

PPL Corp  
 Form 10-Q  
 August 03, 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 June 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 Registrant; State of Incorporation; Number	Address and Telephone Number	IRS Employer Identification No.
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1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
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1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
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333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
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1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
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1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street	61-0247570
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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, 685,855,683 shares outstanding at July 27, 2017.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 27, 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 July 27, 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 July 27, 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 ELECTRIC UTILITIES CORPORATION  
LG&E AND KU ENERGY LLC  
LOUISVILLE GAS AND ELECTRIC COMPANY  
KENTUCKY UTILITIES COMPANY

FORM 10-Q  
FOR THE QUARTER ENDED JUNE 30, 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 - At-the-Market 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.

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.

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.

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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.

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

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

PP&E - property, plant and equipment.

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

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions 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.

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

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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 recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- fuel supply for LG&E and KU;
- 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.

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

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



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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Operating Revenues	\$1,725	\$ 1,785	\$3,676	\$ 3,796
Operating Expenses				
Operation				
Fuel	183	183	374	380
Energy purchases	136	147	351	380
Other operation and maintenance	388	425	820	875
Depreciation	246	231	488	460
Taxes, other than income	70	74	145	153
Total Operating Expenses	1,023	1,060	2,178	2,248
Operating Income	702	725	1,498	1,548
Other Income (Expense) - net	(112 )	174	(159 )	235
Interest Expense	222	224	439	448
Income Before Income Taxes	368	675	900	1,335
Income Taxes	76	192	205	371
Net Income	\$292	\$ 483	\$ 695	\$ 964
Earnings Per Share of Common Stock:				
Net Income Available to PPL Common Shareowners:				
Basic	\$0.43	\$ 0.71	\$ 1.02	\$ 1.42
Diluted	\$0.43	\$ 0.71	\$ 1.01	\$ 1.41
Dividends Declared Per Share of Common Stock	\$0.3950	\$ 0.38	\$ 0.79	\$ 0.76
Weighted-Average Shares of Common Stock Outstanding				
(in thousands)				
Basic	683,841	677,145	682,370	676,293
Diluted	686,351	680,729	684,725	679,773

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

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$292	\$483	\$695	\$964
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, \$0, (\$1), (\$2)	231	268	207	(196 )
Qualifying derivatives, net of tax of \$5, \$22, \$7, \$7	(24 )	(85 )	(30 )	(5 )
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$7, (\$1), \$7, (\$1)	(11 )	2	(11 )	2
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of (\$7), (\$21), (\$7), (\$2)	25	85	24	7
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	1	(1 )	1	(1 )
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	1	1	1	1
Net actuarial (gain) loss, net of tax of (\$9), (\$8), (\$18), (\$17)	31	32	63	63
Total other comprehensive income (loss)	254	302	255	(129 )
Comprehensive income	\$546	\$785	\$950	\$835

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30, 2017		2016	
Cash Flows from Operating Activities				
Net income	\$ 695		\$ 964	
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	488		460	
Amortization	45		37	
Defined benefit plans - expense (income)	(45 )		(24 )	
Deferred income taxes and investment tax credits	201		320	
Unrealized (gains) losses on derivatives, and other hedging activities	135		(192 )	
Stock-based compensation expense	22		18	
Other	(5 )		(11 )	
Change in current assets and current liabilities				
Accounts receivable	26		16	
Accounts payable	(92 )		(39 )	
Unbilled revenues	70		(2 )	
Fuel, materials and supplies	42		21	
Prepayments	(66 )		(66 )	
Counterparty collateral	8		76	
Taxes payable	(27 )		22	
Accrued interest	(77 )		(85 )	
Other current liabilities	(52 )		(47 )	
Other	(14 )		(21 )	
Other operating activities				
Defined benefit plans - funding	(552 )		(224 )	
Other assets	(1 )		2	
Other liabilities	(11 )		(55 )	
Net cash provided by operating activities	790		1,170	

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Cash Flows from Investing Activities				
Expenditures for property, plant and equipment	(1,373	)	(1,346	)
Expenditures for intangible assets	(15	)	(14	)
Other investing activities	6		13	
Net cash used in investing activities	(1,382	)	(1,347	)
Cash Flows from Financing Activities				
Issuance of long-term debt	594		1,020	
Retirement of long-term debt	(60	)	(684	)
Settlement of cross-currency swaps	—		46	
Issuance of common stock	177		76	
Payment of common stock dividends	(529	)	(513	)
Net increase (decrease) in short-term debt	554		(66	)
Other financing activities	(25	)	(31	)
Net cash provided by (used in) financing activities	711		(152	)
Effect of Exchange Rates on Cash and Cash Equivalents	7		(15	)
Net Increase (Decrease) in Cash and Cash Equivalents	126		(344	)
Cash and Cash Equivalents at Beginning of Period	341		836	
Cash and Cash Equivalents at End of Period	\$	467	\$	492

Supplemental Disclosures of Cash Flow Information  
Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$	284	\$	283
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Accrued expenditures for intangible assets at \$	56	\$	94
June 30,			

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, December 31,	
	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$467	\$ 341
Accounts receivable (less reserve: 2017, \$53; 2016, \$54)		
Customer	628	666
Other	85	46
Unbilled revenues	416	480
Fuel, materials and supplies	316	356
Prepayments	131	63
Price risk management assets	69	63
Other current assets	54	52
Total Current Assets	2,166	2,067
Property, Plant and Equipment		
Regulated utility plant	36,173	34,674
Less: accumulated depreciation - regulated utility plant	6,446	6,013
Regulated utility plant, net	29,727	28,661
Non-regulated property, plant and equipment	424	413
Less: accumulated depreciation - non-regulated property, plant and equipment	147	134
Non-regulated property, plant and equipment, net	277	279
Construction work in progress	1,229	1,134
Property, Plant and Equipment, net	31,233	30,074
Other Noncurrent Assets		
Regulatory assets	1,906	1,918
Goodwill	3,139	3,060
Other intangibles	656	700
Pension benefit asset	467	9
Price risk management assets	245	336
Other noncurrent assets	152	151
Total Other Noncurrent Assets	6,565	6,174
Total Assets	\$39,964	\$ 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)

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$1,497	\$ 923
Long-term debt due within one year	671	518
Accounts payable	752	820
Taxes	77	101
Interest	196	270
Dividends	271	259
Customer deposits	289	276
Regulatory liabilities	71	101
Other current liabilities	526	569
Total Current Liabilities	4,350	3,837
Long-term Debt	18,397	17,808
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,130	3,889
Investment tax credits	131	132
Accrued pension obligations	787	1,001
Asset retirement obligations	343	428
Regulatory liabilities	902	899
Other deferred credits and noncurrent liabilities	434	422
Total Deferred Credits and Other Noncurrent Liabilities	6,727	6,771
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,023	9,841
Earnings reinvested	3,983	3,829
Accumulated other comprehensive loss	(3,523 )	(3,778 )
Total Equity	10,490	9,899
Total Liabilities and Equity	\$39,964	\$ 38,315

(a) 1,560,000 shares authorized; 685,473 and 679,731 shares issued and outstanding at June 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 stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778 )	\$ 9,899
Common stock issued	5,742		202			202
Stock-based compensation			(20 )			(20 )
Net income				695		695
Dividends and dividend equivalents				(541 )		(541 )
Other comprehensive income (loss)					255	255
June 30, 2017	685,473	\$ 7	\$ 10,023	\$ 3,983	\$ (3,523 )	\$ 10,490
December 31, 2015	673,857	\$ 7	\$ 9,687	\$ 2,953	\$ (2,728 )	\$ 9,919
Common stock issued	3,692		109			109
Stock-based compensation			(30 )			(30 )
Net income				964		964
Dividends and dividend equivalents				(515 )		(515 )
Other comprehensive income (loss)					(129 )	(129 )
Adoption of stock-based compensation guidance cumulative effect adjustment				7		7
June 30, 2016	677,549	\$ 7	\$ 9,766	\$ 3,409	\$ (2,857 )	\$ 10,325

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

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

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## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues	\$500	\$495	\$1,073	\$1,080
Operating Expenses				
Operation				
Energy purchases	107	118	253	285
Other operation and maintenance	138	137	302	287
Depreciation	76	62	151	121
Taxes, other than income	23	24	52	53
Total Operating Expenses	344	341	758	746
Operating Income	156	154	315	334
Other Income (Expense) - net	3	5	4	8
Interest Income from Affiliate	1	—	1	—
Interest Expense	36	32	69	65
Income Before Income Taxes	124	127	251	277
Income Taxes	47	48	95	104
Net Income (a)	\$77	\$79	\$156	\$173

(a) Net income equals comprehensive income.

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 156	\$ 173
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	151	121
Amortization	15	15
Defined benefit plans - expense	7	7
Deferred income taxes and investment tax credits	84	107
Other	(4 )	(10 )
Change in current assets and current liabilities		
Accounts receivable	13	(6 )
Accounts payable	(59 )	(26 )
Unbilled revenues	17	3
Prepayments	(52 )	3
Regulatory assets and liabilities	(12 )	(40 )
Taxes payable	(4 )	(16 )
Other	(6 )	(6 )
Other operating activities		
Defined benefit plans - funding	(24 )	—
Other assets	(4 )	11
Other liabilities	1	(8 )
Net cash provided by operating activities	279	328
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(550 )	(424 )
Expenditures for intangible assets	(5 )	(2 )
Net increase in notes receivable from affiliate	(270 )	—
Other investing activities	1	(1 )
Net cash used in investing activities	(824 )	(427 )
Cash Flows from Financing Activities		
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	(154 )	(117 )
Net increase (decrease) in short-term debt	(295 )	6
Other financing activities	(5 )	(2 )
Net cash provided by financing activities	591	87
Net Increase (Decrease) in Cash and Cash Equivalents	46	(12 )
Cash and Cash Equivalents at Beginning of Period	13	47
Cash and Cash Equivalents at End of Period	\$ 59	\$ 35

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$157	\$130
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, December 31,	
	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$59	\$ 13
Accounts receivable (less reserve: 2017, \$26; 2016, \$28)		
Customer	267	272
Other	12	21
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	270	—
Unbilled revenues	97	114
Materials and supplies	29	32
Prepayments	61	9
Regulatory assets	14	19
Other current assets	6	8
Total Current Assets	816	488
Property, Plant and Equipment		
Regulated utility plant	10,235	9,654
Less: accumulated depreciation - regulated utility plant	2,814	2,714
Regulated utility plant, net	7,421	6,940
Construction work in progress	593	641
Property, Plant and Equipment, net	8,014	7,581
Other Noncurrent Assets		
Regulatory assets	1,076	1,094
Intangibles	254	251
Other noncurrent assets	15	12
Total Other Noncurrent Assets	1,345	1,357
Total Assets	\$10,175	\$ 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)

	June 30, December 31,	
	2017	2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$—	\$ 295
Long-term debt due within one year	224	224
Accounts payable	353	367
Accounts payable to affiliates	29	42
Taxes	8	12
Interest	37	34
Regulatory liabilities	57	83
Other current liabilities	88	101
Total Current Liabilities	796	1,158
Long-term Debt	3,074	2,607
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,990	1,899
Accrued pension obligations	257	281
Other deferred credits and noncurrent liabilities	90	90
Total Deferred Credits and Other Noncurrent Liabilities	2,337	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	875	873
Total Equity	3,968	3,391
Total Liabilities and Equity	\$10,175	\$ 9,426

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 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 stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$3,391
Net income				156	156
Capital contributions from PPL			575		575
Dividends declared on common stock				(154 )	(154 )
June 30, 2017	66,368	\$ 364	\$ 2,729	\$ 875	\$3,968
December 31, 2015	66,368	\$ 364	\$ 1,934	\$ 821	\$3,119
Net income				173	173
Capital contributions from PPL			200		200
Dividends declared on common stock				(116 )	(116 )
June 30, 2016	66,368	\$ 364	\$ 2,134	\$ 878	\$3,376

(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 Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues	\$723	\$721	\$1,532	\$1,547
Operating Expenses				
Operation				
Fuel	183	182	374	380
Energy purchases	29	28	98	94
Other operation and maintenance	192	204	399	406
Depreciation	105	100	210	199
Taxes, other than income	16	15	32	30
Total Operating Expenses	525	529	1,113	1,109
Operating Income	198	192	419	438
Other Income (Expense) - net	(4 )	(5 )	(6 )	(6 )
Interest Expense	50	48	99	97
Interest Expense with Affiliate	4	4	8	8
Income Before Income Taxes	140	135	306	327
Income Taxes	53	51	116	123
Net Income	\$87	\$84	\$190	\$204

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 Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$87	\$84	\$190	\$204
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 \$7, (\$1), \$7, (\$1)	(11)	1	(11)	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	(1)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	1	1	1	1
Net actuarial loss, net of tax of (\$1), (\$1), (\$2), (\$1)	1	1	2	2
Total other comprehensive income (loss)	(9)	2	(7)	3
Comprehensive income	\$78	\$86	\$183	\$207

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 190	\$ 204
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	210	199
Amortization	14	15
Defined benefit plans - expense	12	13
Deferred income taxes and investment tax credits	91	121
Other	—	(1 )
Change in current assets and current liabilities		
Accounts receivable	13	9
Accounts payable	(28 )	28
Unbilled revenues	23	(14 )
Fuel, materials and supplies	41	20
Taxes payable	3	(13 )
Other	(21 )	(23 )
Other operating activities		
Defined benefit plans - funding	(29 )	(45 )
Expenditures for asset retirement obligations	(12 )	(8 )
Other assets	(2 )	1
Other liabilities	6	—
Net cash provided by operating activities	511	506
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(355 )	(439 )
Net cash used in investing activities	(355 )	(439 )
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(4 )	123
Issuance of long-term debt	60	—
Retirement of long-term debt	(60 )	—
Net increase (decrease) in short-term debt	73	(126 )
Debt issuance and credit facility costs	(1 )	(1 )
Distributions to member	(218 )	(114 )
Contributions from member	—	37
Net cash used in financing activities	(150 )	(81 )
Net Increase (Decrease) in Cash and Cash Equivalents	6	(14 )
Cash and Cash Equivalents at Beginning of Period	13	30
Cash and Cash Equivalents at End of Period	\$ 19	\$ 16
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 83	\$ 105

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	June 30, December 31,	
	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$19	\$ 13
Accounts receivable (less reserve: 2017, \$25; 2016, \$24)		
Customer	221	235
Other	40	17
Unbilled revenues	147	170
Fuel, materials and supplies	257	297
Prepayments	32	24
Regulatory assets	23	20
Other current assets	9	4
Total Current Assets	748	780
Property, Plant and Equipment		
Regulated utility plant	12,852	12,746
Less: accumulated depreciation - regulated utility plant	1,630	1,465
Regulated utility plant, net	11,222	11,281
Construction work in progress	411	317
Property, Plant and Equipment, net	11,633	11,598
Other Noncurrent Assets		
Regulatory assets	830	824
Goodwill	996	996
Other intangibles	90	95
Other noncurrent assets	80	78
Total Other Noncurrent Assets	1,996	1,993
Total Assets	\$14,377	\$ 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)

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$258	\$ 185
Long-term debt due within one year	98	194
Notes payable with affiliate	159	163
Accounts payable	225	251
Accounts payable to affiliates	6	6
Customer deposits	57	56
Taxes	42	39
Price risk management liabilities	5	4
Regulatory liabilities	14	18
Interest	31	32
Asset retirement obligations	73	60
Other current liabilities	115	119
Total Current Liabilities	1,083	1,127
Long-term Debt		
Long-term debt	4,569	4,471
Long-term debt to affiliate	400	400
Total Long-term Debt	4,969	4,871
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,823	1,735
Investment tax credits	131	132
Accrued pension obligations	344	350
Asset retirement obligations	292	373
Regulatory liabilities	902	899
Price risk management liabilities	25	27
Other deferred credits and noncurrent liabilities	176	190
Total Deferred Credits and Other Noncurrent Liabilities	3,693	3,706
Commitments and Contingent Liabilities (Notes 6 and 9)		
Member's Equity	4,632	4,667
Total Liabilities and Equity	\$14,377	\$ 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 Equity
December 31, 2016	\$ 4,667
Net income	190
Distributions to member	(218 )
Other comprehensive income	(7 )
June 30, 2017	\$ 4,632
December 31, 2015	\$ 4,517
Net income	204
Contributions from member	37
Distributions to member	(114 )
Other comprehensive income	3
June 30, 2016	\$ 4,647

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 Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	\$320	\$317	\$694	\$692
Electric revenue from affiliate	4	6	21	17
Total Operating Revenues	324	323	715	709
Operating Expenses				
Operation				
Fuel	69	69	149	147
Energy purchases	25	23	89	85
Energy purchases from affiliate	3	3	5	5
Other operation and maintenance	86	92	173	179
Depreciation	45	42	89	83
Taxes, other than income	9	7	17	15
Total Operating Expenses	237	236	522	514
Operating Income	87	87	193	195
Other Income (Expense) - net	1	(5 )	(1 )	(5 )
Interest Expense	19	18	36	35
Income Before Income Taxes	69	64	156	155
Income Taxes	27	24	60	59
Net Income (a)	\$42	\$40	\$96	\$96

(a) Net income equals comprehensive income.

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

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## CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30, 2017 2016	
Cash Flows from Operating Activities		
Net income	\$96	\$96
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	89	83
Amortization	7	6
Defined benefit plans - expense	3	4
Deferred income taxes and investment tax credits	57	62
Change in current assets and current liabilities		
Accounts receivable	9	2
Accounts receivable from affiliates	11	(7 )
Accounts payable	(17 )	20
Accounts payable to affiliates	(3 )	8
Unbilled revenues	14	(1 )
Fuel, materials and supplies	33	29
Taxes payable	(23 )	—
Other	(3 )	(6 )
Other operating activities		
Defined benefit plans - funding	(3 )	(16 )
Expenditures for asset retirement obligations	(7 )	(6 )
Other assets	—	(4 )
Other liabilities	1	3
Net cash provided by operating activities	264	273
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(177)	(237)
Net cash used in investing activities	(177)	(237)
Cash Flows from Financing Activities		
Issuance of long-term debt	60	—
Retirement of long-term debt	(60 )	—
Net increase (decrease) in short-term debt	38	(32 )
Debt issuance and credit facility costs	(1 )	(1 )
Payment of common stock dividends to parent	(122)	(61 )
Contributions from parent	—	47
Net cash used in financing activities	(85 )	(47 )
Net Increase (Decrease) in Cash and Cash Equivalents	2	(11 )
Cash and Cash Equivalents at Beginning of Period	5	19
Cash and Cash Equivalents at End of Period	\$7	\$8

## Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30, \$40 \$69

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

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## CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 7	\$ 5
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	101	109
Other	11	11
Accounts receivable from affiliates	17	28
Unbilled revenues	61	75
Fuel, materials and supplies	110	143
Prepayments	15	12
Regulatory assets	11	9
Other current assets	3	1
Total Current Assets	336	393
Property, Plant and Equipment		
Regulated utility plant	5,440	5,357
Less: accumulated depreciation - regulated utility plant	566	498
Regulated utility plant, net	4,874	4,859
Construction work in progress	174	133
Property, Plant and Equipment, net	5,048	4,992
Other Noncurrent Assets		
Regulatory assets	449	450
Goodwill	389	389
Other intangibles	55	59
Other noncurrent assets	17	17
Total Other Noncurrent Assets	910	915
Total Assets	\$ 6,294	\$ 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)

	June 30, December 31,	
	2017	2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 207	\$ 169
Long-term debt due within one year	98	194
Accounts payable	116	148
Accounts payable to affiliates	23	26
Customer deposits	27	27
Taxes	17	40
Price risk management liabilities	5	4
Regulatory liabilities	4	5
Interest	10	11
Asset retirement obligations	29	41
Other current liabilities	40	36
Total Current Liabilities	576	701
Long-term Debt	1,521	1,423
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,033	974
Investment tax credits	36	36
Accrued pension obligations	49	53
Asset retirement obligations	103	104
Regulatory liabilities	418	419
Price risk management liabilities	25	27
Other deferred credits and noncurrent liabilities	83	87
Total Deferred Credits and Other Noncurrent Liabilities	1,747	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	344	370
Total Equity	2,450	2,476
Total Liabilities and Equity	\$ 6,294	\$ 6,300

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 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 stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$2,476
Net income				96	96
Cash dividends declared on common stock				(122 )	(122 )
June 30, 2017	21,294	\$ 424	\$ 1,682	\$ 344	\$2,450
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$2,330
Net income				96	96
Capital contributions from LKE			47		47
Cash dividends declared on common stock				(61 )	(61 )
June 30, 2016	21,294	\$ 424	\$ 1,658	\$ 330	\$2,412

(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 Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Operating Revenues				
Retail and wholesale	\$403	\$404	\$838	\$855
Electric revenue from affiliate	3	3	5	5
Total Operating Revenues	406	407	843	860
Operating Expenses				
Operation				
Fuel	114	113	225	233
Energy purchases	4	5	9	9
Energy purchases from affiliate	4	6	21	17
Other operation and maintenance	100	107	209	213
Depreciation	61	58	121	116
Taxes, other than income	7	8	15	15
Total Operating Expenses	290	297	600	603
Operating Income	116	110	243	257
Other Income (Expense) - net	(2 )	1 )	(3 )	(1 )
Interest Expense	24	23	48	47
Income Before Income Taxes	90	88	192	209
Income Taxes	34	34	73	80
Net Income (a)	\$56	\$54	\$119	\$129

(a) Net income approximates comprehensive income.

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

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## CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$119	\$129
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	121	116
Amortization	6	7
Defined benefit plans - expense	2	3
Deferred income taxes and investment tax credits	70	77
Other	—	(1 )
Change in current assets and current liabilities		
Accounts receivable	5	11
Accounts receivable from affiliates	—	1
Accounts payable	(1 )	11
Accounts payable to affiliates	(15 )	12
Unbilled revenues	9	(13 )
Fuel, materials and supplies	8	(9 )
Taxes payable	(29 )	(3 )
Other	(13 )	(11 )
Other operating activities		
Defined benefit plans - funding	(21 )	(13 )
Expenditures for asset retirement obligations	(5 )	(2 )
Other assets	(3 )	(3 )
Other liabilities	4	(1 )
Net cash provided by operating activities	257	311
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(177 )	(201 )
Net cash used in investing activities	(177 )	(201 )
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	35	(19 )
Debt issuance and credit facility costs	—	(1 )
Payment of common stock dividends to parent	(110 )	(113 )
Contributions from parent	—	20
Net cash used in financing activities	(75 )	(113 )
Net Increase (Decrease) in Cash and Cash Equivalents	5	(3 )
Cash and Cash Equivalents at Beginning of Period	7	11
Cash and Cash Equivalents at End of Period	\$12	\$8
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$43	\$36

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

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## CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	June 30, December 31,	
	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 12	\$ 7
Accounts receivable (less reserve: 2017, \$2; 2016, \$2)		
Customer	120	126
Other	27	5
Unbilled revenues	86	95
Fuel, materials and supplies	147	154
Prepayments	15	12
Regulatory assets	12	11
Other current assets	6	3
Total Current Assets	425	413
Property, Plant and Equipment		
Regulated utility plant	7,404	7,382
Less: accumulated depreciation - regulated utility plant	1,062	965
Regulated utility plant, net	6,342	6,417
Construction work in progress	236	181
Property, Plant and Equipment, net	6,578	6,598
Other Noncurrent Assets		
Regulatory assets	381	374
Goodwill	607	607
Other intangibles	35	36
Other noncurrent assets	60	57
Total Other Noncurrent Assets	1,083	1,074
Total Assets	\$ 8,086	\$ 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)

	June 30, December 31,	
	2017	2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 51	\$ 16
Accounts payable	94	78
Accounts payable to affiliates	43	56
Customer deposits	30	29
Taxes	16	45
Regulatory liabilities	10	13
Interest	16	16
Asset retirement obligations	44	19
Other current liabilities	32	36
Total Current Liabilities	336	308
Long-term Debt	2,327	2,327
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,242	1,170
Investment tax credits	95	96
Accrued pension obligations	38	62
Asset retirement obligations	189	269
Regulatory liabilities	484	480
Other deferred credits and noncurrent liabilities	42	50
Total Deferred Credits and Other Noncurrent Liabilities	2,090	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	409	400
Total Equity	3,333	3,323
Total Liabilities and Equity	\$ 8,086	\$ 8,085

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 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 stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1 )	\$3,323
Net income				119		119
Cash dividends declared on common stock				(110 )		(110 )
Other comprehensive income					1	1
June 30, 2017	37,818	\$ 308	\$ 2,616	\$ 409	\$ —	\$3,333
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$3,287
Capital contributions from LKE			20			20
Net income				129		129
Cash dividends declared on common stock				(113 )		(113 )
Other comprehensive income (loss)					(1 )	(1 )
June 30, 2016	37,818	\$ 308	\$ 2,616	\$ 399	\$ (1 )	\$3,322

(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 six months ended June 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

(All Registrants)

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 (PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three and six months ended June 30, 2017, PPL Electric purchased \$288 million and \$644 million of accounts receivable from alternative energy suppliers. During the three and six months ended June 30, 2016, PPL Electric purchased \$297 million and \$679 million 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 June 30 are as follows:

	Three Months		Six Months	
	2017	2016	2017	2016
Income Statement Data				
Revenues from external customers				
U.K. Regulated	\$502	\$563	\$1,070	\$1,158
Kentucky Regulated	723	721	1,532	1,547
Pennsylvania Regulated	500	495	1,073	1,080
Corporate and Other	—	6	1	11
Total	\$1,725	\$1,785	\$3,676	\$3,796
Net Income				
U.K. Regulated (a)	\$148	\$345	\$434	\$634
Kentucky Regulated	79	76	174	188
Pennsylvania Regulated	77	78	156	172
Corporate and Other	(12 )	(16 )	(69 )	(30 )
Total	\$292	\$483	\$695	\$964

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

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

	June 30, December 31,	
	2017	2016
Balance Sheet Data		
Assets		
U.K. Regulated (a)	\$15,798	\$ 14,537
Kentucky Regulated	14,043	14,037
Pennsylvania Regulated	10,175	9,426
Corporate and Other (b) (52 )		315
Total	\$39,964	\$ 38,315

(a) Includes \$11.5 billion and \$10.8 billion of net PP&E as of June 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 June 30 used in the EPS calculation are:

	Three Months		Six Months	
	2017	2016	2017	2016
Income (Numerator)				
Net income	\$292	\$ 483	\$695	\$ 964
Less amounts allocated to participating securities	—	1	1	3
Net income available to PPL common shareowners - Basic and Diluted	\$292	\$ 482	\$694	\$ 961
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	683,846	677,145	682,376	676,293
Add incremental non-participating securities:				
Share-based payment awards	2,510	3,584	2,355	3,480
Weighted-average shares - Diluted EPS	686,356	680,729	684,726	679,773
Basic EPS				
Net Income available to PPL common shareowners	\$0.43	\$ 0.71	\$1.02	\$ 1.42
Diluted EPS				
Net Income available to PPL common shareowners	\$0.43	\$ 0.71	\$1.01	\$ 1.41

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

	Three Months		Six Months	
	2017	2016	2017	2016
Stock-based compensation plans (a)	564	795	1,451	2,920
DRIP	369	370	814	772

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

	Three Months		Six Months	
	2017	2016	2017	2016
Stock options	696	696	696	696
Performance units	—	78	—	39

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## 5. Income Taxes

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

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$129	\$236	\$315	\$467
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	10	9	23	22
Valuation allowance adjustments	—	3	5	9
Impact of lower U.K. income tax rates	(40 )	(45 )	(88 )	(99 )
U.S. income tax on foreign earnings - net of foreign tax credit (a)	(7 )	—	(16 )	(2 )
Impact of the U.K. Finance Acts	(6 )	(2 )	(9 )	(2 )
Depreciation not normalized	(2 )	(3 )	(5 )	(4 )
Interest benefit on U.K. financing entities	(4 )	(4 )	(8 )	(9 )
Stock-based compensation	(4 )	(3 )	(7 )	(11 )
Other	—	1	(5 )	—
Total increase (decrease)	(53 )	(44 )	(110 )	(96 )
Total income taxes	\$76	\$192	\$205	\$371

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.

(PPL Electric)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$44	\$44	\$88	\$97
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	8	17	18
Depreciation not normalized	(2 )	(2 )	(4 )	(3 )
Stock-based compensation	(3 )	(2 )	(5 )	(7 )
Other	(1 )	—	(1 )	(1 )
Total increase (decrease)	3	4	7	7
Total income taxes	\$47	\$48	\$95	\$104

(LKE)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$49	\$47	\$107	\$114
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	5	11	12
Other	(1 )	(1 )	(2 )	(3 )
Total increase (decrease)	4	4	9	9
Total income taxes	\$53	\$51	\$116	\$123

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## (LG&amp;E)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$24	\$22	\$55	\$54
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	2	6	6
Other	—	—	(1)	(1)
Total increase (decrease)	3	2	5	5
Total income taxes	\$27	\$24	\$60	\$59

## (KU)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$32	\$31	\$67	\$73
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	7	7
Other	(1)	—	(1)	—
Total increase (decrease)	2	3	6	7
Total income taxes	\$34	\$34	\$73	\$80

## 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	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
<b>Current Regulatory Assets:</b>				
Environmental cost recovery	\$6	\$ 6	\$—	\$ —
Generation formula rate	10	11	—	—
Transmission service charge	—	7	—	7
Gas supply clause	7	3	—	—
Smart meter rider	10	6	10	6
Storm costs	3	5	3	5
Other	1	1	1	1
Total current regulatory assets (a)	\$37	\$ 39	\$14	\$ 19
<b>Noncurrent Regulatory Assets:</b>				
Defined benefit plans	\$920	\$ 947	\$537	\$ 549
Taxes recoverable through future rates	345	340	345	340
Storm costs	40	58	—	10
Unamortized loss on debt	57	61	32	36
Interest rate swaps	124	129	—	—
Accumulated cost of removal of utility plant	162	159	162	159
AROs	245	211	—	—
Other	13	13	—	—

Total noncurrent regulatory assets	\$1,906	\$ 1,918	\$1,076	\$ 1,094
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	PPL		PPL Electric					
	June 30, 2017		December 31, 2016		June 30, 2017		December 31, 2016	
<b>Current Regulatory Liabilities:</b>								
Generation supply charge	\$19	\$ 23	\$19	\$ 23				
Transmission service charge	6	—	6	—				
Universal service rider	14	14	14	14				
Transmission formula rate	3	15	3	15				
Fuel adjustment clause	13	11	—	—				
Act 129 compliance rider	11	17	11	17				
Storm damage expense	4	13	4	13				
Other	1	8	—	1				
Total current regulatory liabilities	\$71	\$ 101	\$57	\$ 83				
<b>Noncurrent Regulatory Liabilities:</b>								
Accumulated cost of removal of utility plant	\$703	\$ 700	\$—	\$ —				
Power purchase agreement - OVEC (b)	72	75	—	—				
Net deferred tax assets	21	23	—	—				
Defined benefit plans	27	23	—	—				
Interest rate swaps	76	78	—	—				
Other	3	—	—	—				
Total noncurrent regulatory liabilities	\$902	\$ 899	\$—	\$ —				
	LKE		LG&E		KU			
	June 30, 2017		December 31, 2016		June 30, 2017		December 31, 2016	
<b>Current Regulatory Assets:</b>								
Environmental cost recovery	\$6	\$ 6	\$4	\$ 6	\$2	\$ —		
Generation formula rate	10	11	—	—	10	11		
Gas supply clause	7	3	7	3	—	—		
Total current regulatory assets	\$23	\$ 20	\$11	\$ 9	\$12	\$ 11		
<b>Noncurrent Regulatory Assets:</b>								
Defined benefit plans	\$383	\$ 398	\$238	\$ 246	\$145	\$ 152		
Storm costs	40	48	22	26	18	22		
Unamortized loss on debt	25	25	16	16	9	9		
Interest rate swaps	124	129	85	88	39	41		
AROs	245	211	84	70	161	141		
Plant retirement costs	3	4	—	—	3	4		
Other	10	9	4	4	6	5		
Total noncurrent regulatory assets	\$830	\$ 824	\$449	\$ 450	\$381	\$ 374		



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	LKE		LG&E		KU	
	June 30,	December 31,	June 30,	December 31,	June 30,	December 31,
	2017	2016	2017	2016	2017	2016
<b>Current Regulatory Liabilities:</b>						
Demand side management	\$—	\$ 3	\$—	\$ 2	\$—	\$ 1
Fuel adjustment clause	13	11	4	2	9	9
Other	1	4	—	1	1	3
Total current regulatory liabilities	\$14	\$ 18	\$4	\$ 5	\$10	\$ 13
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$703	\$ 700	\$308	\$ 305	\$395	\$ 395
Power purchase agreement - OVEC (b)	72	75	50	52	22	23
Net deferred tax assets	21	23	21	23	—	—
Defined benefit plans	27	23	—	—	27	23
Interest rate swaps	76	78	38	39	38	39
Other	3	—	1	—	2	—
Total noncurrent regulatory liabilities	\$902	\$ 899	\$418	\$ 419	\$484	\$ 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 their 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. Louisville/Jefferson County and LG&E continue to file certain procedural motions, testimony and discovery with the KPSC. 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:

	June 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	£ —	£ 56	£ 160	£ —	
Term Loan Facility (b)	Dec. 2017	230	230	—	—	—	—	
WPD (South West)								
Syndicated Credit Facility (c)	July 2021	245	80	—	165	110	—	
WPD (East Midlands)								
Syndicated Credit Facility (d)	July 2021	300	116	—	184	9	—	
WPD (West Midlands)								

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Syndicated Credit Facility	July 2021	300	—	—	300	—	—
Uncommitted Credit Facilities (e)		90	50	4	36	60	4
Total U.K. Credit Facilities (f)		£ 1,375	£ 631	£ 4	£ 741	£ 339	£ 4

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June 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
U.S.				