

PPL Corp  
 Form 10-Q  
 November 01, 2017

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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 September 30, 2017

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, 688,464,316 shares outstanding at October 25, 2017.                                   |
| PPL Electric Utilities Corporation  | Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 25, 2017.        |
| 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 October 25, 2017. |
| Kentucky Utilities Company          | Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2017. |

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 CORPORATION  
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 SEPTEMBER 30, 2017

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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 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, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015, PPL WPD Limited is now 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, a direct 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-utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2016 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2016.

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

Act 129 - Act 129 of 2008 that became effective in October 2008. The law 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.

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.

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.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - PPL's at-the-market common stock offering program.

BSER - Best System of Emission Reduction. The degree of emission reduction the EPA determines has been adequately demonstrated when taking into account the cost of achieving such reduction and any non-air quality health and environmental impact and energy requirements.

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.

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.

Distribution Automation - advanced grid intelligence enabling LG&E and KU to perform remote monitoring and control, circuit segmentation and "self-healing" of select distribution system circuits, improving grid reliability and efficiency.

DNO - Distribution Network Operator in the U.K.

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

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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.

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.

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.

LCIDA - Lehigh County Industrial Development Authority.

LIBOR - London Interbank Offered Rate.



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).

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

MW - megawatt, one thousand kilowatts.

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

NERC - North American Electric Reliability Corporation.

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

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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 summer rating capacities of 2,120 MW.

Performance Unit - A 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 total shareholder return over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index.

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 are 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.

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.

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

S&P - S&P Global Ratings, a credit rating agency.

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

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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.

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

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.

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 2016 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 from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue filings;
- changes in U.S. or U.K. tax laws or regulations;
- 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;
- the March 29, 2017 notification by the U.K. to the European Council of the European Union of 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 unrecorded commitments and liabilities, if any, of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- 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<br>Ended September<br>30, |         | Nine Months<br>Ended<br>September 30, |         |
|---|--|---------|---------------------------------------|---------|
|   | 2017                                   | 2016    | 2017                                  | 2016    |
| Operating Revenues  | \$1,845                                | \$1,889 | \$5,521                               | \$5,685 |
| Operating Expenses  |  |         |                                       |         |
| Operation   |  |         |                                       |         |
| Fuel  | 202                                    | 227     | 576                                   | 607     |
| Energy purchases  | 143                                    | 151     | 494                                   | 531     |
| Other operation and maintenance                                       | 397                                    | 417     | 1,217                                 | 1,292   |
| Depreciation  | 257                                    | 232     | 745                                   | 692     |
| Taxes, other than income  | 69                                     | 76      | 214                                   | 229     |
| Total Operating Expenses  | 1,068                                  | 1,103   | 3,246                                 | 3,351   |
| Operating Income  | 777                                    | 786     | 2,275                                 | 2,334   |
| Other Income (Expense) - net  | (76                                    | ) 49    | (235                                  | ) 284   |
| Interest Expense  | 230                                    | 223     | 669                                   | 671     |
| Income Before Income Taxes  | 471                                    | 612     | 1,371                                 | 1,947   |
| Income Taxes  | 116                                    | 139     | 321                                   | 510     |
| Net Income  | \$355                                  | \$473   | \$1,050                               | \$1,437 |
| Earnings Per Share of Common Stock:                                   |  |         |                                       |         |
| Net Income Available to PPL Common Shareowners:                       |  |         |                                       |         |
| Basic   | \$0.52                                 | \$0.70  | \$1.53                                | \$2.12  |
| Diluted   | \$0.51                                 | \$0.69  | \$1.53                                | \$2.11  |
| Dividends Declared Per Share of Common Stock                          | \$0.3950                               | \$0.38  | \$1.185                               | \$1.14  |
| Weighted-Average Shares of Common Stock Outstanding<br>(in thousands) |  |         |                                       |         |
| Basic   | 686,563                                | 678,114 | 683,783                               | 676,905 |
| Diluted   | 688,746                                | 680,348 | 686,081                               | 679,969 |

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 (LOSS)

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|   | Three Months<br>Ended<br>September 30,<br>2017 |         | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|---|--|---------|---|---------|
| Net income  | \$355  | \$473   | \$1,050                                       | \$1,437 |
| Other comprehensive income (loss):  |  |         |   |         |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit:     |  |         |   |         |
| Foreign currency translation adjustments, net of tax of \$0, (\$2), (\$1), (\$4)      | (12 )  | (641 )  | 195   | (837 )  |
| Qualifying derivatives, net of tax of \$0, (\$16), \$7, (\$9)                         | 1  | 62      | (29 )   | 57      |
| Defined benefit plans:  |  |         |   |         |
| Net actuarial gain (loss), net of tax of \$2, \$4, \$9, \$3                           | (3 )   | (6 )    | (14 )   | (4 )    |
| Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):           |  |         |   |         |
| Qualifying derivatives, net of tax of \$1, \$17, (\$6), \$15                          | —  | (69 )   | 24  | (62 )   |
| 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 (\$1), (\$1), (\$1), (\$1)                         | —  | —       | 1   | 1       |
| Net actuarial (gain) loss, net of tax of (\$10), (\$10), (\$28), (\$27)               | 34   | 31      | 97  | 94      |
| Total other comprehensive income (loss)   | 20   | (623 )  | 275   | (752 )  |
| Comprehensive income (loss)   | \$375  | \$(150) | \$1,325                                       | \$685   |

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)

|  | Nine Months<br>Ended<br>September 30, |          |
|--|---------------------------------------|----------|
|  | 2017                                  | 2016     |
| <b>Cash Flows from Operating Activities</b>                                      |                                       |          |
| Net income   | \$1,050                               | \$1,437  |
| Adjustments to reconcile net income to net cash provided by operating activities |                                       |          |
| Depreciation   | 745                                   | 692      |
| Amortization   | 72                                    | 54       |
| Defined benefit plans - expense (income)   | (69 )                                 | (29 )    |
| Deferred income taxes and investment tax credits                                 | 284                                   | 436      |
| Unrealized (gains) losses on derivatives, and other hedging activities           | 194                                   | 107      |
| Stock-based compensation expense   | 30                                    | 23       |
| Other  | (8 )                                  | (12 )    |
| Change in current assets and current liabilities                                 |                                       |          |
| Accounts receivable  | 25                                    | (29 )    |
| Accounts payable   | (93 )                                 | (40 )    |
| Unbilled revenues  | 81                                    | 32       |
| Fuel, materials and supplies   | 35                                    | 8        |
| Prepayments  | (37 )                                 | (34 )    |
| Taxes payable  | 6                                     | 40       |
| Regulatory assets and liabilities, net   | (3 )                                  | (32 )    |
| Accrued interest   | 49                                    | 32       |
| Other current liabilities  | (53 )                                 | (48 )    |
| Other  | 5                                     | (5 )     |
| Other operating activities   |                                       |          |
| Defined benefit plans - funding  | (558 )                                | (345 )   |
| Other assets   | 4                                     | 18       |
| Other liabilities  | (5 )                                  | (75 )    |
| Net cash provided by operating activities  | 1,754                                 | 2,230    |
| <b>Cash Flows from Investing Activities</b>                                      |                                       |          |
| Expenditures for property, plant and equipment                                   | (2,152 )                              | (2,073 ) |
| Expenditures for intangible assets   | (25 )                                 | (23 )    |
| Other investing activities   | 13                                    | 30       |
| Net cash used in investing activities  | (2,164 )                              | (2,066 ) |
| <b>Cash Flows from Financing Activities</b>                                      |                                       |          |
| Issuance of long-term debt   | 1,088                                 | 1,241    |
| Retirement of long-term debt   | (60 )                                 | (905 )   |
| Settlement of cross-currency swaps   | —                                     | 46       |
| Issuance of common stock   | 275                                   | 133      |
| Payment of common stock dividends  | (800 )                                | (772 )   |
| Net increase (decrease) in short-term debt                                       | 269                                   | (268 )   |
| Other financing activities   | (34 )                                 | (33 )    |
| Net cash provided by (used in) financing activities                              | 738                                   | (558 )   |

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|   |       |        |
|---|-------|--------|
| Effect of Exchange Rates on Cash and Cash Equivalents | 7     | (26 )  |
| Net Increase (Decrease) in Cash and Cash Equivalents  | 335   | (420 ) |
| Cash and Cash Equivalents at Beginning of Period      | 341   | 836    |
| Cash and Cash Equivalents at End of Period            | \$676 | \$416  |

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

|   |       |       |
|---|-------|-------|
| Accrued expenditures for property, plant and equipment at September 30, | \$373 | \$293 |
| Accrued expenditures for intangible assets at September 30,             | \$60  | \$104 |

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)

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current Assets   |                       |                      |
| Cash and cash equivalents  | \$ 676                | \$ 341               |
| Accounts receivable (less reserve: 2017, \$52; 2016, \$54)                   |                       |                      |
| Customer   | 617                   | 666                  |
| Other  | 96                    | 46                   |
| Unbilled revenues  | 405                   | 480                  |
| Fuel, materials and supplies   | 323                   | 356                  |
| Prepayments  | 101                   | 63                   |
| Price risk management assets   | 57                    | 63                   |
| Other current assets   | 56                    | 52                   |
| Total Current Assets   | 2,331                 | 2,067                |
| Property, Plant and Equipment  |                       |                      |
| Regulated utility plant  | 36,678                | 34,674               |
| Less: accumulated depreciation - regulated utility plant                     | 6,624                 | 6,013                |
| Regulated utility plant, net   | 30,054                | 28,661               |
| Non-regulated property, plant and equipment                                  | 422                   | 413                  |
| Less: accumulated depreciation - non-regulated property, plant and equipment | 154                   | 134                  |
| Non-regulated property, plant and equipment, net                             | 268                   | 279                  |
| Construction work in progress  | 1,494                 | 1,134                |
| Property, Plant and Equipment, net   | 31,816                | 30,074               |
| Other Noncurrent Assets  |                       |                      |
| Regulatory assets  | 1,869                 | 1,918                |
| Goodwill   | 3,134                 | 3,060                |
| Other intangibles  | 666                   | 700                  |
| Pension benefit asset  | 532                   | 9                    |
| Price risk management assets   | 267                   | 336                  |
| Other noncurrent assets  | 143                   | 151                  |
| Total Other Noncurrent Assets  | 6,611                 | 6,174                |
| Total Assets   | \$ 40,758             | \$ 38,315            |

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)

|   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Liabilities and Equity                                  |                       |                      |
| Current Liabilities                                     |                       |                      |
| Short-term debt   | \$ 1,211              | \$ 923               |
| Long-term debt due within one year                      | 448                   | 518                  |
| Accounts payable  | 838                   | 820                  |
| Taxes   | 110                   | 101                  |
| Interest  | 322                   | 270                  |
| Dividends   | 272                   | 259                  |
| Customer deposits                                       | 291                   | 276                  |
| Regulatory liabilities                                  | 87                    | 101                  |
| Other current liabilities                               | 570                   | 569                  |
| Total Current Liabilities                               | 4,149                 | 3,837                |
| Long-term Debt  | 19,110                | 17,808               |
| Deferred Credits and Other Noncurrent Liabilities       |                       |                      |
| Deferred income taxes                                   | 4,224                 | 3,889                |
| Investment tax credits                                  | 130                   | 132                  |
| Accrued pension obligations                             | 796                   | 1,001                |
| Asset retirement obligations                            | 312                   | 428                  |
| Regulatory liabilities                                  | 873                   | 899                  |
| Other deferred credits and noncurrent liabilities       | 472                   | 422                  |
| Total Deferred Credits and Other Noncurrent Liabilities | 6,807                 | 6,771                |
| Commitments and Contingent Liabilities (Notes 6 and 9)  |                       |                      |
| Equity  |                       |                      |
| Common stock - \$0.01 par value (a)                     | 7                     | 7                    |
| Additional paid-in capital                              | 10,122                | 9,841                |
| Earnings reinvested                                     | 4,066                 | 3,829                |
| Accumulated other comprehensive loss                    | (3,503                | ) (3,778             |
| Total Equity  | 10,692                | 9,899                |
| Total Liabilities and Equity                            | \$ 40,758             | \$ 38,315            |

(a) 1,560,000 shares authorized; 688,133 and 679,731 shares issued and outstanding at September 30, 2017 and December 31, 2016.

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, 2016   | 679,731   | \$ 7            | \$ 9,841                         | \$ 3,829               | \$ (3,778 )                                   | \$ 9,899  |
| Common stock issued   | 8,402   |                 | 303                              |                        |   | 303       |
| Stock-based compensation  |   |                 | (22 )                            |                        |   | (22 )     |
| Net income  |   |                 |                                  | 1,050                  |   | 1,050     |
| Dividends and dividend equivalents  |   |                 |                                  | (813 )                 |   | (813 )    |
| Other comprehensive income (loss)   |   |                 |                                  |                        | 275   | 275       |
| September 30, 2017  | 688,133   | \$ 7            | \$ 10,122                        | \$ 4,066               | \$ (3,503 )                                   | \$ 10,692 |
| December 31, 2015   | 673,857   | \$ 7            | \$ 9,687                         | \$ 2,953               | \$ (2,728 )                                   | \$ 9,919  |
| Common stock issued   | 5,411   |                 | 168                              |                        |   | 168       |
| Stock-based compensation  |   |                 | (31 )                            |                        |   | (31 )     |
| Net income  |   |                 |                                  | 1,437                  |   | 1,437     |
| Dividends and dividend equivalents  |   |                 |                                  | (773 )                 |   | (773 )    |
| Other comprehensive income (loss)   |   |                 |                                  |                        | (752 )  | (752 )    |
| Adoption of stock-based compensation guidance<br>cumulative effect adjustment |   |                 |                                  | 7                      |   | 7         |
| September 30, 2016  | 679,268   | \$ 7            | \$ 9,824                         | \$ 3,624               | \$ (3,480 )                                   | \$ 9,975  |

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' 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<br>September<br>30, |       | Nine Months<br>Ended<br>September 30, |         |
|---------------------------------|--|-------|---------------------------------------|---------|
|                                 | 2017   | 2016  | 2017                                  | 2016    |
| Operating Revenues              | \$547  | \$539 | \$1,620                               | \$1,619 |
| Operating Expenses              |  |       |                                       |         |
| Operation                       |  |       |                                       |         |
| Energy purchases                | 121  | 129   | 374                                   | 414     |
| Other operation and maintenance | 133  | 144   | 435                                   | 431     |
| Depreciation                    | 77   | 64    | 228                                   | 185     |
| Taxes, other than income        | 27   | 26    | 79                                    | 79      |
| Total Operating Expenses        | 358  | 363   | 1,116                                 | 1,109   |
| Operating Income                | 189  | 176   | 504                                   | 510     |
| Other Income (Expense) - net    | 4  | 4     | 8                                     | 12      |
| Interest Income from Affiliate  | 2  | —     | 3                                     | —       |
| Interest Expense                | 36   | 32    | 105                                   | 97      |
| Income Before Income Taxes      | 159  | 148   | 410                                   | 425     |
| Income Taxes                    | 64   | 58    | 159                                   | 162     |
| Net Income (a)                  | \$95   | \$90  | \$251                                 | \$263   |

(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)

|  | Nine Months<br>Ended<br>September<br>30,<br>2017 2016 |        |
|--|---|--------|
| <b>Cash Flows from Operating Activities</b>                                      |   |        |
| Net income   | \$251   | \$263  |
| Adjustments to reconcile net income to net cash provided by operating activities |   |        |
| Depreciation   | 228   | 185    |
| Amortization   | 25  | 19     |
| Defined benefit plans - expense  | 10  | 9      |
| Deferred income taxes and investment tax credits                                 | 129   | 151    |
| Other  | (8 )  | (14 )  |
| Change in current assets and current liabilities                                 |   |        |
| Accounts receivable  | 7   | (6 )   |
| Accounts payable   | (38 )   | (1 )   |
| Unbilled revenues  | 30  | 10     |
| Prepayments  | (31 )   | 29     |
| Regulatory assets and liabilities, net   | —   | (41 )  |
| Taxes payable  | 10  | (6 )   |
| Other  | (9 )  | (13 )  |
| Other operating activities   |   |        |
| Defined benefit plans - funding  | (24 )   | —      |
| Other assets   | (2 )  | 15     |
| Other liabilities  | (3 )  | (5 )   |
| Net cash provided by operating activities  | 575   | 595    |
| <b>Cash Flows from Investing Activities</b>                                      |   |        |
| Expenditures for property, plant and equipment                                   | (851 )  | (739 ) |
| Expenditures for intangible assets   | (7 )  | (3 )   |
| Net increase in notes receivable from affiliate                                  | (2 )  | —      |
| Other investing activities   | 2   | 2      |
| Net cash used in investing activities  | (858 )  | (740 ) |
| <b>Cash Flows from Financing Activities</b>                                      |   |        |
| Issuance of long-term debt   | 470   | 224    |
| Retirement of long-term debt   | —   | (224 ) |
| Contributions from parent  | 575   | 200    |
| Payment of common stock dividends to parent                                      | (231 )  | (193 ) |
| Net increase (decrease) in short-term debt                                       | (295 )  | 130    |
| Other financing activities   | (6 )  | (3 )   |
| Net cash provided by financing activities  | 513   | 134    |
| Net Increase (Decrease) in Cash and Cash Equivalents                             | 230   | (11 )  |

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|  |       |      |
|--|-------|------|
| Cash and Cash Equivalents at Beginning of Period | 13    | 47   |
| Cash and Cash Equivalents at End of Period       | \$243 | \$36 |

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

|   |       |       |
|---|-------|-------|
| Accrued expenditures for property, plant and equipment at September 30, | \$190 | \$166 |
|---|-------|-------|

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)

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current Assets   |                       |                      |
| Cash and cash equivalents                                  | \$ 243                | \$ 13                |
| Accounts receivable (less reserve: 2017, \$25; 2016, \$28) |                       |                      |
| Customer   | 275                   | 272                  |
| Other  | 10                    | 21                   |
| Accounts receivable from affiliates                        | 1                     | —                    |
| Notes receivable from affiliate                            | 2                     | —                    |
| Unbilled revenues  | 84                    | 114                  |
| Materials and supplies                                     | 31                    | 32                   |
| Prepayments  | 40                    | 9                    |
| Regulatory assets  | 14                    | 19                   |
| Other current assets                                       | 11                    | 8                    |
| Total Current Assets                                       | 711                   | 488                  |
| Property, Plant and Equipment                              |                       |                      |
| Regulated utility plant                                    | 10,449                | 9,654                |
| Less: accumulated depreciation - regulated utility plant   | 2,880                 | 2,714                |
| Regulated utility plant, net                               | 7,569                 | 6,940                |
| Construction work in progress                              | 699                   | 641                  |
| Property, Plant and Equipment, net                         | 8,268                 | 7,581                |
| Other Noncurrent Assets                                    |                       |                      |
| Regulatory assets  | 1,073                 | 1,094                |
| Intangibles  | 256                   | 251                  |
| Other noncurrent assets                                    | 15                    | 12                   |
| Total Other Noncurrent Assets                              | 1,344                 | 1,357                |
| Total Assets   | \$ 10,323             | \$ 9,426             |

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)

|   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Liabilities and Equity                                  |                       |                      |
| Current Liabilities                                     |                       |                      |
| Short-term debt   | \$ —                  | \$ 295               |
| Long-term debt due within one year                      | —                     | 224                  |
| Accounts payable  | 397                   | 367                  |
| Accounts payable to affiliates                          | 38                    | 42                   |
| Taxes   | 22                    | 12                   |
| Interest  | 38                    | 34                   |
| Regulatory liabilities                                  | 72                    | 83                   |
| Other current liabilities                               | 90                    | 101                  |
| Total Current Liabilities                               | 657                   | 1,158                |
| Long-term Debt  | 3,298                 | 2,607                |
| Deferred Credits and Other Noncurrent Liabilities       |                       |                      |
| Deferred income taxes                                   | 2,036                 | 1,899                |
| Accrued pension obligations                             | 257                   | 281                  |
| Other deferred credits and noncurrent liabilities       | 89                    | 90                   |
| Total Deferred Credits and Other Noncurrent Liabilities | 2,382                 | 2,270                |
| Commitments and Contingent Liabilities (Notes 6 and 9)  |                       |                      |
| Equity  |                       |                      |
| Common stock - no par value (a)                         | 364                   | 364                  |
| Additional paid-in capital                              | 2,729                 | 2,154                |
| Earnings reinvested                                     | 893                   | 873                  |
| Total Equity  | 3,986                 | 3,391                |
| Total Liabilities and Equity                            | \$ 10,323             | \$ 9,426             |

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2017 and December 31, 2016.

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, 2016                  | 66,368  | \$ 364          | \$ 2,154                         | \$ 873                 | \$3,391 |
| Net income                         |   |                 |                                  | 251                    | 251     |
| Capital contributions from PPL     |   |                 | 575                              |                        | 575     |
| Dividends declared on common stock |   |                 |                                  | (231 )                 | (231 )  |
| September 30, 2017                 | 66,368  | \$ 364          | \$ 2,729                         | \$ 893                 | \$3,986 |
| December 31, 2015                  | 66,368  | \$ 364          | \$ 1,934                         | \$ 821                 | \$3,119 |
| Net income                         |   |                 |                                  | 263                    | 263     |
| Capital contributions from PPL     |   |                 | 200                              |                        | 200     |
| Dividends declared on common stock |   |                 |                                  | (193 )                 | (193 )  |
| September 30, 2016                 | 66,368  | \$ 364          | \$ 2,134                         | \$ 891                 | \$3,389 |

(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<br>September<br>30,<br>2017 |       | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|---------------------------------|--|-------|---|---------|
|                                 | 2017   | 2016  | 2017  | 2016    |
| Operating Revenues              | \$818  | \$835 | \$2,350                                       | \$2,382 |
| Operating Expenses              |  |       |   |         |
| Operation                       |  |       |   |         |
| Fuel                            | 202  | 227   | 576   | 607     |
| Energy purchases                | 22   | 24    | 120   | 118     |
| Other operation and maintenance | 199  | 197   | 598   | 603     |
| Depreciation                    | 114  | 102   | 324   | 301     |
| Taxes, other than income        | 17   | 16    | 49  | 46      |
| Total Operating Expenses        | 554  | 566   | 1,667   | 1,675   |
| Operating Income                | 264  | 269   | 683   | 707     |
| Other Income (Expense) - net    | 1  | (3 )  | (5 )  | (9 )    |
| Interest Expense                | 49   | 50    | 148   | 147     |
| Interest Expense with Affiliate | 5  | 4     | 13  | 12      |
| Income Before Income Taxes      | 211  | 212   | 517   | 539     |
| Income Taxes                    | 79   | 79    | 195   | 202     |
| Net Income                      | \$132  | \$133 | \$322   | \$337   |

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>September<br>30, |       | Nine Months<br>Ended<br>September<br>30, |       |
|---|--|-------|--|-------|
|   | 2017   | 2016  | 2017                                     | 2016  |
| Net income  | \$132  | \$133 | \$322                                    | \$337 |
| 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, \$0, \$7, (\$1)                         | (1 )   | —     | (12 )                                    | 1     |
| 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  | (1 )  |
| Defined benefit plans:  |  |       |  |       |
| Prior service costs, net of tax of (\$1), (\$1), (\$1), (\$1)                         | —  | —     | 1  | 1     |
| Net actuarial loss, net of tax of \$0, \$0, (\$2), (\$1)                              | 1  | 1     | 3  | 3     |
| Total other comprehensive income (loss)   | —  | 1     | (7 )                                     | 4     |
| Comprehensive income  | \$132  | \$134 | \$315                                    | \$341 |

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)

|  | Nine Months<br>Ended<br>September<br>30,<br>2017 2016 |        |
|--|---|--------|
| Cash Flows from Operating Activities   |   |        |
| Net income   | \$322   | \$337  |
| Adjustments to reconcile net income to net cash provided by operating activities |   |        |
| Depreciation   | 324   | 301    |
| Amortization   | 19  | 21     |
| Defined benefit plans - expense  | 19  | 20     |
| Deferred income taxes and investment tax credits                                 | 173   | 212    |
| Other  | 1   | —      |
| Change in current assets and current liabilities                                 |   |        |
| Accounts receivable  | 18  | (43 )  |
| Accounts payable   | (30 )   | 7      |
| Accounts payable to affiliates   | 3   | 4      |
| Unbilled revenues  | 19  | 6      |
| Fuel, materials and supplies   | 34  | 7      |
| Taxes payable  | 13  | —      |
| Accrued interest   | 41  | 42     |
| Other  | (1 )  | (4 )   |
| Other operating activities   |   |        |
| Defined benefit plans - funding  | (32 )   | (82 )  |
| Expenditures for asset retirement obligations                                    | (22 )   | (15 )  |
| Other assets   | 5   | 1      |
| Other liabilities  | 14  | 2      |
| Net cash provided by operating activities  | 920   | 816    |
| Cash Flows from Investing Activities   |   |        |
| Expenditures for property, plant and equipment                                   | (579 )  | (600 ) |
| Other investing activities   | 4   | 1      |
| Net cash used in investing activities  | (575 )  | (599 ) |
| Cash Flows from Financing Activities   |   |        |
| Net increase (decrease) in notes payable with affiliate                          | (4 )  | 84     |
| Issuance of long-term debt   | 60  | 221    |
| Retirement of long-term debt   | (60 )   | (221 ) |
| Net increase (decrease) in short-term debt                                       | 5   | (130 ) |
| Debt issuance and credit facility costs  | (3 )  | (3 )   |
| Distributions to member  | (316 )  | (224 ) |
| Contributions from member  | —   | 37     |
| Net cash used in financing activities  | (318 )  | (236 ) |
| Net Increase (Decrease) in Cash and Cash Equivalents                             | 27  | (19 )  |
| Cash and Cash Equivalents at Beginning of Period                                 | 13  | 30     |
| Cash and Cash Equivalents at End of Period                                       | \$40  | \$11   |

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,                      \$142    \$86

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)

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current Assets   |                       |                      |
| Cash and cash equivalents                                  | \$ 40                 | \$ 13                |
| Accounts receivable (less reserve: 2017, \$25; 2016, \$24) |                       |                      |
| Customer   | 215                   | 235                  |
| Other  | 43                    | 17                   |
| Accounts receivable from affiliates                        | 1                     | —                    |
| Unbilled revenues  | 151                   | 170                  |
| Fuel, materials and supplies                               | 264                   | 297                  |
| Prepayments  | 27                    | 24                   |
| Regulatory assets  | 20                    | 20                   |
| Other current assets                                       | 8                     | 4                    |
| Total Current Assets                                       | 769                   | 780                  |
| Property, Plant and Equipment                              |                       |                      |
| Regulated utility plant                                    | 12,906                | 12,746               |
| Less: accumulated depreciation - regulated utility plant   | 1,685                 | 1,465                |
| Regulated utility plant, net                               | 11,221                | 11,281               |
| Construction work in progress                              | 574                   | 317                  |
| Property, Plant and Equipment, net                         | 11,795                | 11,598               |
| Other Noncurrent Assets                                    |                       |                      |
| Regulatory assets  | 796                   | 824                  |
| Goodwill   | 996                   | 996                  |
| Other intangibles  | 88                    | 95                   |
| Other noncurrent assets                                    | 71                    | 78                   |
| Total Other Noncurrent Assets                              | 1,951                 | 1,993                |
| Total Assets   | \$ 14,515             | \$ 14,371            |

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)

|   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Liabilities and Equity                                  |                       |                      |
| Current Liabilities                                     |                       |                      |
| Short-term debt   | \$ 190                | \$ 185               |
| Long-term debt due within one year                      | 98                    | 194                  |
| Notes payable with affiliate                            | 159                   | 163                  |
| Accounts payable  | 283                   | 251                  |
| Accounts payable to affiliates                          | 8                     | 6                    |
| Customer deposits                                       | 57                    | 56                   |
| Taxes   | 52                    | 39                   |
| Price risk management liabilities                       | 5                     | 4                    |
| Regulatory liabilities                                  | 15                    | 18                   |
| Interest  | 73                    | 32                   |
| Asset retirement obligations                            | 94                    | 60                   |
| Other current liabilities                               | 125                   | 119                  |
| Total Current Liabilities                               | 1,159                 | 1,127                |
| Long-term Debt  |                       |                      |
| Long-term debt  | 4,570                 | 4,471                |
| Long-term debt to affiliate                             | 400                   | 400                  |
| Total Long-term Debt                                    | 4,970                 | 4,871                |
| Deferred Credits and Other Noncurrent Liabilities       |                       |                      |
| Deferred income taxes                                   | 1,909                 | 1,735                |
| Investment tax credits                                  | 130                   | 132                  |
| Accrued pension obligations                             | 345                   | 350                  |
| Asset retirement obligations                            | 261                   | 373                  |
| Regulatory liabilities                                  | 873                   | 899                  |
| Price risk management liabilities                       | 24                    | 27                   |
| Other deferred credits and noncurrent liabilities       | 178                   | 190                  |
| Total Deferred Credits and Other Noncurrent Liabilities | 3,720                 | 3,706                |
| Commitments and Contingent Liabilities (Notes 6 and 9)  |                       |                      |
| Member's Equity   | 4,666                 | 4,667                |
| Total Liabilities and Equity                            | \$ 14,515             | \$ 14,371            |

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, 2016          | \$ 4,667           |
| Net income                 | 322                |
| Distributions to member    | (316 )             |
| Other comprehensive income | (7 )               |
| September 30, 2017         | \$ 4,666           |
| December 31, 2015          | \$ 4,517           |
| Net income                 | 337                |
| Contributions from member  | 37                 |
| Distributions to member    | (224 )             |
| Other comprehensive income | 4                  |
| September 30, 2016         | \$ 4,671           |

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<br>September<br>30,<br>2017 |       | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|---------------------------------|--|-------|---|---------|
| Operating Revenues              |  |       |   |         |
| Retail and wholesale            | \$361  | \$366 | \$1,055                                       | \$1,058 |
| Electric revenue from affiliate | 2  | 2     | 23  | 19      |
| Total Operating Revenues        | 363  | 368   | 1,078   | 1,077   |
| Operating Expenses              |  |       |   |         |
| Operation                       |  |       |   |         |
| Fuel                            | 76   | 86    | 225   | 233     |
| Energy purchases                | 18   | 19    | 107   | 104     |
| Energy purchases from affiliate | 3  | 5     | 8   | 10      |
| Other operation and maintenance | 89   | 85    | 262   | 264     |
| Depreciation                    | 47   | 43    | 136   | 126     |
| Taxes, other than income        | 8  | 9     | 25  | 24      |
| Total Operating Expenses        | 241  | 247   | 763   | 761     |
| Operating Income                | 122  | 121   | 315   | 316     |
| Other Income (Expense) - net    | (1 )   | (1 )  | (2 )  | (6 )    |
| Interest Expense                | 17   | 18    | 53  | 53      |
| Income Before Income Taxes      | 104  | 102   | 260   | 257     |
| Income Taxes                    | 39   | 39    | 99  | 98      |
| Net Income (a)                  | \$65   | \$63  | \$161   | \$159   |

(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)

|  | Nine Months<br>Ended<br>September<br>30,<br>2017 2016 |        |
|--|---|--------|
| Cash Flows from Operating Activities   |   |        |
| Net income   | \$161   | \$159  |
| Adjustments to reconcile net income to net cash provided by operating activities |   |        |
| Depreciation   | 136   | 126    |
| Amortization   | 11  | 10     |
| Defined benefit plans - expense  | 5   | 6      |
| Deferred income taxes and investment tax credits                                 | 96  | 117    |
| Change in current assets and current liabilities                                 |   |        |
| Accounts receivable  | 12  | (17 )  |
| Accounts receivable from affiliates  | 6   | (11 )  |
| Accounts payable   | (12 )   | 24     |
| Accounts payable to affiliates   | (10 )   | (6 )   |
| Unbilled revenues  | 11  | 10     |
| Fuel, materials and supplies   | 6   | 11     |
| Taxes payable  | (15 )   | —      |
| Accrued interest   | 12  | 13     |
| Other  | 6   | 1      |
| Other operating activities   |   |        |
| Defined benefit plans - funding  | (3 )  | (45 )  |
| Expenditures for asset retirement obligations                                    | (13 )   | (11 )  |
| Other assets   | 5   | (3 )   |
| Other liabilities  | 4   | (1 )   |
| Net cash provided by operating activities  | 418   | 383    |
| Cash Flows from Investing Activities   |   |        |
| Expenditures for property, plant and equipment                                   | (293 )  | (343 ) |
| Net cash used in investing activities  | (293 )  | (343 ) |
| Cash Flows from Financing Activities   |   |        |
| Net increase in notes payable with affiliates                                    | 10  | —      |
| Issuance of long-term debt   | 60  | 125    |
| Retirement of long-term debt   | (60 )   | (125 ) |
| Net increase (decrease) in short-term debt                                       | 21  | (14 )  |
| Debt issuance and credit facility costs  | (2 )  | (1 )   |
| Payment of common stock dividends to parent                                      | (150 )  | (87 )  |
| Contributions from parent  | —   | 47     |
| Net cash used in financing activities  | (121 )  | (55 )  |
| Net Increase (Decrease) in Cash and Cash Equivalents                             | 4   | (15 )  |
| Cash and Cash Equivalents at Beginning of Period                                 | 5   | 19     |
| Cash and Cash Equivalents at End of Period                                       | \$9   | \$4    |

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,                      \$83    \$46

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)

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current Assets   |                       |                      |
| Cash and cash equivalents                                | \$ 9                  | \$ 5                 |
| Accounts receivable (less reserve: 2017, \$1; 2016, \$2) |                       |                      |
| Customer   | 96                    | 109                  |
| Other  | 14                    | 11                   |
| Accounts receivable from affiliates                      | 22                    | 28                   |
| Unbilled revenues  | 64                    | 75                   |
| Fuel, materials and supplies                             | 137                   | 143                  |
| Prepayments  | 15                    | 12                   |
| Regulatory assets  | 11                    | 9                    |
| Other current assets                                     | 2                     | 1                    |
| Total Current Assets                                     | 370                   | 393                  |
| Property, Plant and Equipment                            |                       |                      |
| Regulated utility plant                                  | 5,447                 | 5,357                |
| Less: accumulated depreciation - regulated utility plant | 575                   | 498                  |
| Regulated utility plant, net                             | 4,872                 | 4,859                |
| Construction work in progress                            | 279                   | 133                  |
| Property, Plant and Equipment, net                       | 5,151                 | 4,992                |
| Other Noncurrent Assets                                  |                       |                      |
| Regulatory assets  | 413                   | 450                  |
| Goodwill   | 389                   | 389                  |
| Other intangibles  | 54                    | 59                   |
| Other noncurrent assets                                  | 13                    | 17                   |
| Total Other Noncurrent Assets                            | 869                   | 915                  |
| Total Assets   | \$ 6,390              | \$ 6,300             |

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)

|   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Liabilities and Equity                                  |                       |                      |
| Current Liabilities                                     |                       |                      |
| Short-term debt   | \$ 190                | \$ 169               |
| Long-term debt due within one year                      | 98                    | 194                  |
| Notes payable with affiliate                            | 10                    | —                    |
| Accounts payable  | 166                   | 148                  |
| Accounts payable to affiliates                          | 17                    | 26                   |
| Customer deposits                                       | 27                    | 27                   |
| Taxes   | 25                    | 40                   |
| Price risk management liabilities                       | 5                     | 4                    |
| Regulatory liabilities                                  | 5                     | 5                    |
| Interest  | 23                    | 11                   |
| Asset retirement obligations                            | 33                    | 41                   |
| Other current liabilities                               | 46                    | 36                   |
| Total Current Liabilities                               | 645                   | 701                  |
| Long-term Debt  | 1,521                 | 1,423                |
| Deferred Credits and Other Noncurrent Liabilities       |                       |                      |
| Deferred income taxes                                   | 1,073                 | 974                  |
| Investment tax credits                                  | 36                    | 36                   |
| Accrued pension obligations                             | 47                    | 53                   |
| Asset retirement obligations                            | 85                    | 104                  |
| Regulatory liabilities                                  | 388                   | 419                  |
| Price risk management liabilities                       | 24                    | 27                   |
| Other deferred credits and noncurrent liabilities       | 84                    | 87                   |
| Total Deferred Credits and Other Noncurrent Liabilities | 1,737                 | 1,700                |
| Commitments and Contingent Liabilities (Notes 6 and 9)  |                       |                      |
| Stockholder's Equity                                    |                       |                      |
| Common stock - no par value (a)                         | 424                   | 424                  |
| Additional paid-in capital                              | 1,682                 | 1,682                |
| Earnings reinvested                                     | 381                   | 370                  |
| Total Equity  | 2,487                 | 2,476                |
| Total Liabilities and Equity                            | \$ 6,390              | \$ 6,300             |

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2017 and December 31, 2016.

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, 2016                       | 21,294  | \$ 424          | \$ 1,682                         | \$ 370                 | \$2,476 |
| Net income                              |   |                 |                                  | 161                    | 161     |
| Cash dividends declared on common stock |   |                 |                                  | (150 )                 | (150 )  |
| September 30, 2017                      | 21,294  | \$ 424          | \$ 1,682                         | \$ 381                 | \$2,487 |
| December 31, 2015                       | 21,294  | \$ 424          | \$ 1,611                         | \$ 295                 | \$2,330 |
| Net income                              |   |                 |                                  | 159                    | 159     |
| Capital contributions from LKE          |   |                 | 47                               |                        | 47      |
| Cash dividends declared on common stock |   |                 |                                  | (87 )                  | (87 )   |
| September 30, 2016                      | 21,294  | \$ 424          | \$ 1,658                         | \$ 367                 | \$2,449 |

(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<br>September<br>30,<br>2017 |       | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|---------------------------------|--|-------|---|---------|
| Operating Revenues              |  |       |   |         |
| Retail and wholesale            | \$457  | \$469 | \$1,295                                       | \$1,324 |
| Electric revenue from affiliate | 3  | 5     | 8   | 10      |
| Total Operating Revenues        | 460  | 474   | 1,303   | 1,334   |
| Operating Expenses              |  |       |   |         |
| Operation                       |  |       |   |         |
| Fuel                            | 126  | 141   | 351   | 374     |
| Energy purchases                | 4  | 5     | 13  | 14      |
| Energy purchases from affiliate | 2  | 2     | 23  | 19      |
| Other operation and maintenance | 104  | 107   | 313   | 320     |
| Depreciation                    | 67   | 59    | 188   | 175     |
| Taxes, other than income        | 9  | 7     | 24  | 22      |
| Total Operating Expenses        | 312  | 321   | 912   | 924     |
| Operating Income                | 148  | 153   | 391   | 410     |
| Other Income (Expense) - net    | —  | (3 )  | (3 )  | (4 )    |
| Interest Expense                | 24   | 24    | 72  | 71      |
| Income Before Income Taxes      | 124  | 126   | 316   | 335     |
| Income Taxes                    | 47   | 48    | 120   | 128     |
| Net Income (a)                  | \$77   | \$78  | \$196   | \$207   |

(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)

|  | Nine Months<br>Ended<br>September<br>30,<br>2017 2016 |        |
|--|---|--------|
| Cash Flows from Operating Activities   |   |        |
| Net income   | \$ 196  | \$ 207 |
| Adjustments to reconcile net income to net cash provided by operating activities |   |        |
| Depreciation   | 188   | 175    |
| Amortization   | 7   | 10     |
| Defined benefit plans - expense  | 3   | 4      |
| Deferred income taxes and investment tax credits                                 | 116   | 122    |
| Other  | —   | (1 )   |
| Change in current assets and current liabilities                                 |   |        |
| Accounts receivable  | 6   | (24 )  |
| Accounts receivable from affiliates  | (1 )  | —      |
| Accounts payable   | (6 )  | (11 )  |
| Accounts payable to affiliates   | (16 )   | 2      |
| Unbilled revenues  | 8   | (4 )   |
| Fuel, materials and supplies   | 28  | (4 )   |
| Taxes payable  | (21 )   | —      |
| Accrued interest   | 22  | 22     |
| Other  | (6 )  | 2      |
| Other operating activities   |   |        |
| Defined benefit plans - funding  | (22 )   | (19 )  |
| Expenditures for asset retirement obligations                                    | (9 )  | (4 )   |
| Other assets   | —   | (4 )   |
| Other liabilities  | 8   | (4 )   |
| Net cash provided by operating activities  | 501   | 469    |
| Cash Flows from Investing Activities   |   |        |
| Expenditures for property, plant and equipment                                   | (283 )  | (255 ) |
| Net increase in notes receivable with affiliates                                 | (10 )   | —      |
| Other investing activities   | 4   | 1      |
| Net cash used in investing activities  | (289 )  | (254 ) |
| Cash Flows from Financing Activities   |   |        |
| Issuance of long-term debt   | —   | 96     |
| Retirement of long-term debt   | —   | (96 )  |
| Net decrease in short-term debt  | (16 )   | (41 )  |
| Debt issuance and credit facility costs  | (1 )  | (1 )   |
| Payment of common stock dividends to parent                                      | (171 )  | (197 ) |
| Contributions from parent  | —   | 20     |
| Net cash used in financing activities  | (188 )  | (219 ) |
| Net Increase (Decrease) in Cash and Cash Equivalents                             | 24  | (4 )   |

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|  |      |     |
|--|------|-----|
| Cash and Cash Equivalents at Beginning of Period | 7    | 11  |
| Cash and Cash Equivalents at End of Period       | \$31 | \$7 |

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

|   |      |      |
|---|------|------|
| Accrued expenditures for property, plant and equipment at September 30, | \$58 | \$40 |
|---|------|------|

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)

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current Assets   |                       |                      |
| Cash and cash equivalents                                | \$ 31                 | \$ 7                 |
| Accounts receivable (less reserve: 2017, \$1; 2016, \$2) |                       |                      |
| Customer   | 119                   | 126                  |
| Other  | 28                    | 5                    |
| Accounts receivable from affiliates                      | 1                     | —                    |
| Notes receivable from affiliate                          | 10                    | —                    |
| Unbilled revenues  | 87                    | 95                   |
| Fuel, materials and supplies                             | 127                   | 154                  |
| Prepayments  | 14                    | 12                   |
| Regulatory assets  | 9                     | 11                   |
| Other current assets                                     | 6                     | 3                    |
| Total Current Assets                                     | 432                   | 413                  |
| Property, Plant and Equipment                            |                       |                      |
| Regulated utility plant                                  | 7,452                 | 7,382                |
| Less: accumulated depreciation - regulated utility plant | 1,110                 | 965                  |
| Regulated utility plant, net                             | 6,342                 | 6,417                |
| Construction work in progress                            | 293                   | 181                  |
| Property, Plant and Equipment, net                       | 6,635                 | 6,598                |
| Other Noncurrent Assets                                  |                       |                      |
| Regulatory assets  | 383                   | 374                  |
| Goodwill   | 607                   | 607                  |
| Other intangibles  | 34                    | 36                   |
| Other noncurrent assets                                  | 55                    | 57                   |
| Total Other Noncurrent Assets                            | 1,079                 | 1,074                |
| Total Assets   | \$ 8,146              | \$ 8,085             |

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)

|   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Liabilities and Equity                                  |                       |                      |
| Current Liabilities                                     |                       |                      |
| Short-term debt   | \$ —                  | \$ 16                |
| Accounts payable  | 105                   | 78                   |
| Accounts payable to affiliates                          | 42                    | 56                   |
| Customer deposits                                       | 30                    | 29                   |
| Taxes   | 24                    | 45                   |
| Regulatory liabilities                                  | 10                    | 13                   |
| Interest  | 38                    | 16                   |
| Asset retirement obligations                            | 61                    | 19                   |
| Other current liabilities                               | 35                    | 36                   |
| Total Current Liabilities                               | 345                   | 308                  |
| Long-term Debt  | 2,328                 | 2,327                |
| Deferred Credits and Other Noncurrent Liabilities       |                       |                      |
| Deferred income taxes                                   | 1,289                 | 1,170                |
| Investment tax credits                                  | 94                    | 96                   |
| Accrued pension obligations                             | 37                    | 62                   |
| Asset retirement obligations                            | 176                   | 269                  |
| Regulatory liabilities                                  | 485                   | 480                  |
| Other deferred credits and noncurrent liabilities       | 43                    | 50                   |
| Total Deferred Credits and Other Noncurrent Liabilities | 2,124                 | 2,127                |
| Commitments and Contingent Liabilities (Notes 6 and 9)  |                       |                      |
| Stockholder's Equity                                    |                       |                      |
| Common stock - no par value (a)                         | 308                   | 308                  |
| Additional paid-in capital                              | 2,616                 | 2,616                |
| Accumulated other comprehensive loss                    | —                     | (1 )                 |
| Earnings reinvested                                     | 425                   | 400                  |
| Total Equity  | 3,349                 | 3,323                |
| Total Liabilities and Equity                            | \$ 8,146              | \$ 8,085             |

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2017 and December 31, 2016.

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, 2016                       | 37,818  | \$ 308          | \$ 2,616                         | \$ 400                 | \$ (1 )                                       | \$3,323 |
| Net income                              |   |                 |                                  | 196                    |   | 196     |
| Cash dividends declared on common stock |   |                 |                                  | (171 )                 |   | (171 )  |
| Other comprehensive income              |   |                 |                                  |                        | 1   | 1       |
| September 30, 2017                      | 37,818  | \$ 308          | \$ 2,616                         | \$ 425                 | \$ —  | \$3,349 |
| December 31, 2015                       | 37,818  | \$ 308          | \$ 2,596                         | \$ 383                 | \$ —  | \$3,287 |
| Capital contributions from LKE          |   |                 | 20                               |                        |   | 20      |
| Net income                              |   |                 |                                  | 207                    |   | 207     |
| Cash dividends declared on common stock |   |                 |                                  | (197 )                 |   | (197 )  |
| Other comprehensive income (loss)       |   |                 |                                  |                        | (1 )  | (1 )    |
| September 30, 2016                      | 37,818  | \$ 308          | \$ 2,616                         | \$ 393                 | \$ (1 )                                       | \$3,316 |

(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, 2016 is derived from that Registrant's 2016 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 2016 Form 10-K. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year ending December 31, 2017 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

(PPL and PPL Electric)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2016 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable

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 nine months ended September 30, 2017, PPL Electric purchased \$324 million and \$968 million of accounts receivable from alternative energy suppliers. During the three and nine months ended September 30, 2016, PPL Electric purchased \$365 million and \$1.0 billion of accounts receivable from alternative electricity suppliers.

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## 3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2016 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 September 30 are as follows:

|                                  | Three Months |         | Nine Months |         |
|----------------------------------|--------------|---------|-------------|---------|
|                                  | 2017         | 2016    | 2017        | 2016    |
| <b>Income Statement Data</b>     |              |         |             |         |
| Revenues from external customers |              |         |             |         |
| U.K. Regulated                   | \$477        | \$515   | \$1,547     | \$1,673 |
| Kentucky Regulated               | 818          | 835     | 2,350       | 2,382   |
| Pennsylvania Regulated           | 547          | 539     | 1,620       | 1,619   |
| Corporate and Other              | 3            | —       | 4           | 11      |
| Total                            | \$1,845      | \$1,889 | \$5,521     | \$5,685 |
| <b>Net Income</b>                |              |         |             |         |
| U.K. Regulated (a)               | \$126        | \$281   | \$560       | \$915   |
| Kentucky Regulated               | 125          | 126     | 299         | 314     |
| Pennsylvania Regulated           | 95           | 91      | 251         | 263     |
| Corporate and Other              | 9            | (25)    | (60)        | (55)    |
| Total                            | \$355        | \$473   | \$1,050     | \$1,437 |

(a) Includes unrealized gains and losses from hedging foreign-currency related economic activity. See Note 13 for additional information.

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

|                           | September 30, December 31, |           |
|---------------------------|----------------------------|-----------|
|                           | 2017                       | 2016      |
| <b>Balance Sheet Data</b> |                            |           |
| Assets                    |                            |           |
| U.K. Regulated (a)        | \$ 16,052                  | \$ 14,537 |
| Kentucky Regulated        | 14,181                     | 14,037    |
| Pennsylvania Regulated    | 10,323                     | 9,426     |
| Corporate and Other (b)   | 202                        | 315       |
| Total                     | \$ 40,758                  | \$ 38,315 |

(a) Includes \$11.7 billion and \$10.8 billion of net PP&E as of September 30, 2017 and December 31, 2016. 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 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. 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.

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Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended September 30 used in the EPS calculation are:

|  | Three Months |         | Nine Months |          |
|--|--------------|---------|-------------|----------|
|  | 2017         | 2016    | 2017        | 2016     |
| Income (Numerator)   |              |         |             |          |
| Net income   | \$355        | \$ 473  | \$1,050     | \$ 1,437 |
| Less amounts allocated to participating securities                 | 1            | 1       | 2           | 4        |
| Net income available to PPL common shareowners - Basic and Diluted | \$354        | \$ 472  | \$1,048     | \$ 1,433 |
| Shares of Common Stock (Denominator)                               |              |         |             |          |
| Weighted-average shares - Basic EPS                                | 686,568      | 78,114  | 683,783     | 676,905  |
| Add incremental non-participating securities:                      |              |         |             |          |
| Share-based payment awards   | 2,183        | 2,234   | 2,298       | 3,064    |
| Weighted-average shares - Diluted EPS                              | 688,746      | 80,348  | 686,081     | 679,969  |
| Basic EPS  |              |         |             |          |
| Net Income available to PPL common shareowners                     | \$0.52       | \$ 0.70 | \$ 1.53     | \$ 2.12  |
| Diluted EPS  |              |         |             |          |
| Net Income available to PPL common shareowners                     | \$0.51       | \$ 0.69 | \$ 1.53     | \$ 2.11  |

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

|                                    | Three Months |      | Nine Months |       |
|------------------------------------|--------------|------|-------------|-------|
|                                    | 2017         | 2016 | 2017        | 2016  |
| Stock-based compensation plans (a) | 256          | 248  | 1,707       | 3,168 |
| DRIP                               | 355          | 761  | 1,169       | 1,533 |

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

See Note 7 for additional information on common stock issued under the ATM Program.

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

|                   | Three Months |      | Nine Months |      |
|-------------------|--------------|------|-------------|------|
|                   | 2017         | 2016 | 2017        | 2016 |
| Stock options     | 696          | 696  | 696         | 696  |
| Performance units | —            | 316  | —           | 210  |

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## 5. Income Taxes

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

|  | Three Months |       | Nine Months |        |
|--|--------------|-------|-------------|--------|
|  | 2017         | 2016  | 2017        | 2016   |
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | \$165        | \$214 | \$480       | \$681  |
| Increase (decrease) due to:  |              |       |             |        |
| State income taxes, net of federal income tax benefit                        | 14           | 13    | 37          | 37     |
| Valuation allowance adjustments  | 4            | 4     | 9           | 13     |
| Impact of lower U.K. income tax rates  | (45 )        | (37 ) | (133 )      | (136 ) |
| U.S. income tax on foreign earnings - net of foreign tax credit (a)          | (8 )         | (1 )  | (24 )       | (3 )   |
| Impact of the U.K. Finance Acts (b)  | (3 )         | (42 ) | (12 )       | (42 )  |
| Depreciation not normalized  | (2 )         | —     | (7 )        | (6 )   |
| Interest benefit on U.K. financing entities                                  | (4 )         | (4 )  | (12 )       | (13 )  |
| Stock-based compensation   | —            | (1 )  | (7 )        | (12 )  |
| Other  | (5 )         | (7 )  | (10 )       | (9 )   |
| Total increase (decrease)  | (49 )        | (75 ) | (159 )      | (171 ) |
| Total income taxes   | \$116        | \$139 | \$321       | \$510  |

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

The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April (b) 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during the three and nine months ended September 30, 2016.

(PPL Electric)

|  | Three Months |      | Nine Months |       |
|--|--------------|------|-------------|-------|
|  | 2017         | 2016 | 2017        | 2016  |
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | \$56         | \$52 | \$144       | \$149 |
| Increase (decrease) due to:  |              |      |             |       |
| State income taxes, net of federal income tax benefit                        | 9            | 9    | 26          | 27    |
| Depreciation not normalized  | (1 )         | (2 ) | (5 )        | (5 )  |
| Stock-based compensation   | —            | —    | (5 )        | (7 )  |
| Other  | —            | (1 ) | (1 )        | (2 )  |
| Total increase (decrease)  | 8            | 6    | 15          | 13    |
| Total income taxes   | \$64         | \$58 | \$159       | \$162 |

|  | Three Months |      | Nine Months |       |
|--|--------------|------|-------------|-------|
|  | 2017         | 2016 | 2017        | 2016  |
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | \$74         | \$74 | \$181       | \$189 |
| Increase (decrease) due to:  |              |      |             |       |
| State income taxes, net of federal income tax benefit                        | 8            | 8    | 19          | 20    |
| Amortization of investment tax credit  | (1 )         | (1 ) | (2 )        | (2 )  |
| Stock-based compensation   | —            | (1 ) | (1 )        | (2 )  |

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|                           |      |      |       |       |
|---------------------------|------|------|-------|-------|
| Other                     | (2 ) | (1 ) | (2 )  | (3 )  |
| Total increase (decrease) | 5    | 5    | 14    | 13    |
| Total income taxes        | \$79 | \$79 | \$195 | \$202 |

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## (LG&amp;E)

|  | Three Months |      | Nine Months |      |
|--|--------------|------|-------------|------|
|  | 2017         | 2016 | 2017        | 2016 |
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | \$36         | \$36 | \$91        | \$90 |
| Increase (decrease) due to:  |              |      |             |      |
| State income taxes, net of federal income tax benefit                        | 4            | 4    | 10          | 10   |
| Other  | (1 )         | (1 ) | (2 )        | (2 ) |
| Total increase (decrease)  | 3            | 3    | 8           | 8    |
| Total income taxes   | \$39         | \$39 | \$99        | \$98 |

## (KU)

|  | Three Months |      | Nine Months |       |
|--|--------------|------|-------------|-------|
|  | 2017         | 2016 | 2017        | 2016  |
| Federal income tax on Income Before Income Taxes at statutory tax rate - 35% | \$43         | \$44 | \$111       | \$117 |
| Increase (decrease) due to:  |              |      |             |       |
| State income taxes, net of federal income tax benefit                        | 5            | 5    | 11          | 12    |
| Other  | (1 )         | (1 ) | (2 )        | (1 )  |
| Total increase (decrease)  | 4            | 4    | 9           | 11    |
| Total income taxes   | \$47         | \$48 | \$120       | \$128 |

## 6. Utility Rate Regulation

## (All Registrants)

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

|  | PPL                |                   | PPL Electric       |                   |
|--|--------------------|-------------------|--------------------|-------------------|
|  | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
| <b>Current Regulatory Assets:</b>            |                    |                   |                    |                   |
| Environmental cost recovery                  | \$4                | \$ 6              | \$—                | \$ —              |
| Generation formula rate                      | 8                  | 11                | —                  | —                 |
| Transmission service charge                  | —                  | 7                 | —                  | 7                 |
| Gas supply clause                            | 6                  | 3                 | —                  | —                 |
| Smart meter rider                            | 12                 | 6                 | 12                 | 6                 |
| Storm costs                                  | 1                  | 5                 | 1                  | 5                 |
| Other  | 3                  | 1                 | 1                  | 1                 |
| Total current regulatory assets (a)          | \$34               | \$ 39             | \$14               | \$ 19             |
| <b>Noncurrent Regulatory Assets:</b>         |                    |                   |                    |                   |
| Defined benefit plans                        | \$908              | \$ 947            | \$530              | \$ 549            |
| Taxes recoverable through future rates       | 347                | 340               | 347                | 340               |
| Storm costs                                  | 37                 | 57                | —                  | 9                 |
| Unamortized loss on debt                     | 55                 | 61                | 30                 | 36                |
| Interest rate swaps                          | 29                 | 31                | —                  | —                 |
| Terminated interest rate swaps               | 93                 | 98                | —                  | —                 |
| Accumulated cost of removal of utility plant | 166                | 159               | 166                | 159               |

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|                                    |         |          |         |          |
|------------------------------------|---------|----------|---------|----------|
| AROs                               | 224     | 211      | —       | —        |
| Other                              | 10      | 14       | —       | 1        |
| Total noncurrent regulatory assets | \$1,869 | \$ 1,918 | \$1,073 | \$ 1,094 |

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|  | PPL                |                   | PPL Electric       |                   |                    |                   |
|--|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
|  | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |                    |                   |
| <b>Current Regulatory Liabilities:</b>       |                    |                   |                    |                   |                    |                   |
| Generation supply charge                     | \$ 29              | \$ 23             | \$ 29              | \$ 23             |                    |                   |
| Transmission service charge                  | 6                  | —                 | 6                  | —                 |                    |                   |
| Universal service rider                      | 19                 | 14                | 19                 | 14                |                    |                   |
| Transmission formula rate                    | 4                  | 15                | 4                  | 15                |                    |                   |
| Fuel adjustment clause                       | 11                 | 11                | —                  | —                 |                    |                   |
| Act 129 compliance rider                     | 7                  | 17                | 7                  | 17                |                    |                   |
| Storm damage expense                         | 7                  | 13                | 7                  | 13                |                    |                   |
| Other  | 4                  | 8                 | —                  | 1                 |                    |                   |
| Total current regulatory liabilities         | \$ 87              | \$ 101            | \$ 72              | \$ 83             |                    |                   |
| <b>Noncurrent Regulatory Liabilities:</b>    |                    |                   |                    |                   |                    |                   |
| Accumulated cost of removal of utility plant | \$ 678             | \$ 700            | \$ —               | \$ —              |                    |                   |
| Power purchase agreement - OVEC (b)          | 69                 | 75                | —                  | —                 |                    |                   |
| Net deferred tax assets                      | 21                 | 23                | —                  | —                 |                    |                   |
| Defined benefit plans                        | 27                 | 23                | —                  | —                 |                    |                   |
| Terminated interest rate swaps               | 74                 | 78                | —                  | —                 |                    |                   |
| Other  | 4                  | —                 | —                  | —                 |                    |                   |
| Total noncurrent regulatory liabilities      | \$ 873             | \$ 899            | \$ —               | \$ —              |                    |                   |
|  | LKE                |                   | LG&E               |                   | KU                 |                   |
|  | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
| <b>Current Regulatory Assets:</b>            |                    |                   |                    |                   |                    |                   |
| Environmental cost recovery                  | \$ 4               | \$ 6              | \$ 4               | \$ 6              | \$ —               | \$ —              |
| Generation formula rate                      | 8                  | 11                | —                  | —                 | 8                  | 11                |
| Gas supply clause                            | 6                  | 3                 | 6                  | 3                 | —                  | —                 |
| Other  | 2                  | —                 | 1                  | —                 | 1                  | —                 |
| Total current regulatory assets              | \$ 20              | \$ 20             | \$ 11              | \$ 9              | \$ 9               | \$ 11             |
| <b>Noncurrent Regulatory Assets:</b>         |                    |                   |                    |                   |                    |                   |
| Defined benefit plans                        | \$ 378             | \$ 398            | \$ 235             | \$ 246            | \$ 143             | \$ 152            |
| Storm costs                                  | 37                 | 48                | 20                 | 26                | 17                 | 22                |
| Unamortized loss on debt                     | 25                 | 25                | 16                 | 16                | 9                  | 9                 |
| Interest rate swaps                          | 29                 | 31                | 29                 | 31                | —                  | —                 |
| Terminated interest rate swaps               | 93                 | 98                | 54                 | 57                | 39                 | 41                |
| AROs   | 224                | 211               | 57                 | 70                | 167                | 141               |
| Plant retirement costs                       | 2                  | 4                 | —                  | —                 | 2                  | 4                 |
| Other  | 8                  | 9                 | 2                  | 4                 | 6                  | 5                 |
| Total noncurrent regulatory assets           | \$ 796             | \$ 824            | \$ 413             | \$ 450            | \$ 383             | \$ 374            |

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|  | LKE                |                   | LG&E               |                   | KU                 |                   |
|--|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
|  | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
| <b>Current Regulatory Liabilities:</b>       |                    |                   |                    |                   |                    |                   |
| Demand side management                       | \$ —               | \$ 3              | \$ —               | \$ 2              | \$ —               | \$ 1              |
| Fuel adjustment clause                       | 11                 | 11                | 3                  | 2                 | 8                  | 9                 |
| Other  | 4                  | 4                 | 2                  | 1                 | 2                  | 3                 |
| Total current regulatory liabilities         | \$ 15              | \$ 18             | \$ 5               | \$ 5              | \$ 10              | \$ 13             |
| <b>Noncurrent Regulatory Liabilities:</b>    |                    |                   |                    |                   |                    |                   |
| Accumulated cost of removal of utility plant | \$ 678             | \$ 700            | \$ 281             | \$ 305            | \$ 397             | \$ 395            |
| Power purchase agreement - OVEC (b)          | 69                 | 75                | 48                 | 52                | 21                 | 23                |
| Net deferred tax assets                      | 21                 | 23                | 21                 | 23                | —                  | —                 |
| Defined benefit plans                        | 27                 | 23                | —                  | —                 | 27                 | 23                |
| Terminated interest rate swaps               | 74                 | 78                | 37                 | 39                | 37                 | 39                |
| Other  | 4                  | —                 | 1                  | —                 | 3                  | —                 |
| Total noncurrent regulatory liabilities      | \$ 873             | \$ 899            | \$ 388             | \$ 419            | \$ 485             | \$ 480            |

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

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

## Regulatory Matters

## Kentucky Activities

(PPL, LKE, LG&E and KU)

## Rate Case Proceedings

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

On April 19, 2017 and May 1, 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with KU base electricity rates of \$55 million, LG&E base electricity rates of \$59 million and LG&E base gas rates of \$8 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

On June 22, 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. On June 29, 2017, the KPSC issued further orders correcting certain revenue requirement and rate calculations and making other technical corrections to the June 22, 2017 orders. The combined KPSC orders modified the stipulations to provide for increases in annual revenue requirements associated with KU base electricity rates of \$52 million, LG&E base electricity rates of \$57 million and LG&E base gas rates of \$7 million, and

incorporate an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that will result in higher depreciation of approximately \$15 million (\$4 million for LG&E and \$11 million for KU) in 2017, exclusive of net additions to PP&E. The orders result in a base electricity rate increase of 3.2% at KU and base electricity and gas rate increases of 5.2% and 2.1% at LG&E. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC also issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The impact of the new authorized return for ECR projects is not expected to be significant in 2017.

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## Gas Franchise (LKE and LG&amp;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 customers, the franchise fee will revert to zero. In August 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E and, in November 2016, filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. On September 28, 2017, oral arguments were heard by the KPSC and a final order is expected in 2017. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

## 7. Financing Activities

## Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, 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. The following credit facilities were in place at:

|                                | September 30, 2017 |          |          | December 31, 2016                             |                 |          |   |
|--------------------------------|--------------------|----------|----------|---|-----------------|----------|---|
|                                | 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. 2022          | £ 210    | £ 155    | £ —   | £ 54            | £ 160    | £ —   |
| Term Loan Facility (b)         | Dec. 2017          | 230      | 230      | —   | —               | —        | —   |
| WPD (South West)               |                    |          |          |   |                 |          |   |
| Syndicated Credit Facility (c) | July 2021          | 245      | —        | —   | 245             | 110      | —   |
| WPD (East Midlands)            |                    |          |          |   |                 |          |   |
| Syndicated Credit Facility (d) | July 2021          | 300      | 116      | —   | 184             | 9        | —   |

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WPD (West Midlands)

|                                   |           |         |       |     |       |       |     |
|-----------------------------------|-----------|---------|-------|-----|-------|-------|-----|
| Syndicated Credit Facility        | July 2021 | 300     | —     | —   | 300   | —     | —   |
| Uncommitted Credit Facilities (e) |           | 100     | 70    | 4   | 26    | 60    | 4   |
| Total U.K. Credit Facilities (f)  |           | £ 1,385 | £ 571 | £ 4 | £ 809 | £ 339 | £ 4 |

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|   | September 30, 2017 |          |          |   | December 31, 2016 |  |
|---|--------------------|----------|----------|---|-------------------|--|
|   | Expiration Date    | Capacity | Borrowed | Letters of Credit and Commercial Paper Issued | Unused Capacity   | Letters of Credit and Borrowed Commercial Paper Issued |
| U.S.  |                    |          |          |   |                   |  |
| PPL Capital Funding                         |                    |          |          |   |                   |  |
| Syndicated Credit Facility                  | Jan. 2022          | \$ 950   | \$       | —\$ 285                                       | \$ 665            | \$—\$ 20   |
| Syndicated Credit Facility                  | Nov. 2018          | 300      | —        | —   | 300               | — —  |
| Bilateral Credit Facility                   | Mar. 2018          | 150      | —        | 18  | 132               | — 17   |
| Total PPL Capital Funding Credit Facilities |                    | \$ 1,400 | \$       | —\$ 303                                       | \$ 1,097          | \$—\$ 37   |
| PPL Electric                                |                    |          |          |   |                   |  |
| Syndicated Credit Facility                  | Jan. 2022          | \$ 650   | \$       | —\$ 1   | \$ 649            | \$—\$ 296  |
| LKE   |                    |          |          |   |                   |  |
| Syndicated Credit Facility                  | Oct. 2018          | \$ 75    | \$       | —\$ —   | \$ 75             | \$—\$ —  |
| LG&E  |                    |          |          |   |                   |  |
| Syndicated Credit Facility                  | Jan. 2022          | \$ 500   | \$       | —\$ 190                                       | \$ 310            | \$—\$ 169  |
| KU  |                    |          |          |   |                   |  |
| Syndicated Credit Facility                  | Jan. 2022          | \$ 400   | \$       | —\$ —   | \$ 400            | \$—\$ 16   |
| Letter of Credit Facility                   | Oct. 2020          | 198      | —        | 198   | —                 | — 198  |
| Total KU Credit Facilities                  |                    | \$ 598   | \$       | —\$ 198                                       | \$ 400            | \$—\$ 214  |

The amounts borrowed at September 30, 2017 and December 31, 2016 were USD-denominated borrowings of (a) \$200 million for both periods, which bore interest at 2.06% and 1.43%. The unused capacity reflects the amount borrowed in GBP of £156 million as of the date borrowed.

(b) The amount borrowed at September 30, 2017 was a GBP-denominated borrowing which equated to \$296 million and bore interest at 1.50%.

(c) The amount borrowed at December 31, 2016 was a GBP-denominated borrowing which equated to \$137 million and bore interest at 0.66%.

(d) The amounts borrowed at September 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$150 million and \$11 million and bore interest at 0.65% and 0.66%.

(e) The amounts borrowed at September 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$90 million and \$75 million and bore interest at 1.29% and 1.26%.

(f) At September 30, 2017, the unused capacity under the U.K. credit facilities was \$1.0 billion.

(PPL, LKE and LG&E)

In October 2017, LG&E entered into a \$200 million term loan credit facility expiring in 2019. On October 26, 2017, LG&E borrowed \$100 million under this facility bearing interest of 1.74%. The proceeds will be used to repay short-term debt and for general corporate purposes.

(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:

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|                     | September 30, 2017                     |          |                                  | December 31, 2016  |  |                                  |
|---------------------|--|----------|----------------------------------|--------------------|--|----------------------------------|
|                     | 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 | 1.41%                                  | \$ 1,000 | \$ 285                           | \$ 715             | 1.10%                                  | \$ 20                            |
| PPL Electric        |  | 650      | —                                | 650                | 1.05%                                  | 295                              |
| LG&E                | 1.38%                                  | 350      | 190                              | 160                | 0.94%                                  | 169                              |
| KU                  |  | 350      | —                                | 350                | 0.87%                                  | 16                               |
| Total               |  | \$ 2,350 | \$ 475                           | \$ 1,875           |  | \$ 500                           |

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

See Note 10 for discussion of intercompany borrowings.

#### Long-term Debt

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to \$64 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 September 2017, PPL Capital Funding issued \$500 million of 4.00% Senior Notes due 2047. PPL Capital Funding received proceeds of \$490 million, net of a discount and underwriting fees, which were used to repay short-term debt obligations and for general corporate purposes.

(PPL and PPL Electric)

In May 2017, PPL Electric issued \$475 million of 3.95% First Mortgage Bonds due 2047. PPL Electric received proceeds of \$466 million, net of a discount and underwriting fees, which were used to repay short-term debt incurred primarily for capital expenditures.

In August 2017, the LCIDA remarketed \$108 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016B due 2027 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of August 15, 2022.

In September 2017, the LCIDA remarketed \$116 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016A due 2029 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of September 1, 2022.

(PPL, LKE and LG&E)

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.50% through their



mandatory purchase date of April 1, 2019.

In June 2017, the County of Trimble, Kentucky issued \$60 million of Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were issued bearing interest at a rate of 3.75% through their maturity and are subject to an optional redemption on or after June 1, 2027. The proceeds of the bonds were used to redeem \$60 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued

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on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

(PPL)

## ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of \$500 million of its common stock. For the periods ended September 30, PPL issued the following:

|                                 | Three Months |         | Nine Months |         |
|---------------------------------|--------------|---------|-------------|---------|
|                                 | 2017         | 2016    | 2017        | 2016    |
| Number of shares (in thousands) | 2,049        | 710     | 5,526       | 710     |
| Average share price             | \$39.04      | \$35.23 | \$38.49     | \$35.23 |
| Net Proceeds                    | \$79         | \$25    | \$211       | \$25    |

## Distributions

In August 2017, PPL declared a quarterly common stock dividend, payable October 2, 2017, of 39.5 cents per share (equivalent to \$1.58 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.

## 8. Defined Benefits

(PPL, LKE and LG&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 LG&E for the periods ended September 30:

|  | Pension Benefits |       |        |        |             |        |        |        |
|--|------------------|-------|--------|--------|-------------|--------|--------|--------|
|  | Three Months     |       |        |        | Nine Months |        |        |        |
|  | U.S.             |       | U.K.   |        | U.S.        |        | U.K.   |        |
|  | 2017             | 2016  | 2017   | 2016   | 2017        | 2016   | 2017   | 2016   |
| PPL  |                  |       |        |        |             |        |        |        |
| Service cost   | \$17             | \$16  | \$20   | \$17   | \$49        | \$49   | \$57   | \$53   |
| Interest cost  | 42               | 44    | 45     | 58     | 126         | 131    | 132    | 182    |
| Expected return on plan assets   | (58 )            | (57 ) | (130 ) | (124 ) | (173 )      | (171 ) | (382 ) | (389 ) |
| Amortization of:   |                  |       |        |        |             |        |        |        |
| Prior service cost   | 2                | 2     | —      | —      | 7           | 6      | —      | —      |
| Actuarial loss   | 18               | 12    | 36     | 34     | 52          | 37     | 107    | 107    |
| Net periodic defined benefit costs (credits) before settlements and special termination benefits | 21               | 17    | (29 )  | (15 )  | 61          | 52     | (86 )  | (47 )  |

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|  |      |      |        |        |      |      |        |        |
|--|------|------|--------|--------|------|------|--------|--------|
| Settlements (a)                              | 7    | 3    | —      | —      | 7    | 3    | —      | —      |
| Special termination benefits (b)             | —    | —    | —      | —      | 1    | —    | —      | —      |
| Net periodic defined benefit costs (credits) | \$28 | \$20 | \$(29) | \$(15) | \$69 | \$55 | \$(86) | \$(47) |

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2017 includes settlement charges of \$5 million from the LG&E qualified pension plan and \$2 million from the PPL non-qualified pension plan and 2016 includes a settlement charge of \$3 million from the PPL non-qualified pension plan. These settlements resulted from lump sum payments that exceeded service cost and interest cost components of net periodic pension cost for the year.

(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     |       | Nine Months |       |
|   | 2017             | 2016  | 2017        | 2016  |
| <b>LKE</b>  |                  |       |             |       |
| Service cost  | \$6              | \$ 6  | \$18        | \$18  |
| Interest cost   | 17               | 18    | 51          | 53    |
| Expected return on plan assets                        | (23 )            | (23 ) | (69 )       | (68 ) |
| Amortization of:                                      |                  |       |             |       |
| Prior service cost                                    | 2                | 2     | 6           | 6     |
| Actuarial loss (a)                                    | 8                | 5     | 23          | 15    |
| Net periodic defined benefit costs before settlements | 10               | 8     | 29          | 24    |
| Settlements (b)                                       | 5                | —     | 5           | —     |
| Net periodic defined benefit costs                    | \$15             | \$ 8  | \$34        | \$24  |
| <b>LG&amp;E</b>                                       |                  |       |             |       |
| Service cost  | \$—              | \$ —  | \$1         | \$1   |
| Interest cost   | 3                | 4     | 9           | 11    |
| Expected return on plan assets                        | (5 )             | (5 )  | (16 )       | (15 ) |
| Amortization of:                                      |                  |       |             |       |
| Prior service cost                                    | 1                | 1     | 3           | 3     |
| Actuarial loss (a)                                    | 3                | 2     | 7           | 5     |
| Net periodic defined benefit costs before settlements | 2                | 2     | 4           | 5     |
| Settlements (b)                                       | 5                | —     | 5           | —     |
| Net periodic defined benefit costs                    | \$7              | \$ 2  | \$9         | \$5   |

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 \$3 million and \$8 million for the three and nine months ended September 30, 2017 and \$4 million for the nine months ended (a) September 30, 2016. The difference between actuarial loss calculated in accordance with LG&E's accounting policy and actuarial loss calculated using a 15-year amortization period was \$1 million and \$3 million for the three and nine months ended September 30, 2017 and \$1 million for the three months ended September 30, 2016. These differences are recorded as regulatory assets.

Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$5 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the (b) settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

Other Postretirement  
Benefits  
Three Months 2017  
Nine Months 2016

PPL

|                                    |     |     |      |      |
|------------------------------------|-----|-----|------|------|
| Service cost                       | \$2 | \$2 | \$6  | \$6  |
| Interest cost                      | 5   | 6   | 17   | 19   |
| Expected return on plan assets     | (6) | (6) | (17) | (17) |
| Amortization of prior service cost | —   | —   | (1)  | —    |
| Amortization of actuarial loss     | 1   | 1   | 1    | 1    |
| Net periodic defined benefit costs | \$2 | \$3 | \$6  | \$9  |

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|                                    | Other Postretirement<br>Benefits |      |                        |      |
|------------------------------------|----------------------------------|------|------------------------|------|
|                                    | Three<br>Months<br>2017          |      | Nine<br>Months<br>2016 |      |
|                                    | 2016                             | 2016 | 2016                   | 2016 |
| LKE                                |                                  |      |                        |      |
| Service cost                       | \$1                              | \$ 1 | \$3                    | \$ 3 |
| Interest cost                      | 2                                | 2    | 6                      | 7    |
| Expected return on plan assets     | (2 )                             | (2 ) | (5 )                   | (5 ) |
| Amortization of prior service cost | 1                                | 1    | 1                      | 2    |
| Net periodic defined benefit costs | \$2                              | \$ 2 | \$5                    | \$ 7 |

(PPL Electric, LG&amp;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 10 for more 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 September 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<br>2017 |      | Nine<br>Months<br>2016 |      |
|------|-------------------------|------|------------------------|------|
|      | 2016                    | 2016 | 2016                   | 2016 |
|      | PPL Electric            | \$ 6 | \$ 6                   | \$19 |
| LG&E | 3                       | 2    | 8                      | 7    |
| KU   | 2                       | 2    | 7                      | 8    |

Expected Cash Flows - U.K. Pension Plans

(PPL)

For the nine months ended September 30, 2017, WPD contributed \$485 million to its U.K. pension plans. These contributions fund all of 2017 contributions and a portion of 2018 contributions. WPD does not expect to make additional contributions in 2017.

## 9. 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.

WKE Indemnification (PPL and LKE)

See footnote (e) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

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 and RCRA. In addition, these plaintiffs assert 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

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for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, 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 under the Clean Air Act, and directed the parties to submit briefs regarding whether the court should continue to exercise supplemental jurisdiction regarding the remaining state law-only claims. On April 13, 2017, the District Court issued an order declining to exercise supplemental jurisdiction and dismissing the case in its entirety, subject to certain federal appeals or state court re-filing rights of the parties. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E regarding the 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. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

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 seek injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act violations, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also seek assessment of civil penalties and an award of litigation costs and attorney fees. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E.W. Brown plant, including increased capital or operating costs, if any.

(PPL, LKE, LG&E and KU)

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. On April 27, 2017, the Kentucky Supreme Court issued an order reversing the decision of the appellate court and upholding the permit issued to LG&E by the KEEC.

Trimble County Landfill



Various state and federal permits and regulatory approvals are required in order to construct a landfill at the Trimble County plant to be used for disposal of CCRs. In October 2016, the Kentucky Division of Water issued a water quality certification and in February 2017, the Kentucky Division of Waste Management issued a “special waste” landfill permit. In March 2017, the Sierra Club and a resident adjacent to the plant filed administrative challenges to the landfill permit which were subsequently dismissed by agreed order entered in August 2017. In June 2017, the U.S. Army Corps of Engineers issued a dredge and fill permit, the final approval required for construction of the landfill. PPL, LKE, LG&E and KU believe that all permits and regulatory approvals issued for the project comply with applicable state and federal laws.

Regulatory Issues (All Registrants)

See Note 6 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 cannot estimate a range of reasonably possible losses, if any.

### 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 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. Under the Clean Air Act, 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 non-attainment. 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 demonstrations 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. While 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. While 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 "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. 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 Clean Power Plan described below, 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, in March 2017, the President issued an Executive Order (the March 2017 Executive Order) directing the EPA to review proposed and final rules relating to GHG reductions 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

As further described below, in 2015 the EPA finalized rules imposing GHG emission standards for both new and existing power plants. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules.

The future of these rules is uncertain. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states, industry groups and individual companies, including LKE. The D.C. Circuit has temporarily held the litigation in abeyance in light of the EPA's ongoing review of the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the U.S. Supreme Court if a writ of certiorari is filed and granted. In addition, the President's March 2017 Executive Order requires the EPA to review the rules for new plants and existing power plants and suspend, revise or rescind them as appropriate. In October 2017, the EPA proposed to rescind the rule and may seek comment on a possible replacement rule.

The EPA's rule for new power plants imposes separate emission standards for coal and natural gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially viable, the rule effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as what the EPA proposed in 2012 and is not continuously achievable under all operating modes, such as frequent start-ups and shutdowns. The preclusion of new coal-fired plants could have a significant industry-wide impact.

The EPA's rule for existing power plants, referred to as the Clean Power Plan, was published in the Federal Register in October 2015. The Clean Power Plan contains state-specific rate-based and mass-based reduction goals and guidelines for the development, submission and implementation of state implementation plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying the EPA's broad interpretation and definition of the BSER, resulting in the most stringent targets to be met in 2030, with interim targets to be met beginning in 2022. The EPA believes it has offered some flexibility to the states as to how their compliance plans can be crafted, including the option to use a rate-based approach (limit emissions per megawatt hour) or a mass-based approach (limit total tons of emissions per year), and the option to demonstrate compliance through emissions trading and multi-state collaborations. Under the rate-based approach, Kentucky would need to make a 41% reduction from its 2012 emissions rate and under a mass-based approach it would need to make a 36% reduction. These reductions are significantly greater than initially proposed and present significant challenges to the state. If the Clean Power Plan ultimately remains in place in its current form, and Kentucky fails to develop an approvable implementation plan by the applicable deadline, the EPA may impose a federal implementation plan that could be more stringent than what the state plan might provide. Depending on the provisions of the Kentucky implementation plan, LG&E and KU may need to modify their current portfolio of generating assets during the next decade and/or participate in an allowance

trading program.

LG&E and KU are monitoring developments at the state and federal level. PPL, LKE, LG&E and KU cannot predict the outcome of the pending litigation, any changes in regulations, interpretations, or litigation positions that may be implemented by the U.S. presidential administration or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

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 EPA's regulations governing GHG emissions from existing sources, 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 may make it more difficult for Kentucky to achieve the GHG reduction levels that the EPA has established for Kentucky, if enacted.

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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. 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. 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.

Recently enacted federal legislation has authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. In January 2017, Kentucky issued a state rule, effective May 2017, aimed at reflecting the requirements of the federal rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in state court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. PPL, LKE, LG&E and KU cannot predict the outcome of the litigation, but anticipate continued operation under the former program in the event that the new rule is struck down.

LG&E and KU have received KPSC approval for a compliance plan providing for construction of additional landfill capacity at the E.W. Brown station, 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 federal CCR rule requirements, 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 requirements. See Note 6 in the Registrants' 2016 Form 10-K for additional information.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015, 2016 and 2017. See Note 15 below and Note 19 in the Registrants' 2016 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.

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### 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 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. A range of reasonably possible costs cannot currently be estimated. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

(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, currently scheduled for November 2017, 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.

### Superfund and Other Remediation

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.

PPL Electric, LG&E and KU are investigating, responding to agency inquiries, remediating, or have completed the remediation of, several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. 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 on such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

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At September 30, 2017 and December 31, 2016, PPL Electric had a recorded liability of \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted 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.

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 for compliance 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 applicable to 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

(PPL and PPL Electric)

In March 2017, members of the IBEW ratified a new five-year labor agreement with PPL. The contract covers nearly 1,400 employees and was effective May 22, 2017. The terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL or PPL Electric.

(LKE and KU)

In August 2017, KU and the United Steelworkers of America ratified a three-year labor agreement through August 2020. The agreement covers approximately 53 employees. The terms of the new labor agreement are not expected to have a significant impact on the financial results of LKE or 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.

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(All Registrants)

The table below details guarantees provided as of September 30, 2017. "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" and "Indemnification of lease termination and other divestitures." The total recorded liability at September 30, 2017 was \$21 million for PPL and \$16 million for LKE. The total recorded liability at December 31, 2016 was \$22 million for PPL and \$17 million for LKE. See footnote (e) below for information regarding a settlement in principle for certain LKE indemnifications. 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.

|   | Exposure at<br>September 30,<br>2017 | Expiration<br>Date |
|---|--------------------------------------|--------------------|
| <b>PPL</b>  |                                      |                    |
| Indemnifications related to the WPD Midlands acquisition                  | (a)                                  |                    |
| WPD indemnifications for entities in liquidation and sales of assets      | \$ 10 (b)                            | 2019               |
| WPD guarantee of pension and other obligations of unconsolidated entities | 95 (c)                               |                    |
| <b>PPL Electric</b>   |                                      |                    |
| Guarantee of inventory value  | 17 (d)                               | 2018               |
| <b>LKE</b>  |                                      |                    |
| Indemnification of lease termination and other divestitures               | 301 (e)                              | 2021 - 2023        |
| <b>LG&amp;E and KU</b>  |                                      |                    |
| 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.

(c) 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 September 30, 2017, WPD has recorded an estimated discounted liability for which the 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.

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

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. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of \$100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made. LKE believes its indemnifications in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have conducted certain settlement discussions and reached a settlement in principle to resolve all claims for an aggregate amount within LKE's recorded liability, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. 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 above the amounts recorded.

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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 proportionate share of OVEC's outstanding debt was \$118 million at September 30, 2017, consisting of LG&E's share of \$82 million and KU's share of \$36 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, (f) LKE's, LG&E's and KU's 2016 Form 10-K for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, 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. The ultimate outcome of these matters, including any 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.

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.

## 10. Related Party Transactions

### Support Costs (PPL Electric, LKE, LG&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, as applicable, 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. 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 September 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>2017 |      | Nine<br>Months<br>2016 |      |
|-----------------------------------|-------------------------|------|------------------------|------|
|                                   | 2017                    | 2016 | 2017                   | 2016 |
| PPL Electric from PPL Services    | \$43                    | \$33 | \$138                  | \$98 |
| LKE from PPL Services             | 4                       | 4    | 15                     | 13   |
| PPL Electric from PPL EU Services | 15                      | 17   | 48                     | 50   |
| LG&E from LKS                     | 38                      | 40   | 120                    | 128  |
| KU from LKS                       | 43                      | 46   | 134                    | 151  |



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 overhead costs 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 \$400 million revolving line of credit with a PPL Electric subsidiary. At September 30, 2017, \$2 million was outstanding and reflected in "Notes receivable from affiliate" on the Balance Sheet. No balance was outstanding at December 31, 2016. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at September 30, 2017 was 2.98%.

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(LKE)

LKE maintains a \$225 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 September 30, 2017 and December 31, 2016, \$159 million and \$163 million were outstanding and reflected in "Notes payable with affiliate" on the Balance Sheets. The interest rates on the outstanding borrowing at September 30, 2017 and December 31, 2016 were 2.73% and 2.12%.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At September 30, 2017 and December 31, 2016, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2017, \$10 million was outstanding and was reflected in "Notes payable with affiliate" on the Balance Sheet. No balances were outstanding at December 31, 2016. The interest rate on the outstanding borrowings at September 30, 2017 was 1.46%. Interest expense incurred on the money pool agreement with KU was not significant for the three and nine months ended September 30, 2017.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2017, KU had no payable balance outstanding, but had a \$10 million receivable balance outstanding, which was reflected in "Notes receivable from affiliate" on the Balance Sheet. No balances were outstanding at December 31, 2016. The interest rate on the outstanding receivable at September, 30, 2017 was 1.46%. Interest income incurred on the money pool agreement with LG&E was not significant for the three and nine months ended September 30, 2017.

Other (PPL Electric, LG&E and KU)

See Note 8 for discussions regarding intercompany allocations associated with defined benefits.

11. Other Income (Expense) - net

(PPL)

"Other Income (Expense) - net" for the three and nine months ended September 30, 2017 and 2016 consisted primarily of gains (losses) on foreign currency contracts to economically hedge PPL's translation risk related to its GBP denominated earnings in the U.K. See Note 13 for additional information on these derivatives.

12. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost

approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2017 and 2016, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2016 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:

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|  | September 30, 2017 |         |         |         | December 31, 2016 |         |         |         |
|--|--------------------|---------|---------|---------|-------------------|---------|---------|---------|
|  | Total              | Level 1 | Level 2 | Level 3 | Total             | Level 1 | Level 2 | Level 3 |
| <b>PPL</b>                                   |                    |         |         |         |                   |         |         |         |
| <b>Assets</b>                                |                    |         |         |         |                   |         |         |         |
| Cash and cash equivalents                    | \$676              | \$676   | \$—     | \$—     | -\$341            | \$341   | \$—     | \$—     |
| Restricted cash and cash equivalents (a)     | 24                 | 24      | —       | —       | 26                | 26      | —       | —       |
| Price risk management assets (b):            |                    |         |         |         |                   |         |         |         |
| Foreign currency contracts                   | 164                | —       | 164     | —       | 211               | —       | 211     | —       |
| Cross-currency swaps                         | 160                | —       | 160     | —       | 188               | —       | 188     | —       |
| Total price risk management assets           | 324                | —       | 324     | —       | 399               | —       | 399     | —       |
| Total assets                                 | \$1,024            | \$700   | \$324   | \$—     | -\$766            | \$367   | \$399   | \$—     |
| <b>Liabilities</b>                           |                    |         |         |         |                   |         |         |         |
| Price risk management liabilities (b):       |                    |         |         |         |                   |         |         |         |
| Interest rate swaps                          | \$31               | \$—     | \$31    | \$—     | -\$31             | \$—     | \$31    | \$—     |
| Foreign currency contracts                   | 167                | —       | 167     | —       | 27                | —       | 27      | —       |
| Total price risk management liabilities      | \$198              | \$—     | \$198   | \$—     | -\$58             | \$—     | \$58    | \$—     |
| <b>PPL Electric</b>                          |                    |         |         |         |                   |         |         |         |
| <b>Assets</b>                                |                    |         |         |         |                   |         |         |         |
| Cash and cash equivalents                    | \$243              | \$243   | \$—     | \$—     | -\$13             | \$13    | \$—     | \$—     |
| Restricted cash and cash equivalents (a)     | 2                  | 2       | —       | —       | 2                 | 2       | —       | —       |
| Total assets                                 | \$245              | \$245   | \$—     | \$—     | -\$15             | \$15    | \$—     | \$—     |
| <b>LKE</b>                                   |                    |         |         |         |                   |         |         |         |
| <b>Assets</b>                                |                    |         |         |         |                   |         |         |         |
| Cash and cash equivalents                    | \$40               | \$40    | \$—     | \$—     | -\$13             | \$13    | \$—     | \$—     |
| Cash collateral posted to counterparties (c) | 1                  | 1       | —       | —       | 3                 | 3       | —       | —       |
| Total assets                                 | \$41               | \$41    | \$—     | \$—     | -\$16             | \$16    | \$—     | \$—     |
| <b>Liabilities</b>                           |                    |         |         |         |                   |         |         |         |
| Price risk management liabilities:           |                    |         |         |         |                   |         |         |         |
| Interest rate swaps                          | \$29               | \$—     | \$29    | \$—     | -\$31             | \$—     | \$31    | \$—     |
| Total price risk management liabilities      | \$29               | \$—     | \$29    | \$—     | -\$31             | \$—     | \$31    | \$—     |
| <b>LG&amp;E</b>                              |                    |         |         |         |                   |         |         |         |
| <b>Assets</b>                                |                    |         |         |         |                   |         |         |         |
| Cash and cash equivalents                    | \$9                | \$9     | \$—     | \$—     | -\$5              | \$5     | \$—     | \$—     |
| Cash collateral posted to counterparties (c) | 1                  | 1       | —       | —       | 3                 | 3       | —       | —       |
| Total assets                                 | \$10               | \$10    | \$—     | \$—     | -\$8              | \$8     | \$—     | \$—     |
| <b>Liabilities</b>                           |                    |         |         |         |                   |         |         |         |
| Price risk management liabilities:           |                    |         |         |         |                   |         |         |         |
| Interest rate swaps                          | \$29               | \$—     | \$29    | \$—     | -\$31             | \$—     | \$31    | \$—     |
| Total price risk management liabilities      | \$29               | \$—     | \$29    | \$—     | -\$31             | \$—     | \$31    | \$—     |



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|                           | September 30, 2017 |         |         | December 31, 2016 |       |         |         |         |
|---------------------------|--------------------|---------|---------|-------------------|-------|---------|---------|---------|
|                           | Total              | Level 1 | Level 2 | Level 3           | Total | Level 1 | Level 2 | Level 3 |
| KU                        |                    |         |         |                   |       |         |         |         |
| Assets                    |                    |         |         |                   |       |         |         |         |
| Cash and cash equivalents | \$31               | \$ 31   | \$ —    | -\$               | \$ 7  | \$ —    | —       |         |
| Total assets              | \$31               | \$ 31   | \$ —    | -\$               | \$ 7  | \$ —    | —       |         |

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

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

Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the (c) exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

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

(PPL, LKE, LG&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. The fair values were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

|              | September 30, 2017  |            | December 31, 2016   |            |
|--------------|---------------------|------------|---------------------|------------|
|              | Carrying Amount (a) | Fair Value | Carrying Amount (a) | Fair Value |
| PPL          | \$19,558            | \$23,357   | \$18,326            | \$21,355   |
| PPL Electric | 3,298               | 3,724      | 2,831               | 3,148      |
| LKE          | 5,068               | 5,592      | 5,065               | 5,439      |
| LG&E         | 1,619               | 1,768      | 1,617               | 1,710      |
| KU           | 2,328               | 2,602      | 2,327               | 2,514      |

(a) Amounts are net of debt issuance costs.

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

### 13. 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

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

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



## Volumetric Risk

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

WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 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.

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### 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 and LG&E)

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 \$17 million obligation to return cash collateral under master netting arrangements at September 30, 2017 and a \$19 million obligation to return cash collateral under master netting arrangements at December 31, 2016.

LKE and LG&E had no obligation to return cash collateral under master netting arrangements at September 30, 2017 and December 31, 2016.

PPL, LKE and LG&E posted \$1 million and \$3 million of cash collateral under master netting arrangements at September 30, 2017 and December 31, 2016.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

### Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio 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. At September 30, 2017, PPL held an

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aggregate notional value in interest rate swap contracts of £188 million (approximately \$242 million based on spot rates) that mature in 2027 to hedge the interest payments of anticipated WPD debt issuances. These swaps require a mandatory early redemption on or before November 30, 2017.

For the three and nine months ended September 30, 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives. For the three months ended September 30, 2016, PPL had no hedge ineffectiveness associated with interest rate derivatives and for the nine months ended September 30, 2016, PPL had an insignificant amount of hedge ineffectiveness associated with interest rate derivatives.

At September 30, 2017, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$802 million that range in maturity from 2017 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and nine months ended September 30, 2017 and 2016, 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 nine months ended September 30, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three and nine months ended September 30, 2016, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At September 30, 2017, 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 September 30, 2017, 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.

### 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. The contracts outstanding at September 30, 2017 had a notional amount of £92 million (approximately \$125 million based on contracted rates). These contracts mature in December 2017.

At September 30, 2017 and December 31, 2016, PPL had \$22 million and \$21 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

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## Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At September 30, 2017, the total exposure hedged by PPL was approximately £2.7 billion (approximately \$3.7 billion based on contracted rates). These contracts had termination dates ranging from October 2017 through April 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 6 for amounts recorded in regulatory assets and regulatory liabilities at September 30, 2017 and December 31, 2016.

See Note 1 in each Registrant's 2016 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.

|                            | September 30, 2017                            |             |   |             | December 31, 2016                             |             |   |             |
|----------------------------|---|-------------|---|-------------|---|-------------|---|-------------|
|                            | Derivatives designated as hedging instruments |             | Derivatives not designated as hedging instruments |             | Derivatives designated as hedging instruments |             | Derivatives not designated as hedging instruments |             |
|                            | Assets  | Liabilities | Assets  | Liabilities | Assets  | Liabilities | Assets  | Liabilities |
| Current:                   |   |             |   |             |   |             |   |             |
| Price Risk Management      |   |             |   |             |   |             |   |             |
| Assets/Liabilities (a):    |   |             |   |             |   |             |   |             |
| Interest rate swaps (b)    | \$—   | \$ 2        | \$—   | \$ 5        | \$—   | \$ —        | —\$—  | \$ 4        |
| Cross-currency swaps (b)   | 28  | —           | —   | —           | 32  | —           | —   | —           |
| Foreign currency contracts | 1   | —           | 28  | 86          | —   | —           | 31  | 21          |
| Total current              | 29  | 2           | 28  | 91          | 32  | —           | 31  | 25          |
| Noncurrent:                |   |             |   |             |   |             |   |             |
| Price Risk Management      |   |             |   |             |   |             |   |             |
| Assets/Liabilities (a):    |   |             |   |             |   |             |   |             |
| Interest rate swaps (b)    | —   | —           | —   | 24          | —   | —           | —   | 27          |
| Cross-currency swaps (b)   | 132   | —           | —   | —           | 156   | —           | —   | —           |
| Foreign currency contracts | —   | —           | 135   | 81          | —   | —           | 180   | 6           |
| Total noncurrent           | 132   | —           | 135   | 105         | 156   | —           | 180   | 33          |
| Total derivatives          | \$161   | \$ 2        | \$163   | \$ 196      | \$188   | \$ —        | —\$211  | \$ 58       |

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

Sheets.

(b) Excludes accrued interest, if applicable.

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 September 30, 2017.

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| Derivative Relationships                          | Derivative Gain (Loss) Recognized in OCI (Effective Portion)        | Location of Gain (Loss) Recognized in Income on Derivative | Three Months   |  | Nine Months  |  |
|---|---|--|--|--|--|--|
|   |   |  | Gain (Loss) Recognized on Derivative from AOCI into Income (Effective Portion) | Gain (Loss) Recognized in Income on Derivative from AOCI into Income (Effective Portion) | Gain (Loss) Recognized on Derivative from AOCI into Income (Effective Portion) | Gain (Loss) Recognized in Income on Derivative from AOCI into Income (Effective Portion) |
| Cash Flow Hedges:                                 |   |  |  |  |  |  |
| Interest rate swaps                               | \$ —  | \$ (2 ) Interest expense                                   | \$ (2 )  | \$ —   | —  | \$(6 ) \$ (1 )   |
| Cross-currency swaps                              | 1   | (34 ) Interest expense                                     | 1  | —  | 1  | —  |
|   |   | Other income (expense) - net                               | 2  | —  | (24 )  | —  |
| Total   | \$ 1  | \$ (36 )   | \$ 1   | \$ —   | —  | \$(29 ) \$ (1 )  |
| Net Investment Hedges:                            |   |  |  |  |  |  |
| Foreign currency contracts                        | \$ 1  | \$ 1   |  |  |  |  |
| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative          |  | Three Months   | Nine Months  |  |  |
| Foreign currency contracts                        | Other income (expense) - net  |  | \$ (81 )   | \$ (237 )  |  |  |
| Interest rate swaps                               | Interest expense  |  | (1 )   | (4 )   |  |  |
|   | Total   |  | \$ (82 )   | \$ (241 )  |  |  |
| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets |  | Three Months   | Nine Months  |  |  |
| Interest rate swaps                               | Regulatory assets - noncurrent                                      |  | \$ 1   | \$ 2   |  |  |

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 September 30, 2016.

| Derivative Relationships | Derivative Gain (Loss) Recognized in OCI (Effective Portion) | Location of Gain (Loss) Recognized on Derivative | Three Months   |  | Nine Months  |  |
|--------------------------|--|--|--|--|--|--|
|                          |  |  | Gain (Loss) Recognized on Derivative from AOCI into Income (Effective Portion) | Gain (Loss) Recognized in Income on Derivative from AOCI into Income (Effective Portion) | Gain (Loss) Recognized on Derivative from AOCI into Income (Effective Portion) | Gain (Loss) Recognized in Income on Derivative from AOCI into Income (Effective Portion) |
| Cash Flow Hedges:        |  |  |  |  |  |  |
| Interest rate swaps      | \$ —   | \$ (21 ) Interest expense                        | \$ (2 )  | \$ —   | —  | \$(5 ) \$ —  |



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|                            |      |      |                              |      |    |       |    |
|----------------------------|------|------|------------------------------|------|----|-------|----|
| Cross-currency swaps       | 78   | 87   | Interest expense             | 2    | —  | 2     | —  |
|                            |      |      | Other income (expense) - net | 86   | —  | 80    | —  |
| Total                      | \$78 | \$66 |                              | \$86 | \$ | —\$77 | \$ |
| Net Investment Hedges:     |      |      |                              |      |    |       |    |
| Foreign currency contracts | \$—  | \$4  |                              |      |    |       |    |

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| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative          | Three Months | Nine Months |
|---|---|--------------|-------------|
| Foreign currency contracts                        | Other income (expense) - net  | \$ 49        | \$ 280      |
| Interest rate swaps                               | Interest expense  | (2 )         | (6 )        |
|   | Total   | \$ 47        | \$ 274      |
| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets | Three Months | Nine Months |
| Interest rate swaps                               | Regulatory assets - noncurrent                                      | \$ 2         | \$ (7 )     |

(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.

|                       | September 30,<br>2017 | December 31,<br>2016 |
|-----------------------|-----------------------|----------------------|
|                       | Assets                | Liabilities          |
| Current:              |                       |                      |
| Price Risk Management |                       |                      |
| Assets/Liabilities:   |                       |                      |
| Interest rate swaps   | \$ —\$ 5              | \$ —\$ 4             |
| Total current         | — 5                   | — 4                  |
| Noncurrent:           |                       |                      |
| Price Risk Management |                       |                      |
| Assets/Liabilities:   |                       |                      |
| Interest rate swaps   | — 24                  | — 27                 |
| Total noncurrent      | — 24                  | — 27                 |
| Total derivatives     | \$ —\$ 29             | \$ —\$ 31            |

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 September 30, 2017.

| Derivative Instruments | Location of Gain (Loss) Recognized in Income on Derivatives | Three Months | Nine Months |
|------------------------|---|--------------|-------------|
| Interest rate swaps    | Interest expense  | \$ (1 )      | \$ (4 )     |
| Derivative Instruments | Location of Gain (Loss) Recognized in Regulatory Assets     | Three Months | Nine Months |
| Interest rate swaps    | Regulatory assets - noncurrent                              | \$ 1         | \$ 2        |

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 September 30, 2016.

| Derivative Instruments | Location of Gain (Loss) Recognized in Income on Derivatives | Three Months | Nine Months |
|------------------------|---|--------------|-------------|
| Interest rate swaps    | Interest expense  | \$ (2 )      | \$ (6 )     |
| Derivative Instruments | Location of Gain (Loss) Recognized in Regulatory Assets     | Three Months | Nine Months |

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| Derivative Instruments | Regulatory Assets              | Three<br>Months | Nine<br>Months |
|------------------------|--------------------------------|-----------------|----------------|
| Interest rate swaps    | Regulatory assets - noncurrent | \$ 2            | \$ (7 )        |

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(PPL, LKE, LG&amp;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 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         |                        |                         |      |
|----------------------|---------------------|------------------------|--------------------------|-------|---------------------|------------------------|-------------------------|------|
|                      | Eligible for Offset |                        |                          |       | Eligible for Offset |                        |                         |      |
|                      | Gross               | Derivative Instruments | Cash Collateral Received | Net   | Gross               | Derivative Instruments | Cash Collateral Pledged | Net  |
| September 30, 2017   |                     |                        |                          |       |                     |                        |                         |      |
| Treasury Derivatives |                     |                        |                          |       |                     |                        |                         |      |
| PPL                  | \$324               | \$138                  | \$17                     | \$169 | \$198               | \$138                  | \$1                     | \$59 |
| LKE                  | —                   | —                      | —                        | —     | 29                  | —                      | 1                       | 28   |
| LG&E                 | —                   | —                      | —                        | —     | 29                  | —                      | 1                       | 28   |
| December 31, 2016    |                     |                        |                          |       |                     |                        |                         |      |
| Treasury Derivatives |                     |                        |                          |       |                     |                        |                         |      |
| PPL                  | \$399               | \$27                   | \$19                     | \$353 | \$58                | \$27                   | \$3                     | \$28 |
| LKE                  | —                   | —                      | —                        | 31    | —                   | 3                      | —                       | 28   |
| LG&E                 | —                   | —                      | —                        | 31    | —                   | 3                      | —                       | 28   |

## 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 September 30, 2017, 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  | \$43 | \$ 11 | \$ 11 |
| Aggregate fair value of collateral posted on these derivative instruments  | 1    | 1     | 1     |
| Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a) | 42   | 10    | 10    |

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

## 14. Goodwill and Other Intangible Assets

(PPL)

The change in the carrying amount of goodwill for the nine months ended September 30, 2017 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

The change in the carrying amount of other intangible assets for the nine months ended September 30, 2017 was primarily due to a change in WPD's approach in acquiring rights-of-way relating to WPD equipment impacting landowners' property. A shorter term agreement at a lower cost is now being offered which has also reduced the estimated liability for claims not yet settled.

## 15. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

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

|                                     | PPL   | LKE   | LG&E   | KU    |
|-------------------------------------|-------|-------|--------|-------|
| Balance at December 31, 2016        | \$488 | \$433 | \$ 145 | \$288 |
| Accretion                           | 16    | 15    | 5      | 10    |
| Effect of foreign exchange rates    | 2     | —     | —      | —     |
| Changes in estimated timing or cost | (70 ) | (63 ) | (12 )  | (51 ) |
| Obligations settled                 | (30 ) | (30 ) | (20 )  | (10 ) |
| Balance at September 30, 2017       | \$406 | \$355 | \$ 118 | \$237 |

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 9 for information on the final 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 approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. 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.

LKE recorded decreases of \$66 million (\$56 million at KU and \$10 million at LG&E) to the existing AROs during the nine months ended September 30, 2017 related to the closure of CCR impoundments. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.



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## 16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the periods ended September 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 Actuarial<br>service gain<br>costs (loss) | Total     |
|-----------------------------------|---|--|------------------------------|---|-----------|
| <b>PPL</b>                        |   |  |                              |   |           |
| June 30, 2017                     | \$ (1,420 )                                       | \$ (13 )   | \$ —                         | \$(7) \$(2,083)   | \$(3,523) |
| Amounts arising during the period | (12 )   | 1  | —                            | — (3 )  | (14 )     |
| Reclassifications from AOCI       | —   | —  | —                            | — 34  | 34        |
| Net OCI during the period         | (12 )   | 1  | —                            | — 31  | 20        |
| September 30, 2017                | \$ (1,432 )                                       | \$ (12 )   | \$ —                         | \$(7) \$(2,052)   | \$(3,503) |
| December 31, 2016                 | \$ (1,627 )                                       | \$ (7 )  | \$ (1 )                      | \$(8) \$(2,135)   | \$(3,778) |
| Amounts arising during the period | 195   | (29 )  | —                            | — (14 )   | 152       |
| Reclassifications from AOCI       | —   | 24   | 1                            | 1 97  | 123       |
| Net OCI during the period         | 195   | (5 )   | 1                            | 1 83  | 275       |
| September 30, 2017                | \$ (1,432 )                                       | \$ (12 )   | \$ —                         | \$(7) \$(2,052)   | \$(3,503) |
| June 30, 2016                     | \$ (716 )   | \$ (5 )  | \$ (1 )                      | \$(5) \$(2,130)   | \$(2,857) |
| Amounts arising during the period | (641 )  | 62   | —                            | — (6 )  | (585 )    |
| Reclassifications from AOCI       | —   | (69 )  | —                            | — 31  | (38 )     |
| Net OCI during the period         | (641 )  | (7 )   | —                            | — 25  | (623 )    |
| September 30, 2016                | \$ (1,357 )                                       | \$ (12 )   | \$ (1 )                      | \$(5) \$(2,105)   | \$(3,480) |
| December 31, 2015                 | \$ (520 )   | \$ (7 )  | \$ —                         | \$(6) \$(2,195)   | \$(2,728) |
| Amounts arising during the period | (837 )  | 57   | —                            | — (4 )  | (784 )    |
| Reclassifications from AOCI       | —   | (62 )  | (1 )                         | 1 94  | 32        |
| Net OCI during the period         | (837 )  | (5 )   | (1 )                         | 1 90  | (752 )    |
| September 30, 2016                | \$ (1,357 )                                       | \$ (12 )   | \$ (1 )                      | \$(5) \$(2,105)   | \$(3,480) |
| <b>LKE</b>                        |   |  |                              |   |           |
| June 30, 2017                     |   |  | \$ —                         | \$(7) \$(70 )   | \$(77 )   |
| Amounts arising during the period |   |  | —                            | — (1 )  | (1 )      |
| Reclassifications from AOCI       |   |  | —                            | — 1   | 1         |
| Net OCI during the period         |   |  | —                            | — —   | —         |
| September 30, 2017                |   |  | \$ —                         | \$(7) \$(70 )   | \$(77 )   |
| December 31, 2016                 |   |  | \$ (1 )                      | \$(8) \$(61 )   | \$(70 )   |
| Amounts arising during the period |   |  | —                            | — (12 )   | (12 )     |
| Reclassifications from AOCI       |   |  | 1                            | 1 3   | 5         |
| Net OCI during the period         |   |  | 1                            | 1 (9 )  | (7 )      |



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|                             |         |        |          |          |
|-----------------------------|---------|--------|----------|----------|
| September 30, 2017          | \$ —    | \$ (7) | \$ (70 ) | \$ (77 ) |
| June 30, 2016               | \$ (1 ) | \$ (9) | \$ (33 ) | \$ (43 ) |
| Reclassifications from AOCI | —       | —      | 1        | 1        |
| Net OCI during the period   | —       | —      | 1        | 1        |
| September 30, 2016          | \$ (1 ) | \$ (9) | \$ (32 ) | \$ (42 ) |

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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 benefit<br>plans<br>Prior<br>service<br>costs | Actuarial<br>gain<br>(loss) | Total  |
|-----------------------------------|---|--|------------------------------|---|-----------------------------|--------|
| December 31, 2015                 |   |  | \$ —                         | \$(10)  | \$ (36 )                    | \$(46) |
| Amounts arising during the period |   |  | —                            | —   | 1                           | 1      |
| Reclassifications from AOCI       |   |  | (1 )                         | 1   | 3                           | 3      |
| Net OCI during the period         |   |  | (1 )                         | 1   | 4                           | 4      |
| September 30, 2016                |   |  | \$ (1 )                      | \$(9 )  | \$ (32 )                    | \$(42) |

(PPL)

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended September 30. The defined benefit plan components of AOCI are not reflected in their entirety in the Statement of Income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 8 for additional information.

|   | Three<br>Months |        | Nine Months |        | Affected Line Item on the    |
|---|-----------------|--------|-------------|--------|------------------------------|
|   | 2017            | 2016   | 2017        | 2016   | Statements of Income         |
| Details about AOCI                        |                 |        |             |        |                              |
| Qualifying derivatives                    |                 |        |             |        |                              |
| Interest rate swaps                       | \$(2 )          | \$(2 ) | \$(7 )      | \$(5 ) | Interest Expense             |
| Cross-currency swaps                      | 2               | 86     | (24 )       | 80     | Other Income (Expense) - net |
|   | 1               | 2      | 1           | 2      | Interest Expense             |
| Total Pre-tax                             | 1               | 86     | (30 )       | 77     |                              |
| Income Taxes                              | (1 )            | (17 )  | 6           | (15 )  |                              |
| Total After-tax                           | —               | 69     | (24 )       | 62     |                              |
| Equity investees' AOCI                    | —               | —      | (1 )        | 1      | Other Income (Expense) - net |
| Total Pre-tax                             | —               | —      | (1 )        | 1      |                              |
| Income Taxes                              | —               | —      | —           | —      |                              |
| Total After-tax                           | —               | —      | (1 )        | 1      |                              |
| Defined benefit plans                     |                 |        |             |        |                              |
| Prior service costs                       | (1 )            | (1 )   | (2 )        | (2 )   |                              |
| Net actuarial loss                        | (44 )           | (41 )  | (125 )      | (121 ) |                              |
| Total Pre-tax                             | (45 )           | (42 )  | (127 )      | (123 ) |                              |
| Income Taxes                              | 11              | 11     | 29          | 28     |                              |
| Total After-tax                           | (34 )           | (31 )  | (98 )       | (95 )  |                              |
| Total reclassifications during the period | \$(34)          | \$38   | \$(123)     | \$(32) |                              |

## 17. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued 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 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 have completed an assessment of substantially all of their revenue under this new guidance and, for those assessments that have been completed, have determined it will not have a material impact on their current revenue recognition policies. The Registrants' operating revenues are derived primarily from tariff-based sales that result from providing electricity and natural gas to customers with no defined contractual term. Tariff-based sales are within the scope of the new guidance, and operating revenues under the new guidance will be equivalent to the electricity and natural gas delivered and billed in that

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period (including estimated billings), which is consistent with current practice. Management is still assessing the impact of the new standard on certain revenues in the U.K. Regulated segment and does not expect there to be a material impact to current practice, however, the assessment is still ongoing.

The disclosure requirements included in the standard will result in increased information being provided to enable the users of the financial statements to understand the nature, amount, timing and uncertainty of revenue arising from contracts with customers. These disclosures will include disaggregation of revenues by geographic location, customer class or type of service, as applicable for each Registrant. Some revenue arrangements, including alternative revenue programs and lease income, are excluded from the scope of the new guidance and will be accounted for and disclosed separately from revenues from contracts with customers. The Registrants will also be required to disclose the opening and closing balances of accounts receivable and any contract assets or contract liabilities resulting from contracts with customers.

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods after December 15, 2017 and interim periods within those years. The Registrants will adopt this guidance effective January 1, 2018 and will determine the transition method they will apply once they have completed their assessments and the implications of using either the full retrospective or modified retrospective transition methods are known.

### 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, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

The Registrants are currently assessing the impact of adopting this guidance. 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 in annual reporting periods 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.

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

In March 2017, the FASB issued accounting guidance that changes the income statement presentation of net periodic benefit cost. This new 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

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the period. The other components of net periodic benefits will be presented separately from the line items that include the service cost and outside of any subtotal of operating income. Only the service cost component is eligible for capitalization.

For public business entities, the guidance on the presentation of the components of net periodic benefit costs will be applied retrospectively. The guidance that limits the capitalization to the service cost component of net periodic benefit costs will be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The Registrants will adopt this guidance effective January 1, 2018.

For PPL's, LKE's and LG&E's U.S. defined benefit pension and PPL's and LKE's other postretirement benefit plans, the adoption of this new guidance is not expected to have a material impact on either the presentation on the income statements or the amounts capitalized and related impact to expense, as the difference between the service cost and the non-service cost components of net periodic benefit costs has not historically been and is not expected to be material in 2018.

For PPL's U.K. defined benefit pension plans, the non-service cost components of net periodic benefit cost has been in a net-credit position for the current reporting periods and is expected to continue to be in a net-credit position for 2018. Therefore, the estimated impact of adopting this new guidance related to the non-service cost component credits to be reclassified from "Other operation and maintenance" to "Other Income (Expense)-net" on the Statements of Income is approximately \$130 million and \$90 million for the nine months ended 2017 and 2016.

The Registrants are continuing to assess the expected 2018 impacts of adopting the guidance as the amounts will be affected by market conditions and assumptions selected at December 31, 2017.

## 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.

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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' 2016 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 nine months ended September 30, 2017 with the same periods in 2016. For PPL, "Results of Operations" also includes "Segment Earnings" and "Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "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 "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and 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 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. Although 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 direct 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 the Tennessee Public Utility Commission, 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 is a fully regulated business consisting of seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. The Company believes this diverse 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 businesses of WPD, PPL Electric, LG&E and KU plan 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 and RAV, as applicable, 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. Additionally, significant transmission rate base growth is expected through at least 2020 at PPL Electric.

For the U.S. businesses, our strategy is to recover 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 outlay 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. In 2017, earnings from the U.K. Regulated segment are expected to decline mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment through the RIIO-ED1 price control period which ends on March 31, 2023 and to result in earnings growth after 2017 through at least 2020 at WPD. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2016 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.

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

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Financial and Operational Developments

U.S. Tax Reform (All Registrants)

Tax reform has been discussed as a high priority of the U.S. presidential administration. Significant uncertainty exists as to the ultimate changes that may be made, the timing of those changes and the related impact to the Registrants' financial condition or results of operations. The Registrants are working with industry groups and carefully monitoring related developments in an effort both to have input to the legislative process where possible and plan effectively to respond to any forthcoming changes in a manner that will optimize value for ratepayers and shareowners.

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 both the European Council and the European 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 October 18, 2017, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2017 at an average rate of \$1.22 per GBP, 99% hedged for 2018 at an average rate of \$1.32 per GBP, 100% hedged for 2019 at an average rate of \$1.39 per GBP and 15% hedged for 2020 at an average rate of \$1.47 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.

(PPL)

In July 2017, Ofgem published an open letter commencing its RIIO-2 framework review, which covers all U.K. gas and electricity, transmission and distribution price controls. The purpose of this framework review is to build on lessons learned from the current price controls and to develop a framework that will be adaptable to meeting the needs

of an evolving U.K. energy sector.

The letter sets out the context for the development of the next price controls, RIIO-2, and seeks views from stakeholders on the RIIO-2 framework. Responses to the open letter were published in September 2017 and will be used to guide the full RIIO-2 framework consultation which is expected to be published in the first quarter of 2018. The promulgation of sector specific price controls will begin with the gas and electricity transmission networks, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document.

The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by this RIIO-2 consultation process. 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.

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(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 9 to the Financial Statements for a discussion of the other significant environmental matters.

Rate Case Proceedings

(LKE and KU)

On September 29, 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%. KU's request is based on an authorized 10.42% return on equity. Subject to regulatory review and approval, new rates would become effective July 1, 2018.

(PPL, LKE and KU)

In October 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. In December 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period. In March 2017, the parties reached a settlement in principle regarding a suitable amortization period. In June 2017, a FERC judge issued an order implementing the settlement's rates on an interim basis, effective July 1, 2017. In August 2017, the FERC issued a final order approving the settlement.

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 nine months ended September 30, 2017 with the same periods in 2016. The "Segment Earnings" and "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 "Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "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 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 nine months ended September 30, 2017 with the same periods in 2016.



The "Earnings" discussion provides a summary of earnings. The "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 Margins

## Statement of Income Analysis

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

|                                 | Three Months |         |              | Nine Months |         |              |
|---------------------------------|--------------|---------|--------------|-------------|---------|--------------|
|                                 | 2017         | 2016    | \$<br>Change | 2017        | 2016    | \$<br>Change |
| Operating Revenues              | \$1,845      | \$1,889 | \$(44 )      | \$5,521     | \$5,685 | \$(164 )     |
| Operating Expenses              |              |         |              |             |         |              |
| Operation                       |              |         |              |             |         |              |
| Fuel                            | 202          | 227     | (25 )        | 576         | 607     | (31 )        |
| Energy purchases                | 143          | 151     | (8 )         | 494         | 531     | (37 )        |
| Other operation and maintenance | 397          | 417     | (20 )        | 1,217       | 1,292   | (75 )        |
| Depreciation                    | 257          | 232     | 25           | 745         | 692     | 53           |
| Taxes, other than income        | 69           | 76      | (7 )         | 214         | 229     | (15 )        |
| Total Operating Expenses        | 1,068        | 1,103   | (35 )        | 3,246       | 3,351   | (105 )       |
| Other Income (Expense) - net    | (76 )        | 49      | (125 )       | (235 )      | 284     | (519 )       |
| Interest Expense                | 230          | 223     | 7            | 669         | 671     | (2 )         |
| Income Taxes                    | 116          | 139     | (23 )        | 321         | 510     | (189 )       |
| Net Income                      | \$355        | \$473   | \$(118 )     | \$1,050     | \$1,437 | \$(387 )     |

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

|  | Three<br>Months | Nine<br>Months |
|--|-----------------|----------------|
| Domestic:                              |                 |                |
| PPL Electric Distribution price (a)    | \$ 16           | \$ 46          |
| PPL Electric Distribution volume       | (20 )           | (30 )          |
| PPL Electric PLR Revenue (b)           | (1 )            | (32 )          |
| PPL Electric Transmission Formula Rate | 20              | 25             |
| LKE Base rates                         | 31              | 31             |
| LKE Volumes                            | (41 )           | (86 )          |
| LKE Fuel and other energy prices       | (8 )            | 10             |
| Other                                  | (3 )            | (2 )           |
| Total Domestic                         | (6 )            | (38 )          |
| U.K.:                                  |                 |                |
| Price                                  | (3 )            | 74             |
| Volume                                 | (12 )           | (24 )          |
| Foreign currency exchange rates        | (21 )           | (183 )         |
| Other                                  | (2 )            | 7              |
| Total U.K.                             | (38 )           | (126 )         |
| Total                                  | \$(44 )         | \$(164 )       |

(a) Distribution rider prices resulted in increases of \$16 million and \$40 million for the three and nine months ended September 30, 2017.

(b) Decrease for the nine months ended September 30, 2017 compared with 2016, primarily due to lower energy prices at PPL Electric.

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## Fuel

Fuel decreased \$25 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$16 million decrease in volumes driven by milder weather in the third quarter of 2017 and a \$9 million decrease in market prices for coal.

Fuel decreased \$31 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$28 million decrease in volumes driven by milder weather in 2017 and a \$4 million decrease in market prices for coal.

## Energy Purchases

Energy purchases decreased \$8 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$12 million decrease in PLR volumes, partially offset by a \$6 million increase in PLR prices at PPL Electric.

Energy purchases decreased \$37 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$24 million decrease in PLR prices and an \$11 million decrease in PLR volumes at PPL Electric.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2017 compared with 2016 was due to:

|                                    | Three<br>Months | Nine<br>Months |
|------------------------------------|-----------------|----------------|
| Domestic:                          |                 |                |
| PPL Electric Act 129               | \$ 3            | \$ 11          |
| PPL Electric payroll-related costs | (5 )            | (6 )           |
| PPL Electric vegetation management | (4 )            | (7 )           |
| PPL Electric bad debts             | (4 )            | (10 )          |
| Other                              | (1 )            | 1              |
| U.K.:                              |                 |                |
| Pension (a)                        | (17 )           | (52 )          |
| Foreign currency exchange rates    | (2 )            | (18 )          |
| Network maintenance                | 4               | (4 )           |
| Third-party engineering            | (1 )            | 5              |
| Other                              | 7               | 5              |
| Total                              | \$ (20 )        | \$ (75 )       |

(a) The decreases were primarily due to increases in expected returns on higher asset balances and lower interest costs due to a lower discount rate.

## Depreciation

Depreciation increased \$25 million and \$53 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017 at LG&E and KU, partially offset by the impact of foreign currency exchange rates at WPD.

Other Income (Expense) - net

Other income (expense) - net decreased \$125 million and \$519 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to changes in realized and unrealized gains (losses) on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

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## Interest Expense

The increase (decrease) in interest expense for the periods ended September 30, 2017 compared with 2016 was due to:

|                                  | Three<br>Months | Nine<br>Months |
|----------------------------------|-----------------|----------------|
| Long-term debt interest expense  | \$ 9            | \$ 22          |
| Short-term debt interest expense | 2               | 6              |
| Foreign currency exchange rates  | (4 )            | (31 )          |
| Other                            | —               | 1              |
| Total                            | \$ 7            | \$ (2 )        |

## Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2017 compared with 2016 was due to:

|   | Three<br>Months | Nine<br>Months |
|---|-----------------|----------------|
| Change in pre-tax income at current period tax rates                | \$ (56 )        | \$ (198 )      |
| Valuation allowances adjustments                                    | —               | (4 )           |
| U.S. income tax on foreign earnings - net of foreign tax credit (a) | (7 )            | (21 )          |
| Impact of U.K. Finance Acts (b)                                     | 39              | 30             |
| Stock-based compensation  | 1               | 5              |
| Other   | —               | (1 )           |
| Total   | \$ (23 )        | \$ (189 )      |

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

The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April (b) 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during the three and nine months ended September 30, 2016.

## Segment Earnings

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

|                         | Three Months |       |              | Nine Months |         |              |
|-------------------------|--------------|-------|--------------|-------------|---------|--------------|
|                         | 2017         | 2016  | \$<br>Change | 2017        | 2016    | \$<br>Change |
| U.K. Regulated          | \$126        | \$281 | \$(155 )     | \$560       | \$915   | \$(355 )     |
| Kentucky Regulated      | 125          | 126   | (1 )         | 299         | 314     | (15 )        |
| Pennsylvania Regulated  | 95           | 91    | 4            | 251         | 263     | (12 )        |
| Corporate and Other (a) | 9            | (25 ) | 34           | (60 )       | (55 )   | (5 )         |
| Net Income              | \$355        | \$473 | \$(118 )     | \$1,050     | \$1,437 | \$(387 )     |

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) changes in 2017 compared with 2016 are primarily due to the timing impact of recording annual estimated taxes. This impact is expected to continue to reverse through the remainder of the year.

## 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:

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- 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 13 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 September 30 were as follows:

|                                  | Three Months |       |           | Nine Months |         |           |
|----------------------------------|--------------|-------|-----------|-------------|---------|-----------|
|                                  | 2017         | 2016  | \$ Change | 2017        | 2016    | \$ Change |
| U.K. Regulated                   | \$163        | \$235 | \$ (72 )  | \$682       | \$741   | \$ (59 )  |
| Kentucky Regulated               | 125          | 126   | (1 )      | 300         | 314     | (14 )     |
| Pennsylvania Regulated           | 95           | 91    | 4         | 251         | 263     | (12 )     |
| Corporate and Other              | 5            | (25 ) | 30        | (64 )       | (53 )   | (11 )     |
| Earnings from Ongoing Operations | \$388        | \$427 | \$ (39 )  | \$1,169     | \$1,265 | \$ (96 )  |

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 53% of PPL's Net Income for the nine months ended September 30, 2017 and 39% of PPL's assets at September 30, 2017.

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

|                                 | Three Months |       |           | Nine Months |         |           |
|---------------------------------|--------------|-------|-----------|-------------|---------|-----------|
|                                 | 2017         | 2016  | \$ Change | 2017        | 2016    | \$ Change |
| Operating revenues              | \$477        | \$515 | \$ (38 )  | \$1,547     | \$1,673 | \$ (126 ) |
| Other operation and maintenance | 69           | 78    | (9 )      | 195         | 260     | (65 )     |
| Depreciation                    | 58           | 58    | —         | 170         | 178     | (8 )      |
| Taxes, other than income        | 33           | 34    | (1 )      | 94          | 104     | (10 )     |
| Total operating expenses        | 160          | 170   | (10 )     | 459         | 542     | (83 )     |
| Other Income (Expense) - net    | (80 )        | 50    | (130 )    | (236 )      | 283     | (519 )    |
| Interest Expense                | 103          | 100   | 3         | 294         | 310     | (16 )     |
| Income Taxes                    | 8            | 14    | (6 )      | (2 )        | 189     | (191 )    |



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|                                  |       |       |          |        |       |          |
|----------------------------------|-------|-------|----------|--------|-------|----------|
| Net Income                       | 126   | 281   | (155 )   | 560    | 915   | (355 )   |
| Less: Special Items              | (37 ) | 46    | (83 )    | (122 ) | 174   | (296 )   |
| Earnings from Ongoing Operations | \$163 | \$235 | \$ (72 ) | \$682  | \$741 | \$ (59 ) |

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 September 30.

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|  | Income Statement Line Item   | Three Months 2017 | Nine Months 2016 | Three Months 2016 | Nine Months 2017 |
|--|------------------------------|-------------------|------------------|-------------------|------------------|
| Foreign currency economic hedges, net of tax of \$20, \$103, \$66, \$34 (a)            | Other Income (Expense) - net | \$(37)            | \$(193)          | \$(122)           | \$(65)           |
| Settlement of foreign currency contracts, net of tax of \$0, (\$108), \$0, (\$108) (b) | Other Income (Expense) - net | —                 | 202              | —                 | 202              |
| Change in U.K. tax rate (c)  | Income Taxes                 | —                 | 37               | —                 | 37               |
| Total Special Items  |                              | \$(37)            | \$46             | \$(122)           | \$174            |

Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. (a) The three and nine months ended September 30, 2016 include the reversal of \$310 million (\$202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.

(b) In the third quarter of 2016, PPL settled 2017 and 2018 foreign currency contracts, resulting in \$310 million of cash received (\$202 million after-tax).

The settlement did not have a material impact on net income as the contracts were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statements of Income.

(c) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K.'s statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liability and recognized an income tax benefit of \$42 million in the third quarter of 2016. Of this amount, \$37 million relates to deferred taxes recorded in prior years and was treated as a special item.

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. 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 Months | Nine Months |
|--------------------------------------|--------------|-------------|
| U.K.                                 |              |             |
| Gross margins                        | \$(17 )      | \$52        |
| Other operation and maintenance      | 7            | 50          |
| Depreciation                         | (3 )         | (12 )       |
| Interest expense                     | (7 )         | (15 )       |
| Other                                | (2 )         | (4 )        |
| Income taxes                         | (2 )         | 2           |
| U.S.                                 |              |             |
| Interest expense and other           | 1            | 3           |
| Income taxes                         | (3 )         | 28          |
| Foreign currency exchange, after-tax | (46 )        | (163 )      |
| Earnings from Ongoing Operations     | (72 )        | (59 )       |
| Special items, after-tax             | (83 )        | (296 )      |
| Net Income                           | \$(155 )     | \$(355 )    |

U.K.

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

Lower other operation and maintenance expense for the three month period primarily due to \$17 million from lower pension expense due to an increase in expected returns on higher asset balances and lower interest costs due to a lower

discount rate, partially offset by \$4 million from higher network maintenance expense.

Lower other operation and maintenance expense for the nine month period primarily due to \$52 million from lower pension expense due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate.

Higher interest expense for the three and nine month periods primarily due to higher interest expense on indexed linked bonds.

Higher income taxes for the three month period primarily due to \$9 million related to tax rate changes to deferred taxes, partially offset by a decrease of \$4 million from lower pre-tax income.

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Lower income taxes for the nine month period primarily due to decreases of \$10 million related to accelerated tax deductions and \$6 million from 2016 expense related to the finalization of U.K. tax returns, partially offset by increases of \$14 million from higher pre-tax income.

U.S.

Lower income taxes for the nine month period primarily due to the tax benefit on accelerated pension contributions made in the first quarter of 2017.

## 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 28% of PPL's Net Income for the nine months ended September 30, 2017 and 35% of PPL's assets at September 30, 2017.

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

|                                  | Three Months |       |              | Nine Months |         |              |
|----------------------------------|--------------|-------|--------------|-------------|---------|--------------|
|                                  | 2017         | 2016  | \$<br>Change | 2017        | 2016    | \$<br>Change |
| Operating revenues               | \$818        | \$835 | \$ (17 )     | \$2,350     | \$2,382 | \$ (32 )     |
| Fuel                             | 202          | 227   | (25 )        | 576         | 607     | (31 )        |
| Energy purchases                 | 22           | 24    | (2 )         | 120         | 118     | 2            |
| Other operation and maintenance  | 199          | 197   | 2            | 598         | 603     | (5 )         |
| Depreciation                     | 114          | 102   | 12           | 324         | 301     | 23           |
| Taxes, other than income         | 17           | 16    | 1            | 49          | 46      | 3            |
| Total operating expenses         | 554          | 566   | (12 )        | 1,667       | 1,675   | (8 )         |
| Other Income (Expense) - net     | 1            | (3 )  | 4            | (5 )        | (9 )    | 4            |
| Interest Expense                 | 65           | 65    | —            | 196         | 194     | 2            |
| Income Taxes                     | 75           | 75    | —            | 183         | 190     | (7 )         |
| Net Income                       | 125          | 126   | (1 )         | 299         | 314     | (15 )        |
| Less: Special Items              | —            | —     | —            | (1 )        | —       | (1 )         |
| Earnings from Ongoing Operations | \$125        | \$126 | \$ (1 )      | \$300       | \$314   | \$ (14 )     |

The following after-tax gain (loss), which management considers a special item, impacted the Kentucky Regulated segment's results and is excluded from Earnings from Ongoing Operations during the periods ended September 30.

|  | Income Statement Line Item   | Three Months |      | Nine Months |      |
|--|------------------------------|--------------|------|-------------|------|
|  |                              | 2017         | 2016 | 2017        | 2016 |
| Adjustment to investment, net of tax of \$0, \$0, \$0, \$0 (a) | Other Income (Expense) - net | \$ —         | \$ — | \$(1)       | \$ — |
| Total Special Items  |                              | \$ —         | \$ — | \$(1)       | \$ — |

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

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 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 | Nine<br>Months |
|----------------------------------|-----------------|----------------|
| Kentucky Gross Margins           | \$ 10           | \$ (13 )       |
| Other operation and maintenance  | (5 )            | 6              |
| Depreciation                     | (10 )           | (15 )          |
| Taxes, other than income         | —               | (2 )           |
| Other Income (Expense) - net     | 4               | 5              |
| Interest Expense                 | —               | (2 )           |
| Income Taxes                     | —               | 7              |
| Earnings from Ongoing Operations | (1 )            | (14 )          |
| Special items, after-tax         | —               | (1 )           |
| Net Income                       | \$ (1 )         | \$ (15 )       |

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

Higher depreciation expense for the three and nine month periods primarily due to higher depreciation rates effective July 1, 2017, and additions to PP&E, net of retirements.

#### 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 24% of PPL's Net Income for the nine months ended September 30, 2017 and 25% of PPL's assets at September 30, 2017.

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

|                                  | Three Months |       |              | Nine Months |         |              |
|----------------------------------|--------------|-------|--------------|-------------|---------|--------------|
|                                  | 2017         | 2016  | \$<br>Change | 2017        | 2016    | \$<br>Change |
| Operating revenues               | \$547        | \$539 | \$ 8         | \$1,620     | \$1,619 | \$ 1         |
| Energy purchases                 | 121          | 129   | (8 )         | 374         | 414     | (40 )        |
| Other operation and maintenance  | 132          | 143   | (11 )        | 435         | 431     | 4            |
| Depreciation                     | 77           | 64    | 13           | 228         | 185     | 43           |
| Taxes, other than income         | 27           | 26    | 1            | 79          | 79      | —            |
| Total operating expenses         | 357          | 362   | (5 )         | 1,116       | 1,109   | 7            |
| Other Income (Expense) - net     | 5            | 4     | 1            | 11          | 12      | (1 )         |
| Interest Expense                 | 36           | 32    | 4            | 105         | 97      | 8            |
| Income Taxes                     | 64           | 58    | 6            | 159         | 162     | (3 )         |
| Net Income                       | 95           | 91    | 4            | 251         | 263     | (12 )        |
| Less: Special Items (a)          | —            | —     | —            | —           | —       | —            |
| Earnings from Ongoing Operations | \$95         | \$91  | \$ 4         | \$251       | \$263   | \$ (12 )     |

(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 Gross Margins on a separate line and not in their respective Statement of Income line items.

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|                                 | Three<br>Months | Nine<br>Months |
|---------------------------------|-----------------|----------------|
| Pennsylvania Gross Margins      | \$ 6            | \$ 14          |
| Other operation and maintenance | 16              | 8              |
| Depreciation                    | (8 )            | (29 )          |
| Taxes, other than income        | (1 )            | 1              |
| Other Income (Expense) - net    | 1               | (1 )           |
| Interest Expense                | (4 )            | (8 )           |
| Income Taxes                    | (6 )            | 3              |
| Net Income                      | \$ 4            | \$ (12 )       |

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

Lower other operation and maintenance expense for the three month period primarily due to \$5 million of lower payroll related expenses, \$4 million of lower bad debt expense and \$4 million of lower vegetation management expenses.

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

Higher depreciation expense for the three and nine month periods primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements.

Higher interest expense for the nine month period primarily due to the issuance of \$475 million of 3.950% First Mortgage Bonds in May 2017.

## 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 September 30.

|   | 2017 Three Months |              |              |                     |         |
|---|-------------------|--------------|--------------|---------------------|---------|
|   | U.K. Regulated    | KY Regulated | PA Regulated | Corporate and Other | Total   |
| Net Income  | \$126             | \$125        | \$95         | \$9                 | \$355   |
| Less: Special Items (expense) benefit:                          |                   |              |              |                     |         |
| Foreign currency economic hedges, net of tax of \$20            | (37)              | —            | —            | —                   | (37)    |
| Spinoff of the Supply segment, net of tax of (\$2) (a)          | —                 | —            | —            | 4                   | 4       |
| Total Special Items   | (37)              | —            | —            | 4                   | (33)    |
| Earnings from Ongoing Operations                                | \$163             | \$125        | \$95         | \$5                 | \$388   |
|   | 2016 Three Months |              |              |                     |         |
|   | U.K. Regulated    | KY Regulated | PA Regulated | Corporate and Other | Total   |
| Net Income  | \$281             | \$126        | \$91         | \$(25)              | \$473   |
| Less: Special Items (expense) benefit:                          |                   |              |              |                     |         |
| Foreign currency economic hedges, net of tax of \$103           |                   | (193)        | —            | —                   | (193)   |
| Other:  |                   |              |              |                     |         |
| Settlement of foreign currency contracts, net of tax of (\$108) | 202               | —            | —            | —                   | 202     |
| Change in U.K. tax rate   | 37                | —            | —            | —                   | 37      |
| Total Special Items   | 46                | —            | —            | —                   | 46      |
| Earnings from Ongoing Operations                                | \$235             | \$126        | \$91         | \$(25)              | \$427   |
|   | 2017 Nine Months  |              |              |                     |         |
|   | U.K. Regulated    | KY Regulated | PA Regulated | Corporate and Other | Total   |
| Net Income  | \$560             | \$299        | \$251        | \$(60)              | \$1,050 |
| Less: Special Items (expense) benefit:                          |                   |              |              |                     |         |



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|  |        |        |        |          |         |
|--|--------|--------|--------|----------|---------|
| Foreign currency economic hedges, net of tax of \$66   | (122 ) | —      | —      | —        | (122 )  |
| Spinoff of the Supply segment, net of tax of (\$2) (a) | —      | —      | —      | 4        | 4       |
| Adjustment to investment, net of tax of \$0            | —      | (1 )   | —      | —        | (1 )    |
| Total Special Items                                    | (122 ) | (1 )   | —      | 4        | (119 )  |
| Earnings from Ongoing Operations                       | \$682  | \$ 300 | \$ 251 | \$ (64 ) | \$1,169 |

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|   | 2016 Nine Months |              |              |                     | Total   |
|---|------------------|--------------|--------------|---------------------|---------|
|   | U.K. Regulated   | KY Regulated | PA Regulated | Corporate and Other |         |
| Net Income  | \$915            | \$ 314       | \$ 263       | \$ (55 )            | \$1,437 |
| Less: Special Items (expense) benefit:                          |                  |              |              |                     |         |
| Foreign currency economic hedges, net of tax of \$34            | (65 )            | —            | —            | —                   | (65 )   |
| Spinoff of the Supply segment, net of tax of \$2                | —                | —            | —            | (2 )                | (2 )    |
| Other:  |                  |              |              |                     |         |
| Settlement of foreign currency contracts, net of tax of (\$108) | 202              | —            | —            | —                   | 202     |
| Change in U.K. tax rate   | 37               | —            | —            | —                   | 37      |
| Total Special Items   | 174              | —            | —            | (2 )                | 172     |
| Earnings from Ongoing Operations                                | \$741            | \$ 314       | \$ 263       | \$ (53 )            | \$1,265 |

(a) Represents a tax settlement associated with the former Supply segment. Included in "Taxes, other than income" on the Statements of Income.

## Margins

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

"U.K. Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, 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 through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.

"Kentucky Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from 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 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 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 Margins

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

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|  | Three Months |       |              | Nine Months |         |              |
|--|--------------|-------|--------------|-------------|---------|--------------|
|  | 2017         | 2016  | \$<br>Change | 2017        | 2016    | \$<br>Change |
| U.K. Regulated   |              |       |              |             |         |              |
| U.K. Gross Margins   | \$441        | \$476 | \$ (35 )     | \$1,446     | \$1,566 | \$ (120 )    |
| Impact of changes in foreign currency exchange rates                   |              |       | (18 )        |             |         | (172 )       |
| U.K. Gross Margins excluding impact of foreign currency exchange rates |              |       | \$ (17 )     |             |         | \$ 52        |
| Kentucky Regulated   |              |       |              |             |         |              |
| Kentucky Gross Margins   |              |       |              |             |         |              |
| LG&E   | \$245        | \$237 | \$ 8         | \$678       | \$676   | \$ 2         |
| KU   | 302          | 300   | 2            | 842         | 857     | (15 )        |
| Total Kentucky Gross Margins   | \$547        | \$537 | \$ 10        | \$1,520     | \$1,533 | \$ (13 )     |
| Pennsylvania Regulated   |              |       |              |             |         |              |
| Pennsylvania Gross Margins   |              |       |              |             |         |              |
| Distribution   | \$233        | \$246 | \$ (13 )     | \$710       | \$721   | \$ (11 )     |
| Transmission   | 134          | 115   | 19           | 357         | 332     | 25           |
| Total Pennsylvania Gross Margins                                       | \$367        | \$361 | \$ 6         | \$1,067     | \$1,053 | \$ 14        |

## U.K. Gross Margins

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased for the three months ended September 30, 2017 compared with 2016, primarily due to \$12 million of lower volumes and \$3 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the nine months ended September 30, 2017 compared with 2016, primarily due to \$83 million from the April 1, 2016 price increase partially offset by \$24 million of lower volumes and \$9 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

## Kentucky Gross Margins

Kentucky Gross Margins increased for the three months ended September 30, 2017 compared with 2016, primarily due to higher base rates of \$31 million (\$18 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, partially offset by \$20 million of lower sales volumes due to milder weather in 2017 (\$8 million at LG&E and \$12 million at KU).

Kentucky Gross Margins decreased for the nine months ended September 30, 2017 compared with 2016, primarily due to \$51 million of lower sales volumes due to milder weather in 2017 (\$17 million at LG&E and \$34 million at KU), partially offset by higher base rates of \$31 million (\$18 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017.

## Pennsylvania Gross Margins

## Distribution

Distribution margins decreased for the three and nine month periods ended September 30, 2017 compared with 2016, primarily due to \$11 million and \$16 million of lower electricity sales volumes due to milder weather in 2017.

Transmission

Transmission margins increased for the three months ended September 30, 2017 compared with 2016, primarily due to an increase of \$20 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability.

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Transmission margins increased for the nine months ended September 30, 2017 compared with 2016, primarily due to an increase of \$42 million primarily from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by a \$17 million decrease as a result of a lower PPL zonal peak load billing factor which affected transmission revenue in the first five months of 2017.

## Reconciliation of 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 September 30.

|                                 | 2017 Three Months        |                              |                        |              |                            |
|---------------------------------|--------------------------|------------------------------|------------------------|--------------|----------------------------|
|                                 | U.K.<br>Gross<br>Margins | Kentucky<br>Gross<br>Margins | PA<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues              | \$467(c)                 | \$ 818                       | \$ 547                 | \$ 13        | \$ 1,845                   |
| Operating Expenses              |                          |                              |                        |              |                            |
| Fuel                            | —                        | 202                          | —                      | —            | 202                        |
| Energy purchases                | —                        | 22                           | 121                    | —            | 143                        |
| Other operation and maintenance | 26                       | 30                           | 29                     | 312          | 397                        |
| Depreciation                    | —                        | 16                           | 5                      | 236          | 257                        |
| Taxes, other than income        | —                        | 1                            | 25                     | 43           | 69                         |
| Total Operating Expenses        | 26                       | 271                          | 180                    | 591          | 1,068                      |
| Total                           | \$441                    | \$ 547                       | \$ 367                 | \$(578)      | \$ 777                     |
|                                 | 2016 Three Months        |                              |                        |              |                            |
|                                 | U.K.<br>Gross<br>Margins | Kentucky<br>Gross<br>Margins | PA<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues              | \$504(c)                 | \$ 835                       | \$ 539                 | \$ 11        | \$ 1,889                   |
| Operating Expenses              |                          |                              |                        |              |                            |
| Fuel                            | —                        | 227                          | —                      | —            | 227                        |
| Energy purchases                | —                        | 24                           | 129                    | (2 )         | 151                        |
| Other operation and maintenance | 28                       | 33                           | 24                     | 332          | 417                        |
| Depreciation                    | —                        | 14                           | —                      | 218          | 232                        |
| Taxes, other than income        | —                        | —                            | 25                     | 51           | 76                         |
| Total Operating Expenses        | 28                       | 298                          | 178                    | 599          | 1,103                      |
| Total                           | \$476                    | \$ 537                       | \$ 361                 | \$(588)      | \$ 786                     |
|                                 | 2017 Nine Months         |                              |                        |              |                            |
|                                 | U.K.<br>Gross<br>Margins | Kentucky<br>Gross<br>Margins | PA<br>Gross<br>Margins | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues              | \$1,517(c)               | \$ 2,350                     | \$ 1,620               | \$ 34        | \$ 5,521                   |
| Operating Expenses              |                          |                              |                        |              |                            |
| Fuel                            | —                        | 576                          | —                      | —            | 576                        |
| Energy purchases                | —                        | 120                          | 374                    | —            | 494                        |
| Other operation and maintenance | 71                       | 82                           | 89                     | 975          | 1,217                      |
| Depreciation                    | —                        | 48                           | 14                     | 683          | 745                        |
| Taxes, other than income        | —                        | 4                            | 76                     | 134          | 214                        |
| Total Operating Expenses        | 71                       | 830                          | 553                    | 1,792        | 3,246                      |

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|       |         |          |          |           |          |
|-------|---------|----------|----------|-----------|----------|
| Total | \$1,446 | \$ 1,520 | \$ 1,067 | \$(1,758) | \$ 2,275 |
|-------|---------|----------|----------|-----------|----------|

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|                                 | 2016 Nine Months         |                              |                        |           | Operating<br>Income<br>(b) |
|---------------------------------|--------------------------|------------------------------|------------------------|-----------|----------------------------|
|                                 | U.K.<br>Gross<br>Margins | Kentucky<br>Gross<br>Margins | PA<br>Gross<br>Margins | Other (a) |                            |
| Operating Revenues              | \$1,641 (c)              | \$ 2,382                     | \$ 1,619               | \$43      | \$ 5,685                   |
| Operating Expenses              |                          |                              |                        |           |                            |
| Fuel                            | —                        | 607                          | —                      | —         | 607                        |
| Energy purchases                | —                        | 118                          | 414                    | (1 )      | 531                        |
| Other operation and maintenance | 75                       | 81                           | 77                     | 1,059     | 1,292                      |
| Depreciation                    | —                        | 40                           | —                      | 652       | 692                        |
| Taxes, other than income        | —                        | 3                            | 75                     | 151       | 229                        |
| Total Operating Expenses        | 75                       | 849                          | 566                    | 1,861     | 3,351                      |
| Total                           | \$1,566                  | \$ 1,533                     | \$ 1,053               | \$(1,818) | \$ 2,334                   |

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$11 million and \$30 million for the three and nine months ended September 30, 2017 and \$11 million and \$32 million for the three and nine months ended September 30, 2016.

## 2017 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)

Lower net income is projected in 2017 compared with 2016, primarily driven by a lower assumed GBP exchange rate in 2017, lower true-up mechanisms, lower incentive revenues, higher interest expense and higher depreciation expense, partially offset by lower operation and maintenance expense, including pension expense, and higher base revenue from the April 1, 2017 price reset.

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

Lower net income is projected in 2017 compared with 2016, primarily driven by lower electricity sales volumes due to unfavorable weather in 2017 and higher depreciation expense, partially offset by electricity and gas base rate increases.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Relatively flat net income is projected in 2017 compared with 2016, primarily driven by higher transmission earnings and lower operation and maintenance expense, offset by higher depreciation expense and higher interest expense.

(PPL's Corporate and Other Category)

Relatively flat costs are projected in 2017 compared with 2016.



(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 9 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' 2016 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 Margins

## Statement of Income Analysis

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

|                                 | Three Months |       |              | Nine Months |         |              |
|---------------------------------|--------------|-------|--------------|-------------|---------|--------------|
|                                 | 2017         | 2016  | \$<br>Change | 2017        | 2016    | \$<br>Change |
| Operating Revenues              | \$547        | \$539 | \$ 8         | \$1,620     | \$1,619 | \$ 1         |
| Operating Expenses              |              |       |              |             |         |              |
| Operation                       |              |       |              |             |         |              |
| Energy purchases                | 121          | 129   | (8 )         | 374         | 414     | (40 )        |
| Other operation and maintenance | 133          | 144   | (11 )        | 435         | 431     | 4            |
| Depreciation                    | 77           | 64    | 13           | 228         | 185     | 43           |
| Taxes, other than income        | 27           | 26    | 1            | 79          | 79      | —            |
| Total Operating Expenses        | 358          | 363   | (5 )         | 1,116       | 1,109   | 7            |
| Other Income (Expense) - net    | 4            | 4     | —            | 8           | 12      | (4 )         |
| Interest Income from Affiliate  | 2            | —     | 2            | 3           | —       | 3            |
| Interest Expense                | 36           | 32    | 4            | 105         | 97      | 8            |
| Income Taxes                    | 64           | 58    | 6            | 159         | 162     | (3 )         |
| Net Income                      | \$95         | \$90  | \$ 5         | \$251       | \$263   | \$ (12 )     |

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

|                           | Three<br>Months | Nine<br>Months |
|---------------------------|-----------------|----------------|
| Distribution Price (a)    | \$ 16           | \$ 46          |
| Distribution volume       | (20 )           | (30 )          |
| PLR (b)                   | (1 )            | (32 )          |
| Transmission Formula Rate | 20              | 25             |
| Other                     | (7 )            | (8 )           |
| Total                     | \$ 8            | \$ 1           |

(a) Distribution rider prices resulted in increases of \$16 million and \$40 million for the three and nine months ended September 30, 2017.

(b) The decrease for the nine month period was primarily due to lower energy prices as described below.

## Energy Purchases

Energy purchases decreased \$8 million for the three months ended September 30, 2017 compared with 2016, primarily due to lower PLR volumes of \$12 million partially offset by higher PLR prices of \$6 million.

Energy purchases decreased \$40 million for the nine months ended September 30, 2017 compared with 2016, primarily due to lower PLR prices of \$24 million and lower PLR volumes of \$11 million.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2017 compared with 2016 was due to:

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|                         | Three<br>Months | Nine<br>Months |
|-------------------------|-----------------|----------------|
| Corporate service costs | \$ —            | \$ 17          |
| Vegetation management   | (4 )            | (7 )           |
| Payroll-related costs   | (5 )            | (6 )           |
| Act 129                 | 3               | 11             |
| Bad debts               | (4 )            | (10 )          |
| Other                   | (1 )            | (1 )           |
| Total                   | \$ (11 )        | \$ 4           |

## Depreciation

Depreciation increased \$13 million and \$43 million for the three and nine months ended September 30, 2017 compared with 2016, 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.

## Interest Expense

Interest expense increased \$4 million and \$8 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047.

## Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2017 compared with 2016 was due to:

|  | Three<br>Months | Nine<br>Months |
|--|-----------------|----------------|
| Change in pre-tax income at current period tax rates | \$ 3            | \$ (7 )        |
| Stock-based compensation                             | —               | 2              |
| Other  | 3               | 2              |
| Total  | \$ 6            | \$ (3 )        |

## Earnings

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 |
|--|--|---|--|---|
| Net Income                                   | \$ 95  | \$ 90   | \$ 251   | \$ 263  |
| Special items, gains (losses), after-tax (a) | —  | —   | —  | —   |

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

Earnings increased for the three month period in 2017 compared with 2016 as higher transmission margins from additional capital investments and lower other operation and maintenance expense were offset by lower sales volumes due to unfavorable weather and higher depreciation expense.

Earnings decreased for the nine month period in 2017 compared with 2016, primarily due to higher depreciation expense, primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements, higher interest expense, and lower distribution margins primarily due to lower sales volumes due to unfavorable weather in 2017. Higher transmission margins from additional capital investments were partially offset by a lower PPL zonal peak load billing factor.

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

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|                                 | Three<br>Months | Nine<br>Months |
|---------------------------------|-----------------|----------------|
| Pennsylvania Gross Margins      | \$ 6            | \$ 14          |
| Other operation and maintenance | 16              | 8              |
| Depreciation                    | (8 )            | (29 )          |
| Taxes, other than income        | (1 )            | 1              |
| Other Income (Expense) - net    | 2               | (1 )           |
| Interest Expense                | (4 )            | (8 )           |
| Income Taxes                    | (6 )            | 3              |
| Net Income                      | \$ 5            | \$ (12 )       |

## Margins

"Pennsylvania 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 - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

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

|                                 | 2017 Three Months      |              |                            | 2016 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              | \$547                  | \$—          | \$ 547                     | \$539                  | \$—          | \$ 539                     |
| Operating Expenses              |                        |              |                            |                        |              |                            |
| Energy purchases                | 121                    | —            | 121                        | 129                    | —            | 129                        |
| Other operation and maintenance | 29                     | 104          | 133                        | 24                     | 120          | 144                        |
| Depreciation                    | 5                      | 72           | 77                         | —                      | 64           | 64                         |
| Taxes, other than income        | 25                     | 2            | 27                         | 25                     | 1            | 26                         |
| Total Operating Expenses        | 180                    | 178          | 358                        | 178                    | 185          | 363                        |
| Total                           | \$367                  | \$(178)      | \$ 189                     | \$361                  | \$(185)      | \$ 176                     |

|                                 | 2017 Nine Months       |              |                            | 2016 Nine 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              | \$1,620                | \$—          | \$ 1,620                   | \$1,619                | \$—          | \$ 1,619                   |
| Operating Expenses              |                        |              |                            |                        |              |                            |
| Energy purchases                | 374                    | —            | 374                        | 414                    | —            | 414                        |
| Other operation and maintenance | 89                     | 346          | 435                        | 77                     | 354          | 431                        |
| Depreciation                    | 14                     | 214          | 228                        | —                      | 185          | 185                        |
| Taxes, other than income        | 76                     | 3            | 79                         | 75                     | 4            | 79                         |
| Total Operating Expenses        | 553                    | 563          | 1,116                      | 566                    | 543          | 1,109                      |
| Total                           | \$1,067                | \$(563)      | \$ 504                     | \$1,053                | \$(543)      | \$ 510                     |

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.



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

## Statement of Income Analysis

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

|                                 | Three Months |       |              | Nine Months |         |              |
|---------------------------------|--------------|-------|--------------|-------------|---------|--------------|
|                                 | 2017         | 2016  | \$<br>Change | 2017        | 2016    | \$<br>Change |
| Operating Revenues              | \$818        | \$835 | \$ (17 )     | \$2,350     | \$2,382 | \$ (32 )     |
| Operating Expenses              |              |       |              |             |         |              |
| Operation                       |              |       |              |             |         |              |
| Fuel                            | 202          | 227   | (25 )        | 576         | 607     | (31 )        |
| Energy purchases                | 22           | 24    | (2 )         | 120         | 118     | 2            |
| Other operation and maintenance | 199          | 197   | 2            | 598         | 603     | (5 )         |
| Depreciation                    | 114          | 102   | 12           | 324         | 301     | 23           |
| Taxes, other than income        | 17           | 16    | 1            | 49          | 46      | 3            |
| Total Operating Expenses        | 554          | 566   | (12 )        | 1,667       | 1,675   | (8 )         |
| Other Income (Expense) - net    | 1            | (3 )  | 4            | (5 )        | (9 )    | 4            |
| Interest Expense                | 49           | 50    | (1 )         | 148         | 147     | 1            |
| Interest Expense with Affiliate | 5            | 4     | 1            | 13          | 12      | 1            |
| Income Taxes                    | 79           | 79    | —            | 195         | 202     | (7 )         |
| Net Income                      | \$132        | \$133 | \$ (1 )      | \$322       | \$337   | \$ (15 )     |

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

|                              | Three<br>Months | Nine<br>Months |
|------------------------------|-----------------|----------------|
| Base rates                   | \$ 31           | \$ 31          |
| Volumes                      | (41 )           | (86 )          |
| Fuel and other energy prices | (8 )            | 10             |
| Other                        | 1               | 13             |
| Total                        | \$ (17 )        | \$ (32 )       |

## Fuel

Fuel decreased \$25 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$16 million decrease in volumes driven by milder weather in the third quarter of 2017 and a \$9 million decrease in market prices for coal.

Fuel decreased \$31 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$28 million decrease in volumes driven by milder weather in 2017 and a \$4 million decrease in market prices for coal.

## Depreciation

Depreciation increased \$12 million for the three months ended September 30, 2017 compared with 2016 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.

Depreciation increased \$23 million for the nine months ended September 30, 2017 compared with 2016 due to a \$16 million increase related to additions to PP&E, net of retirements, and a \$7 million increase related to higher depreciation rates effective July 1, 2017.

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## Earnings

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2017 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 |       |
|--|--|-------|---|-------|
| Net Income                               | \$132  | \$133 | \$322   | \$337 |
| Special items, gains (losses), after-tax | —  | —     | (1 )  | —     |

Earnings decreased for the three and nine month periods in 2017 compared with 2016, primarily due to lower sales volumes driven by milder weather and higher depreciation expense, partially offset by higher base rates effective July 1, 2017.

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

|  | Three<br>Months | Nine<br>Months |
|--|-----------------|----------------|
| Margins                                      | \$ 10           | \$ (13 )       |
| Other operation and maintenance              | (5 )            | 6              |
| Depreciation                                 | (10 )           | (15 )          |
| Taxes, other than income                     | —               | (2 )           |
| Other Income (Expense) - net                 | 4               | 5              |
| Interest Expense                             | —               | (2 )           |
| Income Taxes                                 | —               | 7              |
| Special items, gains (losses), after-tax (a) | —               | (1 )           |
| Net Income                                   | \$ (1 )         | \$ (15 )       |

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

## Margins

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

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

|                    | 2017 Three Months |              |                            | 2016 Three Months |              |                            |
|--------------------|-------------------|--------------|----------------------------|-------------------|--------------|----------------------------|
|                    | Margins<br>(a)    | Other<br>(a) | Operating<br>Income<br>(b) | Margins<br>(a)    | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues | \$818             | \$—          | \$ 818                     | \$835             | \$—          | \$ 835                     |
| Operating Expenses |                   |              |                            |                   |              |                            |
| Fuel               | 202               | —            | 202                        | 227               | —            | 227                        |

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|                                 |       |         |        |       |         |        |
|---------------------------------|-------|---------|--------|-------|---------|--------|
| Energy purchases                | 22    | —       | 22     | 24    | —       | 24     |
| Other operation and maintenance | 30    | 169     | 199    | 33    | 164     | 197    |
| Depreciation                    | 16    | 98      | 114    | 14    | 88      | 102    |
| Taxes, other than income        | 1     | 16      | 17     | —     | 16      | 16     |
| Total Operating Expenses        | 271   | 283     | 554    | 298   | 268     | 566    |
| Total                           | \$547 | \$(283) | \$ 264 | \$537 | \$(268) | \$ 269 |

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|                                 | 2017 Nine Months |              |                            | 2016 Nine Months |              |                            |
|---------------------------------|------------------|--------------|----------------------------|------------------|--------------|----------------------------|
|                                 | Margins          | Other<br>(a) | Operating<br>Income<br>(b) | Margins          | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues              | \$2,350          | \$—          | \$ 2,350                   | \$2,382          | \$—          | \$ 2,382                   |
| Operating Expenses              |                  |              |                            |                  |              |                            |
| Fuel                            | 576              | —            | 576                        | 607              | —            | 607                        |
| Energy purchases                | 120              | —            | 120                        | 118              | —            | 118                        |
| Other operation and maintenance | 82               | 516          | 598                        | 81               | 522          | 603                        |
| Depreciation                    | 48               | 276          | 324                        | 40               | 261          | 301                        |
| Taxes, other than income        | 4                | 45           | 49                         | 3                | 43           | 46                         |
| Total Operating Expenses        | 830              | 837          | 1,667                      | 849              | 826          | 1,675                      |
| Total                           | \$1,520          | \$(837)      | \$ 683                     | \$1,533          | \$(826)      | \$ 707                     |

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

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

## Statement of Income Analysis

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

|                                 | Three Months |       |              | Nine Months |         |              |
|---------------------------------|--------------|-------|--------------|-------------|---------|--------------|
|                                 | 2017         | 2016  | \$<br>Change | 2017        | 2016    | \$<br>Change |
| Operating Revenues              |              |       |              |             |         |              |
| Retail and wholesale            | \$361        | \$366 | \$ (5 )      | \$1,055     | \$1,058 | \$ (3 )      |
| Electric revenue from affiliate | 2            | 2     | —            | 23          | 19      | 4            |
| Total Operating Revenues        | 363          | 368   | (5 )         | 1,078       | 1,077   | 1            |
| Operating Expenses              |              |       |              |             |         |              |
| Operation                       |              |       |              |             |         |              |
| Fuel                            | 76           | 86    | (10 )        | 225         | 233     | (8 )         |
| Energy purchases                | 18           | 19    | (1 )         | 107         | 104     | 3            |
| Energy purchases from affiliate | 3            | 5     | (2 )         | 8           | 10      | (2 )         |
| Other operation and maintenance | 89           | 85    | 4            | 262         | 264     | (2 )         |
| Depreciation                    | 47           | 43    | 4            | 136         | 126     | 10           |
| Taxes, other than income        | 8            | 9     | (1 )         | 25          | 24      | 1            |
| Total Operating Expenses        | 241          | 247   | (6 )         | 763         | 761     | 2            |
| Other Income (Expense) - net    | (1 )         | (1 )  | —            | (2 )        | (6 )    | 4            |
| Interest Expense                | 17           | 18    | (1 )         | 53          | 53      | —            |
| Income Taxes                    | 39           | 39    | —            | 99          | 98      | 1            |
| Net Income                      | \$65         | \$63  | \$ 2         | \$161       | \$159   | \$ 2         |

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## Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

|                              | Three<br>Months | Nine<br>Months |
|------------------------------|-----------------|----------------|
| Base rates                   | \$ 18           | \$ 18          |
| Volumes                      | (16 )           | (26 )          |
| Fuel and other energy prices | (4 )            | 4              |
| Other                        | (3 )            | 5              |
| Total                        | \$ (5 )         | \$ 1           |

## Fuel

Fuel decreased \$10 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$6 million decrease in market prices for coal and a \$5 million decrease in volumes driven by milder weather in the third quarter of 2017.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2017 compared with 2016 was due to:

|  | Three<br>Months | Nine<br>Months |
|--|-----------------|----------------|
| Plant operations and maintenance                   | \$ 1            | \$ (1 )        |
| Pension expense                                    | 1               | 1              |
| Timing and scope of generation maintenance outages | —               | (1 )           |
| Storm costs  | —               | (1 )           |
| Other  | 2               | —              |
| Total  | \$ 4            | \$ (2 )        |

## Depreciation

Depreciation increased \$4 million for the three months ended September 30, 2017 compared with 2016 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.

## Earnings

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | 2016  | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 | 2016   |
|--|--|-------|---|--------|
| Net Income                                   | \$ 65  | \$ 63 | \$ 161  | \$ 159 |
| Special items, gains (losses), after-tax (a) | —  | —     | —   | —      |

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

Earnings increased for the three month period in 2017 compared with 2016, primarily due to higher base rates effective July 1, 2017, partially offset by lower sales volumes driven by milder weather.

Earnings increased for the nine month period in 2017 compared with 2016, primarily due to higher base rates effective July 1, 2017 and lower other operation and maintenance expense, partially offset by lower sales volumes driven by milder weather.

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

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|                                 | Three<br>Months | Nine<br>Months |
|---------------------------------|-----------------|----------------|
| Margins                         | \$ 8            | \$ 2           |
| Other operation and maintenance | (4 )            | 3              |
| Depreciation                    | (5 )            | (6 )           |
| Taxes, other than income        | 2               | —              |
| Other Income (Expense) - net    | —               | 4              |
| Interest Expense                | 1               | —              |
| Income Taxes                    | —               | (1 )           |
| Net Income                      | \$ 2            | \$ 2           |

## Margins

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

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

|                                       | 2017 Three Months |              |                            | 2016 Three Months |              |                            |
|---------------------------------------|-------------------|--------------|----------------------------|-------------------|--------------|----------------------------|
|                                       | Margins           | Other<br>(a) | Operating<br>Income<br>(b) | Margins           | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues                    | \$363             | \$—          | \$ 363                     | \$368             | \$—          | \$ 368                     |
| Operating Expenses                    |                   |              |                            |                   |              |                            |
| Fuel                                  | 76                | —            | 76                         | 86                | —            | 86                         |
| Energy purchases, including affiliate | 21                | —            | 21                         | 24                | —            | 24                         |
| Other operation and maintenance       | 13                | 76           | 89                         | 13                | 72           | 85                         |
| Depreciation                          | 7                 | 40           | 47                         | 8                 | 35           | 43                         |
| Taxes, other than income              | 1                 | 7            | 8                          | —                 | 9            | 9                          |
| Total Operating Expenses              | 118               | 123          | 241                        | 131               | 116          | 247                        |
| Total                                 | \$245             | \$(123)      | \$ 122                     | \$237             | \$(116)      | \$ 121                     |

|                                       | 2017 Nine Months |              |                            | 2016 Nine Months |              |                            |
|---------------------------------------|------------------|--------------|----------------------------|------------------|--------------|----------------------------|
|                                       | Margins          | Other<br>(a) | Operating<br>Income<br>(b) | Margins          | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues                    | \$1,078          | \$—          | \$ 1,078                   | \$1,077          | \$—          | \$ 1,077                   |
| Operating Expenses                    |                  |              |                            |                  |              |                            |
| Fuel                                  | 225              | —            | 225                        | 233              | —            | 233                        |
| Energy purchases, including affiliate | 115              | —            | 115                        | 114              | —            | 114                        |
| Other operation and maintenance       | 33               | 229          | 262                        | 32               | 232          | 264                        |
| Depreciation                          | 24               | 112          | 136                        | 20               | 106          | 126                        |
| Taxes, other than income              | 3                | 22           | 25                         | 2                | 22           | 24                         |
| Total Operating Expenses              | 400              | 363          | 763                        | 401              | 360          | 761                        |
| Total                                 | \$678            | \$(363)      | \$ 315                     | \$676            | \$(360)      | \$ 316                     |

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.



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

## Statement of Income Analysis

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

|                                 | Three Months |       |              | Nine Months |         |              |
|---------------------------------|--------------|-------|--------------|-------------|---------|--------------|
|                                 | 2017         | 2016  | \$<br>Change | 2017        | 2016    | \$<br>Change |
| <b>Operating Revenues</b>       |              |       |              |             |         |              |
| Retail and wholesale            | \$457        | \$469 | \$ (12 )     | \$1,295     | \$1,324 | \$ (29 )     |
| Electric revenue from affiliate | 3            | 5     | (2 )         | 8           | 10      | (2 )         |
| Total Operating Revenues        | 460          | 474   | (14 )        | 1,303       | 1,334   | (31 )        |
| <b>Operating Expenses</b>       |              |       |              |             |         |              |
| <b>Operation</b>                |              |       |              |             |         |              |
| Fuel                            | 126          | 141   | (15 )        | 351         | 374     | (23 )        |
| Energy purchases                | 4            | 5     | (1 )         | 13          | 14      | (1 )         |
| Energy purchases from affiliate | 2            | 2     | —            | 23          | 19      | 4            |
| Other operation and maintenance | 104          | 107   | (3 )         | 313         | 320     | (7 )         |
| Depreciation                    | 67           | 59    | 8            | 188         | 175     | 13           |
| Taxes, other than income        | 9            | 7     | 2            | 24          | 22      | 2            |
| Total Operating Expenses        | 312          | 321   | (9 )         | 912         | 924     | (12 )        |
| Other Income (Expense) - net    | —            | (3 )  | 3            | (3 )        | (4 )    | 1            |
| Interest Expense                | 24           | 24    | —            | 72          | 71      | 1            |
| Income Taxes                    | 47           | 48    | (1 )         | 120         | 128     | (8 )         |
| Net Income                      | \$77         | \$78  | \$ (1 )      | \$196       | \$207   | \$ (11 )     |

## Operating Revenue

The increase (decrease) in operating revenue for the periods ended September 30, 2017 compared with 2016 was due to:

|                              | Three<br>Months | Nine<br>Months |
|------------------------------|-----------------|----------------|
| Base rates                   | \$ 13           | \$ 13          |
| Volumes                      | (27 )           | (57 )          |
| Fuel and other energy prices | (3 )            | 5              |
| Other                        | 3               | 8              |
| Total                        | \$ (14 )        | \$ (31 )       |

## Fuel

Fuel decreased \$15 million for the three months ended September 30, 2017 compared with 2016, primarily due to an \$11 million decrease in volumes driven by milder weather in the third quarter of 2017 and a \$3 million decrease in market prices for coal.

Fuel decreased \$23 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$29 million decrease in volumes driven by milder weather in 2017.



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## Depreciation

Depreciation increased \$8 million for the three months ended September 30, 2017 compared with 2016 due to a \$5 million increase related to higher depreciation rates effective July 1, 2017 and a \$3 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$13 million for the nine months ended September 30, 2017 compared with 2016 due to an \$8 million increase related to additions to PP&E, net of retirements, and a \$5 million increase related to higher depreciation rates effective July 1, 2017.

## Earnings

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2017 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 |        |
|--|--|-------|---|--------|
| Net Income                               | \$ 77  | \$ 78 | \$ 196  | \$ 207 |
| Special items, gains (losses), after-tax | —  | —     | (1 )  | —      |

Earnings decreased for the three month period in 2017 compared with 2016, primarily due to lower electricity sales volumes driven by milder weather and higher depreciation expense, partially offset by higher base rates effective July 1, 2017.

Earnings decreased for the nine month period in 2017 compared with 2016, primarily due to lower electricity sales volumes driven by milder weather and higher depreciation expense, partially offset by higher base rates effective July 1, 2017 and lower other operation and maintenance expense.

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

|  | Three<br>Months | Nine<br>Months |
|--|-----------------|----------------|
| Margins                                      | \$ 2            | \$ (15 )       |
| Other operation and maintenance              | —               | 7              |
| Depreciation                                 | (5 )            | (9 )           |
| Taxes, other than income                     | (2 )            | (2 )           |
| Other Income (Expense) - net                 | 3               | 2              |
| Interest Expense                             | —               | (1 )           |
| Income Taxes                                 | 1               | 8              |
| Special items, gains (losses), after-tax (a) | —               | (1 )           |
| Net Income                                   | \$ (1 )         | \$ (11 )       |

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

## Margins

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

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

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|                                       | 2017 Three Months |              |                            | 2016 Three Months |              |                            |
|---------------------------------------|-------------------|--------------|----------------------------|-------------------|--------------|----------------------------|
|                                       | Margins           | Other<br>(a) | Operating<br>Income<br>(b) | Margins           | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues                    | \$460             | \$—          | \$ 460                     | \$474             | \$—          | \$ 474                     |
| Operating Expenses                    |                   |              |                            |                   |              |                            |
| Fuel                                  | 126               | —            | 126                        | 141               | —            | 141                        |
| Energy purchases, including affiliate | 6                 | —            | 6                          | 7                 | —            | 7                          |
| Other operation and maintenance       | 17                | 87           | 104                        | 20                | 87           | 107                        |
| Depreciation                          | 9                 | 58           | 67                         | 6                 | 53           | 59                         |
| Taxes, other than income              | —                 | 9            | 9                          | —                 | 7            | 7                          |
| Total Operating Expenses              | 158               | 154          | 312                        | 174               | 147          | 321                        |
| Total                                 | \$302             | \$(154)      | \$ 148                     | \$300             | \$(147)      | \$ 153                     |
|                                       |                   |              |                            |                   |              |                            |
|                                       |                   |              |                            |                   |              |                            |
|                                       | 2017 Nine Months  |              |                            | 2016 Nine Months  |              |                            |
|                                       | Margins           | Other<br>(a) | Operating<br>Income<br>(b) | Margins           | Other<br>(a) | Operating<br>Income<br>(b) |
| Operating Revenues                    | \$1,303           | \$—          | \$ 1,303                   | \$1,334           | \$—          | \$ 1,334                   |
| Operating Expenses                    |                   |              |                            |                   |              |                            |
| Fuel                                  | 351               | —            | 351                        | 374               | —            | 374                        |
| Energy purchases, including affiliate | 36                | —            | 36                         | 33                | —            | 33                         |
| Other operation and maintenance       | 49                | 264          | 313                        | 49                | 271          | 320                        |
| Depreciation                          | 24                | 164          | 188                        | 20                | 155          | 175                        |
| Taxes, other than income              | 1                 | 23           | 24                         | 1                 | 21           | 22                         |
| Total Operating Expenses              | 461               | 451          | 912                        | 477               | 447          | 924                        |
| Total                                 | \$842             | \$(451)      | \$ 391                     | \$857             | \$(447)      | \$ 410                     |

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

## Financial Condition

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

## Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

|                                 | PPL<br>(a) | PPL<br>Electric | LKE   | LG&E | KU   |
|---------------------------------|------------|-----------------|-------|------|------|
| September 30, 2017              |            |                 |       |      |      |
| Cash and cash equivalents       | \$676      | \$ 243          | \$ 40 | \$ 9 | \$31 |
| Notes receivable from affiliate | 2          | —               | —     | —    | 10   |
| Short-term debt                 | 1,211      | —               | 190   | 190  | —    |
| Notes payable with affiliate    | —          | —               | 159   | 10   | —    |

December 31, 2016

|                              |        |       |       |      |      |
|------------------------------|--------|-------|-------|------|------|
| Cash and cash equivalents    | \$ 341 | \$ 13 | \$ 13 | \$ 5 | \$ 7 |
| Short-term debt              | 923    | 295   | 185   | 169  | 16   |
| Notes payable with affiliate | —      | —     | 163   | —    | —    |

(a) At September 30, 2017, \$86 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate a material incremental U.S. tax cost. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2016 Form 10-K for additional information on undistributed earnings of WPD.

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

|                               | PPL      | PPL<br>Electric | LKE    | LG&E   | KU     |
|-------------------------------|----------|-----------------|--------|--------|--------|
| 2017                          |          |                 |        |        |        |
| Operating activities          | \$1,754  | \$ 575          | \$920  | \$418  | \$501  |
| Investing activities          | (2,164 ) | (858 )          | (575 ) | (293 ) | (289 ) |
| Financing activities          | 738      | 513             | (318 ) | (121 ) | (188 ) |
| 2016                          |          |                 |        |        |        |
| Operating activities          | \$2,230  | \$ 595          | \$816  | \$383  | \$469  |
| Investing activities          | (2,066 ) | (740 )          | (599 ) | (343 ) | (254 ) |
| Financing activities          | (558 )   | 134             | (236 ) | (55 )  | (219 ) |
| Change - Cash Provided (Used) |          |                 |        |        |        |
| Operating activities          | \$(476 ) | \$(20 )         | \$104  | \$35   | \$32   |
| Investing activities          | (98 )    | (118 )          | 24     | 50     | (35 )  |
| Financing activities          | 1,296    | 379             | (82 )  | (66 )  | 31     |

## Operating Activities

The components of the change in cash provided by (used in) operating activities for the nine months ended September 30, 2017 compared with 2016 were as follows.

|                               | PPL     | PPL<br>Electric | LKE     | LG&E  | KU     |
|-------------------------------|---------|-----------------|---------|-------|--------|
| Change - Cash Provided (Used) |         |                 |         |       |        |
| Net income                    | \$(387) | \$(12 )         | \$(15 ) | \$2   | \$(11) |
| Non-cash components           | (23 )   | 34              | (18 )   | (11 ) | 4      |
| Working capital               | 91      | (3 )            | 78      | (9 )  | 31     |
| Defined benefit plan funding  | (213 )  | (24 )           | 50      | 42    | (3 )   |
| Other operating activities    | 56      | (15 )           | 9       | 11    | 11     |
| Total                         | \$(476) | \$(20 )         | \$104   | \$35  | \$32   |

## (PPL)

PPL's cash provided by operating activities in 2017 decreased \$476 million compared with 2016.

The \$27 million decrease in non-cash components was primarily due to 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) and an increase in the U.K. net periodic defined benefit credits (primarily due to a decrease in the U.K. pension plan discount rates used to calculate the interest cost component of the net periodic defined benefit costs), partially offset by an increase in unrealized losses on hedging activities and an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017, partially offset by the impact of foreign currency exchange rates at WPD).

The \$91 million increase in cash from changes in working capital was primarily due to a decrease in accounts receivable and unbilled revenue (primarily due to a decrease in volumes due to milder weather in 2017 compared to 2016), a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in fuel, material and supplies (primarily due to a decrease in fuel purchases due to milder weather in 2017 compared to 2016), and an increase in accrued interest, partially offset by a decrease in accounts payable (primarily due to an increase in accrued expenditures for property, plant and equipment and timing of payments) and a decrease in taxes

payable (primarily due to an increase in current income tax benefit in 2017).

Defined benefit plan funding was \$213 million higher in 2017. The increase was primarily due to the acceleration of WPD's contributions to its U.K. pension plans. See Note 8 to the Financial Statements for additional information.

(PPL Electric)

PPL Electric's cash provided by operating activities in 2017 decreased \$20 million compared with 2016.

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The \$34 million increase in non-cash components was primarily due to an increase in depreciation expense (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), partially offset by a decrease in deferred income taxes (primarily due to book versus tax plant timing differences).

The \$3 million decrease in cash from changes in working capital was primarily due to an increase in prepayments (primarily due to an increase in the 2017 gross receipts tax prepayment compared to 2016) and a decrease in accounts payable (primarily due to timing of payments), partially offset by a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in unbilled revenue (primarily due to lower volumes due to milder weather in 2017 compared to 2016), an increase in taxes payable (primarily due to a decrease in the current income tax benefit) and a decrease in accounts receivable (primarily due to a decrease in volumes due to milder weather in 2017 and income tax refunds received).

Defined benefit plan funding was \$24 million higher in 2017.

(LKE)

LKE's cash provided by operating activities in 2017 increased \$104 million compared with 2016.

The increase in cash from changes in working capital was primarily driven by decreases in accounts receivable from customers and unbilled revenues due to milder weather in 2017 compared to 2016, a decrease in fuel purchases due to lower generation driven by weather in 2017 compared to 2016, and an increase in taxes payable due to timing of payments, partially offset by a decrease in accounts payable due to the timing of fuel purchases and payments.

Defined benefit plan funding was \$50 million lower in 2017.

(LG&E)

LG&E's cash provided by operating activities in 2017 increased \$35 million compared with 2016.

The decrease in cash from changes in working capital was primarily driven by decreases in accounts payable due to fuel purchases from lower generation and timing of payments and taxes payable due to timing of payments, partially offset by decreases in accounts receivable from customers and unbilled revenues due to milder weather in 2017 compared to 2016 and accounts receivable from affiliates due to timing of intercompany settlements associated with inventory and energy sales to KU.

Defined benefit plan funding was \$42 million lower in 2017.

(KU)

KU's cash provided by operating activities in 2017 increased \$32 million compared with 2016.

The increase in cash from changes in working capital was primarily driven by a decrease in accounts receivable from customers and unbilled revenues due to milder weather in 2017 compared to 2016, a decrease in fuel purchases due to lower generation driven by weather in 2017 compared to 2016, and an increase in accounts payable due to the timing of fuel purchases and payments, partially offset by a decrease in taxes payable due to timing of payments and accounts payable to affiliates due to timing of intercompany settlements associated with inventory and energy purchases from LG&E.

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 nine months ended September 30, 2017 compared with 2016 was as follows.

|                     | PPL    | PPL<br>Electric | LKE   | LG&E  | KU     |
|---------------------|--------|-----------------|-------|-------|--------|
| Decrease (Increase) | \$(79) | \$(112 )        | \$ 21 | \$ 50 | \$(28) |

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For PPL, the increase in expenditures was due to higher project expenditures at PPL Electric and KU partially offset by lower project expenditures at WPD and LG&E. The increase in expenditures for PPL Electric was primarily due to an increase in capital spending related to the ongoing efforts to improve reliability and replace aging infrastructure, as well as the roll-out of the Act 129 Smart Meter program. The decrease in expenditures for WPD was primarily due to a decrease in foreign currency exchange rates partially offset by an increase in expenditures to enhance system reliability. The decrease in expenditures for LG&E was primarily due to reduced spending for environmental air projects at LG&E's Mill Creek plant, partially offset by increased spending for environmental water projects at LG&E's Mill Creek plant. The increase in expenditures for KU was primarily due to 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 nine months ended September 30, 2017 compared with 2016 were as follows.

|  | PPL     | PPL<br>Electric | LKE    | LG&E   | KU    |
|--|---------|-----------------|--------|--------|-------|
| Change - Cash Provided (Used)            |         |                 |        |        |       |
| Debt issuance/retirement, net            | \$692   | \$ 470          | \$—    | \$—    | \$—   |
| Settlement of cross-currency swaps       | (46 )   | —               | —      | —      | —     |
| Stock issuances/redemptions, net         | 142     | —               | —      | —      | —     |
| Dividends                                | (28 )   | (38 )           | —      | (63 )  | 26    |
| Capital contributions/distributions, net | —       | 375             | (129 ) | (47 )  | (20 ) |
| Change in short-term debt, net           | 537     | (425 )          | 135    | 35     | 25    |
| Notes payable with affiliate             | —       | —               | (88 )  | 10     | —     |
| Other financing activities               | (1 )    | (3 )            | —      | (1 )   | —     |
| Total                                    | \$1,296 | \$ 379          | \$(82) | \$(66) | \$31  |

See Note 7 to the Financial Statements in this Form 10-Q for information on 2017 short-term and long-term debt activity, equity transactions and PPL dividends. See the Registrants' 2016 Form 10-K for information on 2016 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. At September 30, 2017, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows:

## 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 | \$ 1,400              | \$ —     | \$ 303   | \$ 1,097           |

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|                                  |          |       |        |          |
|----------------------------------|----------|-------|--------|----------|
| PPL Electric Credit Facility     | 650      | —     | 1      | 649      |
| LKE Credit Facility              | 75       | —     | —      | 75       |
| LG&E Credit Facility             | 500      | —     | 190    | 310      |
| KU Credit Facilities             | 598      | —     | 198    | 400      |
| Total LKE                        | 1,173    | —     | 388    | 785      |
| Total U.S. Credit Facilities (a) | \$ 3,223 | \$ —  | \$ 692 | \$ 2,531 |
| Total U.K. Credit Facilities (b) | £ 1,285  | £ 501 | £ —    | £ 783    |

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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 - 21%, LG&E - 7% and KU - 37%.

The amounts borrowed at September 30, 2017 were a USD-denominated borrowing of \$200 million and (b) GBP-denominated borrowings which equated to \$446 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £156 million as of the date borrowed. At September 30, 2017, 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 20% of the total committed capacity.

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

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

|                     | Committed<br>Capacity | Borrowed | Other<br>Used<br>Capacity | Unused<br>Capacity |
|---------------------|-----------------------|----------|---------------------------|--------------------|
| LKE Credit Facility | \$ 225                | \$ 159   | \$ —                      | —\$ 66             |
| LG&E Money Pool (a) | 500                   | 10       | 190                       | 300                |
| KU Money Pool (a)   | 500                   | —        | —                         | 500                |

LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make (a) available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. However, the FERC has issued a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 10 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 September 30, 2017:

|                     | Capacity | Commercial<br>Paper<br>Issuances | Unused<br>Capacity |
|---------------------|----------|----------------------------------|--------------------|
| PPL Capital Funding | \$ 1,000 | \$ 285                           | \$ 715             |
| PPL Electric        | 650      | —                                | 650                |
| LG&E                | 350      | 190                              | 160                |
| KU                  | 350      | —                                | 350                |
| Total LKE           | 700      | 190                              | 510                |
| Total PPL           | \$ 2,350 | \$ 475                           | \$ 1,875           |

## Long-term Debt (All Registrants)

See Note 7 to the Financial Statements for information regarding the Registrants' long-term debt activities.

(PPL)

ATM Program

For the periods ended September 30, 2017, PPL issued the following:

|                                 | Three<br>Months | Nine<br>Months |
|---------------------------------|-----------------|----------------|
| Number of shares (in thousands) | 2,049           | 5,526          |
| Average share price             | \$ 39.04        | \$ 38.49       |
| Net Proceeds                    | \$ 79           | \$ 211         |

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See Note 7 to the Financial Statements for further discussion of the ATM program.

Common Stock Dividends

In August 2017, PPL declared a quarterly common stock dividend, payable October 2, 2017, of 39.5 cents per share (equivalent to \$1.58 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 2017:

(PPL)

In March 2017, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £50 million 0.01% Index-linked Senior Notes due 2029.

In September 2017, Moody's and S&P assigned ratings of Baa2 and BBB+ to PPL Capital Funding's \$500 million 4.00% Senior Notes due 2047.

(PPL and PPL Electric)

In January 2017, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's \$650 million commercial paper program.

In May 2017, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$475 million 3.95% First Mortgage Bonds due 2047.

In August 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for LCIDA's \$116 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project) Series 2016A due 2029 and LCIDA's \$108 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation

Project) Series 2016B due 2027, each previously issued on behalf of PPL Electric.

(PPL, LKE and LG&E)

In March 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$128 million 1.5% Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In May 2017, Moody's and S&P assigned ratings of A1 and A to the County of Trimble, Kentucky's \$60 million 3.75% Environmental Facilities Revenue Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033, issued on behalf of LG&E.



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In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$31 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$35 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

(PPL, LKE and KU)

In July 2017, Moody's affirmed its rating of Aa2 and in August 2017, S&P confirmed its rating of AA for the County of Mercer, Kentucky's \$13 million Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project) due 2023, the County of Carroll, Kentucky's \$50 million Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) due 2034, the County of Carroll, Kentucky's \$78 million Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project) due 2032 and the County of Carroll, Kentucky's \$54 million Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project) due 2034, each previously issued on behalf of KU.

## 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 13 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 September 30, 2017.

(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' 2016 Form 10-K.

## Risk Management

### Market Risk

(All Registrants)

See Notes 12 and 13 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 September 30, 2017.

|                          | Exposure Hedged | Fair Value, Net - Asset (Liability) (a) | Effect of a 10% Adverse Movement in Rates (b) | Maturities Ranging Through |
|--------------------------|-----------------|---|---|----------------------------|
| <b>PPL</b>               |                 |   |   |                            |
| Cash flow hedges         |                 |   |   |                            |
| Interest rate swaps (c)  | \$ 242          | \$ (2 )                                 | \$ (3 )                                       | 2027                       |
| Cross-currency swaps (c) | 802             | 162                                     | (90 )   | 2028                       |
| Economic hedges          |                 |   |   |                            |
| Interest rate swaps (d)  | 147             | (29 )                                   | (1 )  | 2033                       |
| <b>LKE</b>               |                 |   |   |                            |
| Economic hedges          |                 |   |   |                            |
| Interest rate swaps (d)  | 147             | (29 )                                   | (1 )  | 2033                       |
| <b>LG&amp;E</b>          |                 |   |   |                            |
| Economic hedges          |                 |   |   |                            |
| Interest rate swaps (d)  | 147             | (29 )                                   | (1 )  | 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 September 30, 2017 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 September 30, 2017 is shown below.

|              | 10% Adverse Movement in Rates |
|--------------|-------------------------------|
| PPL          | \$ 600                        |
| PPL Electric | 165                           |
| LKE          | 172                           |
| LG&E         | 63                            |
| KU           | 95                            |

#### Foreign Currency Risk (PPL)

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

investments.

The following foreign currency hedges were outstanding at September 30, 2017.

|                           | Exposure Hedged | Fair Value, Net - Asset (Liability) | Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a) | Maturities Ranging Through |
|---------------------------|-----------------|-------------------------------------|---|----------------------------|
| Net investment hedges (b) | £ 92            | \$ 1                                | \$ (12 )  | 2017                       |
| Economic hedges (c)       | 2,728           | (4 )                                | (340 )  | 2020                       |

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

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- (b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
- (c) To economically hedge the translation risk of expected earnings denominated in GBP.

(All Registrants)

Commodity Price Risk

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

PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers. LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

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

WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 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 12 and 13 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' 2016 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 gain of \$194 million for the nine months ended September 30, 2017, which primarily reflected a \$345 million increase to PP&E and a \$75 million increase to goodwill partially offset by a \$203 million increase to long-term debt and a \$23 million increase to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$840 million for the nine months ended September 30, 2016, which primarily reflected a \$1.6 billion decrease to PP&E and \$375 million decrease to goodwill partially offset by a \$995 million decrease to long-term debt and a \$160 million decrease 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 10 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' 2016 Form 10-K for information on the more significant activities.

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## 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 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. In addition, the regulatory reviews specified in the President's March 2017 Executive Order promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty. 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 9 to the Financial Statements for a discussion of the more significant environmental matters including:

Legal Matters,  
Climate Change,  
CCRs,  
ELGs, and  
NAAQS.

Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2016 Form 10-K for additional information on environmental matters.

## New Accounting Guidance (All Registrants)

See Note 17 to the Financial Statements for a discussion of new accounting guidance 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' 2016 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  |
| Goodwill Impairment                    | X   |          | X   | X    | X  |
| AROs                                   | X   |          | X   | X    | X  |
| Price Risk Management                  | X   |          |     |      |    |
| Regulatory Assets and Liabilities      | X   | X        | X   | X    | X  |
| Revenue Recognition - Unbilled Revenue |     |          | X   | X    | X  |





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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 September 30, 2017, 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' third fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

•Item 3. Legal Proceedings" in each Registrant's 2016 Form 10-K; and  
•Notes 6 and 9 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' 2016 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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- 4(a) - Supplemental Indenture No. 16, dated as of September 8, 2017, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 6, 2017)
- \*4(b) - £3,000,000,000 Euro Medium Term Note Programme entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 15, 2017
- \*4(c) - Amendment No. 1 to PPL Employee Stock Ownership Plan, dated October 2, 2017
- \*10(a)-1 - £20,000,000 Uncommitted Facility Letter entered into between Western Power Distribution (South West) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (East Midlands) plc and BNP Paribas, dated as of January 23, 2014
- \*10(a)-2 - Amendment to said Uncommitted Facility Letter, dated as of July 28, 2017
- \*10(b) - \$200,000,000 Term Loan Credit Agreement, dated as of October 26, 2017, among Louisville Gas and Electric Company, as the Borrower, the Lenders from time to time party hereto and U.S. Bank National Association, as Administrative Agent
- \*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 September 30, 2017, 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 September 30, 2017, 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: November 1, 2017 /s/ Stephen K. Breininger  
Stephen K. Breininger  
Vice President and Controller  
(Principal Accounting Officer)

PPL Electric Utilities Corporation  
(Registrant)

Date: November 1, 2017 /s/ Marlene C. Beers  
Marlene C. Beers  
Controller  
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC  
(Registrant)

Louisville Gas and Electric Company  
(Registrant)

Kentucky Utilities Company  
(Registrant)

Date: November 1, 2017 /s/ Kent W. Blake  
Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

