | \$26    | \$—     |
| <b>LG&amp;E</b>                          |               |         |         |                   |        |         |         |         |
| Assets                                   |               |         |         |                   |        |         |         |         |

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|                           |       |       |      |      |        |       |      |      |
|---------------------------|-------|-------|------|------|--------|-------|------|------|
| Cash and cash equivalents | \$ 19 | \$ 19 | \$ — | \$ — | —\$ 15 | \$ 15 | \$ — | \$ — |
| Total assets              | \$ 19 | \$ 19 | \$ — | \$ — | —\$ 15 | \$ 15 | \$ — | \$ — |

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|   | June 30, 2018 |         |         |         | December 31, 2017 |         |         |         |
|---|---------------|---------|---------|---------|-------------------|---------|---------|---------|
|   | Total         | Level 1 | Level 2 | Level 3 | Total             | Level 1 | Level 2 | Level 3 |
| <b>Liabilities</b>                      |               |         |         |         |                   |         |         |         |
| Price risk management liabilities:      |               |         |         |         |                   |         |         |         |
| Interest rate swaps                     | \$21          | \$ —    | \$ 21   | \$ —    | -\$26             | \$ —    | \$ 26   | \$ —    |
| Total price risk management liabilities | \$21          | \$ —    | \$ 21   | \$ —    | -\$26             | \$ —    | \$ 26   | \$ —    |
| <b>KU</b>                               |               |         |         |         |                   |         |         |         |
| <b>Assets</b>                           |               |         |         |         |                   |         |         |         |
| Cash and cash equivalents               | \$20          | \$ 20   | \$ —    | \$ —    | -\$15             | \$ 15   | \$ —    | \$ —    |
| Total assets                            | \$20          | \$ 20   | \$ —    | \$ —    | -\$15             | \$ 15   | \$ —    | \$ —    |

(a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.

(b) 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.

**Special Use Funds**

(PPL)

The special use funds are investments restricted for paying active union employee medical costs. 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 for medical claims of active bargaining unit employees. The funds are invested primarily in money market funds.

**Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps**

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

To manage interest rate risk, PPL, LKE, 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 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.



|              | June 30, 2018             |               | December 31,<br>2017      |               |
|--------------|---------------------------|---------------|---------------------------|---------------|
|              | Carrying<br>Amount<br>(a) | Fair<br>Value | Carrying<br>Amount<br>(a) | Fair<br>Value |
| PPL          | \$20,420                  | \$23,448      | \$20,195                  | \$23,783      |
| PPL Electric | 3,693                     | 3,950         | 3,298                     | 3,769         |
| LKE          | 5,510                     | 5,801         | 5,159                     | 5,670         |
| LG&E         | 1,808                     | 1,884         | 1,709                     | 1,865         |
| KU           | 2,329                     | 2,480         | 2,328                     | 2,605         |

(a) Amounts are net of debt issuance costs.

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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.

14. 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. PPL and WPD hold 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, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, 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 for certain plans at WPD due to the recovery methods in place.

Foreign Currency Risk (PPL)

PPL is 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 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.

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### Volumetric Risk

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

WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2017 Form 10-K for additional information on revenue recognition under RIIO-ED1.

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

### 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 at the regulated domestic utilities and for certain plans at WPD 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" interest rate and foreign currency derivatives with financial institutions, 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, LKE, 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 a \$28 million obligation to return cash collateral under master netting arrangements at June 30, 2018 and a \$20 million obligation to return cash collateral under master netting arrangements at December 31, 2017.

PPL had no obligation to post cash collateral under master netting arrangements at June 30, 2018 and December 31, 2017.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at June 30, 2018 and December 31, 2017.

LKE, LG&E and KU had no cash collateral posted under master netting arrangements at June 30, 2018 and December 31, 2017.

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.

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### 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 held no such contracts at June 30, 2018.

For the three and six months ended June 30, 2018 and 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives.

At June 30, 2018, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$702 million that range in maturity from 2021 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and six months ended June 30, 2018 and 2017, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

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 the three and six months ended June 30, 2018, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three and six months ended June 30, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At June 30, 2018, 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, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. 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 June 30, 2018, LG&E held

contracts with a notional amount of \$147 million that range in maturity through 2033.

#### Foreign Currency Risk

(PPL)

PPL is 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 and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

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## Net Investment Hedges

PPL enters 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 June 30, 2018.

At June 30, 2018 and December 31, 2017, PPL had \$30 million and \$22 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

## Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At June 30, 2018, the total exposure hedged by PPL was approximately £2.0 billion (approximately \$2.8 billion based on contracted rates). These contracts have termination dates ranging from July 2018 through October 2020.

## Accounting and Reporting

## (All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric 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 June 30, 2018 and December 31, 2017.

See Note 1 in each Registrant's 2017 Form 10-K 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.

|                            | June 30, 2018                                 |   | December 31, 2017                             |   |
|----------------------------|---|---|---|---|
|                            | 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                                       |
| Current:                   |   |   |   |   |
| Price Risk Management      |   |   |   |   |
| Assets/Liabilities (a):    |   |   |   |   |
| Interest rate swaps (b)    | \$—   | \$ —  | —\$—  | \$ 4  |
| Cross-currency swaps (b)   | 5   | —   | —   | —   |
| Foreign currency contracts | —   | —   | 73  | 31  |
| Total current              | 5   | —   | 73  | 35  |
| Noncurrent:                |   |   |   |   |
| Price Risk Management      |   |   |   |   |
| Assets/Liabilities (a):    |   |   |   |   |



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|                            |       |    |        |       |       |    |        |        |
|----------------------------|-------|----|--------|-------|-------|----|--------|--------|
| Interest rate swaps (b)    | —     | —  | —      | 17    | —     | —  | —      | 22     |
| Cross-currency swaps (b)   | 95    | —  | —      | —     | 97    | —  | —      | —      |
| Foreign currency contracts | —     | —  | 90     | 22    | —     | —  | 118    | 81     |
| Total noncurrent           | 95    | —  | 90     | 39    | 97    | —  | 118    | 103    |
| Total derivatives          | \$100 | \$ | —\$163 | \$ 74 | \$101 | \$ | —\$163 | \$ 174 |

Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion (a) is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(b) Excludes accrued interest, if applicable.

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The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended June 30, 2018.

| Derivative Relationships                          | Derivative Gain (Loss) Recognized in OCI (Effective Portion) |            | Location of Gain (Loss) Recognized in Income on Derivative          | Three Months   |   | Six Months   |   |
|---|--|------------|---|--|---|--|---|
|   | Three Months   | Six Months |   | Gain (Loss) Recognized from AOCI into Income (Effective Portion) | Gain (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Gain (Loss) Recognized from AOCI into Income (Effective Portion) | Gain (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
| Cash Flow Hedges:                                 |  |            |   |  |   |  |   |
| Interest rate swaps                               | \$ —   | \$ —       | Interest expense  | \$ (2 )  | \$ —  | \$ (4 )  | \$ —  |
| Cross-currency swaps                              | 23   | (1 )       | Other income (expense) - net  | 24   | —   | 12   | —   |
| Total   | \$ 23  | \$ (1 )    |   | \$ 22  | \$ —  | \$ 8   | \$ —  |
| Net Investment Hedges:                            |  |            |   |  |   |  |   |
| Foreign currency contracts                        | \$ 12  | \$ 11      |   |  |   |  |   |
| Derivatives Not Designated as Hedging Instruments |  |            | Location of Gain (Loss) Recognized in Income on Derivative          | Three Months   | Six Months  |  |   |
| Foreign currency contracts                        |  |            | Other income (expense) - net  | \$ 164   | \$ 52   |  |   |
| Interest rate swaps                               |  |            | Interest expense  | (2 )   | (3 )  |  |   |
| Total   |  |            | Total   | \$ 162   | \$ 49   |  |   |
| Derivatives Not Designated as Hedging Instruments |  |            | Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets | Three Months   | Six Months  |  |   |
| Interest rate swaps                               |  |            | Regulatory assets - noncurrent                                      | \$ 1   | \$ 5  |  |   |

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended June 30, 2017.

| Derivative Relationships | Derivative Gain (Loss) Recognized in OCI (Effective Portion) |            | Location of Gain (Loss) Recognized in Income on Derivative | Three Months   |  | Six Months   |  |
|--------------------------|--|------------|--|--|--|--|--|
|                          | Three Months   | Six Months |  | Gain (Loss) Recognized from AOCI into Income (Effective Portion) | Gain (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from | Gain (Loss) Recognized from AOCI into Income (Effective Portion) | Gain (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from |
|                          |  |            |  |  |  |  |  |

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|                               |         |         |                                 | Effectiveness<br>Testing) | Effectiveness<br>Testing) |
|-------------------------------|---------|---------|---------------------------------|---------------------------|---------------------------|
| Cash Flow Hedges:             |         |         |                                 |                           |                           |
| Interest rate swaps           | \$(2 )  | \$(2 )  | Interest expense                | \$(2 )                    | \$ —(4 )                  |
| Cross-currency swaps          | (27 )   | (35 )   | Interest expense                | (1 )                      | — —                       |
|                               |         |         | Other income (expense) -<br>net | (29 )                     | — (26 )                   |
| Total                         | \$(29 ) | \$(37 ) |                                 | \$(32 )                   | \$ —(30 )                 |
| Net Investment Hedges:        |         |         |                                 |                           |                           |
| Foreign currency<br>contracts | \$—     | \$—     |                                 |                           |                           |

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|   |   |              |            |
|---|---|--------------|------------|
| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative          | Three Months | Six Months |
| Foreign currency contracts                        | Other income (expense) - net  | \$ (113 )    | \$ (156 )  |
| Interest rate swaps                               | Interest expense  | (1 )         | (3 )       |
|   | Total   | \$ (114 )    | \$ (159 )  |
| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets | Three Months | Six Months |
| Interest rate swaps                               | Regulatory assets - noncurrent                                      | \$ (1 )      | \$ 1       |

(LKE and LG&amp;E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

|                       |                  |                      |
|-----------------------|------------------|----------------------|
|                       | June 30,<br>2018 | December 31,<br>2017 |
|                       | Assets           | Liabilities          |
| Current:              |                  |                      |
| Price Risk Management |                  |                      |
| Assets/Liabilities:   |                  |                      |
| Interest rate swaps   | \$ —\$ 4         | \$ —\$ 4             |
| Total current         | — 4              | — 4                  |
| Noncurrent:           |                  |                      |
| Price Risk Management |                  |                      |
| Assets/Liabilities:   |                  |                      |
| Interest rate swaps   | — 17             | — 22                 |
| Total noncurrent      | — 17             | — 22                 |
| Total derivatives     | \$ —\$ 21        | \$ —\$ 26            |

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended June 30, 2018.

|                        |                                       |              |            |
|------------------------|---------------------------------------|--------------|------------|
|                        | Location of Gain (Loss) Recognized in | Three Months | Six Months |
| Derivative Instruments | Income on Derivatives                 | Months       | Months     |
| Interest rate swaps    | Interest expense                      | \$ (2 )      | \$ (3 )    |
|                        | Location of Gain (Loss) Recognized in | Three Months | Six Months |
| Derivative Instruments | Regulatory Assets                     | Months       | Months     |
| Interest rate swaps    | Regulatory assets - noncurrent        | \$ 1         | \$ 5       |

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended June 30, 2017.

|                        |                                       |              |            |
|------------------------|---------------------------------------|--------------|------------|
|                        | Location of Gain (Loss) Recognized in | Three Months | Six Months |
| Derivative Instruments | Income on Derivatives                 | Months       | Months     |
| Interest rate swaps    | Interest expense                      | \$ (1 )      | \$ (3 )    |
|                        | Location of Gain (Loss) Recognized in |              |            |

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| Derivative Instruments | Regulatory Assets              | Three Months | Six Months |
|------------------------|--------------------------------|--------------|------------|
| Interest rate swaps    | Regulatory assets - noncurrent | \$ (1 )      | \$ 1       |

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, 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

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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, LKE, 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 |                         |     |       |
|------------------------|--------|--------------------------|-------|------------------------|-------------|-------------------------|-----|-------|
|                        | Gross  | Eligible for Offset      |       |                        | Gross       | Eligible for Offset     |     |       |
| Derivative Instruments |        | Cash Collateral Received | Net   | Derivative Instruments |             | Cash Collateral Pledged | Net |       |
| June 30, 2018          |        |                          |       |                        |             |                         |     |       |
| Treasury Derivatives   |        |                          |       |                        |             |                         |     |       |
| PPL                    | \$263  | \$ 43                    | \$ 28 | \$192                  | \$74        | \$ 43                   | \$  | —\$31 |
| LKE                    | —      | —                        | —     | —                      | 21          | —                       | —   | 21    |
| LG&E                   | —      | —                        | —     | —                      | 21          | —                       | —   | 21    |
| December 31, 2017      |        |                          |       |                        |             |                         |     |       |
| Treasury Derivatives   |        |                          |       |                        |             |                         |     |       |
| PPL                    | \$264  | \$107                    | \$20  | \$137                  | \$174       | \$107                   | \$— | \$67  |
| LKE                    | —      | —                        | —     | —                      | 26          | —                       | —   | 26    |
| LG&E                   | —      | —                        | —     | —                      | 26          | —                       | —   | 26    |

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, LKE, 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, LKE'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, LKE and LG&E)

At June 30, 2018, 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 are summarized as follows:

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|  | PPL   | LKE  | LG&E |
|--|-------|------|------|
| Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features  | \$ 17 | \$ 7 | \$ 7 |
| Aggregate fair value of collateral posted on these derivative instruments  | —     | —    | —    |
| Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a) | 17    | 7    | 7    |

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

## 15. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 10 for information on the CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

The changes in the carrying amounts of AROs were as follows.

|                                     | PPL   | LKE   | LG&E  | KU    |
|-------------------------------------|-------|-------|-------|-------|
| Balance at December 31, 2017        | \$397 | \$356 | \$121 | \$235 |
| Accretion                           | 10    | 9     | 3     | 6     |
| Effect of foreign exchange rates    | (1 )  | —     | —     | —     |
| Changes in estimated timing or cost | 1     | (7 )  | (2 )  | (5 )  |
| Obligations settled                 | (26 ) | (26 ) | (10 ) | (16 ) |
| Balance at June 30, 2018            | \$381 | \$332 | \$112 | \$220 |

## 16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the periods ended June 30 were as follows.

|                                   | Foreign<br>currency<br>translation<br>adjustments | Unrealized<br>gains<br>(losses)<br>on<br>qualifying<br>derivatives | Equity<br>investees'<br>AOCI | Defined<br>benefit plans<br>Prior service<br>costs (loss) | Actuarial<br>gain<br>(loss) | Total     |
|-----------------------------------|---|--|------------------------------|---|-----------------------------|-----------|
| PPL                               |   |  |                              |   |                             |           |
| March 31, 2018                    | \$ (973 )   | \$ (21 )   | \$ —                         | —\$(7)  | \$(2,278)                   | \$(3,279) |
| Amounts arising during the period | (250 )  | 19   | —                            | (1 )  | —                           | (232 )    |
| Reclassifications from AOCI       | —   | (19 )  | —                            | 1   | 34                          | 16        |
| Net OCI during the period         | (250 )  | —  | —                            | —   | 34                          | (216 )    |
| June 30, 2018                     | \$ (1,223 )                                       | \$ (21 )   | \$ —                         | —\$(7)  | \$(2,244)                   | \$(3,495) |



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|                                   | Foreign<br>currency<br>translation<br>adjustments | Unrealized<br>gains<br>(losses)<br>on<br>qualifying<br>derivatives | Equity<br>investees'<br>AOCI | Defined<br>benefit plans<br>Prior Actuarial<br>service gain<br>costs (loss) | Total     |
|-----------------------------------|---|--|------------------------------|---|-----------|
| December 31, 2017                 | \$ (1,089 )                                       | \$ (13 )   | \$ —                         | \$ (7) \$(2,313 )   | \$(3,422) |
| Amounts arising during the period | (134 )  | (1 )   | —                            | (1 ) (1 )   | (137 )    |
| Reclassifications from AOCI       | —   | (7 )   | —                            | 1 70  | 64        |
| Net OCI during the period         | (134 )  | (8 )   | —                            | — 69  | (73 )     |
| June 30, 2018                     | \$ (1,223 )                                       | \$ (21 )   | \$ —                         | \$ (7) \$(2,244 )   | \$(3,495) |
| March 31, 2017                    | \$ (1,651 )                                       | \$ (14 )   | \$ (1 )                      | \$ (8) \$(2,103 )   | \$(3,777) |
| Amounts arising during the period | 231   | (24 )  | —                            | — (11 )   | 196       |
| Reclassifications from AOCI       | —   | 25   | 1                            | 1 31  | 58        |
| Net OCI during the period         | 231   | 1  | 1                            | 1 20  | 254       |
| June 30, 2017                     | \$ (1,420 )                                       | \$ (13 )   | \$ —                         | \$ (7) \$(2,083 )   | \$(3,523) |
| December 31, 2016                 | \$ (1,627 )                                       | \$ (7 )  | \$ (1 )                      | \$ (8) \$(2,135 )   | \$(3,778) |
| Amounts arising during the period | 207   | (30 )  | —                            | — (11 )   | 166       |
| Reclassifications from AOCI       | —   | 24   | 1                            | 1 63  | 89        |
| Net OCI during the period         | 207   | (6 )   | 1                            | 1 52  | 255       |
| June 30, 2017                     | \$ (1,420 )                                       | \$ (13 )   | \$ —                         | \$ (7) \$(2,083 )   | \$(3,523) |
| <b>LKE</b>                        |   |  |                              |   |           |
| March 31, 2018                    |   |  | \$ —                         | \$ (9) \$(78 )  | \$(87 )   |
| Amounts arising during the period |   |  | —                            | — 1   | 1         |
| Reclassifications from AOCI       |   |  | —                            | 1 (1 )  | —         |
| Net OCI during the period         |   |  | —                            | 1 —   | 1         |
| June 30, 2018                     |   |  | \$ —                         | \$ (8) \$(78 )  | \$(86 )   |
| December 31, 2017                 |   |  | \$ —                         | \$ (9) \$(79 )  | \$(88 )   |
| Reclassifications from AOCI       |   |  | —                            | 1 1   | 2         |
| Net OCI during the period         |   |  | —                            | 1 1   | 2         |
| June 30, 2018                     |   |  | \$ —                         | \$ (8) \$(78 )  | \$(86 )   |
| March 31, 2017                    |   |  | \$ —                         | \$ (8) \$(60 )  | \$(68 )   |
| Amounts arising during the period |   |  | —                            | — (11 )   | (11 )     |
| Reclassifications from AOCI       |   |  | —                            | 1 1   | 2         |
| Net OCI during the period         |   |  | —                            | 1 (10 )   | (9 )      |
| June 30, 2017                     |   |  | \$ —                         | \$ (7) \$(70 )  | \$(77 )   |
| December 31, 2016                 |   |  | \$ (1 )                      | \$ (8) \$(61 )  | \$(70 )   |
| Amounts arising during the period |   |  | —                            | — (11 )   | (11 )     |
| Reclassifications from AOCI       |   |  | 1                            | 1 2   | 4         |
| Net OCI during the period         |   |  | 1                            | 1 (9 )  | (7 )      |
| June 30, 2017                     |   |  | \$ —                         | \$ (7) \$(70 )  | \$(77 )   |



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(PPL)

The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the periods ended June 30.

|   | Three Months |        | Six Months |        | Affected Line Item on the    |
|---|--------------|--------|------------|--------|------------------------------|
|   | 2018         | 2017   | 2018       | 2017   | Statements of Income         |
| Details about AOCI                        |              |        |            |        |                              |
| Qualifying derivatives                    |              |        |            |        |                              |
| Interest rate swaps                       | \$(2 )       | \$(2 ) | \$(4 )     | \$(5 ) | Interest Expense             |
| Cross-currency swaps                      | 24           | (29 )  | 12         | (26 )  | Other Income (Expense) - net |
|   | —            | (1 )   | —          | —      | Interest Expense             |
| Total Pre-tax                             | 22           | (32 )  | 8          | (31 )  |                              |
| Income Taxes                              | (3 )         | 7      | (1 )       | 7      |                              |
| Total After-tax                           | 19           | (25 )  | 7          | (24 )  |                              |
| Equity investees' AOCI                    |              |        |            |        |                              |
| Total Pre-tax                             | —            | (1 )   | —          | (1 )   | Other Income (Expense) - net |
| Income Taxes                              | —            | —      | —          | —      |                              |
| Total After-tax                           | —            | (1 )   | —          | (1 )   |                              |
| Defined benefit plans                     |              |        |            |        |                              |
| Prior service costs (a)                   | (1 )         | (1 )   | (1 )       | (1 )   |                              |
| Net actuarial loss (a)                    | (43 )        | (40 )  | (88 )      | (81 )  |                              |
| Total Pre-tax                             | (44 )        | (41 )  | (89 )      | (82 )  |                              |
| Income Taxes                              | 9            | 9      | 18         | 18     |                              |
| Total After-tax                           | (35 )        | (32 )  | (71 )      | (64 )  |                              |
| Total reclassifications during the period | \$(16)       | \$(58) | \$(64)     | \$(89) |                              |

(a) These AOCI components are included in the computation of net periodic defined benefit cost. See Note 9 for additional information.

## 17. New Accounting Guidance Pending Adoption

(All Registrants)

## Accounting for Leases

In February 2016, the FASB issued accounting guidance for leases. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright line tests.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Similar to current practice, lessors will classify leases as operating, direct financing, or sales-type.

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition method with transition applied either retrospectively to each prior reporting period presented in the financial statements or as of the beginning of the period of adoption. The standard also provides for certain practical expedients. One of these practical expedients allows entities to elect to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases. In January 2018, the FASB also issued additional guidance that provides for a practical expedient that allows entities to elect to not evaluate land easements as leases that exist or expired before the adoption date and were not previously accounted for as leases under current lease guidance. The Registrants plan to elect these practical expedients.

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The Registrants are currently assessing the impact of adopting this guidance as well as the transition method they will use. Key implementation activities in process of being completed include finalizing the lease inventory, concluding on open industry issues and identifying and implementing new controls and processes. The Registrants will adopt this guidance effective January 1, 2019.

### Accounting for Financial Instrument Credit Losses

In June 2016, the FASB issued accounting guidance that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance beginning after December 15, 2018, including interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

### Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued accounting guidance that reduces complexity when applying hedge accounting as well as improves transparency about an entity's risk management activities. This guidance eliminates recognizing hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent effectiveness assessments qualitatively. The guidance also makes certain changes to allowable methodologies such as allowing entities to apply the short-cut method to partial-term fair value hedges of interest rate risk as well as expands the ability to apply the critical terms match method to cash flow hedges of groups of forecasted transactions. The guidance also updates certain recognition and presentation requirements as well as disclosure requirements.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. This standard must be adopted using a modified retrospective approach and provides for certain transition elections that must be made prior to the first effectiveness testing date after adoption.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL, LKE, LG&E and KU)

### Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. Under this new guidance, an entity will now compare the estimated fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount the carrying amount exceeds the fair value of the reporting unit.

For public business entities, this guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. All entities may early adopt this guidance for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL and LKE)

#### Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued accounting guidance that gives entities the option to reclassify tax effects stranded within AOCI as a result of the TCJA to retained earnings. The reclassification applies only to those stranded tax effects arising from

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the TCJA enactment. Certain disclosures related to the stranded tax effects, including a description of the accounting policy for releasing income tax effects from AOCI, are required.

For all entities, this guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized.

The adoption of this guidance will result in PPL and LKE reclassifying \$50 million and \$18 million of deferred tax effects (primarily related to pension and other post-retirement benefits) stranded in AOCI as a result of the TCJA to retained earnings. The Registrants are assessing the period in which they will adopt this guidance.

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Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2017 Form 10-K. 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 the three and six months ended June 30, 2018 with the same periods in 2017. 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. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and adjusted gross margins is also provided.

"Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.

"Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.



PPL's principal subsidiaries are shown below (\* denotes a Registrant).

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PPL Corporation\*

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

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

LKE\*

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

LG&E\*

Engages in the  
regulated  
generation,  
transmission,  
distribution and  
sale of electricity  
and regulated  
distribution and  
sale of natural gas  
in Kentucky

KU\*

Engages in the  
regulated  
generation,  
transmission,  
distribution and sale  
of electricity,  
primarily in  
Kentucky

U.K.  
Regulated  
Segment

Kentucky  
Regulated  
Segment

Pennsylvania  
Regulated  
Segment

PPL's reportable segments' results primarily represent the results of PPL Global, LKE and PPL Electric, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of PPL Global, LKE and PPL Electric. PPL Global is not a Registrant. Unaudited annual consolidated financial statements for the U.K. Regulated segment are furnished on a Form 8-K with the SEC.

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

(PPL Electric)

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.

(LKE)

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

(LG&E)

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.

(KU)

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, Virginia and Tennessee. KU is subject to regulation as

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a public utility by the KPSC, the VSCC and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(All Registrants)

PPL operates seven fully regulated, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky, constructive regulatory jurisdictions with distinct regulatory structures and customer classes. PPL believes this business portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's strategy is to deliver best-in-sector operational performance, invest in a sustainable energy future, maintain a strong financial foundation, and engage and develop its people. PPL's business plan is designed to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base in the U.S. and RAV in the U.K. Rate base growth is being driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities.

For the U.S. businesses, central to our 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, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital expenditures to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. RAV growth is expected in the U.K. Regulated segment during the RIIO-ED1 price control period, which ends on March 31, 2023, and to result in earnings growth in 2018 through at least 2020. See "Item 1. Business - Segment Information - U.K. Regulated Segment" in PPL's 2017 Form 10-K for additional information on RIIO-ED1.

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

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

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

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which we operate (U.K., U.S. federal and state). This is supported by our strong culture of integrity and delivering on

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commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and operational efficiency.

### Financial and Operational Developments

#### Equity Forward Contracts (PPL)

In May 2018, PPL completed a registered underwritten public offering of 55 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 8.25 million additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Settlement of these forward sale agreements will occur no later than November 2019. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to any settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the Treasury Stock Method. See Note 8 to the Financial Statements for additional information.

#### U.S. Tax Reform (All Registrants)

Substantially all of the provisions of the TCJA, signed into law on December 22, 2017, are effective for taxable years beginning after December 31, 2017 and, to the extent such provisions are relevant to the Registrants, their impact has been reflected in the financial results for the three and six months ended June 30, 2018. With respect to the TCJA provisions applicable to the period ended December 31, 2017, although additional guidance has been issued by the U.S. Department of the Treasury and the IRS concerning the application or operation of those provisions, such guidance has not materially impacted the related amounts reported in the Registrants' financial statements for the periods ended June 30, 2018.

On August 1, 2018, the Department of Treasury and the IRS issued proposed regulations under Internal Revenue Code Section 965 to provide guidance relating to the transition tax upon the mandatory deemed repatriation of certain deferred foreign earnings. On August 3, 2018, the Department of Treasury and the IRS also issued proposed regulations on the new 100 percent depreciation deduction effective for assets placed in service after September 27, 2017. The Registrants are currently reviewing the proposed regulations to determine what impact the newly issued guidance may have on their financial statements.

#### Kentucky State Tax Reform (All Registrants)

HB 487, which became law on April 27, 2018, provides for significant changes to the Kentucky tax code including (1) adopting mandatory combined reporting for corporate members of unitary business groups for taxable years beginning on or after January 1, 2019 (members of a unitary business group may make an eight-year binding election to file consolidated corporate income tax returns with all members of their federal affiliated group) and (2) a reduction in the Kentucky corporate income tax rate from 6% to 5% for taxable years beginning after December 31, 2017. LKE recognized a deferred tax charge of \$9 million in the second quarter of 2018 primarily associated with the remeasurement of non-regulated accumulated deferred income tax balances.

As indicated in Note 1 in the Registrants' 2017 Form 10-K, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In the second quarter of 2018, LG&E and KU recorded the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, as an increase in regulatory liabilities of \$16 million and \$19 million. LG&E and KU continue to evaluate other impacts of Kentucky state tax reform along with the associated regulatory considerations. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

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### U.K. Membership in European Union (PPL)

On March 29, 2017, the U.K. formally notified the European Council of the European Union (EU) of its intent to withdraw from the EU, thereby commencing the two-year negotiation period to establish the terms of that withdrawal under Article 50 of the Lisbon Treaty. Article 50 specifies that if a member state decides to withdraw from the EU, it must notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by the European Parliament, the European Council and by the U.K. Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of July 31, 2018, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2018 at an average rate of \$1.31 per GBP, 100% hedged for 2019 at an average rate of \$1.39 per GBP and 50% hedged for 2020 at an average rate of \$1.49 per GBP.

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

### Regulatory Requirements

#### (All Registrants)

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

#### TCJA Impact on LG&E and KU Rates (PPL, LKE, LG&E and KU)

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues (\$70 million through the new bill credit and \$21 million through existing rate



mechanisms), \$69 million in LG&E electricity revenues (\$49 million through the new bill credit and \$20 million through existing rate mechanisms) and \$17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. Ongoing tax savings are also expected to be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019.

On March 20, 2018, the KPSC issued an order approving, with certain modifications, the settlement agreement reached between LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General. The KPSC estimates that, pursuant to its modifications, electricity revenues would incorporate reductions of approximately \$108 million for KU (\$87 million through the new bill credit and \$21 million through existing rate mechanisms) and \$79 million for LG&E (\$59 million through the new bill credit and \$20 million through existing rate mechanisms). This represents \$27 million (\$17 million at KU and \$10 million at LG&E) in additional reductions from the amounts proposed by the settlement. The KPSC's modifications to the settlement include certain changes in assumptions or inputs used in assessing tax reform or calculating

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LG&E's and KU's electricity rates. LG&E gas rate reductions were not modified significantly from the amount included in the settlement agreement.

On March 26, 2018, LG&E and KU filed a petition for reconsideration and request for hearing with the KPSC, taking exception to the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. On March 28, 2018, the Office of the Attorney General filed a response to the petition and gave notice of its withdrawal from the settlement agreement.

On March 28, 2018, the KPSC issued an Order granting LG&E's and KU's request for reconsideration and amending its March 20, 2018 Order by suspending the approved rates, allowing LG&E and KU, on an interim basis, to return savings related to the TCJA at the rates agreed to in the January 29, 2018 settlement. On March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issues related to the TCJA. A hearing on this matter was held May 24, 2018. Post-hearing briefs have been filed and the case is now submitted to the KPSC for a decision.

LG&E and KU cannot predict the outcome of these proceedings.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate. On March 22, 2018, KU reached a settlement agreement regarding its rate case in Virginia. New rates, inclusive of TCJA impacts, were effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect would be addressed through KU's annual information filing for calendar year 2018. On May 8, 2018, the VSCC approved the settlement agreement. The TCJA and rate case are not expected to have a significant impact on KU's financial condition or results of operations related to Virginia.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA on FERC-jurisdictional rates. LG&E and KU have not made any submission in response to the Notice of Inquiry, but do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

(PPL and PPL Electric)

TCJA Impact on PPL Electric Rates

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 which required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to include a negative surcharge of 0.56%, which was based on PPL Electric's 2017 taxable income, to be effective July 1, 2018, and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to increase the negative surcharge proposed in the May 17, 2018 Order from 0.56% to 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. The estimated 2018 full year impact of the rate reduction is \$72 million in PPL Electric's

operating revenues of which \$37 million relates to the period January 1, 2018 through June 30, 2018 and has been recorded as a noncurrent regulatory liability to be distributed to customers pursuant to a future rate adjustment. The remaining \$35 million is the estimated impact for the period July 1, 2018 through December 31, 2018 and will be passed back to customers through the negative surcharge beginning July 1, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, to accelerate incorporation of the changes to the federal corporate income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23,

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2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM joint transmission owners filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing submitted by the PJM joint transmission owners requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. PPL Electric is currently awaiting FERC's decision on this matter. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

### Pennsylvania Alternative Ratemaking

On June 28, 2018, Governor Tom Wolf signed House Bill 1782 (now known as Act 58 of 2018, and to be codified at 66 Pa. C.S. § 1330) authorizing public utilities to implement alternative rates and rate mechanisms in base rate proceedings before the PUC. The effective date of Act 58 is August 27, 2018.

Under the new law, a public utility can file an application to establish alternative rates and rate mechanisms in a base rate proceeding. These alternative rates and rate mechanisms include, but are not limited to the following: decoupling mechanisms, performance-based rates, formula rates, multiyear rate plans, or a combination of those mechanisms or other mechanisms.

The alternative rate mechanisms can include reconcilable surcharges and rates established under current law, including returns on and return of capital investments. Act 58 explicitly provides that it does not invalidate or void any rate mechanisms approved by the PUC prior to the legislation's effective date. Act 58 also specifies customer notice requirements concerning the utility's application for alternative rates or rate mechanisms.

The actual procedures for approval of a utility's application for alternative rates and rate mechanisms are not set forth in Act 58. Rather, the PUC must prescribe those procedures through a regulation or order within six months of the legislation's effective date.

PPL Electric views the passage of Act 58 to be a favorable regulatory development that is expected to expand the rate-making mechanisms available to Pennsylvania regulated utility companies.

(PPL)

### RIIO-ED1 Mid-period Review

In December 2017, Ofgem initiated a consultation on a potential RIIO-ED1 mid-period review (MPR). The RIIO framework allows for an MPR of outputs halfway through the price control. Ofgem was consulting on three potential approaches:

- whether to implement an MPR as currently defined;
- whether to implement an MPR with an extension for WPD rail electrification; and
- whether to implement an MPR with a significant extension of scope to include financial parameters.

Ofgem's initial assessment as set forth in its December 2017 consultation publication was that an MPR as currently defined under RIIO-ED1 was not required. In addition, Ofgem recognized that the U.K. rail electrification program applicable in the WPD distribution areas was outside the scope of the MPR and that implementing an MPR to include financial parameters could undermine the stability of the regulatory regime. The consultation, however, requested interested party comments on those conclusions. The period for submission of comments to the consultation closed on February 2, 2018. Formal consultation responses were submitted by PPL and WPD. On April 30, 2018, Ofgem

announced its decision not to conduct an MPR.

#### RIIO-2 Framework Review

On March 7, 2018, Ofgem issued its consultation document on the RIIO-2 framework, which covers all U.K. gas and electricity transmission and distribution price controls. The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by this RIIO-2 consultation process. Ofgem consulted on a wide range of issues, including cost of debt and equity methodologies, the length of the price control period, indexation methodologies, innovation, stakeholder engagement in the business planning process and performance incentive mechanisms. The purpose of the RIIO-2 framework consultation was to build on lessons learned from the current price controls while supporting low costs to consumers, improved customer service and reliability, and the U.K.'s continued shift to a low-carbon future. Comments on the RIIO-2 framework were due in May 2018. On July 30, 2018, Ofgem published its decision following their RIIO-2 framework consultation after consideration of comments received. Ofgem confirmed the following points in the decision document:

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There will be a five-year default length for the price control period, compared to eight years in the current RIIO-ED1 price control.

There is intent to shift the inflation index used for calculating RAV and allowed returns from RPI to CPIH. Ofgem stated overall, consumers and investors as a whole will be neither better nor worse off in net present value terms as a result of the shift to CPIH and a transition period may be required.

There will be no change to the existing depreciation policy of using economic asset lives as the basis for depreciating RAV. WPD is currently transitioning to 45 year asset lives for new additions in RIIO-ED1 based on Ofgem's extensive review of asset lives in RIIO-ED1.

Ofgem will retain the option for fast-tracking for electricity distribution companies only. Fast tracking will be further considered as part of the electricity distribution sector specific consultation.

A new enhanced engagement model will be introduced which will require distribution companies to set up a customer engagement group to provide Ofgem with a public report of their views on the companies' business plans from the perspective of local stakeholders. Ofgem will also establish an independent RIIO-2 challenge group comprised of consumer experts to provide Ofgem with a public report on companies' business plans.

Ofgem intends to expand the role of competition for projects that are new, separable and high value. WPD does not currently have any planned projects that would meet the high value threshold.

A focus of RIIO-2 will be on whole-system outcomes. Ofgem envisions network companies and system operators working together to ensure the energy system as a whole is efficient and delivers best value to consumers. Ofgem is undertaking further work to clarify the definition of whole-system and the appropriate roles of the network companies in supporting the energy transition.

Ofgem also indicated further work is needed on other price control principles, including but not limited to, cost of equity, cost of debt, financeability and incentives with decisions on these items expected to be made in the sector specific consultations or within the individual company business plan submissions. The promulgation of sector specific price controls is expected to begin with the gas and electricity transmission networks in December 2018, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs and ELGs. See Note 10 to the Financial Statements for a discussion of the other significant environmental matters.

## FERC Transmission Rate Filing

On August 3, 2018, LG&E and KU submitted an application 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 seeks termination of LG&E's and KU's commitment to provide mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky or Tennessee. The amounts at issue are generally waivers or credits for either LG&E and KU or for MISO transmission charges depending upon the direction of transmission service incurred by the municipalities. LG&E and KU estimate that such charges may average approximately \$22 million annually, depending upon actual transmission customer and market volumes, structures and prices, with such charges allocated according to LG&E and KU's respective transmission system ownership ratio. Due to the development of robust,

accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. LG&E and KU currently receive recovery of such expenses in other rate mechanisms. LG&E and KU cannot predict the outcome of the proceeding, including any effects on their financial condition or results of operations.

#### Rate Case Proceedings (LKE and KU)

In September 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by \$7 million, representing an increase of 10.4%. On March 22, 2018, KU reached a settlement agreement regarding the case, including the impact of the TCJA on rates, resulting in an increase in annual Virginia base electricity revenue by \$2 million. This represents an increase of 2.8% with rates effective June 1, 2018. On May 8, 2018, the VSCC issued an order approving the settlement agreement.

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Acquisition of Solar Energy Solution Provider (PPL)

During the second quarter of 2018, PPL completed the acquisition of all the outstanding membership interests of Safari Energy, LLC (Safari Energy), a privately held provider of solar energy solutions for commercial customers in the U.S. For its clients, Safari Energy develops highly structured turnkey solutions, managing projects through all phases of development, from inception to financing, design, engineering, permitting, construction, interconnection and asset management. Headquartered in New York City, Safari Energy has completed over 200 solar projects in 19 states, with over 80 projects underway. The acquisition is not material to PPL and the financial results of Safari Energy will be reported within Corporate and Other.

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 the three and six months ended June 30, 2018 with the same periods in 2017. 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. The "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings.

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

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

A "Statement of Income Analysis, Earnings and Adjusted Gross Margins" is presented separately for PPL Electric, LKE, LG&E and KU. The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income, comparing the three and six months ended June 30, 2018 with the same periods in 2017. The "Earnings" discussion provides a summary of earnings. The "Adjusted Gross Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.



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

## Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

|                                 | Three Months |         |              | Six Months |         |              |
|---------------------------------|--------------|---------|--------------|------------|---------|--------------|
|                                 | 2018         | 2017    | \$<br>Change | 2018       | 2017    | \$<br>Change |
| Operating Revenues              | \$1,848      | \$1,725 | \$ 123       | \$3,974    | \$3,676 | \$ 298       |
| Operating Expenses              |              |         |              |            |         |              |
| Operation                       |              |         |              |            |         |              |
| Fuel                            | 189          | 183     | 6            | 403        | 374     | 29           |
| Energy purchases                | 148          | 136     | 12           | 389        | 351     | 38           |
| Other operation and maintenance | 506          | 432     | 74           | 974        | 902     | 72           |
| Depreciation                    | 273          | 246     | 27           | 542        | 488     | 54           |
| Taxes, other than income        | 74           | 70      | 4            | 157        | 145     | 12           |
| Total Operating Expenses        | 1,190        | 1,067   | 123          | 2,465      | 2,260   | 205          |
| Other Income (Expense) - net    | 234          | (68 )   | 302          | 191        | (77 )   | 268          |
| Interest Expense                | 235          | 222     | 13           | 474        | 439     | 35           |
| Income Taxes                    | 142          | 76      | 66           | 259        | 205     | 54           |
| Net Income                      | \$515        | \$292   | \$ 223       | \$967      | \$695   | \$ 272       |

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Domestic:                              |                 |               |
| PPL Electric Distribution price        | \$ 10           | \$ 11         |
| PPL Electric Distribution volume       | 12              | 32            |
| PPL Electric PLR Revenue (a)           | 9               | 26            |
| PPL Electric Transmission Formula Rate | 22              | 50            |
| PPL Electric TCJA refund (b)           | (37 )           | (37 )         |
| LKE Volumes (c)                        | 36              | 103           |
| LKE Base rates                         | 28              | 58            |
| LKE ECR                                | 6               | 13            |
| LKE TCJA refund (b)                    | (37 )           | (79 )         |
| LKE DSM                                | (3 )            | (11 )         |
| LKE Fuel and other energy prices       | (9 )            | (7 )          |
| Other                                  | 4               | 10            |
| Total Domestic                         | 41              | 169           |
| U.K.:                                  |                 |               |
| Price                                  | 10              | —             |
| Volume                                 | 12              | 4             |
| Foreign currency exchange rates        | 51              | 109           |
| Engineering recharge income            | 11              | 19            |
| Other                                  | (2 )            | (3 )          |
| Total U.K.                             | 82              | 129           |

|       |        |        |
|-------|--------|--------|
| Total | \$ 123 | \$ 298 |
|-------|--------|--------|

(a) The increases were primarily due to higher energy volumes.

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Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate (b) income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

(c) The increases were primarily due to favorable weather in 2018.

## Fuel

Fuel increased \$6 million and \$29 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

## Energy Purchases

Energy purchases increased \$12 million for the three months ended June 30, 2018 compared with 2017, primarily due to an increase in PLR volumes at PPL Electric.

Energy purchases increased \$38 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$23 million increase in PLR volumes at PPL Electric and a \$23 million increase in natural gas volumes at LG&E driven by weather in 2018, partially offset by a \$10 million decrease in market prices for natural gas at LG&E.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Domestic:  |                 |               |
| LKE timing and scope of generation maintenance outages | \$ 6            | \$ 7          |
| LKE vegetation management                              | 3               | 3             |
| LKE gas distribution maintenance and compliance        | 2               | 3             |
| LKE storm costs  | 2               | 2             |
| PPL Electric vegetation management                     | (5 )            | (10 )         |
| PPL Electric storm costs                               | 12              | 16            |
| PPL Electric payroll-related costs                     | (1 )            | (14 )         |
| PPL Electric Act 129                                   | 1               | (2 )          |
| PPL Electric bad debts                                 | 4               | 7             |
| PPL Electric smart meter                               | 2               | 4             |
| PPL Electric contractor-related expenses               | 2               | —             |
| Other  | 19              | 7             |
| U.K.:  |                 |               |
| Foreign currency exchange rates                        | 10              | 21            |
| Network maintenance                                    | 2               | 4             |
| Third-party engineering                                | 10              | 16            |
| Other  | 5               | 8             |
| Total  | \$ 74           | \$ 72         |

## Depreciation

Depreciation increased \$27 million and \$54 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to additional assets placed into service, net of retirements, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program at PPL Electric, higher depreciation rates effective July 1, 2017 and additions, net of retirements at LG&E and KU and the impact of foreign currency exchange rates at WPD.

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## Other Income (Expense) - net

Other income (expense) - net increased \$302 million for the three months ended June 30, 2018 compared with 2017 primarily due to higher realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD of \$277 million and an increase in non-service cost credits from defined benefit plans of \$22 million.

Other income (expense) - net increased \$268 million for the six months ended June 30, 2018 compared with 2017, primarily due to higher realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD of \$208 million and an increase in non-service cost credits from defined benefit plans of \$52 million.

## Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2018 compared with 2017 was due to:

|                                 | Three<br>Months | Six<br>Months |
|---------------------------------|-----------------|---------------|
| Long-term debt interest expense | \$ 4            | \$ 16         |
| Foreign currency exchange rates | 8               | 17            |
| Other                           | 1               | 2             |
| Total                           | \$ 13           | \$ 35         |

## Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

|   | Three<br>Months | Six<br>Months |
|---|-----------------|---------------|
| Change in pre-tax income  | \$ 99           | \$ 108        |
| Reduction in U.S. federal income tax rate (a)                       | (56 )           | (88 )         |
| Valuation allowances adjustments                                    | 5               | 7             |
| U.S. income tax on foreign earnings - net of foreign tax credit (b) | 7               | 17            |
| Federal and state tax reserve adjustments                           | 3               | 3             |
| Impact of U.K. Finance Acts   | 4               | 6             |
| Amortization of excess deferred income taxes (a)                    | (9 )            | (19 )         |
| Kentucky state tax reform (c)                                       | 9               | 9             |
| Stock-based compensation  | 4               | 8             |
| Other   | —               | 3             |
| Total   | \$ 66           | \$ 54         |

(a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

The increases are primarily due to the tax benefit of accelerated pension contributions made in the first quarter of (b)2017. The related tax benefit was recognized over the annual period as a result of utilizing an estimated annual effective tax rate.

During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's (c)non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

## Segment Earnings

PPL's net income by reportable segments for the periods ended June 30 were as follows:

|                         | Three Months |       |              | Six Months |       |              |
|-------------------------|--------------|-------|--------------|------------|-------|--------------|
|                         | 2018         | 2017  | \$<br>Change | 2018       | 2017  | \$<br>Change |
| U.K. Regulated          | \$394        | \$148 | \$ 246       | \$591      | \$434 | \$ 157       |
| Kentucky Regulated      | 77           | 79    | (2 )         | 210        | 174   | 36           |
| Pennsylvania Regulated  | 75           | 77    | (2 )         | 223        | 156   | 67           |
| Corporate and Other (a) | (31 )        | (12 ) | (19 )        | (57 )      | (69 ) | 12           |
| Net Income              | \$515        | \$292 | \$ 223       | \$967      | \$695 | \$ 272       |

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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. The (a) change in 2018 compared with 2017 is primarily due to the utilization of an estimated tax rate, which required tax benefits realized in the first quarter of 2017 to be recognized over the annual period.

## Earnings from Ongoing Operations

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

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

- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- 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.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 14 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment for the periods ended June 30 were as follows:

|                                  | Three Months |       |           | Six Months |       |           |
|----------------------------------|--------------|-------|-----------|------------|-------|-----------|
|                                  | 2018         | 2017  | \$ Change | 2018       | 2017  | \$ Change |
| U.K. Regulated                   | \$254        | \$212 | \$ 42     | \$516      | \$519 | \$(3 )    |
| Kentucky Regulated               | 86           | 79    | 7         | 219        | 175   | 44        |
| Pennsylvania Regulated           | 75           | 77    | (2 )      | 223        | 156   | 67        |
| Corporate and Other              | (31 )        | (12 ) | (19 )     | (57 )      | (69 ) | 12        |
| Earnings from Ongoing Operations | \$384        | \$356 | \$ 28     | \$901      | \$781 | \$ 120    |

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

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and certain acquisition-related financing costs. The U.K. Regulated segment represents 61% of PPL's Net Income for the six months ended June 30, 2018 and 39% of PPL's assets at June 30, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended June 30 include the following results.

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|                                  | Three Months |       |              | Six Months |         |              |
|----------------------------------|--------------|-------|--------------|------------|---------|--------------|
|                                  | 2018         | 2017  | \$<br>Change | 2018       | 2017    | \$<br>Change |
| Operating revenues               | \$584        | \$502 | \$ 82        | \$1,199    | \$1,070 | \$ 129       |
| Other operation and maintenance  | 137          | 106   | 31           | 269        | 213     | 56           |
| Depreciation                     | 63           | 57    | 6            | 125        | 112     | 13           |
| Taxes, other than income         | 34           | 30    | 4            | 68         | 61      | 7            |
| Total operating expenses         | 234          | 193   | 41           | 462        | 386     | 76           |
| Other Income (Expense) - net     | 229          | (69 ) | 298          | 182        | (69 )   | 251          |
| Interest Expense                 | 97           | 97    | —            | 204        | 191     | 13           |
| Income Taxes                     | 88           | (5 )  | 93           | 124        | (10 )   | 134          |
| Net Income                       | 394          | 148   | 246          | 591        | 434     | 157          |
| Less: Special Items              | 140          | (64 ) | 204          | 75         | (85 )   | 160          |
| Earnings from Ongoing Operations | \$254        | \$212 | \$ 42        | \$516      | \$519   | \$(3 )       |

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended June 30.

|   | Income Statement Line<br>Item   | Three<br>Months |        | Six<br>Months |        |
|---|---------------------------------|-----------------|--------|---------------|--------|
|   |                                 | 2018            | 2017   | 2018          | 2017   |
| Foreign currency economic hedges, net of tax of (\$37), \$34,<br>(\$20), \$46 (a) | Other Income (Expense) -<br>net | \$140           | \$(64) | \$75          | \$(85) |
| Total Special Items   |                                 | \$140           | \$(64) | \$75          | \$(85) |

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

The changes in the components of the U.K. Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as U.K. Adjusted Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

|                                      | Three<br>Months | Six<br>Months |
|--------------------------------------|-----------------|---------------|
| U.K.                                 |                 |               |
| U.K. Adjusted Gross Margins          | \$ 22           | \$ 5          |
| Other operation and maintenance      | (7 )            | (11 )         |
| Depreciation                         | (1 )            | (2 )          |
| Other Income (Expense) - net         | 15              | 31            |
| Interest expense                     | 8               | 3             |
| Other                                | —               | (3 )          |
| Income taxes                         | (13 )           | (17 )         |
| U.S.                                 |                 |               |
| Interest expense and other           | (3 )            | (3 )          |
| Income taxes                         | (4 )            | (46 )         |
| Foreign currency exchange, after-tax | 25              | 40            |
| Earnings from Ongoing Operations     | 42              | (3 )          |
| Special items, after-tax             | 204             | 160           |
| Net Income                           | \$ 246          | \$ 157        |

U.K.

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

- Higher other income (expense) - net for the three and six month periods primarily from higher pension income due to an increase in expected returns on higher asset balances.
- Higher income taxes for the three month period primarily due to higher pre-tax income.

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## U.S.

Higher income taxes for the six month period primarily due to a \$35 million tax benefit on accelerated pension contributions in the first quarter of 2017 and a \$12 million increase from a reduction in tax benefits on interest deductibility due to the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

## Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 22% of PPL's Net Income for the six months ended June 30, 2018 and 34% of PPL's assets at June 30, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended June 30 include the following results.

|                                  | Three Months |       |              | Six Months |         |              |
|----------------------------------|--------------|-------|--------------|------------|---------|--------------|
|                                  | 2018         | 2017  | \$<br>Change | 2018       | 2017    | \$<br>Change |
| Operating revenues               | \$743        | \$723 | \$ 20        | \$1,615    | \$1,532 | \$ 83        |
| Fuel                             | 189          | 183   | 6            | 403        | 374     | 29           |
| Energy purchases                 | 33           | 29    | 4            | 113        | 98      | 15           |
| Other operation and maintenance  | 211          | 192   | 19           | 416        | 397     | 19           |
| Depreciation                     | 118          | 105   | 13           | 235        | 210     | 25           |
| Taxes, other than income         | 18           | 16    | 2            | 35         | 32      | 3            |
| Total operating expenses         | 569          | 525   | 44           | 1,202      | 1,111   | 91           |
| Other Income (Expense) - net     | 1            | (4 )  | 5            | (2 )       | (8 )    | 6            |
| Interest Expense                 | 69           | 66    | 3            | 136        | 131     | 5            |
| Income Taxes                     | 29           | 49    | (20 )        | 65         | 108     | (43 )        |
| Net Income                       | 77           | 79    | (2 )         | 210        | 174     | 36           |
| Less: Special Items              | (9 )         | —     | (9 )         | (9 )       | (1 )    | (8 )         |
| Earnings from Ongoing Operations | \$86         | \$79  | \$ 7         | \$219      | \$175   | \$ 44        |

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 during the periods ended June 30.

|  | Income Statement Line Item   | Three Months |      | Six Months |       |
|--|------------------------------|--------------|------|------------|-------|
|  |                              | 2018         | 2017 | 2018       | 2017  |
| Adjustment to investment, net of tax of \$0, \$0, \$0, \$0 (a) | Other Income (Expense) - net | \$ —         | \$ — | —          | \$(1) |
| Kentucky state tax reform (b)                                  | Income Taxes                 | (9 )         | —    | (9 )       | —     |
| Total Special Items  |                              | \$ (9 )      | \$ — | —          | \$(1) |

(a) KU recorded a write-off of an equity method investment.

During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's

(b) non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

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

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|                                  | Three<br>Months | Six<br>Months |
|----------------------------------|-----------------|---------------|
| Kentucky Adjusted Gross Margins  | \$ 15           | \$ 43         |
| Other operation and maintenance  | (22 )           | (23 )         |
| Depreciation                     | (12 )           | (23 )         |
| Taxes, other than income         | (5 )            | (5 )          |
| Other Income (Expense) - net     | 5               | 5             |
| Interest Expense                 | (3 )            | (5 )          |
| Income Taxes                     | 29              | 52            |
| Earnings from Ongoing Operations | 7               | 44            |
| Special items, after-tax         | (9 )            | (8 )          |
| Net Income                       | \$ (2 )         | \$ 36         |

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

Higher other operation and maintenance expense for the three month period primarily due to a \$6 million increase in costs related to the timing and scope of generation maintenance outages and increases in other costs that were not individually significant in comparison to the prior year.

Higher other operation and maintenance expense for the six month period primarily due to a \$7 million increase in costs related to the timing and scope of generation maintenance outages and increases in other costs that were not individually significant in comparison to the prior year.

Higher depreciation expense for the three month period due to a \$7 million increase related to higher depreciation rates effective July 1, 2017 and a \$5 million increase related to additions to PP&E, net of retirements.

Higher depreciation expense for the six month period due to a \$12 million increase related to higher depreciation rates effective July 1, 2017 and an \$11 million increase related to additions to PP&E, net of retirements.

Lower income taxes for the three month period primarily due to a \$16 million decrease related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, a \$9 million decrease related to lower pre-tax income and a \$6 million decrease related to higher amortization of excess deferred income taxes as a result of the TCJA.

Lower income taxes for the six month period primarily due to a \$42 million decrease related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, and an \$11 million decrease related to higher amortization of excess deferred income taxes as a result of the TCJA.

#### Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 23% of PPL's Net Income for the six months ended June 30, 2018 and 26% of PPL's assets at June 30, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended June 30 include the following results.



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|                                  | Three Months |       |              | Six Months |         |              |
|----------------------------------|--------------|-------|--------------|------------|---------|--------------|
|                                  | 2018         | 2017  | \$<br>Change | 2018       | 2017    | \$<br>Change |
| Operating revenues               | \$517        | \$500 | \$ 17        | \$1,156    | \$1,073 | \$ 83        |
| Energy purchases                 | 115          | 107   | 8            | 276        | 253     | 23           |
| Other operation and maintenance  | 159          | 140   | 19           | 292        | 303     | (11 )        |
| Depreciation                     | 88           | 76    | 12           | 173        | 151     | 22           |
| Taxes, other than income         | 22           | 23    | (1 )         | 54         | 52      | 2            |
| Total operating expenses         | 384          | 346   | 38           | 795        | 759     | 36           |
| Other Income (Expense) - net     | 8            | 6     | 2            | 14         | 6       | 8            |
| Interest Expense                 | 39           | 36    | 3            | 76         | 69      | 7            |
| Income Taxes                     | 27           | 47    | (20 )        | 76         | 95      | (19 )        |
| Net Income                       | 75           | 77    | (2 )         | 223        | 156     | 67           |
| Less: Special Items (a)          | —            | —     | —            | —          | —       | —            |
| Earnings from Ongoing Operations | \$75         | \$77  | \$ (2 )      | \$223      | \$156   | \$ 67        |

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

The changes in the components of the Pennsylvania Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Pennsylvania Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

|                                     | Three<br>Months | Six<br>Months |
|-------------------------------------|-----------------|---------------|
| Pennsylvania Adjusted Gross Margins | \$ (5 )         | \$ 43         |
| Other operation and maintenance     | (7 )            | 20            |
| Depreciation                        | (9 )            | (15 )         |
| Taxes, other than income            | —               | (1 )          |
| Other Income (Expense) - net        | 2               | 8             |
| Interest Expense                    | (3 )            | (7 )          |
| Income Taxes                        | 20              | 19            |
| Net Income                          | \$ (2 )         | \$ 67         |

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

Higher other operation and maintenance expense for the three month period primarily due to \$5 million of nonrecoverable storm expenses and \$4 million of higher bad debt expenses, partially offset by \$5 million of lower vegetation management expenses.

Lower other operation and maintenance expense for the six month period primarily due to \$17 million of lower corporate service costs allocated to PPL Electric, \$14 million of lower payroll related expenses and \$10 million of lower vegetation management expenses, partially offset by \$12 million of nonrecoverable storm expenses and \$7 million of higher bad debt expenses.

Higher depreciation expense for the three and six month periods primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.

Lower income taxes for the three month period primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018 of \$13 million and lower pre-tax income resulting in \$9 million of lower income taxes.

Lower income taxes for the six month period primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018 of \$38 million, partially offset by higher pre-tax income resulting in \$20 million of higher income taxes.



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## 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 periods ended June 30.

|  | 2018 Three Months |              |              |                     | Total |
|--|-------------------|--------------|--------------|---------------------|-------|
|  | U.K. Regulated    | KY Regulated | PA Regulated | Corporate and Other |       |
| Net Income   | \$394             | \$ 77        | \$ 75        | \$ (31 )            | \$515 |
| Less: Special Items (expense) benefit:                 |                   |              |              |                     |       |
| Foreign currency economic hedges, net of tax of (\$37) | 140               | —            | —            | —                   | 140   |
| Kentucky state tax reform                              | —                 | (9 )         | —            | —                   | (9 )  |
| Total Special Items                                    | 140               | (9 )         | —            | —                   | 131   |
| Earnings from Ongoing Operations                       | \$254             | \$ 86        | \$ 75        | \$ (31 )            | \$384 |

|  | 2017 Three Months |              |              |                     | Total |
|--|-------------------|--------------|--------------|---------------------|-------|
|  | U.K. Regulated    | KY Regulated | PA Regulated | Corporate and Other |       |
| Net Income   | \$148             | \$ 79        | \$ 77        | \$ (12 )            | \$292 |
| Less: Special Items (expense) benefit:               |                   |              |              |                     |       |
| Foreign currency economic hedges, net of tax of \$34 | (64 )             | —            | —            | —                   | (64 ) |
| Total Special Items                                  | (64 )             | —            | —            | —                   | (64 ) |
| Earnings from Ongoing Operations                     | \$212             | \$ 79        | \$ 77        | \$ (12 )            | \$356 |

|  | 2018 Six Months |              |              |                     | Total |
|--|-----------------|--------------|--------------|---------------------|-------|
|  | U.K. Regulated  | KY Regulated | PA Regulated | Corporate and Other |       |
| Net Income   | \$591           | \$ 210       | \$ 223       | \$ (57 )            | \$967 |
| Less: Special Items (expense) benefit:                 |                 |              |              |                     |       |
| Foreign currency economic hedges, net of tax of (\$20) | 75              | —            | —            | —                   | 75    |
| Kentucky state tax reform                              | —               | (9 )         | —            | —                   | (9 )  |
| Total Special Items                                    | 75              | (9 )         | —            | —                   | 66    |
| Earnings from Ongoing Operations                       | \$516           | \$ 219       | \$ 223       | \$ (57 )            | \$901 |

|  | 2017 Six Months |              |              |                     | Total |
|--|-----------------|--------------|--------------|---------------------|-------|
|  | U.K. Regulated  | KY Regulated | PA Regulated | Corporate and Other |       |
| Net Income   | \$434           | \$ 174       | \$ 156       | \$ (69 )            | \$695 |
| Less: Special Items (expense) benefit:               |                 |              |              |                     |       |
| Foreign currency economic hedges, net of tax of \$46 | (85 )           | —            | —            | —                   | (85 ) |
| Adjustment to investment, net of tax of \$0          | —               | (1 )         | —            | —                   | (1 )  |
| Total Special Items                                  | (85 )           | (1 )         | —            | —                   | (86 ) |
| Earnings from Ongoing Operations                     | \$519           | \$ 175       | \$ 156       | \$ (69 )            | \$781 |

## Adjusted Gross Margins

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

"U.K. Adjusted Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed

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through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.

"Kentucky Adjusted Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in 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 and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129, 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 and PPL Electric's electricity delivery operations.

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

#### Changes in Adjusted Gross Margins

The following table shows Adjusted Gross Margins by PPL's reportable segment and by component, as applicable, for the periods ended June 30 as well as the change between periods. The factors that gave rise to the changes are described following the table.

|   | Three Months |       |           | Six Months |         |           |
|---|--------------|-------|-----------|------------|---------|-----------|
|   | 2018         | 2017  | \$ Change | 2018       | 2017    | \$ Change |
| U.K. Regulated  |              |       |           |            |         |           |
| U.K. Adjusted Gross Margins   | \$538        | \$469 | \$ 69     | \$1,111    | \$1,005 | \$ 106    |
| Impact of changes in foreign currency exchange rates                            |              |       | 47        |            |         | 101       |
| U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates |              |       | \$ 22     |            |         | \$ 5      |
| Kentucky Regulated  |              |       |           |            |         |           |
| Kentucky Adjusted Gross Margins   |              |       |           |            |         |           |
| LG&E  | \$216        | \$207 | \$ 9      | \$457      | \$433   | \$ 24     |
| KU  | 265          | 259   | 6         | 559        | 540     | 19        |
| Total Kentucky Adjusted Gross Margins   | \$481        | \$466 | \$ 15     | \$1,016    | \$973   | \$ 43     |

|   |       |       |          |       |       |         |
|---|-------|-------|----------|-------|-------|---------|
| Pennsylvania Regulated                    |       |       |          |       |       |         |
| Pennsylvania Adjusted Gross Margins       |       |       |          |       |       |         |
| Distribution                              | \$192 | \$219 | \$ (27 ) | \$470 | \$477 | \$ (7 ) |
| Transmission                              | 137   | 115   | 22       | 273   | 223   | 50      |
| Total Pennsylvania Adjusted Gross Margins | \$329 | \$334 | \$ (5 )  | \$743 | \$700 | \$ 43   |

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### U.K. Adjusted Gross Margins

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the three months ended June 30, 2018 compared with 2017, primarily due to \$10 million from the April 1, 2018 price increase and \$12 million of higher volumes.

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the six months ended June 30, 2018 compared with 2017, primarily due to \$10 million from the April 1, 2018 price increase and \$4 million of higher volumes, partially offset by \$10 million from the April 1, 2017 price decrease, driven by lower true-up mechanisms partially offset by higher base demand revenue.

### Kentucky Adjusted Gross Margins

Kentucky Adjusted Gross Margins increased for the three months ended June 30, 2018 compared with 2017, primarily due to higher base rates of \$28 million (\$15 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, \$20 million of increased sales volumes related to favorable weather in 2018 (\$8 million at LG&E and \$12 million at KU) and returns on additional environmental capital investments of \$5 million (\$3 million at LG&E and \$2 million at KU), partially offset by \$37 million of estimated income tax savings owed to customers (\$17 million at LG&E and \$20 million at KU) related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Kentucky Adjusted Gross Margins increased for the six months ended June 30, 2018 compared with 2017, primarily due to higher base rates of \$58 million (\$32 million at LG&E and \$26 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, \$51 million of increased sales volumes related to favorable weather in 2018 (\$16 million at LG&E and \$35 million at KU) and returns on additional environmental capital investments of \$10 million (\$6 million at LG&E and \$4 million at KU), partially offset by \$79 million of estimated income tax savings owed to customers (\$37 million at LG&E and \$42 million at KU) related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

### Pennsylvania Adjusted Gross Margins

#### Distribution

Distribution Adjusted Gross Margins decreased for the three months ended June 30, 2018 compared with 2017, primarily due to the \$34 million net of gross receipts tax impact of the estimated income tax savings owed to customers as a result of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, partially offset by \$7 million of higher electricity sales volumes and \$2 million of returns on additional Smart Meter capital investments.

Distribution Adjusted Gross Margins decreased for the six months ended June 30, 2018 compared with 2017, primarily due to the \$34 million net of gross receipts tax impact of the estimated income tax savings owed to customers as a result of the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, partially offset by \$25 million of higher electricity sales volumes and \$5 million of returns on additional Smart Meter capital investments.

#### Transmission

Transmission Adjusted Gross Margins increased for the three months ended June 30, 2018 compared with 2017, primarily due to increases of \$17 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and \$5 million as a result of a higher PPL zonal peak load billing factor which affected transmission revenues in the second quarter of 2018.

Transmission Adjusted Gross Margins increased for the six months ended June 30, 2018 compared with 2017, primarily due to an increase of \$39 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and \$11 million as a result of a higher PPL zonal peak load billing factor in the first five months of 2018.

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## 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 periods ended June 30.

|                                 | 2018 Three Months                    |  |  |           | Operating<br>Income<br>(b) |
|---------------------------------|--------------------------------------|--|--|-----------|----------------------------|
|                                 | U.K.<br>Adjusted<br>Gross<br>Margins | Kentucky<br>Adjusted<br>Gross<br>Margins | Pennsylvania<br>Adjusted<br>Gross<br>Margins | Other (a) |                            |
| Operating Revenues              | \$574                                | (c)\$ 743                                | \$ 517                                       | \$ 14     | \$ 1,848                   |
| Operating Expenses              |                                      |  |  |           |                            |
| Fuel                            | —                                    | 189                                      | —  | —         | 189                        |
| Energy purchases                | —                                    | 33                                       | 115  | —         | 148                        |
| Other operation and maintenance | 36                                   | 23                                       | 43   | 404       | 506                        |
| Depreciation                    | —                                    | 17                                       | 8  | 248       | 273                        |
| Taxes, other than income        | —                                    | —  | 22   | 52        | 74                         |
| Total Operating Expenses        | 36                                   | 262                                      | 188  | 704       | 1,190                      |
| Total                           | \$538                                | \$ 481                                   | \$ 329                                       | \$(690 )  | \$ 658                     |

|                                 | 2017 Three Months                    |  |  |           | Operating<br>Income<br>(b) |
|---------------------------------|--------------------------------------|--|--|-----------|----------------------------|
|                                 | U.K.<br>Adjusted<br>Gross<br>Margins | Kentucky<br>Adjusted<br>Gross<br>Margins | Pennsylvania<br>Adjusted<br>Gross<br>Margins | Other (a) |                            |
| Operating Revenues              | \$491                                | (c)\$ 723                                | \$ 500                                       | \$ 11     | \$ 1,725                   |
| Operating Expenses              |                                      |  |  |           |                            |
| Fuel                            | —                                    | 183                                      | —  | —         | 183                        |
| Energy purchases                | —                                    | 29                                       | 107  | —         | 136                        |
| Other operation and maintenance | 22                                   | 26                                       | 31   | 353       | 432                        |
| Depreciation                    | —                                    | 16                                       | 5  | 225       | 246                        |
| Taxes, other than income        | —                                    | 3  | 23   | 44        | 70                         |
| Total Operating Expenses        | 22                                   | 257                                      | 166  | 622       | 1,067                      |
| Total                           | \$469                                | \$ 466                                   | \$ 334                                       | \$(611 )  | \$ 658                     |

|                                 | 2018 Six Months                      |  |  |           | Operating<br>Income<br>(b) |
|---------------------------------|--------------------------------------|--|--|-----------|----------------------------|
|                                 | U.K.<br>Adjusted<br>Gross<br>Margins | Kentucky<br>Adjusted<br>Gross<br>Margins | Pennsylvania<br>Adjusted<br>Gross<br>Margins | Other (a) |                            |
| Operating Revenues              | \$1,179                              | (c)\$ 1,615                              | \$ 1,156                                     | \$ 24     | \$ 3,974                   |
| Operating Expenses              |                                      |  |  |           |                            |
| Fuel                            | —                                    | 403                                      | —  | —         | 403                        |
| Energy purchases                | —                                    | 113                                      | 276  | —         | 389                        |
| Other operation and maintenance | 68                                   | 48                                       | 69   | 789       | 974                        |
| Depreciation                    | —                                    | 34                                       | 16   | 492       | 542                        |
| Taxes, other than income        | —                                    | 1  | 52   | 104       | 157                        |
| Total Operating Expenses        | 68                                   | 599                                      | 413  | 1,385     | 2,465                      |

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|       |         |          |        |           |          |
|-------|---------|----------|--------|-----------|----------|
| Total | \$1,111 | \$ 1,016 | \$ 743 | \$(1,361) | \$ 1,509 |
|-------|---------|----------|--------|-----------|----------|

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|                                 | 2017 Six Months                      |  |  |           | Operating<br>Income<br>(b) |
|---------------------------------|--------------------------------------|--|--|-----------|----------------------------|
|                                 | U.K.<br>Adjusted<br>Gross<br>Margins | Kentucky<br>Adjusted<br>Gross<br>Margins | Pennsylvania<br>Adjusted<br>Gross<br>Margins | Other (a) |                            |
| Operating Revenues              | \$1,050(c)                           | \$ 1,532                                 | \$ 1,073                                     | \$21      | \$ 3,676                   |
| Operating Expenses              |                                      |  |  |           |                            |
| Fuel                            | —                                    | 374                                      | —  | —         | 374                        |
| Energy purchases                | —                                    | 98                                       | 253  | —         | 351                        |
| Other operation and maintenance | 45                                   | 52                                       | 60   | 745       | 902                        |
| Depreciation                    | —                                    | 32                                       | 9  | 447       | 488                        |
| Taxes, other than income        | —                                    | 3  | 51   | 91        | 145                        |
| Total Operating Expenses        | 45                                   | 559                                      | 373  | 1,283     | 2,260                      |
| Total                           | \$1,005                              | \$ 973                                   | \$ 700                                       | \$(1,262) | \$ 1,416                   |

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$10 million and \$20 million for the three and six months ended June 30, 2018 and \$11 million and \$20 million for the three and six months ended June 30, 2017.

## 2018 Outlook

(PPL)

The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Higher net income is projected in 2018 compared with 2017. The increase in net income reflects the 2017 unfavorable impact of U.S. tax reform and unrealized losses on foreign currency economic hedges. Excluding these 2017 special items, the increase is expected to be driven primarily by higher assumed GBP exchange rates and higher pension income, partially offset by higher taxes.

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

Higher net income is projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, earnings in 2018 compared with 2017 are projected to be relatively flat, driven by favorable weather and higher base electricity and gas rates effective July 1, 2017, offset by higher operation and maintenance expense, higher depreciation expense, higher interest expense and a lower tax shield on holding company interest and expenses.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Higher net income is projected in 2018 compared with 2017, primarily driven by higher transmission earnings, partially offset by higher depreciation expense and higher interest expense.

(PPL's Corporate and Other Category)

Lower costs are projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, costs are projected to be higher in 2018 compared to 2017, due to a lower tax shield on holding company interest expense.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 7 and 10 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2017 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

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

## Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

|                                 | Three Months |       |              | Six Months |         |              |
|---------------------------------|--------------|-------|--------------|------------|---------|--------------|
|                                 | 2018         | 2017  | \$<br>Change | 2018       | 2017    | \$<br>Change |
| Operating Revenues              | \$517        | \$500 | \$ 17        | \$1,156    | \$1,073 | \$ 83        |
| Operating Expenses              |              |       |              |            |         |              |
| Operation                       |              |       |              |            |         |              |
| Energy purchases                | 115          | 107   | 8            | 276        | 253     | 23           |
| Other operation and maintenance | 159          | 139   | 20           | 292        | 302     | (10 )        |
| Depreciation                    | 88           | 76    | 12           | 173        | 151     | 22           |
| Taxes, other than income        | 22           | 23    | (1 )         | 54         | 52      | 2            |
| Total Operating Expenses        | 384          | 345   | 39           | 795        | 758     | 37           |
| Other Income (Expense) - net    | 7            | 4     | 3            | 13         | 4       | 9            |
| Interest Income from Affiliate  | 1            | 1     | —            | 1          | 1       | —            |
| Interest Expense                | 39           | 36    | 3            | 76         | 69      | 7            |
| Income Taxes                    | 27           | 47    | (20 )        | 76         | 95      | (19 )        |
| Net Income                      | \$75         | \$77  | \$ (2 )      | \$223      | \$156   | \$ 67        |

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

|                           | Three<br>Months | Six<br>Months |
|---------------------------|-----------------|---------------|
| Distribution price        | \$ 10           | \$ 11         |
| Distribution volume       | 12              | 32            |
| PLR (a)                   | 9               | 26            |
| Transmission Formula Rate | 22              | 50            |
| TCJA refund (b)           | (37 )           | (37 )         |
| Other                     | 1               | 1             |
| Total                     | \$ 17           | \$ 83         |

(a) The increases were primarily due to higher energy volumes as described below.

Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate

(b) income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

## Energy Purchases

Energy purchases increased \$8 million and \$23 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to higher PLR volumes.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

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|                             | Three<br>Months | Six<br>Months |
|-----------------------------|-----------------|---------------|
| Corporate service costs     | \$ (1 )         | \$ (17 )      |
| Vegetation management       | (5 )            | (10 )         |
| Storm costs                 | 12              | 16            |
| Payroll-related costs       | (1 )            | (14 )         |
| Act 129                     | 1               | (2 )          |
| Bad debts                   | 4               | 7             |
| Smart Meter                 | 2               | 4             |
| Contractor-related expenses | 2               | —             |
| Other                       | 6               | 6             |
| Total                       | \$ 20           | \$ (10 )      |

## Depreciation

Depreciation increased \$12 million and \$22 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements.

## Other Income (Expense) - net

Other income (expense) - net increased \$9 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$4 million increase related to higher AFUDC equity rates and a \$3 million increase in non-service cost credits from defined benefit plans.

## Interest Expense

Interest expense increased \$3 million and \$7 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047 and the June 2018 issuance of \$400 million of 4.15% First Mortgage Bonds due 2048.

## Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Change in pre-tax income                         | \$ (9 )         | \$ 20         |
| Reduction in U.S. federal income tax rate (a)    | (13 )           | (38 )         |
| Amortization of excess deferred income taxes (a) | (3 )            | (8 )          |
| Stock-based compensation                         | 3               | 5             |
| Other  | 2               | 2             |
| Total  | \$ (20 )        | \$ (19 )      |

(a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

## Earnings

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|  | Three<br>Months<br>Ended<br>June 30,<br>2018 | 2017 | Six Months<br>Ended<br>June 30,<br>2018 | 2017  |
|--|--|------|---|-------|
| Net Income                                   | \$75   | \$77 | \$223                                   | \$156 |
| Special items, gains (losses), after-tax (a) | —  | —    | —                                       | —     |

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

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Earnings were flat for the three month period in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, offset by higher operation and maintenance expense and higher depreciation expense.

Earnings increased for the six month period in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, higher distribution sales volumes and lower operation and maintenance expense, partially offset by higher depreciation expense.

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

|                                     | Three<br>Months | Six<br>Months |
|-------------------------------------|-----------------|---------------|
| Pennsylvania Adjusted Gross Margins | \$ (5 )         | \$ 43         |
| Other operation and maintenance     | (8 )            | 19            |
| Depreciation                        | (9 )            | (15 )         |
| Taxes, other than income            | —               | (1 )          |
| Other Income (Expense) - net        | 3               | 9             |
| Interest Expense                    | (3 )            | (7 )          |
| Income Taxes                        | 20              | 19            |
| Net Income                          | \$ (2 )         | \$ 67         |

## Adjusted Gross Margins

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

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

|                                 | 2018 Three Months      |              |                            | 2017 Three Months      |              |                            |
|---------------------------------|------------------------|--------------|----------------------------|------------------------|--------------|----------------------------|
|                                 | PA<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) | PA<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues              | \$517                  | \$—          | \$ 517                     | \$500                  | \$—          | \$ 500                     |
| Operating Expenses              |                        |              |                            |                        |              |                            |
| Energy purchases                | 115                    | —            | 115                        | 107                    | —            | 107                        |
| Other operation and maintenance | 43                     | 116          | 159                        | 31                     | 108          | 139                        |
| Depreciation                    | 8                      | 80           | 88                         | 5                      | 71           | 76                         |
| Taxes, other than income        | 22                     | —            | 22                         | 23                     | —            | 23                         |
| Total Operating Expenses        | 188                    | 196          | 384                        | 166                    | 179          | 345                        |
| Total                           | \$329                  | \$(196)      | \$ 133                     | \$334                  | \$(179)      | \$ 155                     |

|  | 2018 Six Months          |              |                     | 2017 Six Months          |              |                     |
|--|--------------------------|--------------|---------------------|--------------------------|--------------|---------------------|
|  | Adjusted<br>Gross<br>(a) | Other<br>(a) | Operating<br>Income | Adjusted<br>Gross<br>(a) | Other<br>(a) | Operating<br>Income |

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|                                 | Margins |         | Income   |         | Margins |          | Income |     |
|---------------------------------|---------|---------|----------|---------|---------|----------|--------|-----|
|                                 |         |         | (b)      |         |         | (b)      |        | (b) |
| Operating Revenues              | \$1,156 | \$—     | \$ 1,156 | \$1,073 | \$—     | \$ 1,073 |        |     |
| Operating Expenses              |         |         |          |         |         |          |        |     |
| Energy purchases                | 276     | —       | 276      | 253     | —       | 253      |        |     |
| Other operation and maintenance | 69      | 223     | 292      | 60      | 242     | 302      |        |     |
| Depreciation                    | 16      | 157     | 173      | 9       | 142     | 151      |        |     |
| Taxes, other than income        | 52      | 2       | 54       | 51      | 1       | 52       |        |     |
| Total Operating Expenses        | 413     | 382     | 795      | 373     | 385     | 758      |        |     |
| Total                           | \$743   | \$(382) | \$ 361   | \$700   | \$(385) | \$ 315   |        |     |

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.



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## LKE: Statement of Income Analysis, Earnings and Adjusted Gross Margins

## Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

|                                 | Three Months |       |              | Six Months |         |              |
|---------------------------------|--------------|-------|--------------|------------|---------|--------------|
|                                 | 2018         | 2017  | \$<br>Change | 2018       | 2017    | \$<br>Change |
| Operating Revenues              | \$743        | \$723 | \$ 20        | \$1,615    | \$1,532 | \$ 83        |
| Operating Expenses              |              |       |              |            |         |              |
| Operation                       |              |       |              |            |         |              |
| Fuel                            | 189          | 183   | 6            | 403        | 374     | 29           |
| Energy purchases                | 33           | 29    | 4            | 113        | 98      | 15           |
| Other operation and maintenance | 211          | 192   | 19           | 416        | 397     | 19           |
| Depreciation                    | 118          | 105   | 13           | 235        | 210     | 25           |
| Taxes, other than income        | 18           | 16    | 2            | 35         | 32      | 3            |
| Total Operating Expenses        | 569          | 525   | 44           | 1,202      | 1,111   | 91           |
| Other Income (Expense) - net    | 1            | (4 )  | 5            | (2 )       | (8 )    | 6            |
| Interest Expense                | 52           | 50    | 2            | 102        | 99      | 3            |
| Interest Expense with Affiliate | 6            | 4     | 2            | 11         | 8       | 3            |
| Income Taxes                    | 31           | 53    | (22 )        | 70         | 116     | (46 )        |
| Net Income                      | \$86         | \$87  | \$ (1 )      | \$228      | \$190   | \$ 38        |

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

|                              | Three<br>Months | Six<br>Months |
|------------------------------|-----------------|---------------|
| Volumes (a)                  | \$ 36           | \$ 103        |
| Base rates                   | 28              | 58            |
| ECR                          | 6               | 13            |
| TCJA refund (b)              | (37 )           | (79 )         |
| DSM                          | (3 )            | (11 )         |
| Fuel and other energy prices | (9 )            | (7 )          |
| Other                        | (1 )            | 6             |
| Total                        | \$ 20           | \$ 83         |

(a) Increases were primarily due to favorable weather in 2018.

Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate

(b) income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

## Fuel

Fuel increased \$6 million and \$29 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Energy Purchases

Energy purchases increased \$15 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$23 million increase in natural gas volumes driven by weather in 2018, partially offset by a \$10 million decrease in market prices for natural gas.

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## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Timing and scope of generation maintenance outages | \$ 6            | \$ 7          |
| Vegetation management                              | 3               | 3             |
| Gas distribution maintenance and compliance        | 2               | 3             |
| Storm costs  | 2               | 2             |
| Other  | 6               | 4             |
| Total  | \$ 19           | \$ 19         |

## Depreciation

Depreciation increased \$13 million for the three months ended June 30, 2018 compared with 2017, primarily due to an \$8 million increase related to higher depreciation rates effective July 1, 2017 and a \$4 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$25 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$15 million increase related to higher depreciation rates effective July 1, 2017 and a \$9 million increase related to additions to PP&E, net of retirements.

## Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Reduction in U.S. federal income tax rate (a)    | \$ (16 )        | \$ (42 )      |
| Amortization of excess deferred income taxes (a) | (6 )            | (11 )         |
| Change in pre-tax income                         | (9 )            | (3 )          |
| Kentucky state tax reform (b)                    | 9               | 9             |
| Other  | —               | 1             |
| Total  | \$ (22 )        | \$ (46 )      |

The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, (a) as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's (b) non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

## Earnings

| Three<br>Months<br>Ended<br>June 30, | Six Months<br>Ended<br>June 30, |
|--------------------------------------|---------------------------------|
|--------------------------------------|---------------------------------|

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|  | 2018 | 2017  | 2018  | 2017  |
|--|------|-------|-------|-------|
| Net Income                               | \$86 | \$ 87 | \$228 | \$190 |
| Special items, gains (losses), after-tax | (9 ) | —     | (9 )  | (1 )  |

Excluding special items, earnings increased for the three and six month period in 2018 compared with 2017, primarily due to higher base electricity and gas rates effective July 1, 2017 and higher sales volumes driven by favorable weather, partially offset by higher other operation and maintenance expense and higher depreciation expense.

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

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|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Adjusted Gross Margins                       | \$ 15           | \$ 43         |
| Other operation and maintenance              | (22 )           | (23 )         |
| Depreciation                                 | (12 )           | (23 )         |
| Taxes, other than income                     | (5 )            | (5 )          |
| Other Income (Expense) - net                 | 5               | 5             |
| Interest Expense                             | (4 )            | (6 )          |
| Income Taxes                                 | 31              | 55            |
| Special items, gains (losses), after-tax (a) | (9 )            | (8 )          |
| Net Income                                   | \$ (1 )         | \$ 38         |

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

## Adjusted Gross Margins

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

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

|                                 | 2018 Three Months            |              |                            | 2017 Three Months            |              |                            |
|---------------------------------|------------------------------|--------------|----------------------------|------------------------------|--------------|----------------------------|
|                                 | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues              | \$743                        | \$—          | \$ 743                     | \$723                        | \$—          | \$ 723                     |
| Operating Expenses              |                              |              |                            |                              |              |                            |
| Fuel                            | 189                          | —            | 189                        | 183                          | —            | 183                        |
| Energy purchases                | 33                           | —            | 33                         | 29                           | —            | 29                         |
| Other operation and maintenance | 23                           | 188          | 211                        | 26                           | 166          | 192                        |
| Depreciation                    | 17                           | 101          | 118                        | 16                           | 89           | 105                        |
| Taxes, other than income        | —                            | 18           | 18                         | 3                            | 13           | 16                         |
| Total Operating Expenses        | 262                          | 307          | 569                        | 257                          | 268          | 525                        |
| Total                           | \$481                        | \$(307)      | \$ 174                     | \$466                        | \$(268)      | \$ 198                     |

|                                 | 2018 Six Months              |              |                            | 2017 Six Months              |              |                            |
|---------------------------------|------------------------------|--------------|----------------------------|------------------------------|--------------|----------------------------|
|                                 | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues              | \$1,615                      | \$—          | \$ 1,615                   | \$1,532                      | \$—          | \$ 1,532                   |
| Operating Expenses              |                              |              |                            |                              |              |                            |
| Fuel                            | 403                          | —            | 403                        | 374                          | —            | 374                        |
| Energy purchases                | 113                          | —            | 113                        | 98                           | —            | 98                         |
| Other operation and maintenance | 48                           | 368          | 416                        | 52                           | 345          | 397                        |
| Depreciation                    | 34                           | 201          | 235                        | 32                           | 178          | 210                        |

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|                          |         |         |        |       |         |        |
|--------------------------|---------|---------|--------|-------|---------|--------|
| Taxes, other than income | 1       | 34      | 35     | 3     | 29      | 32     |
| Total Operating Expenses | 599     | 603     | 1,202  | 559   | 552     | 1,111  |
| Total                    | \$1,016 | \$(603) | \$ 413 | \$973 | \$(552) | \$ 421 |

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

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## LG&amp;E: Statement of Income Analysis, Earnings and Adjusted Gross Margins

## Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

|                                 | Three Months |             |              | Six Months   |             |              |
|---------------------------------|--------------|-------------|--------------|--------------|-------------|--------------|
|                                 | 2018         | 2017        | \$<br>Change | 2018         | 2017        | \$<br>Change |
| <b>Operating Revenues</b>       |              |             |              |              |             |              |
| Retail and wholesale            | \$331        | \$320       | \$ 11        | \$738        | \$694       | \$ 44        |
| Electric revenue from affiliate | 4            | 4           | —            | 16           | 21          | (5 )         |
| <b>Total Operating Revenues</b> | <b>335</b>   | <b>324</b>  | <b>11</b>    | <b>754</b>   | <b>715</b>  | <b>39</b>    |
| <b>Operating Expenses</b>       |              |             |              |              |             |              |
| <b>Operation</b>                |              |             |              |              |             |              |
| Fuel                            | 72           | 69          | 3            | 151          | 149         | 2            |
| Energy purchases                | 28           | 25          | 3            | 104          | 89          | 15           |
| Energy purchases from affiliate | 2            | 3           | (1 )         | 8            | 5           | 3            |
| Other operation and maintenance | 93           | 86          | 7            | 182          | 171         | 11           |
| Depreciation                    | 49           | 45          | 4            | 97           | 89          | 8            |
| Taxes, other than income        | 9            | 9           | —            | 18           | 17          | 1            |
| <b>Total Operating Expenses</b> | <b>253</b>   | <b>237</b>  | <b>16</b>    | <b>560</b>   | <b>520</b>  | <b>40</b>    |
| Other Income (Expense) - net    | (1 )         | 1           | (2 )         | (2 )         | (3 )        | 1            |
| Interest Expense                | 19           | 19          | —            | 37           | 36          | 1            |
| Income Taxes                    | 12           | 27          | (15 )        | 33           | 60          | (27 )        |
| <b>Net Income</b>               | <b>\$50</b>  | <b>\$42</b> | <b>\$ 8</b>  | <b>\$122</b> | <b>\$96</b> | <b>\$ 26</b> |

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

|                              | Three<br>Months | Six<br>Months |
|------------------------------|-----------------|---------------|
| Volumes (a)                  | \$ 16           | \$ 44         |
| Base rates                   | 16              | 32            |
| ECR                          | 2               | 7             |
| TCJA refund (b)              | (17 )           | (37 )         |
| Fuel and other energy prices | (7 )            | (10 )         |
| DSM                          | (1 )            | (5 )          |
| Other                        | 2               | 8             |
| <b>Total</b>                 | <b>\$ 11</b>    | <b>\$ 39</b>  |

(a) Increases were primarily due to favorable weather in 2018.

Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate

(b) income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

## Fuel

Fuel increased \$3 million for the three months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

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## Energy Purchases

Energy purchases increased \$3 million for the three months ended June 30, 2018 compared with 2017, primarily due to an increase in natural gas volumes driven by weather in 2018.

Energy purchases increased \$15 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$23 million increase in natural gas volumes driven by weather in 2018, partially offset by a \$10 million decrease in market prices for natural gas.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Gas distribution maintenance and compliance        | \$ 2            | \$ 3          |
| Timing and scope of generation maintenance outages | 1               | 2             |
| Storm costs  | 2               | 2             |
| Other  | 2               | 4             |
| Total  | \$ 7            | \$ 11         |

## Depreciation

Depreciation increased \$4 million for the three months ended June 30, 2018 compared with 2017, due to a \$2 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$8 million for the six months ended June 30, 2018 compared with 2017, due to a \$4 million increase related to higher depreciation rates effective July 1, 2017 and a \$4 million increase related to additions to PP&E, net of retirements.

## Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Reduction in U.S. federal income tax rate (a)    | \$ (9 )         | \$ (22 )      |
| Amortization of excess deferred income taxes (a) | (3 )            | (5 )          |
| Change in pre-tax income                         | (3 )            | —             |
| Total  | \$ (15 )        | \$ (27 )      |

The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, (a) as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

## Earnings

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|  | Three    | Six      |       |      |
|--|----------|----------|-------|------|
|  | Months   | Months   |       |      |
|  | Ended    | Ended    |       |      |
|  | June 30, | June 30, |       |      |
|  | 2018     | 2017     | 2018  | 2017 |
| Net Income                                   | \$50     | \$42     | \$122 | \$96 |
| Special items, gains (losses), after-tax (a) | —        | —        | —     | —    |

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

Earnings increased for the three and six month periods in 2018 compared with 2017, primarily due to higher base electricity and gas rates effective July 1, 2017 and higher sales volumes driven by favorable weather, partially offset by higher other operation and maintenance expense and higher depreciation expense.

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

|                                 | Three<br>Months | Six<br>Months |
|---------------------------------|-----------------|---------------|
| Adjusted Gross Margins          | \$ 9            | \$ 24         |
| Other operation and maintenance | (7 )            | (12 )         |
| Depreciation                    | (5 )            | (10 )         |
| Taxes, other than income        | (2 )            | (3 )          |
| Other Income (Expense) - net    | (2 )            | 1             |
| Interest Expense                | —               | (1 )          |
| Income Taxes                    | 15              | 27            |
| Net Income                      | \$ 8            | \$ 26         |

## Adjusted Gross Margins

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

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

|                                       | 2018 Three Months            |              |                            | 2017 Three Months            |              |                            |
|---------------------------------------|------------------------------|--------------|----------------------------|------------------------------|--------------|----------------------------|
|                                       | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues                    | \$335                        | \$—          | \$ 335                     | \$324                        | \$—          | \$ 324                     |
| Operating Expenses                    |                              |              |                            |                              |              |                            |
| Fuel                                  | 72                           | —            | 72                         | 69                           | —            | 69                         |
| Energy purchases, including affiliate | 30                           | —            | 30                         | 28                           | —            | 28                         |
| Other operation and maintenance       | 10                           | 83           | 93                         | 10                           | 76           | 86                         |
| Depreciation                          | 7                            | 42           | 49                         | 8                            | 37           | 45                         |
| Taxes, other than income              | —                            | 9            | 9                          | 2                            | 7            | 9                          |
| Total Operating Expenses              | 119                          | 134          | 253                        | 117                          | 120          | 237                        |
| Total                                 | \$216                        | \$(134)      | \$ 82                      | \$207                        | \$(120)      | \$ 87                      |

|                                       | 2018 Six Months              |              |                            | 2017 Six Months              |              |                            |
|---------------------------------------|------------------------------|--------------|----------------------------|------------------------------|--------------|----------------------------|
|                                       | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues                    | \$754                        | \$—          | \$ 754                     | \$715                        | \$—          | \$ 715                     |
| Operating Expenses                    |                              |              |                            |                              |              |                            |
| Fuel                                  | 151                          | —            | 151                        | 149                          | —            | 149                        |
| Energy purchases, including affiliate | 112                          | —            | 112                        | 94                           | —            | 94                         |
| Other operation and maintenance       | 19                           | 163          | 182                        | 20                           | 151          | 171                        |
| Depreciation                          | 15                           | 82           | 97                         | 17                           | 72           | 89                         |

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|                          |       |         |        |       |         |        |
|--------------------------|-------|---------|--------|-------|---------|--------|
| Taxes, other than income | —     | 18      | 18     | 2     | 15      | 17     |
| Total Operating Expenses | 297   | 263     | 560    | 282   | 238     | 520    |
| Total                    | \$457 | \$(263) | \$ 194 | \$433 | \$(238) | \$ 195 |

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

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## KU: Statement of Income Analysis, Earnings and Adjusted Gross Margins

## Statement of Income Analysis

Net income for the periods ended June 30 includes the following results.

|                                 | Three Months |       |              | Six Months |       |              |
|---------------------------------|--------------|-------|--------------|------------|-------|--------------|
|                                 | 2018         | 2017  | \$<br>Change | 2018       | 2017  | \$<br>Change |
| <b>Operating Revenues</b>       |              |       |              |            |       |              |
| Retail and wholesale            | \$412        | \$403 | \$ 9         | \$877      | \$838 | \$ 39        |
| Electric revenue from affiliate | 2            | 3     | (1 )         | 8          | 5     | 3            |
| Total Operating Revenues        | 414          | 406   | 8            | 885        | 843   | 42           |
| <b>Operating Expenses</b>       |              |       |              |            |       |              |
| <b>Operation</b>                |              |       |              |            |       |              |
| Fuel                            | 117          | 114   | 3            | 252        | 225   | 27           |
| Energy purchases                | 5            | 4     | 1            | 9          | 9     | —            |
| Energy purchases from affiliate | 4            | 4     | —            | 16         | 21    | (5 )         |
| Other operation and maintenance | 112          | 100   | 12           | 217        | 208   | 9            |
| Depreciation                    | 70           | 61    | 9            | 138        | 121   | 17           |
| Taxes, other than income        | 9            | 7     | 2            | 17         | 15    | 2            |
| Total Operating Expenses        | 317          | 290   | 27           | 649        | 599   | 50           |
| Other Income (Expense) - net    | 3            | (2 )  | 5            | —          | (4 )  | 4            |
| Interest Expense                | 25           | 24    | 1            | 50         | 48    | 2            |
| Income Taxes                    | 14           | 34    | (20 )        | 38         | 73    | (35 )        |
| Net Income                      | \$61         | \$56  | \$ 5         | \$148      | \$119 | \$ 29        |

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2018 compared with 2017 was due to:

|                              | Three<br>Months | Six<br>Months |
|------------------------------|-----------------|---------------|
| Volumes (a)                  | \$ 18           | \$ 56         |
| Base rates                   | 12              | 26            |
| ECR                          | 4               | 6             |
| Fuel and other energy prices | (2 )            | 2             |
| TCJA refund (b)              | (20 )           | (42 )         |
| DSM                          | (2 )            | (6 )          |
| Other                        | (2 )            | —             |
| Total                        | \$ 8            | \$ 42         |

(a) Increases were primarily due to favorable weather in 2018.

Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate

(b) income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

Fuel

Fuel increased \$3 million and \$27 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

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## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2018 compared with 2017 was due to:

|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Timing and scope of generation maintenance outages | \$ 5            | \$ 6          |
| Vegetation management                              | 3               | 4             |
| Other  | 4               | (1 )          |
| Total  | \$ 12           | \$ 9          |

## Depreciation

Depreciation increased \$9 million for the three months ended June 30, 2018 compared with 2017, primarily due to a \$6 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$17 million for the six months ended June 30, 2018 compared with 2017, primarily due to an \$11 million increase related to higher depreciation rates effective July 1, 2017 and a \$5 million increase related to additions to PP&E, net of retirements.

## Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2018 compared with 2017 was due to:

|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Reduction in U.S. federal income tax rate (a)    | \$ (10 )        | \$ (26 )      |
| Amortization of excess deferred income taxes (a) | (3 )            | (6 )          |
| Change in pre-tax income                         | (6 )            | (2 )          |
| Other  | (1 )            | (1 )          |
| Total  | \$ (20 )        | \$ (35 )      |

The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, (a) as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

## Earnings

|  | Three<br>Months<br>Ended<br>June 30,<br>2018 | Six Months<br>Ended<br>June 30,<br>2018 | Three<br>Months<br>Ended<br>June 30,<br>2017 | Six Months<br>Ended<br>June 30,<br>2017 |
|--|--|---|--|---|
| Net Income                               | \$61   | \$56                                    | \$148  | \$119                                   |
| Special items, gains (losses), after-tax | —  | —                                       | —  | (1 )                                    |

Earnings increased for the three and six month periods in 2018 compared with 2017, primarily due to higher base electricity rates effective July 1, 2017 and higher sales volumes driven by favorable weather, partially offset by higher

other operation and maintenance expense and higher depreciation expense.

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

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|  | Three<br>Months | Six<br>Months |
|--|-----------------|---------------|
| Adjusted Gross Margins                       | \$ 6            | \$ 19         |
| Other operation and maintenance              | (15 )           | (12 )         |
| Depreciation                                 | (7 )            | (13 )         |
| Taxes, other than income                     | (3 )            | (2 )          |
| Other Income (Expense) - net                 | 5               | 3             |
| Interest Expense                             | (1 )            | (2 )          |
| Income Taxes                                 | 20              | 35            |
| Special items, gains (losses), after-tax (a) | —               | 1             |
| Net Income                                   | \$ 5            | \$ 29         |

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

## Adjusted Gross Margins

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

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

|                                       | 2018 Three Months            |              |                            | 2017 Three Months            |              |                            |
|---------------------------------------|------------------------------|--------------|----------------------------|------------------------------|--------------|----------------------------|
|                                       | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues                    | \$414                        | \$—          | \$ 414                     | \$406                        | \$—          | \$ 406                     |
| Operating Expenses                    |                              |              |                            |                              |              |                            |
| Fuel                                  | 117                          | —            | 117                        | 114                          | —            | 114                        |
| Energy purchases, including affiliate | 9                            | —            | 9                          | 8                            | —            | 8                          |
| Other operation and maintenance       | 13                           | 99           | 112                        | 16                           | 84           | 100                        |
| Depreciation                          | 10                           | 60           | 70                         | 8                            | 53           | 61                         |
| Taxes, other than income              | —                            | 9            | 9                          | 1                            | 6            | 7                          |
| Total Operating Expenses              | 149                          | 168          | 317                        | 147                          | 143          | 290                        |
| Total                                 | \$265                        | \$(168)      | \$ 97                      | \$259                        | \$(143)      | \$ 116                     |

|                                       | 2018 Six Months              |              |                            | 2017 Six Months              |              |                            |
|---------------------------------------|------------------------------|--------------|----------------------------|------------------------------|--------------|----------------------------|
|                                       | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) | Adjusted<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues                    | \$885                        | \$—          | \$ 885                     | \$843                        | \$—          | \$ 843                     |
| Operating Expenses                    |                              |              |                            |                              |              |                            |
| Fuel                                  | 252                          | —            | 252                        | 225                          | —            | 225                        |
| Energy purchases, including affiliate | 25                           | —            | 25                         | 30                           | —            | 30                         |
| Other operation and maintenance       | 29                           | 188          | 217                        | 32                           | 176          | 208                        |
| Depreciation                          | 19                           | 119          | 138                        | 15                           | 106          | 121                        |

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|                          |       |         |        |       |         |        |
|--------------------------|-------|---------|--------|-------|---------|--------|
| Taxes, other than income | 1     | 16      | 17     | 1     | 14      | 15     |
| Total Operating Expenses | 326   | 323     | 649    | 303   | 296     | 599    |
| Total                    | \$559 | \$(323) | \$ 236 | \$540 | \$(296) | \$ 244 |

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

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## Financial Condition

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

## Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

|                                    | PPL<br>(a) | PPL<br>Electric | LKE   | LG&E  | KU    |
|------------------------------------|------------|-----------------|-------|-------|-------|
| June 30, 2018                      |            |                 |       |       |       |
| Cash and cash equivalents          | \$ 852     | \$ 489          | \$ 39 | \$ 19 | \$ 20 |
| Short-term debt                    | 1,864      | —               | 316   | 183   | 133   |
| Long-term debt due within one year | 203        | —               | 203   | 194   | 9     |
| Notes payable with affiliates      | —          | —               | 99    | —     | —     |
| December 31, 2017                  |            |                 |       |       |       |
| Cash and cash equivalents          | \$ 485     | \$ 49           | \$ 30 | \$ 15 | \$ 15 |
| Short-term debt                    | 1,080      | —               | 244   | 199   | 45    |
| Long-term debt due within one year | 348        | —               | 98    | 98    | —     |
| Notes payable with affiliates      | —          | —               | 225   | —     | —     |

At June 30, 2018, \$2 million of cash and cash equivalents were denominated in GBP. If these amounts would be (a)remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 5 to the Financial Statements in PPL's 2017 Form 10-K for additional information on undistributed earnings of WPD.

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

|                               | PPL      | PPL<br>Electric | LKE     | LG&E   | KU     |
|-------------------------------|----------|-----------------|---------|--------|--------|
| 2018                          |          |                 |         |        |        |
| Operating activities          | \$ 1,325 | \$ 364          | \$ 440  | \$ 255 | \$ 274 |
| Investing activities          | (1,649 ) | (521 )          | (564 )  | (296 ) | (266 ) |
| Financing activities          | 695      | 597             | 133     | 45     | (3 )   |
| 2017                          |          |                 |         |        |        |
| Operating activities          | \$ 790   | \$ 279          | \$ 511  | \$ 264 | \$ 257 |
| Investing activities          | (1,385 ) | (824 )          | (355 )  | (177 ) | (177 ) |
| Financing activities          | 711      | 591             | (150 )  | (85 )  | (75 )  |
| Change - Cash Provided (Used) |          |                 |         |        |        |
| Operating activities          | \$ 535   | \$ 85           | \$(71 ) | \$(9 ) | \$ 17  |
| Investing activities          | (264 )   | 303             | (209 )  | (119 ) | (89 )  |
| Financing activities          | (16 )    | 6               | 283     | 130    | 72     |

## Operating Activities

The components of the change in cash provided by (used in) operating activities for the six months ended June 30, 2018 compared with 2017 were as follows.

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|                               | PPL    | PPL<br>Electric | LKE    | LG&E   | KU    |
|-------------------------------|--------|-----------------|--------|--------|-------|
| Change - Cash Provided (Used) |        |                 |        |        |       |
| Net income                    | \$272  | \$ 67           | \$38   | \$ 26  | \$29  |
| Non-cash components           | (279 ) | (25 )           | (46 )  | (32 )  | (51 ) |
| Working capital               | 129    | 36              | 46     | 59     | 80    |
| Defined benefit plan funding  | 346    | (4 )            | (93 )  | (54 )  | (31 ) |
| Other operating activities    | 67     | 11              | (16 )  | (8 )   | (10 ) |
| Total                         | \$535  | \$ 85           | \$(71) | \$(9 ) | \$17  |

## (PPL)

PPL's cash provided by operating activities in 2018 increased \$535 million compared with 2017.

Net income increased \$272 million between periods and included a decrease in non-cash charges of \$279 million. The decrease in non-cash charges was primarily due to an increase in unrealized gains on hedging activities, an increase in the U.K. net periodic defined benefit credits (primarily due to an increase in expected returns on higher asset balances) and a decrease in deferred income tax expense (primarily due to lower income taxes from tax benefits related to accelerated pension contributions to the U.K. pension plans in 2017 and book versus tax plant timing differences and net operating losses at EU) partially 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, 2017 at LG&E and KU and the impact of foreign currency exchange rates at WPD).

The \$129 million increase in cash from changes in working capital was primarily due to a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms) and an increase in taxes payable (primarily due to an increase in current income tax benefits in 2017).

Defined benefit plan funding was \$346 million lower in 2018. The decrease was primarily due to the acceleration of WPD's contributions to its U.K. pension plans in 2017.

## (PPL Electric)

PPL Electric's cash provided by operating activities in 2018 increased \$85 million compared with 2017.

Net income increased \$67 million between the periods and included a decrease in non-cash charges of \$25 million. The decrease in non-cash charges was primarily driven by a \$31 million decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and net operating losses).

The \$36 million increase in cash from changes in working capital was primarily due to a \$24 million increase in accounts receivable and a \$13 million increase in unbilled revenues due to an increase in sales volumes and returns on additional capital investments.

The \$11 million increase in cash provided by other operating activities was primarily due to an increase in non-current regulatory liabilities (primarily due to a \$37 million TCJA liability) partially offset by an increase in non-current regulatory assets (primarily due to \$21 million of storm costs).

## (LKE)

LKE's cash provided by operating activities in 2018 decreased \$71 million compared with 2017.

Net income increased \$38 million between the periods and included a decrease in non-cash charges of \$46 million. The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).

The increase in cash from changes in working capital was primarily driven by a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), an increase in accounts payable (primarily due to timing of payments) and a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017), partially offset by a decrease in taxes payable (primarily due to timing of payments), a

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decrease in other current liabilities (primarily due to timing of payments) and an increase in fuel inventory (primarily due to timing of fuel purchases and payments).

Defined benefit plan funding was \$93 million higher in 2018.

The decrease in cash from LKE's other operating activities was primarily driven by an increase in ARO expenditures.

(LG&E)

LG&E's cash provided by operating activities in 2018 decreased \$9 million compared with 2017.

Net income increased \$26 million between the periods and included a decrease in non-cash charges of \$32 million.

The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).

The increase in cash from changes in working capital was primarily driven by a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), an increase in taxes payable (primarily due to timing of payments) and a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017), partially offset by a decrease in other current liabilities (primarily due to timing of payments).

Defined benefit plan funding was \$54 million higher in 2018.

The decrease in cash from LG&E's other operating activities was primarily driven by an increase in ARO expenditures.

(KU)

KU's cash provided by operating activities in 2018 increased \$17 million compared with 2017.

Net income increased \$29 million between the periods and included a decrease in non-cash charges of \$51 million.

The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).

The increase in cash from changes in working capital was primarily driven by a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), an increase in taxes payable (primarily due to timing of payments), an increase in accounts payable (primarily due to timing of payments) and a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017), partially offset by a decrease in other current liabilities (primarily due to timing of payments) and an increase in fuel inventory (primarily due to timing of fuel purchases and payments).

Defined benefit plan funding was \$31 million higher in 2018.

The decrease in cash from KU's other operating activities was primarily driven by an increase in ARO expenditures.

Investing Activities

(All Registrants)

Expenditures for Property, Plant and Equipment

Investment in PP&E is the primary investing activity of the Registrants. The change in cash used in expenditures for PP&E for the six months ended June 30, 2018 compared with 2017 was as follows.

|                     | PPL     | PPL<br>Electric | LKE     | LG&E    | KU     |
|---------------------|---------|-----------------|---------|---------|--------|
| Decrease (Increase) | \$(154) | \$ 32           | \$(209) | \$(119) | \$(89) |

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For PPL, the increase in expenditures was due to higher project expenditures at LKE, LG&E and KU partially offset by lower project expenditures at PPL Electric and WPD. The decrease in expenditures for PPL Electric was primarily due to timing differences on capital spending projects related to the ongoing efforts to improve reliability and replace aging infrastructure. The decrease in expenditures at WPD was primarily due to a decrease in expenditures to enhance system reliability partially offset by an increase in foreign currency exchange rates. The increase in expenditures for LKE, LG&E and KU was primarily due to increased spending for environmental water projects at LG&E's Mill Creek and Trimble County plants and increased spending for environmental water projects at KU's Ghent plant.

## Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the six months ended June 30, 2018 compared with 2017 were as follows.

|  | PPL     | PPL<br>Electric | LKE    | LG&E   | KU    |
|--|---------|-----------------|--------|--------|-------|
| Change - Cash Provided (Used)                |         |                 |        |        |       |
| Debt issuance/retirement, net                | \$(200) | \$ (72 )        | \$ 100 | \$ 100 | \$—   |
| Debt issuance/retirement with affiliate, net |         | —               | 250    | —      | —     |
| Stock issuances/redemptions, net             | (30 )   | —               | —      | —      | —     |
| Dividends                                    | (29 )   | (68 )           | —      | 41     | (26 ) |
| Capital contributions/distributions, net     |         | (150 )          | 57     | 43     | 45    |
| Change in short-term debt, net               | 234     | 295             | (1 )   | (54 )  | 53    |
| Notes payable with affiliate                 |         | —               | (122 ) | —      | —     |
| Other financing activities                   | 9       | 1               | (1 )   | —      | —     |
| Total  | \$(16 ) | \$ 6            | \$ 283 | \$ 130 | \$ 72 |

See Note 8 to the Financial Statements in this Form 10-Q for information on 2018 short-term and long-term debt activity, equity transactions and PPL dividends. See Note 7 to the Financial Statements in the Registrants' 2017 Form 10-K for information on 2017 activity.

## 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 except for borrowings under LG&E's term loan agreement which are reflected in "Long-term debt" on the Balance Sheets. At June 30, 2018, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

## External

|                                       | Committed<br>Capacity | Borrowed | Letters of<br>Credit<br>and<br>Commercial<br>Paper<br>Issued | Unused<br>Capacity |
|---------------------------------------|-----------------------|----------|--|--------------------|
| PPL Capital Funding Credit Facilities | \$ 1,350              | \$ —     | \$ 1,019   | \$ 331             |

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|                                  |          |        |          |          |
|----------------------------------|----------|--------|----------|----------|
| PPL Electric Credit Facility     | 650      | —      | 1        | 649      |
| LKE Credit Facility              | 75       | —      | —        | 75       |
| LG&E Credit Facility             | 700      | 200    | 183      | 317      |
| KU Credit Facilities             | 598      | —      | 331      | 267      |
| Total LKE                        | 1,373    | 200    | 514      | 659      |
| Total U.S. Credit Facilities (a) | \$ 3,373 | \$ 200 | \$ 1,534 | \$ 1,639 |
| Total U.K. Credit Facilities (b) | £ 1,185  | £ 413  | £ —      | £ 772    |

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The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its (a) affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 7%, LKE - 18%, LG&E - 33% and KU - 37%.

The amounts borrowed at June 30, 2018 were a USD-denominated borrowing of \$200 million and (b) GBP-denominated borrowings which equated to \$349 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £150 million as of the date borrowed. At June 30, 2018, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.0 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 17% of the total committed capacity.

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

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

|                     | Committed<br>Capacity | Borrowed | Non-affiliate<br>Used<br>Capacity | Unused<br>Capacity |
|---------------------|-----------------------|----------|-----------------------------------|--------------------|
| LKE Credit Facility | \$ 300                | \$ 99    | \$                                | —\$ 201            |
| LG&E Money Pool (a) | 500                   | —        | 183                               | 317                |
| KU Money Pool (a)   | 500                   | —        | 133                               | 367                |

LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. (a) However, the FERC has issued a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

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

## Commercial Paper (All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at June 30, 2018:

|                     | Capacity | Commercial<br>Paper<br>Issuances | Unused<br>Capacity |
|---------------------|----------|----------------------------------|--------------------|
| PPL Capital Funding | \$ 1,000 | \$ 999                           | \$ 1               |
| PPL Electric        | 650      | —                                | 650                |
| LG&E                | 350      | 183                              | 167                |
| KU                  | 350      | 133                              | 217                |
| Total LKE           | 700      | 316                              | 384                |
| Total PPL           | \$ 2,350 | \$ 1,315                         | \$ 1,035           |

## Long-term Debt (All Registrants)

See Note 8 to the Financial Statements for information regarding the Registrants' long-term debt activities.

(PPL)

Equity Securities Activities

Equity Forward Contracts

In May 2018, PPL completed a registered underwritten public offering of 55 million shares of its common stock. In connection with that offering, the underwriters exercised an option to purchase 8.25 million additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Settlement of these forward sale agreements will occur no later than November

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2019. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes. See Note 8 to the Financial Statements for additional information.

### ATM Program

For the three and six months ended June 30, 2018, PPL issued 1.2 million and 4.2 million shares of common stock and received proceeds of \$34 million and \$119 million. See Note 8 to the Financial Statements for further discussion of the ATM program.

### Common Stock Dividends

In May 2018, PPL declared a quarterly common stock dividend, payable July 2, 2018, of 41.0 cents per share (equivalent to \$1.64 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

### Rating Agency Actions

#### (All Registrants)

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

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

The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. 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 rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2018:

#### (PPL)

In March 2018, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £30 million 0.01% Index-linked Senior Notes due 2036.

In May 2018, Moody's and S&P assigned ratings of Baa1 and A- to WPD (West Midlands)'s £30 million 0.01% Index-linked Senior Notes due 2028.

#### (PPL and PPL Electric)

In June 2018, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$400M 4.15% First Mortgage Bonds due 2048.

(PPL, LKE and LG&E)

In February 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's \$28 million 2.30% Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026, previously issued on behalf of LG&E.

In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's \$35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

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In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Jefferson, Kentucky's \$35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

### Ratings Triggers

(PPL, LKE, 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, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at June 30, 2018.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2017 Form 10-K.

### Risk Management

#### Market Risk

(All Registrants)

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

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

#### Interest Rate Risk

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

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The following interest rate hedges were outstanding at June 30, 2018.

|                          | Exposure Hedged | Fair Value, Net - Asset (Liability) (a) | Effect of a 10% Adverse Movement in Rates (b) | Maturities Ranging Through |
|--------------------------|-----------------|---|---|----------------------------|
| PPL                      |                 |   |   |                            |
| Cash flow hedges         |                 |   |   |                            |
| Cross-currency swaps (c) | \$ 702          | \$ 101                                  | \$ (81 )                                      | 2028                       |
| Economic hedges          |                 |   |   |                            |
| Interest rate swaps (d)  | 147             | (21 )                                   | (2 )  | 2033                       |
| LKE                      |                 |   |   |                            |
| Economic hedges          |                 |   |   |                            |
| Interest rate swaps (d)  | 147             | (21 )                                   | (2 )  | 2033                       |
| LG&E                     |                 |   |   |                            |
| Economic hedges          |                 |   |   |                            |
| Interest rate swaps (d)  | 147             | (21 )                                   | (2 )  | 2033                       |

(a) Includes accrued interest, if applicable.

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

(c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

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

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at June 30, 2018 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at June 30, 2018 is shown below.

|              | 10% Adverse Movement in Rates |
|--------------|-------------------------------|
| PPL          | \$ 658                        |
| PPL Electric | 193                           |
| LKE          | 177                           |
| LG&E         | 63                            |
| KU           | 94                            |

## Foreign Currency Risk (PPL)

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



The following foreign currency hedges were outstanding at June 30, 2018.

| Exposure Hedged             | Fair Value, Net - Asset (Liability) | Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a) | Maturities Ranging Through |
|-----------------------------|-------------------------------------|---|----------------------------|
| Economic hedges (b) £ 1,992 | \$ 110                              | \$ (244 )   | 2020                       |

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

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

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(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 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

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

WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2017 Form 10-K for additional information on revenue recognition under RIIO-ED1.

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

### Credit Risk (All Registrants)

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Risk Management - Credit Risk" in the Registrants' 2017 Form 10-K for additional information.

### Foreign Currency Translation (PPL)

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of \$143 million for the six months ended June 30, 2018, which primarily reflected a \$227 million decrease to PP&E, a \$45 million decrease to goodwill and a \$2 million increase to other net liabilities, partially offset by a \$131 million decrease to long-term debt. Changes in this exchange rate resulted in a foreign currency translation gain of \$207 million for the six months ended June 30, 2017, which primarily reflected a \$367 million increase to PP&E and \$79 million increase to goodwill partially offset by a \$216 million increase to long-term debt and a \$23 million increase to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

### Related Party Transactions (All Registrants)

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

### Acquisitions, Development and Divestitures (All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements in the Registrants' 2017 Form 10-K for information on the more significant activities.

Environmental Matters (All Registrants)

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be

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significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 10 to the Financial Statements for a discussion of the more significant environmental matters including Legal Matters, NAAQS, Climate Change, CCRs, and ELGs. Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2017 Form 10-K for additional information.

## New Accounting Guidance (All Registrants)

See Note 2 and 17 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

## Application of Critical Accounting Policies (All Registrants)

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2017 Form 10-K for a discussion of each critical accounting policy.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of June 30, 2018, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

• "Item 3. Legal Proceedings" in each Registrant's 2017 Form 10-K; and  
• Notes 7 and 10 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2017 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

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

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- \*1(a) - Final Terms, dated May 11, 2018, of Western Power Distribution (West Midlands) plc £30,000,000 RPI Index Linked Senior Unsecured Notes due March 2028
- 4(a) - Supplemental Indenture No. 20, dated as of June 1, 2018, of PPL Electric Utilities Corporation to The Bank of New York Mellon, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2018)
- 4(b) - Officer's Certificate, dated June 14, 2018, pursuant to Section 201 and Section 301 of the Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2018)
- 10(a) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(b) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(c) - Additional Confirmation of Forward Sale Transaction, dated May 10, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(d) - Additional Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- \*12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- \*12(b) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- \*12(c) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- \*12(d) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- \*12(e) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2018, filed by the following officers for the following companies:

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

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2018, furnished by the following officers for the following companies:

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





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

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SIGNATURES

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

PPL Corporation  
(Registrant)

Date: August 7, 2018 /s/ Stephen K. Breininger  
Stephen K. Breininger  
Vice President and Controller  
(Principal Accounting Officer)

PPL Electric Utilities Corporation  
(Registrant)

Date: August 7, 2018 /s/ Marlene C. Beers  
Marlene C. Beers  
Vice President - Finance and Regulatory Affairs and Controller  
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC  
(Registrant)

Louisville Gas and Electric Company  
(Registrant)

Kentucky Utilities Company  
(Registrant)

Date: August 7, 2018 /s/ Kent W. Blake  
Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

