PPL Corp
Form 10-K
February 14, 2019

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2018

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _________ to ___________

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
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
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
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter)	61-0247570

(Kentucky and Virginia)
One Quality Street
Lexington, Kentucky 40507-1462
(502) 627-2000

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock of PPL Corporation	New York Stock Exchange
Junior Subordinated Notes of PPL Capital Funding, Inc.	
2007 Series A due 2067	New York Stock Exchange
2013 Series B due 2073	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock of PPL Electric Utilities Corporation

Indicate by check mark whether the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

PPL Corporation	Yes	X	No	
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

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the 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

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 every Interactive Data File required to be submitted 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 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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies or emerging growth companies. See definition 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 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

As of June 29, 2018, PPL Corporation had 699,127,940 shares of its $0.01 par value Common Stock outstanding. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was $19,960,102,687. As of January 31, 2019, PPL Corporation had 720,936,897 shares of its $0.01 par value Common Stock outstanding.

As of January 31, 2019, PPL Corporation held all 66,368,056 outstanding common shares, no par value, of PPL Electric Utilities Corporation.

PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.

As of January 31, 2019, LG&E and KU Energy LLC held all 21,294,223 outstanding common shares, no par value, of Louisville Gas and Electric Company.

As of January 31, 2019, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

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PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format.

Documents incorporated by reference:

PPL Corporation has incorporated herein by reference certain sections of PPL Corporation's 2019 Notice of Annual Meeting and Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018. Such Statements will provide the information required by Part III of this Report.

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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-K ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

Safari Energy - Safari Energy, LLC, an indirect subsidiary of PPL, acquired in June 2018, that provides solar energy solutions for commercial customers in the U.S.

WPD - refers to PPL WPD Limited and its subsidiaries.

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

401(h) account(s) - a sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

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

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard (AEPS).

Act 129 Smart Meter program - PPL Electric's system-wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

Adjusted Gross Margins - a non-GAAP financial measure of performance used in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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

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

AIP - annual iteration process.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

Cane Run Unit 7 - a natural gas combined-cycle generating unit in Kentucky, jointly owned by LG&E and KU.

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

CDP - a not-for-profit organization based in the United Kingdom formerly known as the Carbon Disclosure Project; that runs the global disclosure system that enables investors, companies, cities, states and regions to measure and manage their environmental impacts.

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

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

COBRA - Consolidated Omnibus Budget Reconciliation Act, which provides individuals the option to temporarily continue employer group health insurance coverage after termination of employment.

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CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

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

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

DDCP - Directors Deferred Compensation Plan.

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

DNO - Distribution Network Operator in the U.K.

DOJ - U.S. Department of Justice.

DPCR5 - Distribution Price Control Review 5, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2010.

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

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

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

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

Earnings from Ongoing Operations - a non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

EBPB - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and by-products 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.

Fast pot - Under RIIO-ED1, Totex costs that are recovered in the period they are incurred.

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.

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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.

GWh - gigawatt-hour, one million kilowatt hours.

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

IBEW - International Brotherhood of Electrical Workers.

ICP - The PPL Incentive Compensation Plan. This plan provides for incentive compensation to PPL's executive officers and certain other senior executives. New awards under the ICP were suspended in 2012 upon adoption of PPL's 2012 Stock Incentive Plan.

ICPKE - The PPL Incentive Compensation Plan for Key Employees. The ICPKE provides for incentive compensation to certain employees below the level of senior executive.

IRS - Internal Revenue Service, a U.S. government agency.

IT - Information Technology.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

KU 2010 Mortgage Indenture - KU's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

kV - kilovolt.

kVA - kilovolt ampere.

kWh - kilowatt hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

LG&E 2010 Mortgage Indenture - LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

LIBOR - London Interbank Offered Rate.

MATS - Mercury and Air Toxics Standards, regulations promulgated by the EPA.

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

MMBtu - one million British Thermal Units.

MOD - a mechanism applied in the U.K. to adjust allowed base revenue in future periods for differences in prior periods between actual values and those in the agreed business plan.

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

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

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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.

New Source Review - a Clean Air Act program that requires industrial facilities to install updated pollution control equipment when they are built or when making a modification that increases emissions beyond certain allowable thresholds.

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.

NRC - Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

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 gas 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 recorded at cost. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined capacities of 2,120 MW.

PEDFA - Pennsylvania Economic Development Financing Authority.

Performance unit - stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of (i) relative total shareowner return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

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

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

PP&E - property, plant and equipment.

PPL EnergyPlus - prior to the June 1, 2015 spinoff of PPL Energy Supply, LLC, PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that marketed and traded wholesale and retail electricity and gas, and supplied energy and energy services in competitive markets.

PPL Energy Supply - prior to the June 1, 2015 spinoff, PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL EnergyPlus and other subsidiaries.

PPL Montana - Prior to the June 1, 2015 spinoff of PPL Energy Supply, PPL Montana, LLC, an indirect subsidiary of PPL Energy Supply that generated electricity for wholesale sales in Montana and the Pacific Northwest.

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

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

RECs - renewable energy credits.

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 generation of the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and, as of December 6, 2016, ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy.

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

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

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

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

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

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

SIP - PPL Corporation's Amended and Restated 2012 Stock Incentive Plan.

Slow pot - Under RIIO-ED1, Totex costs that are added (capitalized) to RAV and recovered through depreciation over a 20 to 45 year period.

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

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

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

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Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone, which as of December 6, 2016, became wholly owned by Riverstone.

Talen Energy Marketing - Talen Energy Marketing, LLC, the new name of PPL EnergyPlus subsequent to the spinoff of PPL Energy Supply.

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

Total shareowner return - the change in market value of a share of the company's common stock plus the value of all dividends paid on a share of the common stock during the applicable performance period, divided by the price of the common stock as of the beginning of the performance period. The price used for purposes of this calculation is the average share price for the 20 trading days at the beginning and end of the applicable period.

Totex (total expenditures) - Totex generally consists of all the expenditures relating to WPD's regulated activities with the exception of certain specified expenditure items (Ofgem fees, National Grid transmission charges, property and corporate income taxes, pension deficit funding and cost of capital). The annual net additions to RAV are calculated as a percentage of Totex. Totex can be viewed as the aggregate net network investment, net network operating costs and indirect costs, less any cash proceeds from the sale of assets and scrap.

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.

TRU - a mechanism applied in the U.K. to true-up inflation estimates used in determining base revenue.

U.K. Finance Act - refers to the U.K. Finance Act of 2016, enacted in September 2016, which reduced the U.K. statutory corporate income tax rate from 19% to 17%, effective April 1, 2020.

VEBA - Voluntary Employee Beneficiary Association. A tax-exempt trust under the Internal Revenue Code Section 501 (c)(9) used by employees to fund and pay eligible medical, life and similar benefits.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

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Forward-looking Information

Statements contained in this Annual Report 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 "Item 1A. Risk Factors" and in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report, the following are among the important factors that could cause actual results to differ materially and adversely from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue proceedings;
- changes in U.S. state or federal or U.K. tax laws or regulations, including the TCJA;
- the direct or indirect effects on PPL or its subsidiaries or business systems of cyber-based intrusion or the threat of cyber attacks;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- developments related to ongoing negotiations regarding the U.K.'s intent to withdraw from European Union and any actions in response thereto;
- the amount of WPD's pension deficit funding recovered in revenues after March 31, 2021, following the next triennial pension review to begin in March 2019;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in the corporate credit ratings or securities analyst rankings of the Registrants and their securities;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to access fuel supply for LG&E and KU, as well as the ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU and natural gas supply costs at LG&E;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
-

catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events or other similar occurrences;
- war, armed conflicts, terrorist attacks, or similar disruptive events;
- 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;

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- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

Any forward-looking statements should be considered in light of these 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 the statement to reflect subsequent developments or information.

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PART I

ITEM 1. BUSINESS

General

(All Registrants)

PPL Corporation, headquartered in Allentown, Pennsylvania, is a utility holding company, incorporated in 1994, in connection with the deregulation of electricity generation in Pennsylvania, to serve as the parent company to the regulated utility, PPL Electric, and to generation and other unregulated business activities. PPL Electric was founded in 1920 as Pennsylvania Power & Light Company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky and Virginia; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries at December 31, 2018 are shown below (* denotes a Registrant).

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

KU*
Engages in the regulated generation, transmission, distribution and sale of electricity,

and the regulated distribution and sale of natural gas in Kentucky	primarily in Kentucky

U.K. Regulated Segment	Kentucky Regulated Segment	Pennsylvania Regulated Segment

PPL Global is not a registrant. Unaudited annual consolidated financial statements for the U.K. Regulated Segment are furnished contemporaneously with this report on a Form 8-K with the SEC.

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

PPL Electric Utilities Corporation, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL organized in Pennsylvania in 1920 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.

LG&E and KU Energy LLC, 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. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

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Louisville Gas and Electric Company, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. LG&E was incorporated in 1913.

Kentucky Utilities Company, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky and Virginia. KU is subject to regulation as a public utility by the KPSC and the VSCC, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Kentucky customers under the KU name and its Virginia customers under the Old Dominion Power name. KU was incorporated in Kentucky in 1912 and in Virginia in 1991.

Segment Information

(PPL)

PPL is organized into three reportable segments as depicted in the chart above: U.K. Regulated, Kentucky Regulated, and Pennsylvania Regulated. The U.K. Regulated segment has no related subsidiary Registrants. PPL's other reportable segments' results primarily represent the results of its related subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing costs that are not included in the results of the applicable subsidiary Registrants. PPL also has corporate and other costs which primarily include financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs. The financial results of Safari Energy are also reported within Corporate and Other.

A comparison of PPL's three regulated segments is shown below.

	U.K. Regulated	Kentucky Regulated	Pennsylvania Regulated
For the year ended December 31, 2018:			
Operating Revenues (in billions)	$ 2.3	$ 3.2	$ 2.3
Net Income (in millions)	$ 1,114	$ 411	$ 431
Electricity delivered (GWh)	74,181	33,650	37,497
At December 31, 2018:			
Regulatory Asset Base (in billions) (a)	$ 9.7	$ 9.8	$ 6.9
Service area (in square miles)	21,600	9,400	10,000
End-users (in millions)	7.9	1.3	1.4

(a) Represents RAV for U.K. Regulated, capitalization for Kentucky Regulated and rate base for Pennsylvania Regulated.

See Note 2 to the Financial Statements for additional financial information about the segments.

(PPL Electric, LKE, LG&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.

• U.K. Regulated Segment (PPL)

Consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from British pound sterling into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and acquisition-related financing costs.

WPD operates four of the 14 Ofgem regulated DNOs providing electricity service in the U.K. through indirect wholly owned subsidiaries: WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands). The number of network customers (end-users) served by WPD totals 7.9 million across 21,600 square miles in south Wales and southwest and central England.

Revenues, in millions, for the years ended December 31 are shown below.

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	2018	2017	2016
Operating Revenues (a)	$2,268	$2,091	$2,207

(a) WPD’s Operating Revenues are translated from GBP to U.S. dollars using the average GBP to U.S. dollar exchange rates in effect each month. The annual weighted average of the monthly GBP to U.S. dollar exchange rates used for the years ended December 31, 2018, 2017 and 2016 were $1.34 per GBP, $1.28 per GBP and $1.37 per GBP.

Franchise and Licenses

WPD’s operations are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. Ofgem is a non-ministerial government department and an independent National Regulatory Authority that is responsible for protecting the interests of existing and future electricity and natural gas consumers. The Electricity Act 1989 provides the fundamental framework for electricity companies and established licenses that require each of the DNOs to develop, maintain and operate efficient distribution networks. WPD’s operations are regulated under these licenses which set the outputs WPD needs to deliver for their customers and associated revenues WPD is allowed to earn. WPD operates under a regulatory year that begins April 1 and ends March 31 of each year.

Ofgem has the formal power to propose modifications to each distribution license; however licensees can appeal such changes to the U.K.’s Competition and Markets Authority in the event of a disagreement with the regulator. Generally, any potential changes to these licenses are reviewed with stakeholders in a formal regulatory consultation process prior to a formal change proposal.

Competition

Although WPD operates in non-exclusive concession areas in the U.K., it currently faces little competition with respect to end-users connected to its network. WPD's four DNOs are, therefore, regulated monopolies, which operate under regulatory price controls.

Customers

WPD provides regulated electricity distribution services to licensed third party energy suppliers who use WPD's networks to transfer electricity to their customers, the end-users. WPD bills energy suppliers for this service and the supplier is responsible for billing its end-users. Ofgem requires that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement specifies how creditworthiness will be determined and, as a result, whether the supplier needs to collateralize its payment obligations.

WPD’s costs make up approximately 17% of a U.K. end-user customer’s electricity bill.

U.K. Regulation and Rates

Overview

Ofgem has adopted a price control regulatory framework with a balanced objective of enhancing and developing electricity networks for the future, controlling costs to customers and allowing DNOs, such as WPD's DNOs, to earn a fair return on their investments. This regulatory structure is focused on outputs and performance in contrast to traditional U.S. utility ratemaking that operates under a cost recovery model. Price controls are established based on long-term business plans developed by each DNO with substantial input from its stakeholders. To measure the outputs and performance, each DNO business plan includes incentive targets that allow for increases and/or reductions in revenues based on operational performance, which are intended to align returns with quality of service, innovation and customer satisfaction.

For comparative purposes, amounts listed below are in British pounds sterling, nominal prices and in calendar years unless otherwise noted.

Key Ratemaking Mechanisms

PPL believes the U.K. electricity utility model is a premium jurisdiction in which to do business due to its significant stakeholder engagement, incentive-based structure and high-quality ratemaking mechanisms.

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Current Price Control: RIIO-ED1

WPD is currently operating under an eight-year price control period called RIIO-ED1, which commenced for electricity distribution companies on April 1, 2015. The regulatory framework is based on an updated approach for sustainable network regulation known as the "RIIO" model where Revenue = Incentives + Innovation + Outputs.

The RIIO framework allowed for an MPR. On April 30, 2018, Ofgem announced its decision not to conduct an MPR of the RIIO-ED1 price control period.

In coordination with numerous stakeholders, WPD developed its business plans for RIIO-ED1 building off its historical track record and long-term strategy of delivering industry-leading levels of performance at an efficient level of cost. As a result, all four of WPD’s DNOs' business plans were accepted by Ofgem as "well justified" and were "fast-tracked" ahead of all of the other DNOs. WPD's DNOs were rewarded for being fast-tracked with preferential financial incentives, a higher return on equity and higher cost savings retention under their business plans as discussed further below. However, an unintended consequence of being fast-tracked resulted in WPD being disadvantaged from a cost of debt recovery standpoint as further discussed within “(2) Real Return on capital from RAV” below.

WPD's combined RIIO-ED1 business plans as accepted by Ofgem included funding for total expenditures of approximately £12.8 billion (nominal) over the eight-year period, broken down as follows:

- Totex - £8.5 billion (£6.8 billion recovered as additions to RAV over time ("Slow pot"); £1.7 billion recovered in the year spent in the plan ("Fast pot"));
- Pension deficit funding - £1.2 billion;
- Cost of debt recovery - £1.0 billion;
- Pass Through Charges - £1.6 billion (Property taxes, Ofgem fees and National Grid transmissions charges); and
- Corporate income taxes recovery - £0.5 billion.

The chart below illustrates the building blocks of allowed revenue and GAAP net income for the U.K. Regulated Segment. The revenue components are shown in either 2012/13 prices or nominal prices, consistent with the formulas Ofgem established for RIIO-ED1. The reference numbers included in each block correspond with the descriptions that follow.

(a) Primarily pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.

(b) Primarily pass through true-ups and £5 per residential customer reduction completed in the regulatory year ended March 31, 2017.

(c) Reference Form 8-K filed February 14, 2019 for U.K. Regulated Segment GAAP Statement of Income component values.

(d) Includes the service cost component of GAAP pension costs/income. See “Defined Benefits, Net periodic defined benefit costs (credits)” in Note 11 to the Financial Statements.

(e) Primarily property taxes.

(f) Primarily includes the non-service cost (credit) components of GAAP pension costs/income and gains and losses on foreign currency hedges.

(g) Includes WPD interest and $32 million of allocated interest expense to finance the acquisition of WPD Midlands.

(h) GAAP income taxes represent an effective tax rate of 17% for 2018, 19% for 2017, 16% for 2016 and approximately 17% going forward.

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(1) Base Revenue

The base revenue that a DNO can collect in each year of the current price control period is the sum of the following which are discussed further below:

- a return on capital from RAV;
- a return of capital from RAV (i.e., depreciation);
- the Fast pot recovery, see discussion “(4) Expenditure efficiency mechanisms” below;
- an allowance for cash taxes paid less a potential reduction for tax benefits from excess leverage if a DNO is levered more than 65% Debt/RAV;
- pension deficit funding;
- certain pass-through costs over which the DNO has no control;
- profiling adjustments, see discussion “(6) Other revenue included in base revenue” below;
- certain legacy price control adjustments from preceding price control periods, including the information quality incentive (also known as the rolling RAV incentive); and
- fast-track incentive - because WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base revenue also includes the fast-track incentive.

(2) Real Return on capital from RAV

Real-time returns on cost of regulated equity (real) - Ofgem establishes an allowed return on regulated equity that DNOs earn in their base business plan revenues as a consideration of the financial parameters for each RIIO-ED1 business plan. For WPD, the base cost of equity collected in revenues was set at 6.4% (real). Base equity returns exclude inflation adjustments, allowances for incentive rewards/penalties and over/under collections driven by cost efficiencies. WPD’s base equity returns are calculated using an equity ratio of 35% of RAV at the DNO. The equity ratio was reviewed and set during the RIIO-ED1 business plan process taking various stakeholder impacts into consideration such as costs to consumers, credit ratings and investor needs. The amounts of base real equity return for 2018, 2017 and 2016 were £160 million, £151 million and £144 million.

Indexed cost of debt recovery (real) - As part of WPD’s fast-track agreement with Ofgem for RIIO-ED1, WPD collects in revenues an assumed real cost of debt that is derived from a historical 10-year bond index (iBoxx) and adjusted annually for inflation. This calculated real cost of debt is then applied to 65% of RAV at the DNOs to determine the cost of debt revenue recovery. The cost of debt was set at 2.55% in the original "well justified" business plans. The recovery amounts are trued up annually as a component of the MOD true-up mechanism described within "(9) MOD and Inflation True-Up (TRU)" below.

As discussed above, WPD’s cost of debt revenue allowances are derived from using a rolling 10-year trailing average of historical 10-year bond index (iBoxx); however, the cost of debt revenue allowances for all slow track companies are derived using an extending trailing average of the index. Under this approach, the trailing average period used is progressively extended from 10 to 20 years and consequently short-term fluctuations in the interest rate have a less pronounced effect on the regulatory cost of debt applied. Therefore, WPD’s cost of debt recovery is significantly lower than it would have been had it been derived under the approach used for the slow-track companies.

Over the 8-year RIIO-ED1 period WPD is expected to under-recover its cost of debt at the four DNOs, based upon the latest inflation assumptions and projected 10-year iBoxx bond indices rates, by approximately £175 million primarily driven by the previously discussed differing cost of debt recovery calculations. Under the terms of the fast track process, fast tracked companies were not supposed to be disadvantaged financially to slow track companies. It is uncertain, however, at this time, if WPD will be able to recover any of this under-recovery in the next price control period, RIIO-ED2, beginning April 1, 2023.

Interest costs relating to long-term debt issued at WPD’s holding companies are not recovered in revenues and for 2018, 2017 and 2016 were approximately £46 million, £49 million and £54 million.

(3) Recovery of depreciation in revenues - Recovery of depreciation in regulatory revenues is one of the key mechanisms Ofgem uses to support financeable business plans that provide incentives to attract the continued substantial investment required in the U.K. Differences between GAAP and regulatory depreciation exist primarily due to differing assumptions on asset lives and because RAV is adjusted for inflation using RPI.

Compared to asset lives established for GAAP, asset lives established for ratemaking are set by Ofgem based on economic lives which results in improved near-term revenues and cash flows for DNOs during investment cycles. Under U.K. regulation prior to RIIO-ED1, electric distribution assets were depreciated on a 20-year asset life for the purpose of setting revenues. After

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review and consultation, Ofgem decided to use 45-year asset lives for RAV additions after April 1, 2015, with transitional arrangements available for DNOs that fully demonstrated a need to ensure a financeable plan. WPD adopted a transition that has a linear increase in asset lives from 20 to 45 years for additions to RAV in each year of RIIO-ED1 (with additions averaging a life of approximately 35 years over this period), which adds support to its credit metrics. RAV additions prior to March 31, 2015 continue to be recovered in revenues over 20 years.

The asset lives used to determine depreciation expense for GAAP purposes are not the same as those used for the depreciation of the RAV in setting revenues and, as such, vary by asset type and are based on the expected useful lives of the assets. Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD set the weighted average useful lives to 69 years for GAAP depreciation expense.

Because Ofgem uses a real cost of capital, the RAV and recovery of depreciation are adjusted for inflation using RPI. The inflation revenues collected in this line item help recover the cost of equity and debt returns on a "nominal" basis, compared to the "real" rates used to set the return component of base revenues.

This regulatory construct, in combination with the different assets lives used for ratemaking and GAAP, results in amounts collected by WPD as recovery of depreciation in revenues being significantly higher than the amounts WPD recorded for depreciation expense under GAAP. For 2018, 2017 and 2016, this difference was £444 million, £424 million and £415 million (pre-tax) and positively impacted net income. The difference is expected to continue in the £400 million to £450 million (pre-tax) range at least through 2022 (the last full calendar year of RIIO-ED1), assuming RPI of approximately 3.0% per year from 2019 through 2022 and based on expected RAV additions of approximately £800 million per year to prepare the distribution system for future U.K. energy objectives while maintaining premier levels of reliability and customer service.

(4) Expenditure efficiency mechanisms - Ofgem introduced the concept of Totex in RIIO to ensure all DNOs face equal incentives in choosing between operating and capital solutions. Totex is split between immediate recovery (called "Fast pot") and deferred recovery as an addition to the RAV (called "Slow pot"). The ratio of Slow pot to Fast pot was determined by each DNO in their business plan development. WPD established a Totex split of 80% Slow pot and 20% Fast pot for RIIO-ED1 to balance maximizing RAV growth with immediate cost recovery to support investment grade credit ratings. Comparatively, other DNOs on average used a ratio of approximately 70% Slow pot and 30% Fast pot for RIIO-ED1.

Ofgem also allows a Totex Incentive Mechanism that is intended to reward DNOs for cost efficiency. WPD's DNOs are able to retain 70% of any amounts not spent against its RIIO-ED1 plan and bear 70% of any over-spends. Any amounts to be returned to customers are trued up in the AIP discussed below.

Because Fast pot cost recovery represents 20% of Totex expenditures and certain other costs are recovered in other components of revenue, Fast pot will not equal operation and maintenance expenses recorded for GAAP purposes.

(5) Income Tax Allowance - For price control purposes, WPD collects income tax based on Ofgem’s notional tax charge, which will not equal the amount of income tax expense recorded for GAAP purposes. The following table shows the amount of taxes collected in revenues and recorded under GAAP.

	2018	2017	2016
Taxes collected in revenues	£ 58	£ 57	£ 53
Taxes recorded under GAAP	156	139	119

(6) Other revenue included in base revenue - Other revenue included in base revenue primarily consists of pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.

Recovery of annual (normal) pension cost and pension deficit funding - Ofgem allows DNOs to recover annual (normal) pension costs through the Totex allocation, split between the previously described Fast pot (immediate recovery) and Slow pot recovery (as an addition to RAV). The amount of normal pension cost is computed by the pension trustees, using assumptions that differ from those used in calculating pension costs/income under GAAP. In addition, the timing of the revenue collection may not match the actual pension payment schedule, resulting in a timing difference of cash flows.

In addition, WPD recovers approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans in conjunction with actual costs similar to the Fast pot mechanism. The pension deficit is determined by the pension trustees on a triennial basis in accordance with their funding requirements. Pension deficit funding recovered in revenues was £147 million, £142 million and £139 million in 2018, 2017 and 2016. WPD expects similar amounts to be collected in revenues through

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March 31, 2021, but cannot predict amounts that will be collected in revenues beyond then as the plans are approaching a fully funded status. The next triennial pension review will commence in March 2019 and is expected to conclude by the end of 2020.

See Note 11 to the Financial Statements for additional information on pension costs/income recognized under GAAP.

Recovery of pass through costs - WPD recovers certain pass-through costs over which the DNO has no control such as property taxes, National Grid transmission charges and Ofgem fees. Although these items are intended to be pass-through charges there could be timing differences, primarily related to property taxes, as to when amounts are collected in revenues and when amounts are expensed in the Statements of Income. WPD over-collected property taxes by £38 million, £19 million and £8 million in 2018, 2017 and 2016. WPD expects to continue to over-recover property taxes until the end of RIIO-ED1. Amounts under-or over-recovered in revenues in a regulatory year are trued up through revenues two regulatory years later.

Profiling adjustments - Ofgem permitted DNOs the flexibility to make profiling adjustments to their base revenues within their business plans. These adjustments do not affect the total base revenue in real terms over the eight-year price control period, but change the year in which the revenue is collected. In the first year of RIIO-ED1, WPD’s base revenue decreased by 11.8% compared to the final year of the prior price control period (DPCR5), primarily due to a change in profiling methodology and a lower weighted-average cost of capital. Base revenue then increases by approximately 2.5% per annum before inflation for regulatory years up to March 31, 2019 and by approximately 1% per annum before inflation for each regulatory year thereafter for the remainder of RIIO-ED1.

(7) Incentives for developing high-quality business plans (known as fast-tracking) - For RIIO-ED1, Ofgem incentivized DNOs with certain financial rewards to develop "well justified" business plans that drive value to customers. WPD was awarded the following incentives for being fast-tracked by Ofgem:

- an annual fast-track revenue incentive worth 2.5% of Totex (approximately £25 million annually for WPD);
- a real cost of equity rate of 6.4% compared to 6.0% for slow-tracked DNOs; and,
- cost savings retention was established at 70% for WPD compared to approximately 55% for slow-tracked DNOs.

(8) Allowed Revenue - Allowed revenue is the amount that a DNO can collect from its customers in order to fund its investment requirements.

Base revenues are adjusted annually during RIIO-ED1 to arrive at allowed revenues. These adjustments are discussed in sections (9) through (13) below.

(9) MOD and Inflation True-Up (TRU)

MOD - RIIO-ED1 includes an AIP that allows future base revenues, agreed with the regulator as part of the price control review, to be updated during the price control period for financial adjustments including taxes, pensions, cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). The AIP calculates an incremental change to base revenue, known as the "MOD" adjustment.

- The MOD provided by Ofgem in November 2016 included the TIM for the 2015/16 regulatory year, as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This MOD of £12 million reduced base revenue in calendar years 2017 and 2018 by £8 million and £4 million.

- The MOD provided by Ofgem in November 2017 for the 2016/17 regulatory year is a £39 million reduction to revenue and reduced base revenue in calendar year 2018 by £26 million and will reduce base revenue in calendar year 2019 by £13 million.
- The MOD provided by Ofgem in November 2018 for the 2017/18 regulatory year is a £42 million reduction to revenue and will reduce base revenue in calendar years 2019 and 2020 by £28 million and £14 million.
- The projected MOD for the 2018/19 regulatory year is a £87 million reduction to revenue and is expected to reduce base revenue in calendar years 2020 and 2021 by £58 million and £29 million.

TRU - As discussed below in "(10) Inflation adjusted, multi-year rate cycle," the base revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base revenue. Forecasted RPI is trued up to actuals and affects future base revenue two regulatory years later. This revenue change is called the "TRU" adjustment.

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- The TRU for the 2015/16 regulatory year was a £31 million reduction to revenue and reduced base revenue in calendar years 2017 and 2018 by £21 million and £10 million.
- The TRU for the 2016/17 regulatory year was a £6 million reduction to revenue and reduced base revenue in calendar year 2018 by £4 million and will reduce base revenue in calendar year 2019 by £2 million.
- The TRU for the 2017/18 regulatory year was a £4 million increase to revenue and will increase base revenue in calendar years 2019 and 2020 by £3 million and £1 million.
- The projected TRU for the 2018/19 regulatory year is a £3 million increase to revenue and is expected to increase base revenue in calendar years 2020 and 2021 by £2 million and £1 million.

As both MOD and TRU are changes to future base revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers. PPL's projected earnings per share growth rate through 2020 includes both the TRU and MOD for regulatory years 2015/16, 2016/17 and 2017/18 and the estimated TRU and MOD for 2018/19.

(10) Inflation adjusted, multi-year rate cycle - Ofgem built its price control framework to better coincide with the long-term nature of electricity distribution investments. The current price control for electricity distribution is for the eight-year period from April 1, 2015 through March 31, 2023. This both required and enabled WPD to design a base business plan with predictable revenues and expenses over the long-term to drive value for its customers through predetermined outputs and for its investors through preset base returns. A key aspect to the multi-year cycle is an annual inflation adjustment for revenue and cost components, which are inflated using RPI from the base 2012/13 prices used to establish the business plans. Consistent with Ofgem's formulas, the inflation adjustment is applied to base revenue, MOD and TRU when determining allowed revenue. This inflation adjustment also has the effect of inflating RAV, and real returns are earned on the inflated RAV.

(11) Incentive revenues for strong operational performance and innovation - Ofgem has established incentives to provide opportunities for DNOs to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. Some of the more significant incentives that may affect allowed revenue include the Interruptions Incentive Scheme (IIS), the broad measure of customer service (BMCS) and the time to connect (TTC) incentive:

- The IIS has two major components: (1) Customer interruptions (CIs) and (2) Customer minutes lost (CMLs), and both are designed to incentivize the DNOs to invest in and operate their networks to manage and reduce both the frequency and duration of power outages.
- The BMCS encompasses customer satisfaction in supply interruptions, connections and general inquiries, complaints, stakeholder engagement and delivery of social obligations.
- The TTC incentive rewards DNOs for reducing connection times for minor connections against an Ofgem set target.

The annual incentives and penalties are reflected in customer rates on a two-year lag from the time they are earned and/or assessed. Based on applicable GAAP, incentive revenues and penalties are recorded in revenues when they are billed to customers. The following table shows the amount of incentive revenues (in total), primarily from IIS, BMCS and TTC that WPD has received and is projected to receive on a calendar year basis:

Calendar Year Ended Incentive Earned	Incentive Received (in millions)	Calendar Year Ended Incentive Included in Revenue
2014	£ 83	2016

2015	79	2017
2016	76	2018
2017	72	2019
2018 (a)	70-80	2020
2019 (a)	70-80	2021

(a) Reflects projected incentive revenues.

(12) Correction Factor (K-factor) - During the price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular period. Conversely, WPD could over-recover revenue. Over- and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts during RIIO-ED1 will be refunded/recovered two regulatory years later.

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- The K-factor for the 2015/16 regulatory year was a £4 million under-recovery and increased allowed revenue in calendar years 2017 and 2018 by £3 million and £1 million.
- The K-factor for the 2016/17 regulatory year was a £23 million over-recovery and reduced allowed revenue in calendar year 2018 by £15 million and will reduce allowed revenue in calendar year 2019 by £8 million.
- The K-factor for the 2017/18 regulatory year was a £3 million over-recovery and will reduce allowed revenue in calendar years 2019 and 2020 by £2 million and £1 million.
- The projected K-factor for the 2018/19 regulatory year is a £31 million over-recovery and is expected to reduce allowed revenue in calendar years 2020 and 2021 by £21 million and £10 million.

Historically, tariffs have been set a minimum of three months prior to the beginning of the regulatory year (April 1). In February 2015, Ofgem determined that, beginning with the 2017/18 regulatory year, tariffs would be established a minimum of fifteen months in advance. Therefore, in December 2015, WPD was required to establish tariffs for the 2016/17 and 2017/18 regulatory years. This change will potentially increase volatility in future revenue forecasts due to the need to forecast components of allowed revenue including MOD, TRU, K-factor and incentive revenues.

(13) Other Allowed Revenue - Other Allowed Revenue primarily consists of pass through true-ups and £5 per residential customer reduction. For a discussion on property tax true-ups, see recovery of pass through costs in "(6) Other revenue included in base revenue" above.

In the 2016/17 regulatory year, WPD recovered a £5 per residential network customer reduction given through reduced tariffs in 2014/15. As a result, revenues were positively affected in calendar years 2017 and 2016 by £13 million and £25 million.

(14) GAAP Operating Revenue - Operating revenue under GAAP primarily consists of allowed revenue that has been collected in the calendar year converted to U.S. dollars. It also includes miscellaneous revenue primarily from engineering recharge work and ancillary activity revenue. Engineering recharge is work performed for a third party by WPD which is not for general network maintenance or to increase reliability. Examples are diversions and running new lines and equipment for a new housing complex. Ancillary activity revenue includes revenue primarily from WPD's Telecoms and Property companies. For additional information on ancillary activity revenue, see footnote c in "Item 7. Combined Management's Discussion and Analysis of Financial Conditions and Results of Operation - Reconciliation of Adjusted Gross Margins." The amounts of miscellaneous revenue for 2018, 2017 and 2016 were £115 million, £90 million and £84 million. The margin or profit on these activities; however, was not significant.

(15) Currency Hedging - Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Due to the significant earnings contributed from WPD, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Overview- Financial and Operational Developments - U.K. Membership in European Union" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of U.K. earnings hedging activity.

GAAP Accounting implications:

As the regulatory model in the U.K. is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment for the differences in the amounts collected in revenues and the amounts recorded for expenses related to depreciation, pensions, cost of debt and income taxes, and the adjustments to base revenue and/or allowed revenue are evaluated primarily based on revenue recognition guidance.

See "Revenue Recognition" in Note 1 to the Financial Statements for additional information.

See "Item 1A. Risk Factors - Risks related to our U.K. Regulated Segment" for additional information on the risks associated with the U.K. Regulated Segment.

RIIO-2 Framework

On March 7, 2018, Ofgem issued its consultation document on the RIIO-2 framework, which covers all U.K. gas and electricity transmission and distribution price controls. The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by this RIIO-2 consultation process. Ofgem consulted on a wide range of issues, including cost of debt and equity methodologies, the length of the price control period, indexation methodologies, innovation, stakeholder engagement in the business planning process and performance incentive mechanisms. The purpose of the RIIO-2 framework consultation was to build on lessons learned from the current price controls while supporting low costs to

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consumers, improved customer service and reliability, and the U.K.'s continued shift to a low-carbon future. Comments on the RIIO-2 framework were due in May 2018. On July 30, 2018, Ofgem published its decision following its RIIO-2 framework consultation after consideration of comments received. Ofgem confirmed the following points in the decision document:

- There will be a five-year default length for the price control period, compared to eight years in the current RIIO-ED1 price control.
- There is intent to shift the inflation index used for calculating RAV and allowed returns from RPI to CPIH. Ofgem stated overall, consumers and investors as a whole will be neither better nor worse off in net present value terms as a result of the shift to CPIH and a transition period may be required.
- There will be no change to the existing depreciation policy of using economic asset lives as the basis for depreciating RAV as part of base revenue calculations. WPD is currently transitioning to 45 year asset lives for new additions in RIIO-ED1 based on Ofgem’s extensive review of asset lives in RIIO-ED1.
- Ofgem will retain the option for fast-tracking for electricity distribution companies only. Fast tracking will be further considered as part of the electricity distribution sector specific consultation.
- A new enhanced engagement model will be introduced which will require distribution companies to set up a customer engagement group to provide Ofgem with a public report of their views on the companies’ business plans from the perspective of local stakeholders. Ofgem will also establish an independent RIIO-2 challenge group comprised of consumer experts to provide Ofgem with a public report on companies’ business plans.
- Ofgem intends to expand the role of competition for projects that are new, separable and high value. WPD does not currently have any planned projects that would meet the high value threshold.
- A focus of RIIO-2 will be on whole-system outcomes. Ofgem envisions network companies and system operators working together to ensure the energy system as a whole is efficient and delivers best value to consumers. Ofgem is undertaking further work to clarify the definition of whole-system and the appropriate roles of the network companies in supporting the energy transition.

Ofgem also indicated further work is needed on other price control principles, including but not limited to, cost of equity, cost of debt, financeability and incentives with decisions on these items expected to be made in the sector specific consultations or within the individual company business plan submissions.

In December 2018, the promulgation of sector specific price controls began with Ofgem publishing its consultation related to its RIIO-2 price controls for the gas distribution, gas transmission and electricity transmission operators that will be effective from April 2021 to March 2026. This current consultation does not apply directly to electricity distribution network operators although some decisions will be precedent setting. The electricity distribution price control work is scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document.

Although the electricity distribution consultation does not commence until 2020, WPD is engaged in the RIIO-2 process and will be responding to the December 2018 consultation document. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

- Kentucky Regulated Segment (PPL)

Consists of the operations of LKE, which owns and operates regulated public utilities engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas, representing primarily the activities of LG&E and KU. In addition, certain acquisition-related financing costs are allocated to the Kentucky

Regulated segment.

(PPL, LKE, LG&E and KU)

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, also Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 414,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 328,000 customers in its electric service area and eight additional counties in Kentucky. KU provides electric service to approximately 527,000 customers in 77 counties in central, southeastern and western Kentucky and approximately 28,000 customers in five counties in southwestern Virginia, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 10 municipalities in Kentucky under load following contracts.

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Details of operating revenues, in millions, by customer class for the years ended December 31 are shown below.

	2018		2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LKE						
Commercial	$858	27	$854	27	$834	27
Industrial	566	18	603	19	601	19
Residential	1,313	41	1,259	40	1,261	40
Other (a)	293	9	280	9	288	9
Wholesale - municipal	105	3	112	4	116	4
Wholesale - other (b)	79	2	48	1	41	1
Total	$3,214	100	$3,156	100	$3,141	100

(a) Primarily includes revenues from street lighting and other public authorities.
(b) Includes wholesale power and transmission revenues.

	2018		2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LG&E						
Commercial	$451	30	$453	31	$442	31
Industrial	178	12	187	13	185	13
Residential	661	44	637	44	627	44
Other (a)	133	9	123	8	135	9
Wholesale - other (b)	73	5	53	4	41	3
Total	$1,496	100	$1,453	100	$1,430	100

(a) Primarily includes revenues from street lighting and other public authorities.
(b) Includes wholesale power and transmission revenues. Also includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

	2018		2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
KU						
Commercial	$407	23	$401	23	$392	22
Industrial	388	22	416	24	416	24
Residential	652	37	622	36	634	36
Other (a)	160	9	157	9	153	9
Wholesale - municipal	105	6	112	6	116	7
Wholesale - other (b)	48	3	36	2	38	2
Total	$1,760	100	$1,744	100	$1,749	100

(a) Primarily includes revenues from street lighting and other public authorities.
(b) Includes wholesale power and transmission revenues. Also includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

Franchises and Licenses

LG&E and KU provide electricity delivery service, and LG&E provides natural gas distribution service, in their respective service territories pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

Competition

There are currently no other electric public utilities operating within the electric service areas of LKE. From time to time, bills are introduced into the Kentucky General Assembly which seek to authorize, promote or mandate increased distributed generation, customer choice or other developments. Neither the Kentucky General Assembly nor the KPSC has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of legislative or regulatory actions, if any, regarding industry restructuring and their impact on LKE, which may be significant, cannot currently

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be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

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

Power Supply

At December 31, 2018, LKE owned, controlled or had a minority ownership interest in generating capacity of 8,017 MW, of which 2,920 MW related to LG&E and 5,097 MW related to KU, in Kentucky, Indiana, and Ohio. See "Item 2. Properties - Kentucky Regulated Segment" for a complete list of LKE's generating facilities.

The system capacity of LKE's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances.

During 2018, LKE's power plants generated the following amounts of electricity.

	GWh		
Fuel Source	LKE	LG&E	KU
Coal (a)	28,742	12,446	16,296
Gas	6,301	1,584	4,717
Hydro	344	191	153
Solar	17	7	10
Total (b)	35,404	14,228	21,176

(a) Includes 859 GWh of power generated by and purchased from OVEC for LKE, 594 GWh for LG&E and 265 GWh for KU.
(b) This generation represents increases for LKE, LG&E and KU of 5.7%, 5% and 6.2% from 2017 output.

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

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

As a result of environmental requirements and energy efficiency measures, KU anticipates retiring two older coal-fired units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

In 2016, LG&E and KU completed construction activities and placed into commercial operation a 10 MW solar generating facility at the E.W. Brown generating site. Additionally, LG&E and KU received approval from the KPSC to develop a 4 MW Solar Share facility to service a Solar Share program. The Solar Share program is an optional, voluntary program that allows customers to subscribe capacity in the Solar Share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete. The subscription for the first 500-kilowatt phase was completed in June 2018. Construction of the first section has begun and is expected to be operational in the summer of 2019. LG&E and KU continue to market the program and receive interest from customers for the second 500-kilowatt phase.

Fuel Supply

Coal and natural gas will continue to be the predominant fuel used by LG&E and KU for generation for the foreseeable future. Natural gas used for generation is primarily purchased using contractual arrangements separate from LG&E's natural gas distribution operations. Natural gas and oil are also used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

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LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2023 and augment their coal supply agreements with spot market purchases, as needed.

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

To enhance the reliability of natural gas supply, LG&E and KU have secured firm long-term pipeline transport capacity with contracts of various durations from 2019 to 2024 on the interstate pipeline serving Cane Run Unit 7. This pipeline also serves the six simple cycle combustion turbine units located at the Trimble County site as well as four other simple cycle units at the Cane Run and Paddy's Run sites. For the seven simple cycle combustion turbines at the E.W. Brown facility, no firm long-term pipeline transport capacity has been purchased due to the facility being interconnected to two pipelines and some of the units having dual fuel capability.

LG&E and KU have firm contracts for a portion of the natural gas fuel for Cane Run Unit 7 through December 2020. The bulk of the natural gas fuel remains purchased on the spot market.

(PPL, LKE and LG&E)

Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 billion cubic feet (Bcf), are used in providing natural gas service to LG&E's firm sales customers. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services are expected to be higher. At December 31, 2018, LG&E had 12 Bcf of natural gas stored underground with a carrying value of $41 million.

LG&E has a portfolio of supply arrangements of varying durations and terms that provide competitively priced natural gas designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2020 and 2023. Total winter season capacity under these contracts is 184,900 MMBtu/day and summer season capacity is 60,000 MMBtu/day. With this same pipeline, LG&E also has another contract for pipeline capacity through 2026 in the amount of 60,000 MMBtu/day during both the winter and summer seasons. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in 2023.

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

(PPL, LKE, LG&E and KU)

Transmission

LG&E and KU contract with the Tennessee Valley Authority to act as their transmission reliability coordinator and contract with TranServ International, Inc. to act as their independent transmission organization.

Rates

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

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

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

KU's rates to 10 municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except regulatory assets recorded for AROs related to CCR impoundments, are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets. In April 2014, certain municipalities submitted notices of termination, under the notice period provisions, to cease taking power under the wholesale requirements contracts. KU's service to eight municipalities will terminate effective May 1, 2019.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

On September 28, 2018, LG&E and KU filed requests with the KPSC for an increase in annual base electricity rates of approximately $112 million at KU and increases in annual base electricity and gas rates of approximately $35 million and $25 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.9% at KU and electricity and gas rate increases of 3% and 7.5% at LG&E. As discussed in the "TCJA Impact on LG&E and KU Rates" section below, LG&E's and KU's applications seek to include applicable changes associated with the TCJA in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when the new base rates go into effect.

New rates are expected to become effective on May 1, 2019. The applications are based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%. A number of parties have been granted intervention requests in the proceeding. Data discovery and the filing of written testimony will continue through February 2019 and a hearing is scheduled in March 2019. LG&E and KU cannot predict the outcome of these proceedings.

(LKE and KU)

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

TCJA Impact on LG&E and KU Rates

(PPL, LKE, LG&E and KU)

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA, which reduced the federal corporate tax rate from 35%

to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019 and thereafter until tax-reform related savings are reflected in changes in base rates. The estimated impact of the rate reduction represents approximately $91 million in KU electricity revenues ($70 million through the new bill credit and $21 million through existing rate mechanisms), $69 million in LG&E electricity revenues ($49 million through the new bill credit and $20 million through existing rate mechanisms) and $17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019.

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

On September 28, 2018, the KPSC issued an Order on reconsideration, pursuant to LG&E's and KU's petition, implementing rates reflecting electricity revenue reductions of $101 million for KU ($80 million through the new bill credit and $21 million through existing rate mechanisms), $74 million for LG&E electricity revenues ($54 million through the new bill credit and $20 million through existing rate mechanisms) and $16 million LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. This represents lower revenue reduction amounts than the March 20, 2018 Order of approximately $13 million ($7 million at KU and $6 million at LG&E).

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

On November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. LG&E and KU are currently assessing the Notice of Proposed Rulemaking and are continuing to monitor guidance issued by the FERC. On February 5, 2019, in connection with a separate element of federal and Kentucky state tax reform effects, LG&E and KU filed a request with the FERC to amend their transmission formula rates, effective June 1, 2019, to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. LG&E and KU do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

See Note 7 to the Financial Statements for additional information on rate mechanisms.

• Pennsylvania Regulated Segment (PPL)

Consists of PPL Electric, a regulated public utility engaged in the distribution and transmission of electricity.

(PPL and PPL Electric)

PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties of eastern and central Pennsylvania. PPL Electric also provides electricity to retail customers in this territory as a PLR under the Customer Choice Act.

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Details of revenues, in millions, by customer class for the years ended December 31 are shown below.

	2018		2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Distribution						
Residential	$1,379	61	$1,351	62	$1,327	61
Industrial	54	2	44	2	42	2
Commercial	368	16	349	16	338	16
Other (a)	(73)	(3)	(36)	(2)	(4)	—
Transmission	549	24	487	22	453	21
Total	$2,277	100	$2,195	100	$2,156	100

(a) Includes regulatory over- or under-recovery reconciliation mechanisms, pole attachment revenues and street lighting, offset by contra revenue associated with the network integration transmission service expense.

Franchise, Licenses and Other Regulations

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

Competition

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

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

Rates and Regulation

Transmission

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

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

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

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

See Note 7 to the Financial Statements for additional information on rate mechanisms.

Distribution

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). All regulatory assets and liabilities are excluded from the return on rate base. Therefore, no return is earned on the related assets unless specifically provided for by the PUC. Currently, PPL Electric's Smart Meter rider and the DSIC are the only riders authorized to earn a return. Certain operating expenses are also included in PPL Electric's distribution base rates including wages and benefits, other operation and maintenance expenses, depreciation and taxes.

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

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

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

See Note 7 to the Financial Statements for additional information regarding Act 129 and other legislative and regulatory impacts.

PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, or an alternative supplier approved by the PUC to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. In 2018, the following average percentages of PPL Electric's customer load were provided by competitive suppliers: 47% of residential, 83% of small commercial and industrial and 98% of large commercial and industrial customers. The PUC continues to favor expanding the competitive market for electricity.

PPL Electric's cost of electricity generation is based on a competitive solicitation process. The PUC approved PPL Electric's default service plan for the period June 2015 through May 2017, which included four solicitations for electricity supply held semiannually in April and October. The PUC approved PPL Electric's default service plan for the period June 2017 through May 2021, which includes a total of eight solicitations for electricity supply held semiannually in April and October. Pursuant to both the current and future plans, PPL Electric contracts for all of the electricity supply for residential customers and commercial and industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of 6- and 12-month fixed-price load-following contracts for residential and small commercial and industrial customers, and 12-month real-time pricing contracts for large commercial and industrial customers to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

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

See Note 7 to the Financial Statements for additional information regarding Act 129 and other legislative and regulatory impacts.

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TCJA Impact on PPL Electric Rates

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 that required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to be effective July 1, 2018, and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to charge a negative surcharge of 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. PPL Electric recorded a $41 million noncurrent regulatory liability and a corresponding reduction of revenue to be distributed to customers pursuant to a future rate adjustment related to the period January 1, 2018 through June 30, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the FERC, to accelerate incorporation of the changes to the federal corporate income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM Transmission Owners joint filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. On November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers should include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. PPL Electric is currently assessing the Notice of Proposed Rulemaking and is continuing to monitor guidance issued by the FERC. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

(PPL)

Corporate and Other

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

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

Unlike PPL Services, PPL Capital Funding's costs are not generally charged to PPL subsidiaries. Costs are charged directly to PPL. However, PPL Capital Funding participated significantly in the financing for the acquisitions of LKE and WPD Midlands and certain associated financing costs were allocated to the Kentucky Regulated and U.K. Regulated segments. The associated financing costs, as well as the financing costs associated with prior issuances of certain other PPL Capital Funding securities, have been assigned to the appropriate segments for purposes of PPL management's assessment of segment performance. The financing costs associated primarily with PPL Capital Funding's securities issuances beginning in 2013, with certain exceptions, have not been directly assigned or allocated to any segment.

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During the second quarter of 2018, PPL completed the acquisition of all the outstanding membership interests of Safari Energy, a privately held provider of solar energy solutions for commercial customers in the U.S. The acquisition is not material to PPL and the financial results of Safari Energy are reported within Corporate and Other.

(All Registrants)

SEASONALITY

The demand for and market prices of electricity and natural gas are affected by weather. As a result, the Registrants' operating results in the future may fluctuate substantially on a seasonal basis, especially when unpredictable weather conditions make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned. See "Environmental Matters" in Note 13 to the Financial Statements for additional information regarding climate change.

FINANCIAL CONDITION

See "Financial Condition" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for this information.

CAPITAL EXPENDITURE REQUIREMENTS

See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information concerning projected capital expenditure requirements for 2019 through 2023. See Note 13 to the Financial Statements for additional information concerning the potential impact on capital expenditures from environmental matters.

ENVIRONMENTAL MATTERS

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA has issued numerous environmental regulations relating to air, water and waste that directly affect the electric power industry. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2019 through 2023. Also, see "Environmental Matters" in Note 13 to the Financial Statements for additional information and Note 7 to the Financial Statements for information related to the recovery of environmental compliance costs.

EMPLOYEE RELATIONS

At December 31, 2018, PPL and its subsidiaries had the following full-time employees and employees represented by labor unions.

	Total Full-Time Employees	Number of Union Employees	Percentage of Total Workforce
PPL	12,444	5,970	48 %

PPL Electric	1,674	1,014	61	%
LKE	3,504	781	22	%
LG&E	1,028	663	64	%
KU	904	118	13	%

PPL's domestic workforce has 1,924 employees, or 33%, that are members of labor unions.

WPD has 4,046 employees who are members of labor unions (or 61% of PPL's U.K. workforce). WPD recognizes four unions, the largest of which represents 41% of its union workforce. WPD's Electricity Business Agreement, which covers 3,989 union employees, may be amended by agreement between WPD and the unions and can be terminated with 12 months' notice by either side.

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CYBERSECURITY MANAGEMENT

The Registrants and their subsidiaries are subject to risks from cyber-attacks that have the potential to cause significant interruptions to the operation of their businesses. The frequency of these attempted intrusions has increased in recent years and the sources, motivations and techniques of attack continue to evolve and change rapidly. PPL has undertaken a variety of actions to monitor and address cyber-related risks. Cybersecurity and the effectiveness of PPL’s cybersecurity strategy are regular topics of discussion at Board meetings. PPL's strategy for managing cyber-related risks is risk-based and, where appropriate, integrated within PPL's enterprise risk management processes. PPL’s Chief Information Security Officer (CISO), who reports directly to the Chief Executive Officer, leads a dedicated cybersecurity team and is responsible for the design, implementation, and execution of cyber-risk management strategy. Among other things, the CISO and the cybersecurity team actively monitor the Registrants' systems, regularly review policies, compliance, regulations and best practices, perform penetration testing, lead response exercises and internal campaigns, and provide training and communication across the organization to strengthen secure behavior. The cybersecurity team also routinely participates in industry-wide programs to further information sharing, intelligence gathering, and unity of effort in responding to potential or actual attacks. In addition, in 2018, PPL revised and formalized its internal policy and procedures for communicating cybersecurity incidents on an enterprise-wide basis.

In addition to these enterprise-wide initiatives, PPL’s Kentucky and Pennsylvania operations are subject to extensive and rigorous mandatory cybersecurity requirements that are developed and enforced by NERC and approved by FERC to protect grid security and reliability. Finally, PPL purchases insurance to protect against a wide range of costs that could be incurred in connection with cyber-related incidents. There can be no assurance, however, that these efforts will be effective to prevent interruption of services or other damage to the Registrants' businesses or operations or that PPL's insurance coverage will cover all costs incurred in connection with any cyber-related incident.

AVAILABLE INFORMATION

PPL's Internet website is www.pplweb.com. Under the Investors heading of that website, PPL provides access to all SEC filings of the Registrants (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d)) free of charge, as soon as reasonably practicable after filing with the SEC. Additionally, the Registrants' filings are available at the SEC's website (www.sec.gov).

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ITEM 1A. RISK FACTORS

The Registrants face various risks associated with their businesses. Our businesses, financial condition, cash flows or results of operations could be materially adversely affected by any of these risks. In addition, this report also contains forward-looking and other statements about our businesses that are subject to numerous risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 to the Financial Statements for more information concerning the risks described below and for other risks, uncertainties and factors that could impact our businesses and financial results.

As used in this Item 1A., the terms "we," "our" and "us" generally refer to PPL and its consolidated subsidiaries taken as a whole, or PPL Electric and its consolidated subsidiaries taken as a whole within the Pennsylvania Regulated segment discussion, or LKE and its consolidated subsidiaries taken as a whole within the Kentucky Regulated segment discussion.

(PPL)

Risks related to our U.K. Segment

Our U.K. distribution business contributes a significant amount of PPL's earnings and exposes us to the following additional risks related to operating outside the U.S., including risks associated with changes in U.K. laws and regulations, taxes, economic conditions and political conditions and policies of the U.K. government and the European Union. These risks may adversely impact the results of operations of our U.K. distribution business or affect our ability to access U.K. revenues for payment of distributions or for other corporate purposes in the U.S.

- changes in laws or regulations relating to U.K. operations, including rate regulations beginning in April 2023 under RIIO-ED2, operational performance and tax laws and regulations;
- changes in government policies, personnel or approval requirements;
- changes in general economic conditions affecting the U.K.;
- regulatory reviews of tariffs for DNOs;
- changes in labor relations;
- limitations on foreign investment or ownership of projects and returns or distributions to foreign investors;
- limitations on the ability of foreign companies to borrow money from foreign lenders and lack of local capital or loans;
- changes in U.S. tax law applicable to taxation of foreign earnings;
- compliance with U.S. foreign corrupt practices laws; and
- prolonged periods of low inflation or deflation.

PPL's earnings may be adversely affected in the event the U.K. withdraws from the European Union.

In 2018, approximately 61% of PPL’s net income was generated from its U.K. businesses. Significant uncertainty continues to exist concerning the financial, economic and other consequences of a withdrawal by the U.K. from the European Union, including the outcome of negotiations between the U.K. and European Union as to the terms of the withdrawal. PPL cannot predict the impact, in either the short-term or long-term, on foreign exchange rates or PPL’s financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the European Union, although such impacts could be material.

We are subject to foreign currency exchange rate risks because a significant portion of our cash flows and reported earnings are currently generated by our U.K. business operations.

These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses, and our strategy to hedge against such changes, and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed to PPL or used for repayments of intercompany loans or other general corporate purposes. In addition, PPL's consolidated reported earnings on a GAAP basis may be subject to earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with GAAP requirements.

Our U.K. segment's earnings are subject to variability based on fluctuations in RPI, which is a measure of inflation.

In RIIO-ED1, WPD's base revenue was established by Ofgem based on 2012/13 prices. Base revenue is subsequently adjusted to reflect any increase or decrease in RPI for each year to determine the amount of revenue WPD can collect in tariffs. The RPI is forecasted annually by HM Treasury and subject to true-up in subsequent years. Consequently, the fluctuations between

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forecasted and actual RPI can result in variances in base revenue. Although WPD also has debt that is indexed to RPI and certain components of operations and maintenance expense are affected by inflation, these may not offset changes in base revenue and timing of such offsets would likely not be correlated precisely with the calendar year in which the variance in demand revenue was initially incurred. Further, as RAV is indexed to RPI under U.K. rate regulations, a reduction in RPI could adversely affect a borrower's debt-to-RAV ratio, potentially limiting future borrowings at WPD's holding company.

Our U.K. delivery business is subject to revenue variability based on operational performance.

Our U.K. delivery businesses operate under an incentive-based regulatory framework. Managing operational risk and delivering agreed-upon performance are critical to the U.K. Regulated segment's financial performance. Disruption to these distribution networks could reduce profitability both directly by incurring costs for network restoration and also through the system of penalties and rewards that Ofgem administers relating to customer service levels.

Our ability to collect current levels of pension deficit funding for certain WPD pension plans after March 2021 is uncertain.

WPD recovers approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans in conjunction with actual costs under the RIIO-ED1 price control. The pension deficit is determined by the pension trustees on a triennial basis in accordance with their funding requirements. Pension deficit funding recovered in revenues was £147 million, £142 million and £139 million in 2018, 2017 and 2016. WPD expects similar amounts to be collected in revenues through March 31, 2021, but cannot predict amounts that will be collected in revenues beyond then as the plans are approaching a fully funded status. The next triennial pension review will commence in March 2019 and is expected to conclude by the end of 2020.

A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL.

Ofgem has powers to levy fines of up to ten percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Ofgem also has formal powers to propose modifications to each distribution license and there can be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

Risks Related to All Segments

(All Registrants)

The operation of our businesses is subject to cyber-based security and integrity risks.

Numerous functions affecting the efficient operation of our businesses are dependent on the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of our transmission and distribution systems, as well as our generation plants, are all reliant on cyber-based technologies and, therefore, subject to the risk that these systems could be the target of disruptive actions by terrorists or criminals or otherwise be compromised by unintentional events. As a result, operations could be interrupted, property could be damaged and sensitive customer information lost or stolen, causing us to incur significant losses of revenues, other substantial liabilities and damages, costs to replace or repair damaged equipment and damage to our reputation. In addition, under the Energy Policy Act of 2005, users, owners and operators of the bulk power transmission system, including PPL Electric, LG&E and KU, are subject to mandatory reliability standards promulgated by NERC and SERC and enforced by FERC. As an operator of natural gas distribution systems, LG&E is also subject to mandatory reliability standards of the U.S. Department of Transportation. Failure to comply with these standards could result in the imposition of fines or civil penalties, and potential exposure to third party claims for alleged violations of the standards.

We are subject to risks associated with federal and state tax laws and regulations.

Changes in tax law, including the December 2017 enactment of the TCJA, as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations and cash flows. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, gross receipts, franchise, sales and use, employment-related and other taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict changes in tax law or regulation or the effect of any such changes on our businesses. Any such changes could increase tax expense and could have a significant negative impact on our results of operations and cash flows. We have completed or made reasonable estimates of the effects of the TCJA reflected in our December 31, 2018 financial statements, and we continue to evaluate the application of various components of the law in the calculation of income tax expense.

Increases in electricity prices and/or a weak economy, can lead to changes in legislative and regulatory policy, including the promotion of energy efficiency, conservation and distributed generation or self-generation, which may adversely impact our business.

Energy consumption is significantly impacted by overall levels of economic activity and costs of energy supplies. Economic downturns or periods of high energy supply costs can lead to changes in or the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency, alternative and renewable energy sources, and distributed or self-generation by customers. This focus on conservation, energy efficiency and self-generation may result in a decline in electricity demand, which could adversely affect our business.

We could be negatively affected by rising interest rates, downgrades to our credit ratings, adverse credit market conditions or other negative developments in our ability to access capital markets.

In the ordinary course of business, we are reliant upon adequate long-term and short-term financing to fund our significant capital expenditures, debt service and operating needs. As a capital-intensive business, we are sensitive to developments in interest rates, credit rating considerations, insurance, security or collateral requirements, market liquidity and credit availability and refinancing opportunities necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased availability of credit. In addition, certain sources of debt and equity capital have expressed reservations about investing in companies that rely on fossil fuels. If sources of our capital are reduced, capital costs could increase materially.

A downgrade in our credit ratings could negatively affect our ability to access capital and increase the cost of maintaining our credit facilities and any new debt.

Credit ratings assigned by Moody's and S&P to our businesses and their financial obligations have a significant impact on the cost of capital incurred by our businesses. A ratings downgrade could increase our short-term borrowing costs and negatively affect our ability to fund liquidity needs and access new long-term debt at acceptable interest rates. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Ratings Triggers" for additional information on the financial impact of a downgrade in our credit ratings.

Our operating revenues could fluctuate on a seasonal basis, especially as a result of extreme weather conditions.

Our businesses are subject to seasonal demand cycles. For example, in some markets demand for, and market prices of, electricity peak during hot summer months, while in other markets such peaks occur in cold winter months. As a result, our overall operating results may fluctuate substantially on a seasonal basis if weather conditions diverge adversely from seasonal norms.

Operating expenses could be affected by weather conditions, including storms, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.

Weather and these other factors can significantly affect our profitability or operations by causing outages, damaging infrastructure and requiring significant repair costs. Storm outages and damage often directly decrease revenues and increase expenses, due to reduced usage and restoration costs.

Our businesses are subject to physical, market and economic risks relating to potential effects of climate change.

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation levels, and thus may impact consumer demand for electricity. In addition, the potential physical effects of climate change, such as increased frequency and severity of storms, floods, and other climatic events, could disrupt our operations and cause us to incur significant costs to prepare for or respond to these effects. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs. Greenhouse gas regulation could increase the cost of electricity, particularly power generated by fossil fuels, and such increases could have a depressive effect on regional economies. Reduced economic and consumer activity in our service areas -- both generally and specific to certain industries and consumers accustomed to previously lower cost power -- could reduce demand for the power we generate, market and deliver. Also,

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demand for our energy-related services could be similarly lowered by consumers' preferences or market factors favoring energy efficiency, low-carbon power sources or reduced electricity usage.

We cannot predict the outcome of legal proceedings or investigations related to our businesses in which we are periodically involved. An unfavorable outcome or determination in any of these matters could have a material adverse effect on our financial condition, results of operations or cash flows.

We are involved in legal proceedings, claims and litigation and periodically are subject to state and federal investigations arising out of our business operations, the most significant of which are summarized in Note 7 to the Financial Statements and in "Legal Matters," "Regulatory Issues" and "Environmental Matters" in Note 13 to the Financial Statements. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

Significant increases in our operation and maintenance expenses, including health care and pension costs, could adversely affect our future earnings and liquidity.

We continually focus on limiting and reducing our operation and maintenance expenses. However, we expect to continue to face increased cost pressures in our operations. Increased costs of materials and labor may result from general inflation, increased regulatory requirements (especially in respect of environmental regulations), the need for higher-cost expertise in the workforce or other factors. In addition, pursuant to collective bargaining agreements, we are contractually committed to provide specified levels of health care and pension benefits to certain current employees and retirees. These benefits give rise to significant expenses. Due to general inflation with respect to such costs, the aging demographics of our workforce and other factors, we have experienced significant health care cost inflation in recent years, and we expect our health care costs, including prescription drug coverage, to continue to increase despite measures that we have taken and expect to take to require employees and retirees to bear a higher portion of the costs of their health care benefits. In addition, we expect to continue to incur significant costs with respect to the defined benefit pension plans for our employees and retirees. The measurement of our expected future health care and pension obligations, costs and liabilities is highly dependent on a variety of assumptions, most of which relate to factors beyond our control. These assumptions include investment returns, interest rates, health care cost trends, inflation rates, benefit improvements, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs and cash contribution requirements to fund these benefits could increase significantly.

We may incur liabilities in connection with discontinued operations.

In connection with various divestitures, and certain other transactions, we have indemnified or guaranteed parties against certain liabilities. These indemnities and guarantees relate, among other things, to liabilities which may arise with respect to the period during which we or our subsidiaries operated a divested business, and to certain ongoing contractual relationships and entitlements with respect to which we or our subsidiaries made commitments in connection with the divestiture. See "Guarantees and Other Assurances" in Note 13 to the Financial Statements.

We are subject to liability risks relating to our generation, transmission and distribution operations.

The conduct of our physical and commercial operations subjects us to many risks, including risks of potential physical injury, property damage or other financial liability, caused to or by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

Our facilities may not operate as planned, which may increase our expenses and decrease our revenues and have an adverse effect on our financial performance.

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems and disruptions of fuel supply and performance below expected levels. These events may impact our ability to conduct our businesses efficiently and lead to increased costs, expenses or losses. Operation of our delivery systems below our expectations may result in lost revenue and increased expense, including higher maintenance costs, which may not be recoverable from customers. Planned and unplanned outages at our power plants may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them.

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us in the event losses occur.

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We are required to obtain, and to comply with, government permits and approvals.

We are required to obtain, and to comply with, numerous permits, approvals, licenses and certificates from governmental agencies. The process of obtaining and renewing necessary permits can be lengthy and complex and can sometimes result in the establishment of permit conditions that make the project or activity for which the permit was sought unprofitable or otherwise unattractive. In addition, such permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals, or failure to comply with any applicable laws or regulations, may result in the delay or temporary suspension of our operations and electricity sales or the curtailment of our power delivery and may subject us to penalties and other sanctions. Although various regulators routinely renew existing licenses, renewal could be denied or jeopardized by various factors, including failure to provide adequate financial assurance for closure; failure to comply with environmental, health and safety laws and regulations or permit conditions; local community, political or other opposition; and executive, legislative or regulatory action.

Our cost or inability to obtain and comply with the permits and approvals required for our operations could have a material adverse effect on our operations and cash flows. In addition, new environmental legislation or regulations, if enacted, or changed interpretations of existing laws may elicit claims that historical routine modification activities at our facilities violated applicable laws and regulations. In addition to the possible imposition of fines in such cases, we may be required to undertake significant capital investments in pollution control technology and obtain additional operating permits or approvals, which could have an adverse impact on our business, results of operations, cash flows and financial condition.

War, other armed conflicts or terrorist attacks could have a material adverse effect on our business.

War, terrorist attacks and unrest have caused and may continue to cause instability in the world's financial and commercial markets and have contributed to high levels of volatility in prices for oil and gas. In addition, unrest in the Middle East could lead to acts of terrorism in the United States, the United Kingdom or elsewhere, and acts of terrorism could be directed against companies such as ours. Armed conflicts and terrorism and their effects on us or our markets may significantly affect our business and results of operations in the future. In addition, we may incur increased costs for security, including additional physical plant security and security personnel or additional capability following a terrorist incident.

We are subject to counterparty performance, credit or other risk in their provision of goods or services to us, which could adversely affect our ability to operate our facilities or conduct business activities.

We purchase from a variety of suppliers energy, capacity, fuel, natural gas, transmission service and certain commodities used in the physical operation of our businesses, as well as goods or services, including information technology rights and services, used in the administration of our businesses. Delivery of these goods and services is dependent on the continuing operational performance and financial viability of our contractual counterparties and also the markets, infrastructure or third-parties they use to provide such goods and services to us. As a result, we are subject to the risks of disruptions, curtailments or increased costs in the operation of our businesses if such goods or services are unavailable or become subject to price spikes or if a counterparty fails to perform. Such disruptions could adversely affect our ability to operate our facilities or deliver our services and collect our revenues, which could result in lower sales and/or higher costs and thereby adversely affect our results of operations. The performance of coal markets and producers may be the subject of increased counterparty risk to LKE, LG&E and KU currently due to weaknesses in such markets and suppliers. The coal industry is subject to increasing competitive pressures from natural gas markets and new or more stringent environmental regulation, including greenhouse gases or other air emissions, combustion byproducts and water inputs or discharges. Consequently, the coal industry faces increased production costs or closed customer markets.

We are subject to the risk that our workforce and its knowledge base may become depleted in coming years.

We are experiencing an increase in attrition due primarily to the number of retiring employees, with the risk that critical knowledge will be lost and that it may be difficult to replace departed personnel, and to attract and retain new personnel, with appropriate skills and experience, due to a declining trend in the number of available skilled workers and an increase in competition for such workers.

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(PPL and LKE)

Risk Related to Registrant Holding Companies

PPL and LKE are holding companies and their cash flows and ability to meet their obligations with respect to indebtedness and under guarantees, and PPL's ability to pay dividends, largely depends on the financial performance of their respective subsidiaries and, as a result, is effectively subordinated to all existing and future liabilities of those subsidiaries.

PPL and LKE are holding companies and conduct their operations primarily through subsidiaries. Substantially all of the consolidated assets of these Registrants are held by their subsidiaries. Accordingly, these Registrants' cash flows and ability to meet debt and guaranty obligations, as well as PPL's ability to pay dividends, are largely dependent upon the earnings of those subsidiaries and the distribution or other payment of such earnings in the form of dividends, distributions, loans, advances or repayment of loans and advances. The subsidiaries are separate legal entities and have no obligation to pay dividends or distributions to their parents or to make funds available for such a payment. The ability of the Registrants' subsidiaries to pay dividends or distributions in the future will depend on the subsidiaries' future earnings and cash flows and the needs of their businesses, and may be restricted by their obligations to holders of their outstanding debt and other creditors, as well as any contractual or legal restrictions in effect at such time, including the requirements of state corporate law applicable to payment of dividends and distributions, and regulatory requirements, including restrictions on the ability of PPL Electric, LG&E and KU to pay dividends under Section 305(a) of the Federal Power Act.

Because PPL and LKE are holding companies, their debt and guaranty obligations are effectively subordinated to all existing and future liabilities of their subsidiaries. Although certain agreements to which certain subsidiaries are parties limit their ability to incur additional indebtedness, PPL and LKE and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. Therefore, PPL's and LKE's rights and the rights of their creditors, including rights of debt holders, to participate in the assets of any of their subsidiaries, in the event that such a subsidiary is liquidated or reorganized, will be subject to the prior claims of such subsidiary's creditors.

(PPL Electric, LG&E and KU)

Risks Related to Domestic Regulated Utility Operations

Our domestic regulated utility businesses face many of the same risks, in addition to those risks that are unique to each of the Kentucky Regulated segment and the Pennsylvania Regulated segment. Set forth below are risk factors common to both domestic regulated segments, followed by sections identifying separately the risks specific to each of these segments.

Our profitability is highly dependent on our ability to recover the costs of providing energy and utility services to our customers and earn an adequate return on our capital investments. Regulators may not approve the rates we request and existing rates may be challenged.

The rates we charge our utility customers must be approved by one or more federal or state regulatory commissions, including the FERC, KPSC, VSCC and PUC. Although rate regulation is generally premised on the recovery of prudently incurred costs and a reasonable rate of return on invested capital, there can be no assurance that regulatory authorities will consider all of our costs to have been prudently incurred or that the regulatory process by which rates are determined will always result in rates that achieve full or timely recovery of our costs or an adequate return on our capital investments. Federal or state agencies, intervenors and other permitted parties may challenge our current or future rate requests, structures or mechanisms, and ultimately reduce, alter or limit the rates we receive. Although our rates are generally regulated based on an analysis of our costs incurred in a base year or on future projected costs, the rates we are allowed to charge may or may not match our costs at any given time. Our domestic regulated utility businesses are subject to substantial capital expenditure requirements over the next several years, which will likely require rate increase requests to the regulators. If our costs are not adequately recovered through rates, it could have an adverse effect on our business, results of operations, cash flows and financial condition.

Our domestic utility businesses are subject to significant and complex governmental regulation.

In addition to regulating the rates we charge, various federal and state regulatory authorities regulate many aspects of our domestic utility operations, including:

- the terms and conditions of our service and operations;
- financial and capital structure matters;

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- siting, construction and operation of facilities;
- mandatory reliability and safety standards under the Energy Policy Act of 2005 and other standards of conduct;
- accounting, depreciation and cost allocation methodologies;
- tax matters;
- affiliate transactions;
- acquisition and disposal of utility assets and issuance of securities; and
- various other matters, including energy efficiency.

Such regulations or changes thereto may subject us to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties which may not be recoverable from customers.

Our domestic regulated businesses undertake significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.

The domestic regulated utility businesses are capital intensive and require significant investments in energy generation (in the case of LG&E and KU) and transmission, distribution and other infrastructure projects, such as projects for environmental compliance and system reliability. The completion of these projects without delays or cost overruns is subject to risks in many areas, including:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third-party intervenors;
- increases in commodity prices or labor rates; and
- contractor performance.

Failure to complete our capital projects on schedule or on budget, or at all, could adversely affect our financial performance, operations and future growth if such expenditures are not granted rate recovery by our regulators.

We are or may be subject to costs of remediation of environmental contamination at facilities owned or operated by our former subsidiaries.

We may be subject to liability for the costs of environmental remediation of property now or formerly owned by us with respect to substances that we may have generated regardless of whether the liabilities arose before, during or after the time we owned or operated the facilities. We also have current or previous ownership interests in sites associated with the production of manufactured gas for which we may be liable for additional costs related to investigation, remediation and monitoring of these sites. Remediation activities associated with our former manufactured gas plant operations are one source of such costs. Citizen groups or others may bring litigation regarding environmental issues including claims of various types, such as property damage, personal injury and citizen challenges to compliance decisions on the enforcement of environmental requirements, which could subject us to penalties, injunctive relief and the cost of litigation. We cannot predict the amount and timing of all future expenditures (including the potential or magnitude of fines or penalties) related to such environmental matters, although they could be material.

Risks Specific to Kentucky Regulated Segment

(PPL, LKE, LG&E and KU)

The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continuing changes.

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation business, including its air emissions, water discharges and the management of hazardous and solid wastes, among other business-related activities, and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, 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 forfeitures, operational changes, permit limitations or other restrictions. At some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units. Market prices for energy and capacity also affect this cost-effectiveness analysis. Many of these environmental law considerations are

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also applicable to the operations of our key suppliers or customers, such as coal producers, power producers and industrial power users, and may impact the costs of their products and demand for our services.

Ongoing changes in environmental regulations or their implementation requirements and our related compliance strategies entail a number of uncertainties.

The environmental standards governing LG&E's and KU's businesses, particularly as applicable to coal-fired generation and related activities, continue to be subject to uncertainties due to rulemaking and other regulatory developments, legislative activities and litigation, administrative or permit challenges. Revisions to applicable standards, changes in compliance deadlines and invalidation of rules on appeal may require major changes in compliance strategies, operations or assets and adjustments to prior plans. Depending on the extent, frequency and timing of such changes, the companies may be subject to inconsistent requirements under multiple regulatory programs, compressed windows for decision-making and short compliance deadlines that may require new technologies or aggressive schedules for construction, permitting and other regulatory approvals. Under such circumstances, the companies may face higher risks of unsuccessful implementation of environmental-related business plans, noncompliance with applicable environmental rules, delayed or incomplete rate recovery or increased costs of implementation.

We are subject to operational, regulatory and other risks regarding certain significant developments in environmental regulation affecting coal-fired generation facilities.

Certain regulatory initiatives have been implemented or are under development which could represent significant developments or changes in environmental regulation and compliance costs or risk associated with the combustion of coal as occurs at LG&E's and KU's coal-fired generation facilities. In particular, such developments include the federal Coal Combustion Residuals regulations governing coal by-product storage activities and the federal Effluent Limitations Guidelines governing water discharge activities. Such initiatives have the potential to require significant changes in coal combustion byproduct handling and disposal or water treatment and release facilities and methods from those historically used or currently available. Consequently, such developments may involve increased risks relating to the uncertain cost, efficacy and reliability of new technologies, equipment or methods. Compliance with such regulations could result in significant changes to LG&E's and KU's operations or commercial practices and material additional capital or operating expenditures. Such circumstances could also involve higher risks of compliance violations or of variations in rate or regulatory treatment when compared to existing frameworks.

(PPL, LKE and LG&E)

We are subject to operational, regulatory and other risks regarding natural gas supply infrastructure.

A natural gas pipeline explosion or associated incident could have a significant impact on LG&E’s natural gas operations or result in significant damages and penalties that could have an adverse impact on LG&E’s financial position and results of operations. The Pipeline and Hazardous Materials Safety Administration has regulations that govern the design, construction, operation and maintenance of pipeline facilities. Failure to comply with these regulations could result in the assessment of fines or penalties against LG&E. These regulations require, among other things, that pipeline operators engage in a pipeline integrity program. Depending on the results of these integrity tests and other integrity program activities, we could incur significant and unexpected costs to perform remedial activities on our natural gas infrastructure to ensure our continued safe and reliable operation. Recent pipeline incidents in the U.S. have also led to the introduction of proposed rules and possible federal legislative actions which could impose restrictions on LG&E’s operations or require more stringent testing to ensure pipeline integrity. Implementation of these regulations could increase our costs of compliance with pipeline integrity and safety regulations.

Risks Specific to Pennsylvania Regulated Segment

(PPL and PPL Electric)

We face competition for transmission projects, which could adversely affect our rate base growth.

FERC Order 1000, issued in July 2011, establishes certain procedural and substantive requirements relating to participation, cost allocation and non-incumbent developer aspects of regional and inter-regional electric transmission planning activities. The PPL Electric transmission business, operating under a FERC-approved PJM Open Access Transmission Tariff, is subject to

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competition pursuant to FERC Order 1000 from entities that are not incumbent PJM transmission owners with respect to the construction and ownership of transmission facilities within PJM. Increased competition can result in lower rate base growth.

We could be subject to higher costs and/or penalties related to Pennsylvania Conservation and Energy Efficiency Programs.

PPL Electric is subject to Act 129 which contains requirements for energy efficiency and conservation programs and for the use of smart metering technology, imposes PLR electricity supply procurement rules, provides remedies for market misconduct, and made changes to the existing Alternative Energy Portfolio Standard. The law also requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand. Utilities not meeting these Act 129 requirements are subject to significant penalties that cannot be recovered in rates. Numerous factors outside of our control could prevent compliance with these requirements and result in penalties to us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

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ITEM 2. PROPERTIES

U.K. Regulated Segment (PPL)

For a description of WPD's service territory, see "Item 1. Business - General - Segment Information - U.K. Regulated Segment." WPD has electric distribution lines in public streets and highways pursuant to legislation and rights-of-way secured from property owners. At December 31, 2018, WPD's distribution system in the U.K. includes 1,863 substations with a total capacity of 74 million kVA, 55,947 circuit miles of overhead lines and 84,032 underground cable miles.

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

LG&E's and KU's properties consist primarily of regulated generation facilities, electricity transmission and distribution assets and natural gas transmission and distribution assets in Kentucky. The capacity of generation units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances. The electricity generating capacity at December 31, 2018 was:

Primary Fuel/Plant	Total MW Capacity Summer	LKE Ownership or Other Interest in MW	LG&E % Ownership or Other Interest	LG&E Ownership or Other Interest in MW	KU % Ownership or Other Interest	KU Ownership or Other Interest in MW
Coal						
Ghent - Units 1- 4	1,919	1,919			100.00	1,919
Mill Creek - Units 1- 4	1,465	1,465	100.00	1,465		
E.W. Brown - Units 1-3	681	681			100.00	681
Trimble County - Unit 1 (a)	493	370	75.00	370		
Trimble County - Unit 2 (a)	732	549	14.25	104	60.75	445
OVEC - Clifty Creek (b)	1,164	95	5.63	66	2.50	29
OVEC - Kyger Creek (b)	956	78	5.63	54	2.50	24
	7,410	5,157		2,059		3,098
Natural Gas/Oil						
E.W. Brown Unit 5 (c)	130	130	53.00	69	47.00	61
E.W. Brown Units 6 - 7	292	292	38.00	111	62.00	181
E.W. Brown Units 8 - 11 (c)	484	484			100.00	484
Trimble County Units 5 - 6	318	318	29.00	92	71.00	226
Trimble County Units 7 - 10	636	636	37.00	235	63.00	401
Paddy's Run Units 11 - 12	35	35	100.00	35		
Paddy's Run Unit 13	147	147	53.00	78	47.00	69
Haefling - Units 1 - 2	24	24			100.00	24
Zorn Unit	14	14	100.00	14		
Cane Run Unit 7	662	662	22.00	146	78.00	516
Cane Run Unit 11	14	14	100.00	14		
	2,756	2,756		794		1,962
Hydro						
Ohio Falls - Units 1-8 (d)	64	64	100.00	64		
Dix Dam - Units 1-3	32	32			100.00	32
	96	96		64		32

Solar						
E.W. Brown Solar (e)	8	8	39.00	3	61.00	5
Total	10,270	8,017		2,920		5,097

(a) Trimble County Unit 1 and Trimble County Unit 2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 12 to the Financial Statements for additional information.

(b) These units are owned by OVEC. LG&E and KU have a power purchase agreement that entitles LG&E and KU to their proportionate share of these units' total output and LG&E and KU fund their proportionate share of fuel and other operating costs, including debt service. Clifty Creek is located in Indiana and Kyger Creek is located in Ohio. See Note 13 to the Financial Statements for additional information.

(c) There is an inlet air cooling system attributable to these units. This inlet air cooling system is not jointly owned; however, it is used to increase production on the units to which it relates, resulting in an additional 12 MW of capacity for LG&E and an additional 86 MW of capacity for KU.

(d) In 2019, LKE completed upgrades to the Ohio Falls Hydroelectric Generating Station (Units 1-8), expanding the total generating capacity to 100 megawatts.

(e) This unit is a 10 MW facility and achieves such production. The 8 MW solar facility summer capacity rating is reflective of an average expected output across the peak hours during the summer period based on average weather conditions at the solar facility.

For a description of LG&E's and KU's service areas, see "Item 1. Business - General - Segment Information - Kentucky Regulated Segment." At December 31, 2018, LG&E's transmission system included in the aggregate, 45 substations (31 of which are shared with the distribution system) with a total capacity of 8 million kVA and 669 pole miles of lines. LG&E's distribution system included 96 substations (31 of which are shared with the transmission system) with a total capacity of 5 million kVA, 3,887 circuit miles of overhead lines and 2,609 underground cable miles. KU's transmission system included 142 substations (61 of which are shared with the distribution system) with a total capacity of 14 million kVA and 4,067 pole miles of lines. KU's distribution system included 469 substations (61 of which are shared with the transmission system) with a total capacity of 8 million kVA, 14,017 circuit miles of overhead lines and 2,543 underground cable miles.

LG&E's natural gas transmission system includes 4,369 miles of gas distribution mains and 370 miles of gas transmission mains, consisting of 234 miles of gas transmission pipeline, 116 miles of gas transmission storage lines, 19 miles of gas combustion turbine lines and one mile of gas transmission pipeline in regulator facilities. Five underground natural gas storage fields, with a total working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to ultimate consumers. KU's service area includes an additional 11 miles of gas transmission pipeline providing gas supply to natural gas combustion turbine electricity generating units.

Substantially all of LG&E's and KU's respective real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and, in the case of LG&E, the storage and distribution of natural gas, is subject to the lien of either the LG&E 2010 Mortgage Indenture or the KU 2010 Mortgage Indenture. See Note 8 to the Financial Statements for additional information.

LG&E and KU continuously reexamine development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them or pursue other options. In 2016, LG&E and KU received approval from the KPSC to develop a 4 MW Solar Share facility to service a Solar Share program. The Solar Share program is an optional, voluntary program that allows customers to subscribe capacity in the Solar Share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete. The subscription for the first 500-kilowatt phase was completed in June 2018. Construction of the first section has begun and is expected to be operational in the summer of 2019. LG&E and KU continue to market the program and receive interest from customers for the second 500-kilowatt phase.

Pennsylvania Regulated Segment (PPL and PPL Electric)

For a description of PPL Electric's service territory, see "Item 1. Business - General - Segment Information - Pennsylvania Regulated Segment." PPL Electric has electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. At December 31, 2018, PPL Electric's transmission system includes 50 substations with a total capacity of 30 million kVA and 5,455 circuit miles in service. PPL Electric's distribution system includes 353 substations with a total capacity of 14 million kVA, 36,312 circuit miles of overhead lines and 8,428 underground circuit miles. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's distribution properties and certain transmission properties are subject to the lien of the PPL Electric 2001 Mortgage Indenture. See Note 8 to the Financial Statements for additional information.

ITEM 3. LEGAL PROCEEDINGS

See Notes 6, 7 and 13 to the Financial Statements for information regarding legal, tax litigation, regulatory and environmental proceedings and matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY,
RELATED STOCKHOLDER MATTERS AND
ISSUER PURCHASES OF EQUITY SECURITIES

See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash" for information regarding certain restrictions on the ability to pay dividends for all Registrants.

PPL Corporation

Additional information for this item is set forth in the sections entitled "Quarterly Financial and Dividend Data," "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Shareowner and Investor Information" of this report. At January 31, 2019, there were 53,571 common stock shareowners of record.

There were no purchases by PPL of its common stock during the fourth quarter of 2018.

PPL Electric Utilities Corporation

There is no established public trading market for PPL Electric's common stock, as PPL owns 100% of the outstanding common shares. Dividends paid to PPL on those common shares are determined by PPL Electric's Board of Directors. PPL Electric paid common stock dividends to PPL of $390 million in 2018 and $336 million in 2017.

LG&E and KU Energy LLC

There is no established public trading market for LKE's membership interests. PPL owns all of LKE's outstanding membership interests. Distributions on the membership interests are paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of $302 million in 2018 and $402 million in 2017.

Louisville Gas and Electric Company

There is no established public trading market for LG&E's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by LG&E's Board of Directors. LG&E paid common stock dividends to LKE of $156 million in 2018 and $192 million in 2017.

Kentucky Utilities Company

There is no established public trading market for KU's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by KU's Board of Directors. KU paid common stock dividends to LKE of $246 million in 2018 and $226 million in 2017.

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ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2018	2017	2016	2015	2014
Income Items (in millions)					
Operating revenues	$ 7,785	$ 7,447	$ 7,517	$ 7,669	$ 7,852
Operating income (c)	2,852	2,901	2,936	2,802	2,822
Income from continuing operations after income taxes attributable to PPL shareowners	1,827	1,128	1,902	1,603	1,437
Income (loss) from discontinued operations (net of income taxes) (f)	—	—	—	(921)	300
Net income attributable to PPL shareowners (f)	1,827	1,128	1,902	682	1,737
Balance Sheet Items (in millions)					
Total assets (d)	43,396	41,479	38,315	39,301	48,606
Short-term debt (d)	1,430	1,080	923	916	836
Long-term debt (d)	20,599	20,195	18,326	19,048	18,054
Common equity (d)	11,657	10,761	9,899	9,919	13,628
Total capitalization (d)	33,686	32,036	29,148	29,883	32,518
Financial Ratios					
Return on common equity - % (d)(f)	16.1	10.9	19.2	5.8	13.0
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	720,323	693,398	679,731	673,857	665,849
Weighted-average	704,439	685,240	677,592	669,814	653,504
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS	$ 2.59	$ 1.64	$ 2.80	$ 2.38	$ 2.19
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS	$ 2.58	$ 1.64	$ 2.79	$ 2.37	$ 2.16
Net income available to PPL common shareowners - Basic EPS	$ 2.59	$ 1.64	$ 2.80	$ 1.01	$ 2.64
Net income available to PPL common shareowners - Diluted EPS	$ 2.58	$ 1.64	$ 2.79	$ 1.01	$ 2.61
Dividends declared per share of common stock	$ 1.64	$ 1.58	$ 1.52	$ 1.50	$ 1.49
Book value per share (d)	$ 16.18	$ 15.52	$ 14.56	$ 14.72	$ 20.47
Market price per share	$ 28.33	$ 30.95	$ 34.05	$ 34.13	$ 36.33
Dividend payout ratio - % (e)(f)	64	96	55	149	57
Dividend yield - % (g)	5.8	5.1	4.5	4.4	4.1
Price earnings ratio (e)(f)(g)	11.0	18.9	12.2	33.8	13.9
Sales Data - GWh					
Domestic - Electric energy supplied - wholesale	2,461	2,084	2,177	2,241	2,365
Domestic - Electric energy delivered - retail	68,686	65,751	67,474	67,798	68,569
U.K. - Electric energy delivered	74,181	74,317	74,728	75,907	75,813

(a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Earnings" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2018, 2017 and 2016. The earnings for 2015 and 2014 were also affected by the spinoff of PPL Energy Supply and the sale of the Montana hydroelectric generating facilities.

(b) See "Item 1A. Risk Factors" and Notes 1, 7 and 13 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition.

(c)

2014 through 2017 reflect the retrospective application of new accounting guidance related to the income statement presentation of net periodic benefit costs adopted by PPL in January 2018. See Note 1 to the Financial Statements for additional information on the adoption of this guidance.

(d) 2015 reflects the impact of the spinoff of PPL Energy Supply and a $3.2 billion related dividend.

(e) Based on diluted EPS.

(f) 2015 includes an $879 million loss on the spinoff of PPL Energy Supply, reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with GAAP. 2015 also includes five months of Supply segment earnings, compared to 12 months in 2014.

(g) Based on year-end market prices.

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ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 6 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

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Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 7. 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' Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

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

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

- "Results of Operations" for all Registrants includes a "Statement of Income Analysis," which discusses significant changes in principal line items on the Statements of Income, comparing 2018 with 2017 and 2017 with 2016. For PPL, "Results of Operations" also includes "Segment Earnings" and "Adjusted Gross Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2019 Outlook" discussion identifies key factors expected to impact 2019 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and adjusted gross margins is also provided.

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

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

- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Registrants and that require their management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

Overview

For a description of the Registrants and their businesses, see "Item 1. Business."

Business Strategy

(All Registrants)

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

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

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For the U.S. businesses, central to PPL's strategy is recovering capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital expenditures to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

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

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

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

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which the Registrants operate (U.K., U.S. federal and state). This is supported by a strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve customer service, reliability and operational efficiency.

Financial and Operational Developments

Equity Forward Contracts (PPL)

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

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Full settlement of these forward sale agreements will occur no later than November 2019. The forward sale agreements are classified as equity transactions. PPL only receives proceeds and issues shares of common stock upon any settlements of the forward sale agreements. PPL intends to use net proceeds that it receives upon any settlements for general corporate purposes.

In September 2018, PPL settled a portion of the initial forward sale agreements by issuing 20 million shares of PPL common stock, and received net cash proceeds of $520 million. For the unsettled portion of the agreements, the only impact to the financial statements is the inclusion of incremental shares within the calculation of diluted EPS using the Treasury Stock Method.

See Note 8 to the Financial Statements for additional information.

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U.S. Tax Reform (All Registrants)

The Registrants recognized certain provisional amounts relating to the impact of the enactment of the TCJA in their December 31, 2017 financial statements, in accordance with SEC guidance. Included in those provisional amounts were estimates of: tax depreciation, deductible executive compensation, accumulated foreign earnings, foreign tax credits, and deemed dividends from foreign subsidiaries, all of which were based on the interpretation and application of various provisions of the TCJA.

In the third quarter of 2018, PPL filed its consolidated federal income tax return, which was prepared using guidance issued by the U.S. Treasury Department and the IRS since the filing of each Registrant's 2017 Form 10-K. Accordingly, the Registrants have updated the following provisional amounts and now consider them to be complete: (1) the amount of the deemed dividend and associated foreign tax credits relating to the transition tax imposed on accumulated foreign earnings as of December 31, 2017; (2) the amount of accelerated 100% "bonus" depreciation PPL was eligible to claim in its 2017 federal income tax return; and (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on the changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts is required. See Note 6 to the Financial Statements for the final amounts reported in PPL's 2017 federal income tax return, provisional adjustment amounts for the year ended December 31, 2017, the related measurement period adjustments and the resulting tax impact for 2018.

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of December 31, 2018 with respect to all provisional amounts.

In 2018, the IRS issued proposed regulations for certain provisions of the TCJA, including interest deductibility, Base Erosion Anti-Avoidance Tax (BEAT), and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to BEAT and GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant.

Kentucky State Tax Reform (All Registrants)

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

As indicated in Note 1 to the Financial Statements, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In the second quarter of 2018, LG&E and KU recorded the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, as an increase in regulatory liabilities of $16 million and $19 million. In a separate regulatory proceeding, LG&E and KU have requested to begin returning state excess deferred income taxes to customers in conjunction with the 2018 Kentucky base rate case, which was filed on September 28, 2018. See Note 7 to the Financial Statements for additional information related to the rate case proceedings. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

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U.K. Membership in European Union (PPL)

The U.K. formally began the process of leaving the European Union (EU) on March 29, 2017 by triggering Article 50 of the Lisbon Treaty. The U.K. has two years from that date to negotiate a withdrawal agreement governing its exit from the EU (Brexit). The U.K. and EU also agreed to a transition period lasting until the end of 2020, during which both parties will negotiate a future trade relationship. The final withdrawal agreement and future trade relationship are subject to ratification by both the U.K. and EU parliaments.

In November 2018, U.K. Prime Minister Theresa May and the EU decided on a withdrawal agreement covering a broad range of issues. On January 15, 2019, the U.K. Parliament voted overwhelmingly to reject this withdrawal agreement. On January 29, 2019, the U.K. Parliament voted on a series of non-binding amendments to influence future Brexit negotiations, directing May to conduct further negotiations with the EU. The EU has said that it is not prepared to renegotiate the existing deal.

Significant uncertainty surrounds the status of negotiations and next steps in the Brexit process. If an agreement is not reached, the default position is that the U.K. will have a disorderly exit from the EU on March 29, 2019. The U.K. may also request an extension of the Article 50 process, subject to approval from the EU’s 27 remaining members. The U.K. could also choose to revoke Article 50 and remain in the EU.

PPL believes that its greatest risk related to Brexit is the potential decline in the value of the GBP compared to the U.S. dollar. A decline in the value of the GBP compared to the U.S. dollar will reduce the value of WPD's earnings to PPL.

PPL has executed hedges to mitigate the foreign exchange risk to its U.K. earnings. As of February 6, 2019, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2019 at an average rate of $1.39 per GBP and 49% hedged for 2020 at an average rate of $1.49 per GBP.

PPL cannot predict the impact, in either the short-term or long-term, on foreign exchange rates or 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 material.

PPL does not expect the financial condition and results of operations of WPD itself to change significantly as a result of Brexit, with or without an approved plan of withdrawal. The regulatory environment and operation of WPD's businesses are not expected to change. WPD is less than halfway through RIIO-ED1, the current price control period, with allowed revenues agreed with Ofgem through March 2023. The impact of a slower economy or recession on WPD would be mitigated in part because U.K. regulation provides that any reduction in the volume of electricity delivered will be recovered in allowed revenues in future periods through the K-factor adjustment. See "Item 1. Business - Segment Information - U.K. Regulated Segment" for additional information on the current price control and K-factor adjustment. In addition, an increase in inflation would have a positive effect on revenues and RAV as annual inflation adjustments are applied to both revenues and RAV (and real returns are earned on inflated RAV). This impact, however, would be partially offset by higher O&M and interest expense on index-linked debt. With respect to access to financing, WPD has substantial borrowing capacity under existing credit facilities and expects to continue to have access to all major financial markets. With respect to access to and cost of equipment and other materials, WPD management continues to review U.K. government issued advice on preparations for Brexit without an approved plan of withdrawal and has taken actions to mitigate potential increasing costs and disruption to its critical sources of supply. Additionally, less than 1% of WPD's employees are non-U.K. EU nationals and no change in their domicile is expected.

Regulatory Requirements

(All Registrants)

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

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

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

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019 and thereafter until tax-reform related savings are reflected in changes in base rates. The estimated impact of the rate reduction represents approximately $91 million in KU electricity revenues ($70 million through the new bill credit and $21 million through existing rate mechanisms), $69 million in LG&E electricity revenues ($49 million through the new bill credit and $20 million through existing rate mechanisms) and $17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019.

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

On September 28, 2018, the KPSC issued an Order on reconsideration, pursuant to LG&E's and KU's petition, implementing rates reflecting electricity revenue reductions of $101 million for KU ($80 million through the new bill credit and $21 million through existing rate mechanisms), $74 million for LG&E electricity revenues ($54 million through the new bill credit and $20 million through existing rate mechanisms) and $16 million LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. This represents lower revenue reduction amounts than the March 20, 2018 Order of approximately $13 million ($7 million at KU and $6 million at LG&E).

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

On November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. LG&E and KU are currently assessing the Notice of Proposed Rulemaking and are continuing to monitor guidance issued by the FERC. On February 5, 2019, in connection with a separate element of federal and Kentucky state tax reform effects, LG&E and KU filed a request with the FERC to amend their transmission formula rates, effective June 1, 2019, to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. LG&E and KU do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

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(PPL and PPL Electric)

TCJA Impact on PPL Electric Rates

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 that required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to be effective July 1, 2018, and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to charge a negative surcharge of 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. PPL Electric recorded a $41 million noncurrent regulatory liability and a corresponding reduction of revenue to be distributed to customers pursuant to a future rate adjustment related to the period January 1, 2018 through June 30, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the FERC, to accelerate incorporation of the changes to the federal corporate income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM Transmission Owners joint filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. On November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers should include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. PPL Electric is currently assessing the Notice of Proposed Rulemaking and is continuing to monitor guidance issued by the FERC. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

Pennsylvania Alternative Ratemaking

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

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

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

On August 23, 2018, the PUC issued a Tentative Implementation Order seeking comments on its proposed interpretation and implementation of Act 58, Section 1330 of the Public Utility Code, 66 Pa. C.S. 1330. PPL Electric and various other parties filed comments on October 8, 2018. This matter remains pending before the PUC.

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

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(PPL)

RIIO-ED1 Mid-period Review

The RIIO framework allowed for an MPR. On April 30, 2018, Ofgem announced its decision not to conduct an MPR of the RIIO-ED1 price control period.

RIIO-2 Framework Review

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

- There will be a five-year default length for the price control period, compared to eight years in the current RIIO-ED1 price control.
- There is intent to shift the inflation index used for calculating RAV and allowed returns from RPI to CPIH. Ofgem stated overall, consumers and investors as a whole will be neither better nor worse off in net present value terms as a result of the shift to CPIH and a transition period may be required.
- There will be no change to the existing depreciation policy of using economic asset lives as the basis for depreciating RAV as part of base revenue calculations. WPD is currently transitioning to 45 year asset lives for new additions in RIIO-ED1 based on Ofgem’s extensive review of asset lives in RIIO-ED1.
- Ofgem will retain the option for fast-tracking for electricity distribution companies only. Fast tracking will be further considered as part of the electricity distribution sector specific consultation.
- A new enhanced engagement model will be introduced which will require distribution companies to set up a customer engagement group to provide Ofgem with a public report of their views on the companies’ business plans from the perspective of local stakeholders. Ofgem will also establish an independent RIIO-2 challenge group comprised of consumer experts to provide Ofgem with a public report on companies’ business plans.
- Ofgem intends to expand the role of competition for projects that are new, separable and high value. WPD does not currently have any planned projects that would meet the high value threshold.
- A focus of RIIO-2 will be on whole-system outcomes. Ofgem envisions network companies and system operators working together to ensure the energy system as a whole is efficient and delivers best value to consumers. Ofgem is undertaking further work to clarify the definition of whole-system and the appropriate roles of the network companies in supporting the energy transition.

Ofgem also indicated further work is needed on other price control principles, including but not limited to, cost of equity, cost of debt, financeability and incentives with decisions on these items expected to be made in the sector specific consultations or within the individual company business plan submissions.

In December 2018, the promulgation of sector specific price controls began with Ofgem publishing its consultation related to its RIIO-2 price controls for the gas distribution, gas transmission and electricity transmission operators that will be effective from April 2021 to March 2026. This current consultation does not apply directly to electricity distribution network operators although some decisions will be precedent setting. The electricity distribution price control work is scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document.

Although the electricity distribution consultation does not commence until 2020, WPD is engaged in the RIIO-2 process and will be responding to the December 2018 consultation document. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

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

On August 3, 2018, LG&E and KU submitted an application to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application seeks termination of LG&E's and KU's commitment to provide mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky. The amounts at issue are generally waivers or credits for either LG&E and KU or for MISO transmission charges depending upon the direction of transmission service incurred by the municipalities. LG&E and KU estimate that such charges may average approximately $22 million annually, depending upon actual transmission customer and market volumes, structures and prices, with such charges allocated according to LG&E's and KU's respective transmission system ownership ratio. Due to the development of robust accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. LG&E and KU currently receive recovery of such expenses in other rate mechanisms. LG&E and KU cannot predict the outcome of the proceeding, including any effects on their financial condition or results of operations.

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, GHG, and ELGs. See Note 7, Note 13 and Note 19 to the Financial Statements for a discussion of these significant environmental matters. These and other stringent environmental requirements led PPL, LKE, LG&E and KU to retire approximately 800 MW of coal-fired generating plants in Kentucky, primarily in 2015. Additionally, KU anticipates retiring two older coal-fired units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

Also as a result of the environmental requirements discussed above, LKE projects $682 million ($261 million at LG&E and $421 million at KU) in environmental capital investment over the next five years. See PPL's "Financial Condition - Forecasted Uses of Cash - Capital Expenditures", Note 7 and Note 13 for additional information.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

On September 28, 2018, LG&E and KU filed requests with the KPSC for an increase in annual base electricity rates of approximately $112 million at KU and increases in annual base electricity and gas rates of approximately $35 million and $25 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.9% at KU and electricity and gas rate increases of 3% and 7.5% at LG&E. As discussed in the "TCJA Impact on LG&E and KU Rates" section above, LG&E's and KU's applications seek to include applicable changes associated with the TCJA in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when the new base rates go into effect.

New rates are expected to become effective on May 1, 2019. The applications are based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%. A number of parties have been granted intervention requests in the proceeding. Data discovery and the filing of written testimony will continue through February 2019 and a hearing is scheduled in March 2019. LG&E and KU cannot predict the outcome of these proceedings.

(LKE and KU)

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

Acquisition of Solar Energy Solution Provider (PPL)

During the second quarter of 2018, PPL completed the acquisition of all the outstanding membership interests of Safari Energy, a privately held provider of solar energy solutions for commercial customers in the U.S. For its clients, Safari Energy develops highly structured turnkey solutions, managing projects through all phases of development, from inception to financing, design, engineering, permitting, construction, interconnection and asset management. Headquartered in New York City, Safari Energy

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has completed over 200 solar projects in 19 states, with over 70 projects underway as of December 31, 2018. The acquisition is not material to PPL and the financial results of Safari Energy are reported within Corporate and Other.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing year-to-year changes. The "Segment Earnings" and "Adjusted Gross Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2019 Outlook" discussion identifies key factors expected to impact 2019 earnings.

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

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

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

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

Statement of Income Analysis

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

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
Operating Revenues	$7,785	$7,447	$7,517	$338	$(70)
Operating Expenses					
Operation					
Fuel	799	759	791	40	(32)
Energy purchases	745	685	706	60	(21)
Other operation and maintenance	1,983	1,802	1,857	181	(55)
Depreciation	1,094	1,008	926	86	82
Taxes, other than income	312	292	301	20	(9)
Total Operating Expenses	4,933	4,546	4,581	387	(35)
Other Income (Expense) - net	396	(88)	502	484	(590)

Interest Expense	963	901	888	62	13
Income Taxes	458	784	648	(326)	136
Net Income	$1,827	$1,128	$1,902	$699	$(774)

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Operating Revenues

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

	2018 vs. 2017	2017 vs. 2016
Domestic:		
PPL Electric Distribution price (a)	$3	$53
PPL Electric Distribution volume (b)	55	(21)
PPL Electric PLR (c)	39	(16)
PPL Electric Transmission Formula Rate (d)	62	34
PPL Electric TCJA refund (e)	(79)	—
LKE Volumes (b)	134	(73)
LKE Base rates (f)	58	58
LKE ECR	21	10
LKE TCJA refund (e)	(143)	—
LKE DSM	(16)	3
LKE Fuel and other energy prices	(4)	10
Other	31	(12)
Total Domestic	161	46
U.K.:		
Price	42	60
Volume	(4)	(30)
Foreign currency exchange rates	106	(154)
Engineering recharge income (g)	42	10
Other	(9)	(2)
Total U.K.	177	(116)
Total	$338	$(70)

(a) Distribution rider prices resulted in an increase of $47 million in 2017 compared with 2016.

(b) Increase in 2018 compared with 2017 was primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 was primarily due to milder weather in 2017.

(c) Increase in 2018 compared with 2017 was primarily due to higher energy purchase volumes.

(d) Transmission Formula Rate revenues increased primarily from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and includes the impacts of the TCJA which reduced the new revenue requirement that went into effect June 1, 2018.

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

(f) Increase primarily due to new base rates approved by the KPSC effective July 1, 2017.

(g) These revenues are offset by costs reflected in "Other operation and maintenance" on the Statement of Income.

Fuel

Fuel increased $40 million in 2018 compared with 2017, primarily due to an increase in volumes at LKE driven by weather in 2018.

Fuel decreased $32 million in 2017 compared with 2016, primarily due to a decrease in volumes at LKE driven by weather in 2017.

Energy Purchases

Energy purchases increased $60 million in 2018 compared with 2017 primarily due to an increase of $37 million at PPL Electric primarily due to higher energy volumes and an increase of $23 million at LKE primarily due to higher gas volumes driven by weather in 2018.

Energy purchases decreased $21 million in 2017 compared with 2016 primarily due to a decrease in PLR prices at PPL Electric.

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Other Operation and Maintenance

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

	2018 vs. 2017	2017 vs. 2016
Domestic:		
PPL Electric Act 129	$1	$9
PPL Electric Payroll-related costs	(5)	(14)
PPL Electric Bad debts	11	(17)
PPL Electric Inventory reserve	8	(2)
LKE timing and scope of generation maintenance outages	8	(1)
LKE gas distribution maintenance and compliance	7	3
LKE electricity distribution outage and repairs	7	—
Storm costs	12	4
Vegetation management	5	(15)
Stock compensation expense	(7)	5
Other operation and maintenance of Safari Energy (a)	30	—
Other	23	(10)
U.K.:		
Pension expense	(2)	3
Foreign currency exchange rates	20	(28)
Third-party engineering (b)	35	6
Engineering management	13	3
Other	15	(1)
Total	$181	$(55)

(a) The increase in 2018 compared with 2017 primarily represents the other operation and maintenance expense of Safari Energy, which was acquired on June 1, 2018.
(b) These costs are offset by revenues reflected in "Operating Revenues" on the Statement of Income.

Depreciation

The increase (decrease) in depreciation was due to:

	2018 vs. 2017	2017 vs. 2016
Additions to PP&E, net	$65	$93
Foreign currency exchange rates	11	(16)
Depreciation rates (a)	15	15
Other	(5)	(10)
Total	$86	$82

(a) Higher depreciation rates were effective July 1, 2017 at LG&E and KU.

Taxes, Other Than Income

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

	2018 vs. 2017	2017 vs. 2016
State gross receipts tax	$ —	$ 3
Domestic property tax expense	5	4
Domestic capital stock tax	6	(6)
Foreign currency exchange rates	7	(8)
Other	2	(2)
Total	$ 20	$ (9)

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Other Income (Expense) - net

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

	2018 vs. 2017	2017 vs. 2016
Economic foreign currency exchange contracts (Note 17)	$411	$(645)
Defined benefit plans - non-service credits (Note 11)	90	55
Charitable contributions	(16)	1
Other	(1)	(1)
Total	$484	$(590)

Interest Expense

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

	2018 vs. 2017	2017 vs. 2016
Long-term debt interest expense (a)	$ 36	$ 34
Short-term debt interest	9	7
Foreign currency exchange rates	17	(26)
Other	—	(2)
Total	$ 62	$ 13

(a) Interest expense increased in 2018 compared with 2017, primarily due to debt issuances by PPL Electric in June 2018 and May 2017 and by PPL Capital Funding in September 2017.

Interest expense increased in 2017 compared with 2016, primarily due to accretion on Index linked bonds at WPD and a debt issuance at PPL Electric in May 2017.

Income Taxes

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

	2018 vs. 2017	2017 vs. 2016
Change in pre-tax income at current period tax rates	$(57)	$(223)
Reduction in U.S. federal income tax rate (a)	(138)	—
Valuation allowance adjustments (b)	(15)	20
Foreign income tax return adjustments	8	(10)
U.S. income tax on foreign earnings net of foreign tax credit(c)	(44)	89
Impact of U.K. Finance Acts (d)	3	33
Impact of lower U.K. income tax rates (e)	151	1
Amortization of excess deferred income tax (f)	(37)	—
Deferred tax impact of U.S. tax reform (g)	(220)	220
Deferred tax impact of Kentucky state tax reform (h)	9	—
Stock-based compensation	7	7

Other	7	(1)
Total	$(326)	$136

(a) The decrease in 2018 compared with 2017 is related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) During 2017, PPL recorded an increase in valuation allowances of $23 million primarily related to foreign tax credits recorded in 2016. The future utilization of these credits is expected to be lower as a result of the TCJA.

During 2018, 2017 and 2016, PPL recorded deferred income tax expense of $24 million, $16 million and $13 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

(c) During 2017, PPL recorded a federal income tax benefit of $35 million primarily attributable to UK pension contributions.

During 2017, PPL recorded deferred income tax expense of $83 million primarily related to enactment of the TCJA. The enacted tax law included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately $462 million, including $205 million of foreign tax credits. As the PPL consolidated U.S. group had a taxable loss for 2017,

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inclusive of the taxable deemed dividend, these credits were recorded as a deferred tax asset. However, it is expected that under the TCJA, only $83 million of the $205 million of foreign tax credits will be realized in the carry forward period. Accordingly, a valuation allowance on the current year foreign tax credits in the amount of $122 million has been recorded to reflect the reduction in the future utilization of the credits. The foreign tax credits associated with the deemed repatriation result in a gross carryforward and corresponding deferred tax asset of $205 million offset by a valuation allowance of $122 million.

During 2016, PPL recorded a federal income tax benefit of $40 million attributable to the foreign tax credit carrryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the company's most recent business plan.

(d) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a $42 million deferred income tax benefit during 2016.

(e) The reduction in the U.S. federal corporate income tax rate from 35% to 21% significantly reduced the difference between the U.K. and U.S. income tax rates in 2018 compared with 2017.

(f) During 2018, PPL recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(g) During 2017, PPL recorded deferred income tax expense for the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

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

See Note 6 to the Financial Statements for additional information on income taxes.

Segment Earnings

PPL's net income by reportable segments were as follows:

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
U.K. Regulated	$1,114	$652	$1,246	$462	$(594)
Kentucky Regulated	411	286	398	125	(112)
Pennsylvania Regulated	431	359	338	72	21
Corporate and Other (a)	(129)	(169)	(80)	40	(89)
Net Income	$1,827	$1,128	$1,902	$699	$(774)

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The increase in 2018 compared with 2017 was primarily due to lower income tax expense of $82 million, partially offset by higher interest expense of $15 million, Talen Montana litigation costs of $9 million and higher charitable contributions of $6 million. 2017 includes $97 million of additional income tax expense related to the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.

Earnings from Ongoing Operations

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

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

- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Spinoff of the Supply segment.
- 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.

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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 17 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 were as follows:

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
U.K. Regulated	$968	$885	$1,015	$83	$(130)
Kentucky Regulated	418	395	398	23	(3)
Pennsylvania Regulated	436	349	338	87	11
Corporate and Other	(117)	(76)	(77)	(41)	1
Earnings from Ongoing Operations	$1,705	$1,553	$1,674	$152	$(121)

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

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and certain acquisition-related financing costs. The U.K. Regulated segment represents 61% of PPL's Net Income for 2018 and 38% of PPL's assets at December 31, 2018.

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

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
Operating revenues	$2,268	$2,091	$2,207	$177	$(116)
Other operation and maintenance	538	449	465	89	(16)
Depreciation	247	230	233	17	(3)
Taxes, other than income	134	127	135	7	(8)
Total operating expenses	919	806	833	113	(27)
Other Income (Expense) - net	403	(84)	507	487	(591)
Interest Expense	413	397	402	16	(5)
Income Taxes	225	152	233	73	(81)
Net Income	1,114	652	1,246	462	(594)
Less: Special Items	146	(233)	231	379	(464)
Earnings from Ongoing Operations	$968	$885	$1,015	$83	$(130)

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.

	Income Statement Line Item	2018	2017	2016
Foreign currency economic hedges, net of tax of ($39), $59, $4 (a)	Other Income (Expense) - net	$148	$(111)	$(8)
U.S. tax reform (b)	Income Taxes	3	(122)	—
Settlement of foreign currency contracts, net of tax of $0, $0, ($108) (c)	Other Income (Expense) - net	—	—	202
Change in U.K. tax rate (d)	Income Taxes	—	—	37
Death benefit, net of tax of $1, $0, $0 (e)	Other operation and maintenance	(5)	—	—
Total		$146	$(233)	$231

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. 2016 includes the reversal of $310 million ($202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.

(b) During 2018, PPL recorded adjustments to certain provisional amounts recognized in the December 31, 2017 Statement of Income relating to the enactment of the TCJA.

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During 2017, PPL recorded deferred income tax expense for the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.

(c) In 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 Statement of Income. See Note 17 to the Financial Statements for additional information.

(d) The U.K. Finance Act of 2016 reduced the U.K.'s statutory income tax rate. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in 2016. See Note 6 to the Financial Statements for additional information.

(e) Primarily a payment related to the death of the WPD Chief Executive.

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

	2018 vs. 2017	2017 vs. 2016
U.K.		
Adjusted Gross Margins	$39	$30
Other operation and maintenance	(18)	(5)
Depreciation	(6)	(14)
Other Income (Expense) - net	63	69
Interest expense	1	(21)
Other	(4)	(6)
Income taxes	(23)	11
U.S.		
Interest expense and other	(8)	1
Income taxes	(48)	(10)
Foreign currency exchange, after-tax	87	(185)
Earnings from Ongoing Operations	83	(130)
Special items, after-tax	379	(464)
Net Income	$462	$(594)

U.K.

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

- Higher depreciation expense in 2017 compared with 2016 primarily due to additions to PP&E, net of retirements.

- Higher other income (expense) - net in 2018 compared with 2017 primarily due to higher pension income due to an increase in expected returns on higher asset balances.

- Higher other income (expense) - net in 2017 compared with 2016 primarily due to higher pension income due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate.

- Higher interest expense in 2017 compared with 2016 primarily due to higher interest expense on indexed linked bonds.

- Higher income taxes in 2018 compared with 2017 primarily due to higher pre-tax income.

- Lower income taxes in 2017 compared with 2016 primarily due to decreases of $10 million related to accelerated tax deductions and $7 million from lower U.K. tax rates, partially offset by an increase of $11 million from higher pre-tax income.

U.S.

- Higher income taxes in 2018 compared with 2017 primarily due to a $35 million tax benefit on accelerated pension contributions in the first quarter of 2017 and a $16 million increase from a reduction in tax benefits on interest deductibility due to the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

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- Higher income taxes in 2017 compared with 2016 primarily due to a $37 million benefit related to foreign tax credit carryforwards in 2016, partially offset by a $29 million 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 22% of PPL's Net Income for 2018 and 35% of PPL's assets at December 31, 2018.

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

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
Operating revenues	$3,214	$3,156	$3,141	$58	$15
Fuel	799	759	791	40	(32)
Energy purchases	201	178	171	23	7
Other operation and maintenance	848	801	798	47	3
Depreciation	475	439	404	36	35
Taxes, other than income	70	65	62	5	3
Total operating expenses	2,393	2,242	2,226	151	16
Other Income (Expense) - net	(16)	(8)	(15)	(8)	7
Interest Expense	274	261	260	13	1
Income Taxes	120	359	242	(239)	117
Net Income	411	286	398	125	(112)
Less: Special Items	(7)	(109)	—	102	(109)
Earnings from Ongoing Operations	$418	$395	$398	$23	$(3)

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

	Income Statement Line Item	2018	2017	2016
U.S. tax reform (a)	Income Taxes	$2	$(112)	$ —
Kentucky state tax reform (b)	Income Taxes	(9)	—	—
Adjustment to investment, net of tax of $0, $0, $0 (c)	Other Income (Expense) - net	—	(1)	—
Settlement of indemnification agreement, net of tax of $0, ($2), $0 (d)	Other Income (Expense) - net	—	4	—
Total		$(7)	$(109)	$ —

(a) During 2018, LKE recorded adjustments to certain provisional amounts associated with LKE's non-regulated entities recognized in the December 31, 2017 Statement of Income relating to the enactment of the TCJA. During 2017, LKE recorded deferred income tax expense related to the enactment of the TCJA associated with LKE's non-regulated entities. See Note 6 to the Financial Statements for additional information.

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

1, 2018. See Note 6 to the Financial Statements for additional information.

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

(d) Recorded at LKE and represents the settlement of a WKE indemnification. See Note 13 to the financial statements for additional information.

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

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	2018 vs. 2017	2017 vs. 2016
Kentucky Adjusted Gross Margins	$3	$29
Other operation and maintenance	(60)	(1)
Depreciation	(30)	(27)
Taxes, other than income	(6)	(2)
Other Income (Expense) - net	(3)	2
Interest Expense	(13)	(1)
Income Taxes	132	(3)
Earnings from Ongoing Operations	23	(3)
Special Items, after-tax	102	(109)
Net Income	$125	$(112)

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

- Higher other operation and maintenance expense in 2018 compared with 2017 primarily due to an $8 million increase in vegetation management, an $8 million increase in timing and scope of generation maintenance outages, a $7 million increase in gas distribution maintenance and compliance, a $7 million increase in electricity distribution outage and repairs and increases in other costs that were not individually significant in comparison to the prior year.

- Higher depreciation expense in 2018 compared with 2017 primarily due to a $16 million increase related to additional assets placed into service, net of retirements, and a $12 million increase related to higher depreciation rates effective July 1, 2017.

- Higher depreciation expense in 2017 compared with 2016 primarily due to a $15 million increase related to additional assets placed into service, net of retirements, and a $12 million increase related to higher depreciation rates effective July 1, 2017.

- Higher interest expense in 2018 compared with 2017 primarily due to increased borrowings under LG&E's term loan credit facility and from affiliates.

- Lower income taxes in 2018 compared with 2017 primarily due to a $74 million decrease related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, a $42 million decrease related to lower pre-tax income and an $18 million decrease primarily related to higher amortization of excess deferred income taxes as a result of the TCJA.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 24% of PPL's Net Income for 2018 and 26% of PPL's assets at December 31, 2018.

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

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	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
Operating revenues	$2,277	$2,195	$2,156	$82	$39
Energy purchases	544	507	535	37	(28)
Other operation and maintenance	578	572	604	6	(32)
Depreciation	352	309	253	43	56
Taxes, other than income	109	107	105	2	2
Total operating expenses	1,583	1,495	1,497	88	(2)
Other Income (Expense) - net	32	17	20	15	(3)
Interest Expense	159	142	129	17	13
Income Taxes	136	216	212	(80)	4
Net Income	431	359	338	72	21
Less: Special Items	(5)	10	—	(15)	10
Earnings from Ongoing Operations	$436	$349	$338	$87	$11

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

	Income Statement Line Item	2018	2017	2016
IT transformation, net of tax of $2, $0, $0 (a)	Other operation and maintenance	$(5)	$—	$ —
U.S. tax reform (b)	Income Taxes	—	10	—
Total		$(5)	$10	$ —

(a) In June 2018, PPL EU Services' IT department announced an internal reorganization. As a result, $5 million of after-tax costs, which includes separation benefits as well as outside services for strategic consulting to establish the new IT organization, were incurred. See Note 13 to the Financial Statements for additional information.

(b) During 2017, PPL recorded a deferred income tax benefit for the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.

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

	2018 vs. 2017	2017 vs. 2016
Pennsylvania Adjusted Gross Margins	$28	$31
Other operation and maintenance	3	44
Depreciation	(30)	(35)
Taxes, other than income	—	1
Other Income (Expense) - net	15	(3)
Interest Expense	(17)	(13)
Income Taxes	88	(14)
Earnings from Ongoing Operations	87	11
Special Items, after-tax	(15)	10
Net Income	$72	$21

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

- Lower other operation and maintenance expense in 2018 compared with 2017 primarily due to $36 million of lower corporate service costs allocated to PPL Electric, partially offset by $11 million of higher non-recoverable storm expenses and $11 million of higher bad debt expense.

- Lower other operation and maintenance expense in 2017 compared with 2016 primarily due to $17 million of lower bad debt expense, $17 million of lower vegetation management expenses and $14 million of lower payroll expenses, partially offset by $19 million of higher corporate service costs allocated to PPL Electric.

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- Higher depreciation expense in 2018 compared with 2017 and 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, net of retirements.

- Higher interest expense in 2018 compared with 2017 primarily due to the May 2017 issuance of $475 million of 3.95% First Mortgage Bonds and the June 2018 issuance of $400 million of 4.15% First Mortgage Bonds.

- Higher interest expense in 2017 compared with 2016 primarily due to the issuance of $475 million of 3.95% First Mortgage Bonds in May 2017.

- Lower income taxes in 2018 compared with 2017 primarily due to the impact of the U.S federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018 of $71 million and $18 million of lower income taxes due to amortization of excess deferred income taxes.

- Higher income taxes in 2017 compared with 2016 primarily due to higher pre-tax income at current period tax rates.

Reconciliation of Earnings from Ongoing Operations

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

	2018				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	$1,114	$ 411	$ 431	$ (129)	$1,827
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of ($39)	148	—	—	—	148
U.S. tax reform (a)	3	2	—	(5)	—
Kentucky state tax reform (b)	—	(9)	—	—	(9)
IT transformation, net of tax of $2	—	—	(5)	—	(5)
Talen litigation costs, net of tax of $2 (c)	—	—	—	(7)	(7)
Death benefit, net of tax of $1	(5)	—	—	—	(5)
Total Special Items	146	(7)	(5)	(12)	122
Earnings from Ongoing Operations	$968	$ 418	$ 436	$ (117)	$1,705

(a) During 2018, PPL recorded adjustments to certain provisional amounts recognized in the December 31, 2017 Statement of Income relating to the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.
(b) During 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.
(c) During 2018, PPL incurred legal expenses related to litigation with its former affiliate, Talen Montana. See Note 13 to the Financial Statements for additional information.

	2017				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	$652	$ 286	$ 359	$ (169)	$1,128

Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of $59	(111)	—	—	—	(111)
Spinoff of the Supply segment, net of tax of ($1)	—	—	—	4	4
U.S. tax reform (a)	(122)	(112)	10	(97)	(321)
Settlement of indemnification agreement, net of tax ($2)	—	4	—	—	4
Adjustment to investment, net of tax of $0	—	(1)	—	—	(1)
Total Special Items	(233)	(109)	10	(93)	(425)
Earnings from Ongoing Operations	$885	$ 395	$ 349	$ (76)	$1,553

(a) During 2017, PPL recorded deferred income tax (expense) benefit related to the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.

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	2016				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	$1,246	$ 398	$ 338	$ (80)	$1,902
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of $4	(8)	—	—	—	(8)
Spinoff of the Supply segment, net of tax of $2	—	—	—	(3)	(3)
Settlement of foreign currency contracts, net of tax of ($108)	202	—	—	—	202
Change in U.K. tax rate	37	—	—	—	37
Total Special Items	231	—	—	(3)	228
Earnings from Ongoing Operations	$1,015	$ 398	$ 338	$ (77)	$1,674

Adjusted Gross Margins

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

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

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

- "Pennsylvania Adjusted Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129, Storm Damage and Universal Service program costs), "Depreciation" (which is primarily related to the Act 129 Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

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

PPL's Board of Directors to manage operations and analyze actual results compared with budget.

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Changes in Adjusted Gross Margins

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

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
U.K. Regulated					
U.K. Adjusted Gross Margins	$2,089	$1,952	$2,067	$137	$(115)
Impact of changes in foreign currency exchange rates				98	(145)
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates				$39	$30
Kentucky Regulated					
Kentucky Adjusted Gross Margins					
LG&E	$922	$910	$887	$12	$23
KU	1,119	1,128	1,122	(9)	6
Total Kentucky Adjusted Gross Margins	$2,041	$2,038	$2,009	$3	$29
Pennsylvania Regulated					
Pennsylvania Adjusted Gross Margins					
Distribution	$924	$958	$960	$(34)	$(2)
Transmission	549	487	454	62	33
Total Pennsylvania Adjusted Gross Margins	$1,473	$1,445	$1,414	$28	$31

U.K. Adjusted Gross Margins

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2018 compared with 2017 primarily due to $52 million from the April 1, 2018 price increase, partially offset by $10 million from the April 1, 2017 price decrease, driven by lower true-up mechanisms partially offset by higher base demand revenue.

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2017 compared with 2016 primarily due to $81 million from the April 1, 2016 price increase, partially offset by $30 million from lower volumes and $21 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

Kentucky Adjusted Gross Margins

Kentucky Adjusted Gross Margins increased in 2018 compared with 2017 primarily due to $63 million of increased sales volumes related to favorable weather in 2018 ($23 million at LG&E and $40 million at KU), higher base rates of $58 million ($32 million at LG&E and $26 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, returns on additional environmental capital investments of $19 million ($12 million at LG&E and $7 million at KU) and other factors that were not individually significant in comparison to the prior year, partially offset by $143 million of income tax savings owed to customers ($67 million at LG&E and $76 million at KU) related to the impact of U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Kentucky Adjusted Gross Margins increased in 2017 compared with 2016 primarily due to higher base rates of $58 million ($32 million at LG&E and $26 million at KU) as new base rates were approved by the KPSC effective July 1, 2017 and gas cost recoveries added to base rates of $5 million at LG&E, partially offset by $41 million of lower sales volumes due to milder weather in 2017 ($15 million at LG&E and $26 million at KU).

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Pennsylvania Adjusted Gross Margins

Distribution

Distribution Adjusted Gross Margins decreased in 2018 compared with 2017 primarily due to a $37 million net of gross receipts tax impact of the estimated income tax savings owed to customers for the period January 1, 2018 through June 30, 2018 and $38 million from the negative surcharge beginning on July 1, 2018, as a result of the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA. These decreases were partially offset by $43 million of higher electricity sales volumes primarily due to weather.

Distribution Adjusted Gross margins decreased in 2017 compared with 2016 primarily due to $10 million of lower electricity sales volumes due to milder weather in 2017, partially offset by $7 million of returns on additional Smart Meter capital investments.

Transmission

Transmission Adjusted Gross Margins increased in 2018 compared with 2017 primarily due to increases of $78 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and $25 million as a result of a higher annual PPL zonal peak load billing factor in the first five months of 2018, partially offset by $38 million from the impact of the reduced federal income taxes as a result of the TCJA.

Transmission Adjusted Gross Margins increased in 2017 compared with 2016 primarily due to an increase of $51 million 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 annual PPL zonal peak load billing factor which affected transmission revenue in the first five months of 2017.

Reconciliation of Adjusted Gross Margins

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

	2018 U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$2,230(c)	$ 3,214	$ 2,277	$64	$ 7,785
Operating Expenses					
Fuel	—	799	—	—	799
Energy purchases	—	201	544	—	745
Other operation and maintenance	141	98	121	1,623	1,983
Depreciation	—	70	35	989	1,094
Taxes, other than income	—	5	104	203	312
Total Operating Expenses	141	1,173	804	2,815	4,933
Total	$2,089	$ 2,041	$ 1,473	$(2,751)	$ 2,852

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	2017 U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$2,050 (c)	$ 3,156	$ 2,195	$46	$ 7,447
Operating Expenses					
Fuel	—	759	—	—	759
Energy purchases	—	178	507	—	685
Other operation and maintenance	98	111	120	1,473	1,802
Depreciation	—	64	21	923	1,008
Taxes, other than income	—	6	102	184	292
Total Operating Expenses	98	1,118	750	2,580	4,546
Total	$1,952	$ 2,038	$ 1,445	$(2,534)	$ 2,901
	2016 U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$2,165 (c)	$ 3,141	$ 2,156	$55	$ 7,517
Operating Expenses					
Fuel	—	791	—	—	791
Energy purchases	—	171	535	—	706
Other operation and maintenance	98	109	108	1,542	1,857
Depreciation	—	56	—	870	926
Taxes, other than income	—	5	99	197	301
Total Operating Expenses	98	1,132	742	2,609	4,581
Total	$2,067	$ 2,009	$ 1,414	$(2,554)	$ 2,936

(a) Represents amounts excluded from Adjusted Gross Margins.
(b) As reported on the Statements of Income.
(c) 2018, 2017 and 2016 exclude $38 million, $41 million and $42 million of ancillary revenues.

2019 Outlook

(PPL)

Lower net income is projected in 2019 compared with 2018. The decrease in net income primarily reflects the 2018 favorable impact of unrealized gains on foreign currency economic hedges. Excluding 2018 special items, net income is expected to increase primarily attributable to increases in the U.K. Regulated segment and the Corporate and Other category. 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 2019 compared with 2018. The decrease in net income reflects the 2018 favorable impact of unrealized gains on foreign currency economic hedges. Excluding 2018 special items, net income is expected to increase driven primarily by higher revenues from higher prices, higher pension income and higher assumed GBP exchange rates, partially offset by higher interest expense and higher income taxes.

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

Comparable net income is projected in 2019 compared with 2018, primarily driven by higher base electricity and gas rates and returns on additional environmental capital investments, offset by an assumed return to normal weather, higher operation and maintenance expense, higher depreciation expense and higher interest expense.

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(PPL's Pennsylvania Regulated Segment and PPL Electric)

Comparable net income is projected in 2019 compared with 2018, driven primarily by higher returns on transmission investments and lower operation and maintenance expense, offset by higher depreciation expense and an assumed return to normal weather.

(PPL's Corporate and Other Category)

Lower costs are projected in 2019 compared with 2018, driven primarily by lower expenses and other factors.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7, and Notes 1, 7 and 13 to the Financial Statements (as applicable) for a discussion of the risks, uncertainties and factors that may impact future earnings.

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

Statement of Income Analysis

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

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
Operating Revenues	$2,277	$2,195	$2,156	$82	$39
Operating Expenses					
Operation					
Energy purchases	544	507	535	37	(28)
Other operation and maintenance	578	572	602	6	(30)
Depreciation	352	309	253	43	56
Taxes, other than income	109	107	105	2	2
Total Operating Expenses	1,583	1,495	1,495	88	—
Other Income (Expense) - net	23	12	20	11	(8)
Interest Income from Affiliate	8	5	—	3	5
Interest Expense	159	142	129	17	13
Income Taxes	136	213	212	(77)	1
Net Income	$430	$362	$340	$68	$22

Operating Revenues

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

	2018 vs. 2017	2017 vs. 2016
Distribution Price (a)	$3	$53
Distribution volume (b)	55	(21)

PLR (c)	39	(16)
Transmission Formula Rate (d)	62	34
TCJA Refund (e)	(79)	—
Other	2	(11)
Total	$ 82	$ 39

(a) Distribution rider prices resulted in an increase of $47 million in 2017 as compared with 2016.

(b) Increase in 2018 compared with 2017 was primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 was primarily due to milder weather in 2017.

(c) Increase in 2018 compared with 2017 was primarily due to higher energy purchase volumes.

(d) Transmission Formula Rate revenues increased primarily from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and includes the impacts of the TCJA which reduced the new revenue requirement that went into effect June 1, 2018.

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

Energy Purchases

Energy purchases increased $37 million in 2018 compared with 2017. This increase was primarily due to higher energy volumes. Energy purchases decreased $28 million in 2017 compared with 2016 primarily due to lower PLR prices.

Other Operation and Maintenance

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

	2018 vs. 2017	2017 vs. 2016
Act 129	$ 1	$ 9
Act 129 Smart Meter program	5	3
Universal service programs	(4)	(3)
Contractor-related expenses	5	(4)
Vegetation management	(3)	(17)
Payroll-related costs	(5)	(14)
Corporate service costs	(29)	19
Storm costs	9	5
Bad debts	11	(17)
Inventory reserve	8	(2)
Other	8	(9)
Total	$ 6	$ (30)

Depreciation

Depreciation increased by $43 million in 2018 compared with 2017 and $56 million in 2017 compared with 2016. These increases were 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 $17 million in 2018 compared with 2017, primarily due to the June 2018 issuance of $400 million of 4.15% First Mortgage Bonds due 2048 and the May 2017 issuance of $475 million of 3.950% First Mortgage Bonds due 2047.

Interest expense increased $13 million in 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 was due to:

	2018 vs. 2017	2017 vs. 2016
Change in pre-tax income at current period tax rates	$(4)	$ 10
Reduction in U.S. federal income tax rate (a)	(71)	—
Depreciation and other items not normalized	(3)	—
Amortization of excess deferred income taxes (a)	(17)	—
Deferred tax impact of U.S. tax reform (b)	13	(13)
Stock-based compensation	3	4
Other	2	—
Total	$(77)	$ 1

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

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(b) During 2017, PPL Electric recorded a deferred income tax benefit related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

See Note 6 to the Financial Statements for additional information on income taxes.

Earnings

	2018	2017	2016
Net Income	$ 430	$ 362	$ 340
Special items, gains (losses), after-tax	(5)	10	—

Excluding special items, earnings increased in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, a higher annual PPL zonal peak load billing factor and higher distribution sales volumes primarily due to favorable weather, partially offset by higher depreciation expense and higher interest expense.

Excluding special items, earnings increased in 2017 compared with 2016, primarily due to lower operation and maintenance expense and higher transmission margins from additional capital investments, partially offset by a lower annual PPL zonal peak load billing factor, lower distribution sales volumes due to unfavorable weather, higher depreciation expense, higher interest expense and higher income taxes.

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

	2018 vs. 2017	2017 vs. 2016
Pennsylvania Adjusted Gross Margins	$ 28	$ 31
Other operation and maintenance	3	42
Depreciation	(30)	(35)
Taxes, other than income	—	1
Other Income (Expense) - net	14	(3)
Interest Expense	(17)	(13)
Income Taxes	85	(11)
Special Items, after-tax (a)	(15)	10
Net Income	$ 68	$ 22

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

Adjusted Gross Margins

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

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."

	2018			2017		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$2,277	$—	$ 2,277	$2,195	$—	$ 2,195
Operating Expenses						
Energy purchases	544	—	544	507	—	507
Other operation and maintenance	121	457	578	120	452	572
Depreciation	35	317	352	21	288	309
Taxes, other than income	104	5	109	102	5	107
Total Operating Expenses	804	779	1,583	750	745	1,495
Total	$1,473	$(779)	$ 694	$1,445	$(745)	$ 700

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	2016 Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$2,156	$—	$ 2,156
Operating Expenses			
Energy purchases	535	—	535
Other operation and maintenance	108	494	602
Depreciation	—	253	253
Taxes, other than income	99	6	105
Total Operating Expenses	742	753	1,495
Total	$1,414	$(753)	$ 661

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

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

Statement of Income Analysis

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

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
Operating Revenues	$3,214	$3,156	$3,141	$58	$15
Operating Expenses					
Operation					
Fuel	799	759	791	40	(32)
Energy purchases	201	178	171	23	7
Other operation and maintenance	848	801	798	47	3
Depreciation	475	439	404	36	35
Taxes, other than income	70	65	62	5	3
Total Operating Expenses	2,393	2,242	2,226	151	16
Other Income (Expense) - net	(16)	(8)	(15)	(8)	7
Interest Expense	206	197	197	9	—
Interest Expense with Affiliate	25	18	17	7	1
Income Taxes	129	375	257	(246)	118
Net Income	$445	$316	$429	$129	$(113)

Operating Revenues

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

	2018 vs. 2017	2017 vs. 2016
Volumes (a)	$134	$(73)

Base rates (b)	58	58
ECR	21	10
TCJA refund (c)	(143)	—
DSM	(16)	3
Fuel and other energy prices	(4)	10
Other	8	7
Total	$58	$15

(a) Increase in 2018 compared with 2017 primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 primarily due to milder weather in 2017.

(b) Increases primarily due to new base rates approved by the KPSC effective July 1, 2017.

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

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Fuel

Fuel increased $40 million in 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Fuel decreased $32 million in 2017 compared with 2016, primarily due to a decrease in volumes driven by weather in 2017.

Energy Purchases

Energy purchases increased $23 million in 2018 compared with 2017, primarily due to an increase in gas volumes driven by weather in 2018.

Other Operation and Maintenance

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

	2018 vs. 2017	2017 vs. 2016
Vegetation management	$ 8	$ 2
Timing and scope of generation maintenance outages	8	(1)
Gas distribution maintenance and compliance	7	3
Electricity distribution outage and repairs	7	—
Storm costs	3	(1)
Plant operations and maintenance	(4)	(2)
Other	18	2
Total	$ 47	$ 3

Depreciation

Depreciation increased $36 million in 2018 compared with 2017, primarily due to a $15 million increase related to additional assets placed into service, net of retirements, and a $15 million increase related to higher depreciation rates effective July 1, 2017.

Depreciation increased $35 million in 2017 compared with 2016, primarily due to a $19 million increase related additional assets placed into service, net of retirements, and a $15 million increase related to higher depreciation rates effective July 1, 2017.

Income Taxes

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

	2018 vs. 2017	2017 vs. 2016
Deferred tax impact of U.S. tax reform (a)	$(112)	$112
Reduction in U.S. federal income tax rate (b)	(75)	—

Change in pre-tax income	(46)	2
Amortization of excess deferred federal and state income taxes (b)	(18)	(1)
Reduction in Kentucky income tax rate (c)	(5)	—
Deferred tax impact of Kentucky state tax reform (d)	9	—
Other	1	5
Total	$(246)	$118

(a) During 2017, LKE recorded deferred tax expense related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA associated with LKE's non-regulated entities.

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

(c) The decrease is related to the impact of the Kentucky state corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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

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See Note 6 to the Financial Statements for additional information on income taxes.

Earnings

	2018	2017	2016
Net Income	$445	$316	$429
Special items, gains (losses), after-tax	(7)	(109)	—

Excluding special items, earnings increased in 2018 compared with 2017, primarily due to higher electricity and gas sales volumes driven by favorable weather in 2018, higher base electricity and gas rates effective July 1, 2017 and returns on additional environmental capital investments, partially offset by higher other operation and maintenance expense, higher depreciation expense, higher interest expense and a lower tax shield on holding company interest and expenses.

Excluding special items, earnings decreased in 2017 compared with 2016, primarily due to lower electricity and gas sales volumes driven by milder weather in 2017 and higher depreciation expense, partially offset by higher base electricity and gas 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.

	2018 vs. 2017	2017 vs. 2016
Adjusted Gross Margins	$3	$29
Other operation and maintenance	(60)	(1)
Depreciation	(30)	(27)
Taxes, Other than income	(6)	(2)
Other Income (Expense) - net	(3)	2
Interest Expense	(16)	(1)
Income Taxes	139	(4)
Special items, gains (losses), after-tax (a)	102	(109)
Net Income	$129	$(113)

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

Adjusted Gross Margins

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

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended December 31.

	2018		2017	
		Other (a)		Other (a)

	Adjusted Gross Margins		Operating Income (b)	Adjusted Gross Margins		Operating Income (b)
Operating Revenues	$3,214	$—	$ 3,214	$3,156	$—	$ 3,156
Operating Expenses						
Fuel	799	—	799	759	—	759
Energy purchases	201	—	201	178	—	178
Other operation and maintenance	98	750	848	111	690	801
Depreciation	70	405	475	64	375	439
Taxes, other than income	5	65	70	6	59	65
Total Operating Expenses	1,173	1,220	2,393	1,118	1,124	2,242
Total	$2,041	$(1,220)	$ 821	$2,038	$(1,124)	$ 914

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	2016 Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$3,141	$—	$ 3,141
Operating Expenses			
Fuel	791	—	791
Energy purchases	171	—	171
Other operation and maintenance	109	689	798
Depreciation	56	348	404
Taxes, other than income	5	57	62
Total Operating Expenses	1,132	1,094	2,226
Total	$2,009	$(1,094)	$ 915

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

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

Statement of Income Analysis

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

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
Operating Revenues					
Retail and wholesale	$1,467	$1,422	$1,406	$45	$16
Electric revenue from affiliate	29	31	24	(2)	7
Total Operating Revenues	1,496	1,453	1,430	43	23
Operating Expenses					
Operation					
Fuel	308	292	301	16	(9)
Energy purchases	183	160	153	23	7
Energy purchases from affiliates	13	10	14	3	(4)
Other operation and maintenance	376	350	350	26	—
Depreciation	195	183	170	12	13
Taxes, other than income	36	33	32	3	1
Total Operating Expenses	1,111	1,028	1,020	83	8
Other Income (Expense) - net	(12)	(10)	(10)	(2)	—
Interest Expense	76	71	71	5	—
Income Taxes	64	131	126	(67)	5
Net Income	$233	$213	$203	$20	$10

Operating Revenues

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

	2018 vs. 2017	2017 vs. 2016
Volumes (a)	$ 66	$ (20)
Base rates (b)	32	32
ECR	10	5
TCJA refund (c)	(67)	—
DSM	(6)	2
Fuel and other energy prices	(2)	—
Other	10	4
Total	$ 43	$ 23

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(a) Increase in 2018 compared with 2017 primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 primarily due to milder weather in 2017.
(b) Increases primarily due to new base rates approved by the KPSC effective July 1, 2017.
(c) Represents income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

Fuel

Fuel increased $16 million in 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Fuel decreased $9 million in 2017 compared with 2016, primarily due to a decrease in commodity costs.

Energy Purchases

Energy purchases increased $23 million in 2018 compared with 2017, primarily due to an increase in gas volumes driven by weather in 2018.

Other Operation and Maintenance

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

	2018 vs. 2017	2017 vs. 2016
Gas distribution maintenance and compliance	$ 7	$ 3
Electricity distribution outage and repairs	5	—
Storm costs	3	(1)
Timing and scope of generation maintenance outages	2	—
Vegetation management	2	—
Plant operations and maintenance	(1)	(1)
Other	8	(1)
Total	$ 26	$ —

Depreciation

Depreciation increased $12 million in 2018 compared with 2017, primarily due to a $7 million increase related to additional assets placed into service, net of retirements, and a $4 million increase related to higher depreciation rates effective July 1, 2017.

Depreciation increased $13 million in 2017 compared with 2016, primarily due to a $9 million increase related to additional assets placed into service, net of retirements, and a $4 million increase related to higher depreciation rates effective July 1, 2017.

Income Taxes

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

	2018 vs. 2017	2017 vs. 2016
Reduction in U.S. federal income tax rate (a)	$(39)	$ —
Change in pre-tax income	(18)	5
Amortization of excess deferred federal and state income taxes (a)	(7)	(1)
Reduction in Kentucky income tax rate (b)	(2)	—
Other	(1)	1
Total	$(67)	$ 5

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

(b) The decrease is related to the impact of the Kentucky state corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

See Note 6 to the Financial Statements for additional information on income taxes.

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Earnings

	2018	2017	2016
Net Income	$233	$213	$203
Special items, gains (losses), after-tax (a)	—	—	—

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

Earnings in 2018 compared with 2017 increased primarily due to higher electricity and gas sales volumes driven by favorable weather in 2018, higher base electricity and gas rates effective July 1, 2017 and returns on additional environmental capital investments, partially offset by higher other operation and maintenance expense and higher depreciation expense.

Earnings in 2017 compared with 2016 increased primarily due to higher base electricity and gas rates effective July 1, 2017, partially offset by lower electricity and gas sales volumes driven by milder weather in 2017 and higher depreciation expense.

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

	2018 vs. 2017	2017 vs. 2016
Adjusted Gross Margins	$ 12	$ 23
Other operation and maintenance	(34)	2
Depreciation	(13)	(10)
Taxes, other than income	(5)	—
Other Income (Expense) - net	(2)	—
Interest Expense	(5)	—
Income Taxes	67	(5)
Net Income	$ 20	$ 10

Adjusted Gross Margins

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

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended December 31.

	2018			2017		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$1,496	$—	$ 1,496	$1,453	$—	$ 1,453
Operating Expenses						
Fuel	308	—	308	292	—	292

Energy purchases	196	—	196	170	—	170
Other operation and maintenance	37	339	376	45	305	350
Depreciation	31	164	195	32	151	183
Taxes, other than income	2	34	36	4	29	33
Total Operating Expenses	574	537	1,111	543	485	1,028
Total	$922	$(537)	$ 385	$910	$(485)	$ 425

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	2016 Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$1,430	$—	$ 1,430
Operating Expenses			
Fuel	301	—	301
Energy purchases	167	—	167
Other operation and maintenance	43	307	350
Depreciation	29	141	170
Taxes, other than income	3	29	32
Total Operating Expenses	543	477	1,020
Total	$887	$(477)	$ 410

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

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

Statement of Income Analysis

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

	2018	2017	2016	Change 2018 vs. 2017	Change 2017 vs. 2016
Operating Revenues					
Retail and wholesale	$1,747	$1,734	$1,735	$13	$ (1)
Electric revenue from affiliate	13	10	14	3	(4)
Total Operating Revenues	1,760	1,744	1,749	16	(5)
Operating Expenses					
Operation					
Fuel	491	467	490	24	(23)
Energy purchases	18	18	18	—	—
Energy purchases from affiliates	29	31	24	(2)	7
Other operation and maintenance	441	423	422	18	1
Depreciation	279	255	234	24	21
Taxes, other than income	34	32	30	2	2
Total Operating Expenses	1,292	1,226	1,218	66	8
Other Income (Expense) - net	(6)	(4)	(7)	(2)	3
Interest Expense	100	96	96	4	—
Income Taxes	76	159	163	(83)	(4)
Net Income	$286	$259	$265	$27	$ (6)

Operating Revenue

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

	2018 vs. 2017	2017 vs. 2016
Volumes (a)	$ 69	$ (48)
Base rates (b)	26	26
ECR	11	5
TCJA refund (c)	(76)	—
DSM	(10)	2
Fuel and other energy prices	(3)	8
Other	(1)	2
Total	$ 16	$ (5)

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(a) Increase in 2018 compared with 2017 primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 primarily due to milder weather in 2017.
(b) Increases primarily due to new base rates approved by the KPSC effective July 1, 2017.
(c) Represents income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

Fuel

Fuel increased $24 million in 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Fuel decreased $23 million in 2017 compared with 2016, primarily due to a decrease in volumes driven by milder weather in 2017.

Other Operation and Maintenance

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

	2018 vs. 2017	2017 vs. 2016
Timing and scope of generation maintenance outages	$ 6	$ (1)
Vegetation management	6	2
Electricity distribution outage and repairs	2	—
Plant operation and maintenance	(3)	(1)
Other	7	1
Total	$ 18	$ 1

Depreciation

Depreciation increased $24 million in 2018 compared with 2017, primarily due to an $11 million increase related to higher depreciation rates effective July 1, 2017, and an $8 million increase related to additional assets placed into service, net of retirements.

Depreciation increased $21 million in 2017 compared with 2016, primarily due to an $11 million increase related to higher depreciation rates effective July 1, 2017, and a $9 million increase related to additional assets placed into service, net of retirements.

Income Taxes

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

	2018 vs. 2017	2017 vs. 2016
Reduction in U.S. federal income tax rate (a)	$ (47)	$ —
Change in pre-tax income	(22)	(4)

Amortization of excess deferred federal and state income taxes (a)	(11)	—
Reduction in Kentucky income tax rate (b)	(3)	—
Total	$(83)	$(4)

(a) The decrease is related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.
(b) The decrease is related to the impact of the Kentucky state corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

See Note 6 to the Financial Statements for additional information on income taxes.

Earnings

	2018	2017	2016
Net Income	$286	$259	$265
Special items, gains (losses), after tax	—	(1)	—

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Excluding special items, earnings increased in 2018 compared with 2017, primarily due to higher electricity sales volumes driven by favorable weather in 2018, higher base electricity rates effective July 1, 2017 and returns on additional environmental capital investments, partially offset by higher other operation and maintenance expense and higher depreciation expense.

Excluding special items, earnings decreased in 2017 compared with 2016, primarily due to lower electricity sales volumes driven by milder weather in 2017 and higher depreciation expense, partially offset by higher base electricity 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 Adjusted Gross Margins on separate line and not in their respective Statement of Income line items.

	2018 vs. 2017	2017 vs. 2016
Adjusted Gross Margins	$ (9)	$ 6
Other operation and maintenance	(23)	(1)
Depreciation	(17)	(16)
Taxes, Other than income	(1)	(2)
Other Income (Expense) - net	(3)	4
Interest Expense	(4)	—
Income Taxes	83	4
Special items, gains (losses), after-tax (a)	1	(1)
Net Income	$ 27	$ (6)

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

Adjusted Gross Margins

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

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

	2018			2017		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 1,760	$ —	$ 1,760	$ 1,744	$ —	$ 1,744
Operating Expenses						
Fuel	491	—	491	467	—	467
Energy purchases	47	—	47	49	—	49
Other operation and maintenance	61	380	441	66	357	423

Depreciation	39	240	279	32	223	255
Taxes, other than income	3	31	34	2	30	32
Total Operating Expenses	641	651	1,292	616	610	1,226
Total	$1,119	$(651)	$ 468	$1,128	$(610)	$ 518

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	2016 Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$1,749	$—	$ 1,749
Operating Expenses			
Fuel	490	—	490
Energy purchases	42	—	42
Other operation and maintenance	66	356	422
Depreciation	27	207	234
Taxes, other than income	2	28	30
Total Operating Expenses	627	591	1,218
Total	$1,122	$(591)	$ 531

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

Financial Condition

The remainder of this Item 7 in this Form 10-K is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants' cash flows from operations and access to cost effective bank and capital markets are subject to risks and uncertainties. See "Item 1A. Risk Factors" for a discussion of risks and uncertainties that could affect the Registrants' cash flows.

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
December 31, 2018					
Cash and cash equivalents	$621	$ 267	$ 24	$ 10	$14
Short-term debt	1,430	—	514	279	235
Long-term debt due within one year	530	—	530	434	96
Notes payable with affiliates		—	113	—	—
December 31, 2017					
Cash and cash equivalents	$485	$ 49	$ 30	$ 15	$15
Short-term debt	1,080	—	244	199	45
Long-term debt due within one year	348	—	98	98	—
Notes payable with affiliates		—	225	—	—
December 31, 2016					
Cash and cash equivalents	$341	$ 13	$ 13	$ 5	$7

Short-term debt	923	295	185	169	16
Long-term debt due within one year	518	224	194	194	—
Notes payables with affiliates		—	163	—	—

(a) At December 31, 2018, $3 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 6 to the Financial Statements for additional information on undistributed earnings of WPD.

(All Registrants)

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

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	PPL	PPL Electric	LKE	LG&E	KU
2018					
Operating activities	$2,821	$978	$915	$443	$581
Investing activities	(3,361)	(1,193)	(1,116)	(554)	(561)
Financing activities	690	433	195	106	(21)
2017					
Operating activities	$2,461	$880	$1,099	$512	$634
Investing activities	(3,161)	(1,252)	(888)	(458)	(428)
Financing activities	824	408	(194)	(44)	(198)
2016					
Operating activities	$2,890	$872	$1,027	$482	$606
Investing activities	(2,926)	(1,130)	(790)	(439)	(349)
Financing activities	(439)	224	(254)	(57)	(261)
2018 vs. 2017 Change					
Operating activities	$360	$98	$(184)	$(69)	$(53)
Investing activities	(200)	59	(228)	(96)	(133)
Financing activities	(134)	25	389	150	177
2017 vs. 2016 Change					
Operating activities	$(429)	$8	$72	$30	$28
Investing activities	(235)	(122)	(98)	(19)	(79)
Financing activities	1,263	184	60	13	63

Operating Activities

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

	PPL	PPL Electric	LKE	LG&E	KU
2018 vs. 2017					
Change - Cash Provided (Used):					
Net income	$699	$ 68	$129	$20	$27
Non-cash components	(752)	(106)	(182)	(59)	(94)
Working capital	199	134	34	51	89
Defined benefit plan funding	204	(4)	(96)	(57)	(31)
Other operating activities	10	6	(69)	(24)	(44)
Total	$360	$ 98	$(184)	$(69)	$(53)
2017 vs. 2016					
Change - Cash Provided (Used):					
Net income	$(774)	$ 22	$(113)	$10	$(6)
Non-cash components	363	100	31	(8)	42
Working capital	38	(87)	93	(33)	(14)
Defined benefit plan funding	(138)	(24)	50	42	(3)

Other operating activities	82	(3)	11	19	9
Total	$(429)	$ 8	$72	$ 30	$28

(PPL)

PPL had a $360 million increase in cash provided by operating activities in 2018 compared with 2017.

- Net income increased $699 million between periods and included a decrease in net non-cash charges of $752 million. The decrease in net non-cash charges was primarily due to an increase in unrealized gains on hedging activities, a decrease in deferred income taxes (primarily due to the unfavorable adjustments recorded in 2017 for the tax changes

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related to the enactment of TCJA) and an increase in the U.K. net periodic defined benefit credits (primarily due to an increase in expected returns on higher asset balances).

- The $199 million increase in cash from changes in working capital was primarily due to a decrease in unbilled revenue (primarily due to lower volumes due to milder temperatures in December 2018 versus December 2017), an increase in accounts payable (primarily due to timing of payments), a decrease in accounts receivable (primarily due to timing of receipts) and a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), partially offset by a decrease in customer deposits and an increase in fuel, materials and supplies (primarily due to higher generation driven by weather in 2018 compared with 2017).

- Defined benefit plan funding was $204 million lower in 2018. The decrease was primarily due to the acceleration of WPD's contributions to its U.K. pension plans in 2017.

PPL had a $429 million decrease in cash provided by operating activities in 2017 compared with 2016.

- Net income declined $774 million between periods and included net non-cash benefits of $363 million. The increase in net non-cash benefits was primarily due to an increase in unrealized losses on hedging activities, an increase in deferred income taxes (primarily due to the impact of the TCJA) and an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates at LG&E and KU effective July 1, 2017, partially offset by the impact of foreign currency at WPD), partially offset by 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 (credits) and increase in expected returns).

- The $38 million increase in cash from changes in working capital was primarily due a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in fuel, materials and supplies (primarily due to a decrease in fuel purchases due to lower generation driven by milder weather in 2017 compared to 2016) and a decrease in unbilled revenue (primarily due to lower growth in volumes in 2017 compared to 2016), partially offset by a decrease in accounts payable (due to timing of payments), a decrease in taxes payable (primarily due to the timing of payments) and an increase in accounts receivable.

- Defined benefit plan funding was $138 million higher in 2017. The increase was primarily due to the acceleration of WPD's contributions to its U.K. pension plans.

(PPL Electric)

PPL Electric had a $98 million increase in cash provided by operating activities in 2018 compared with 2017.

- Net income improved by $68 million between the periods. This included a decrease of $106 million of net non-cash charges primarily due to a $133 million decrease in deferred income tax expense (primarily due to book versus tax plant timing differences) partially offset by a $43 million increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, related to the ongoing efforts to ensure the reliability of the delivery system, the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter Program).

- The $134 million increase in cash from changes in working capital was primarily due to a decrease in accounts receivable (primarily due to the timing of receipts including the 2017 federal income tax benefit refund received in 2018) and a decrease in unbilled revenues (primarily due to colder weather in December 2017).

PPL Electric had an $8 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income improved by $22 million between the periods. This included an additional $100 million of net non-cash benefits primarily due to a $56 million 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) and a $37 million increase in deferred income taxes (primarily due to book versus tax plant timing differences).

- The $87 million decrease in cash from changes in working capital was primarily due to an increase in accounts receivable (primarily due to a 2017 federal income tax benefit refund, not yet received), a decrease in accounts payable (primarily due to timing of payments) and an increase in prepayments (primarily due to an increase in the 2017 gross receipts tax prepayment compared to 2016), partially offset by an decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms) and a decrease in unbilled revenue (primarily due to lower growth in volumes in 2017 compared to 2016).

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- Pension funding was $24 million higher in 2017 due to contributions made in 2017 to the PPL Retirement Plan.

(LKE)

LKE had a $184 million decrease in cash provided by operating activities in 2018 compared with 2017.

- Net income increased $129 million between the periods and included a decrease in net non-cash charges of $182 million. The decrease in net non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).

- The increase in cash from changes in working capital was primarily driven by a decrease in unbilled revenues (primarily due to milder weather in December 2018 compared to 2017), an increase in accounts payable (primarily due to timing of payments) and a decrease in net regulatory assets and liabilities (primarily due to the impact of the TJCA and the timing of rate recovery mechanisms), partially offset by a decrease in other current liabilities and accrued taxes (primarily due to timing of payments) and an increase in fuel purchases (primarily due to higher generation driven by weather in 2018 compared with 2017).

- Defined benefit plan funding was $96 million higher in 2018.

- The decrease in cash from LKE's other operating activities was driven primarily by an increase in ARO expenditures and an increase in other assets (primarily due to non-current regulatory asset increases as a result of significant storm activity).

LKE had a $72 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income decreased $113 million between the periods and included an increase in net non-cash charges of $31 million. The increase in net non-cash charges was primarily driven by increases in depreciation expense and deferred income taxes (primarily due to the impact of the TCJA).

- The increase in cash from changes in working capital was driven primarily by an increase in other current liabilities (due to customer advances and the timing of payments), a decrease in fuel purchases (primarily due to lower generation driven by milder weather in 2017 compared to 2016), an increase in taxes payable (primarily due to the timing of payments), partially offset by a decrease in accounts payable (primarily due to the timing of payments).

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

(LG&E)

LG&E had a $69 million decrease in cash provided by operating activities in 2018 compared with 2017.

- Net income increased $20 million between the periods and included a decrease in net non-cash charges of $59 million. The decrease in net non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).

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The increase in cash from changes in working capital was primarily driven by a decrease in unbilled revenues (primarily due to milder weather in December 2018 compared to 2017), an increase in accounts payable and accrued taxes (primarily due to timing of payments) and a decrease in net regulatory assets and liabilities (primarily due to the impact of the TJCA and the timing of rate recovery mechanisms), partially offset by a decrease in other current liabilities (primarily due to timing of payments).

- Defined benefit plan funding was $57 million higher in 2018.

- The decrease in cash from LG&E’s other operating activities was driven primarily by an increase in other assets (primarily due to non-current regulatory asset increases as a result of significant storm activity).

LG&E had a $30 million increase in cash provided by operating activities in 2017 compared with 2016.

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- Net income increased $10 million between the periods and included a decrease in net non-cash charges of $8 million. The decrease in net non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences), partially offset by an increase in depreciation expense.

- The decrease in cash from changes in working capital was driven primarily by decreases in accounts payable and taxes payable (primarily due to the timing of payments), partially offset by a decrease in accounts receivable from affiliates (due to lower intercompany settlements associated with energy sales and inventory) and an increase in other current liabilities (primarily due to customer advances and the timing of payments).

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

- The increase in cash from LG&E's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps.

(KU)

KU had a $53 million decrease in cash provided by operating activities in 2018 compared with 2017.

- Net income increased $27 million between the periods and included a decrease in net non-cash charges of $94 million. The decrease in net non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences, differences in the utilization of net operating losses and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).

- The increase in cash from changes in working capital was primarily driven by a decrease in unbilled revenues (primarily due to milder weather in December 2018 compared to 2017), an increase in accrued taxes and accounts payable (primarily due to timing of payments), and a decrease in net regulatory assets and liabilities (primarily due to the impact of the TJCA and the timing of rate recovery mechanisms), partially offset by an increase in fuel purchases (primarily due to higher generation driven by weather in 2018 compared to 2017) and a decrease in other current liabilities (primarily due to timing of payments).

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

- The decrease in cash from KU’s other operating activities was driven primarily by an increase in ARO expenditures and an increase in other assets (primarily due to noncurrent regulatory asset increases as a result of significant storm activity).

KU had a $28 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income decreased $6 million between the periods and included an increase in net non-cash charges of $42 million. The increase in net non-cash charges was primarily driven by an increase in deferred income tax expense (primarily due to the utilization of net operating losses) and an increase in depreciation expense.

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

Investing Activities

(All Registrants)

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

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	PPL	PPL Electric	LKE	LG&E	KU
2018 vs. 2017					
Change - Cash Provided (Used):					
Expenditures for PP&E	$(105)	$52	$(225)	$(96)	$(130)
Purchase of available-for-sale securities	(65)	—	—	—	—
Other investing activities	(30)	7	(3)	—	(3)
Total	$(200)	$59	$(228)	$(96)	$(133)
2017 vs. 2016					
Change - Cash Provided (Used):					
Expenditures for PP&E	$(213)	$(119)	$(101)	$(19)	$(82)
Other investing activities	(22)	(3)	3	—	3
Total	$(235)	$(122)	$(98)	$(19)	$(79)

For PPL, in 2018 compared with 2017, higher project expenditures at LKE, LG&E and KU were partially offset by lower project expenditures at WPD and PPL Electric. The increase in expenditures for LKE, LG&E and KU was primarily due to increased spending for environmental water projects at LG&E’s Mill Creek and Trimble County plants and increased spending for environmental water projects at KU's Ghent plant. The decrease in expenditures at WPD was primarily due to a decrease in expenditures to enhance system reliability partially offset by an increase in foreign currency exchange rates. The decrease in expenditures for PPL Electric was primarily due to timing differences on capital spending projects related to ongoing efforts to improve reliability and replace aging infrastructure.

For PPL, in 2017 compared with 2016, higher project expenditures at PPL Electric, LKE, LG&E and KU were partially offset by lower project expenditures at WPD. The increase in project 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 increase in expenditures for LKE, LG&E and KU was primarily due to increased spending for environmental water projects at LG&E’s Mill Creek plant, CCR projects at the Trimble County plant and increased spending on various transmission projects at KU, partially offset by lower spending driven by completion of environmental air projects. The decrease in expenditures at WPD was primarily due to a decrease in foreign currency exchange rates partially offset by an increase in expenditures to enhance system reliability.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2019 through 2023.

Financing Activities

(All Registrants)

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

	PPL	PPL Electric	LKE	LG&E	KU
2018 vs. 2017					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	$(565)	$ (72)	$1	$ 10	$(9)
Debt issuance/retirement, affiliate		—	250	—	—

Stock issuances/redemptions, net	245	—	—	—	—
Dividends	(61)	(54)	—	36	(20)
Capital contributions/distributions, net		(146)	100	53	45
Changes in net short-term debt	248	295	211	50	161
Note payable with affiliate		—	(174)	—	—
Other financing activities	(1)	2	1	1	—
Total	$(134)	$ 25	$389	$ 150	$177

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	PPL	PPL Electric	LKE	LG&E	KU
2017 vs. 2016					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	$935	$ 470	$115	$115	$—
Stock issuances/redemptions, net	309	—	—	—	—
Dividends	(42)	(48)	—	(64)	22
Capital contributions/distributions, net		355	(147)	(41)	(20)
Changes in net short-term debt	86	(590)	139	3	61
Note payable with affiliate		—	(47)	—	—
Other financing activities	(25)	(3)	—	—	—
Total	$1,263	$ 184	$60	$13	$63

(PPL)

For PPL, in 2018 compared with 2017, $134 million less cash from financing activities was required primarily due to improvements in cash from operations of $360 million.

For PPL, in 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general corporate expenditures and a decrease in cash from operations of $429 million.

(PPL Electric)

For PPL Electric, in 2018 compared with 2017 and 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general expenditures.

(LKE, LG&E and KU)

For LKE, LG&E and KU, in 2018 compared with 2017 and 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general corporate expenditures.

(All Registrants)

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

Long-term Debt and Equity Securities

Long-term debt and equity securities activity for 2018 included:

	Debt		Net Stock
		Retirements	Issuances

	Issuances (a)		
Cash Flow Impact:			
PPL	$1,059	$ 277	$ 698
PPL Electric	398	—	
LKE	368	27	
LG&E	100	—	
KU	18	27	

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

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

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(PPL)

Equity Securities Activities

Equity Forward Contracts

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

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Full settlement of these forward sale agreements will occur no later than November 2019. PPL only receives proceeds and issues shares of common stock upon any settlements of the forward sale agreements. PPL intends to use net proceeds that it receives upon any settlement for general corporate purposes.

In September 2018, PPL settled a portion of the initial forward sale agreements by issuing 20 million shares of PPL common stock, resulting in net cash proceeds of $520 million.

See Note 8 to the Financial Statements for additional information.

ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of $1.0 billion of its common stock through an at-the-market offering program; including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds. PPL issued 4.2 million shares of common stock and received gross proceeds of $119 million for the year ended December 31, 2018.

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LG&E and KU anticipate receiving equity contributions from their parent or member in 2019.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At December 31, 2018, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	Borrowed	Letters of	Unused

	Committed Capacity		Credit and Commercial Paper Issued	Capacity
PPL Capital Funding Credit Facilities	$ 1,050	$ —	$ 684	$ 366
PPL Electric Credit Facility	650	—	1	649
LG&E Credit Facilities	700	200	279	221
KU Credit Facilities	598	—	433	165
Total LKE Consolidated	1,298	200	712	386
Total U.S. Credit Facilities (a) (b)	$ 2,998	$ 200	$ 1,397	$ 1,401
Total U.K. Credit Facilities (b) (c)	£ 1,055	£ 195	£ —	£ 861

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

The commitments under the domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 11%, PPL Electric 7%, LKE - 19%, LG&E - 33% and KU - 37%.

(b) Each company pays customary fees under its respective syndicated credit facility, as does LG&E under its term loan agreement and KU under its letter of credit facility. Borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

(c) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.

The amounts borrowed at December 31, 2018, include a USD-denominated borrowing of $200 million and GBP-denominated borrowings of £38 million, which equated to $48 million. The unused capacity reflects the USD-denominated amount borrowed in GBP of £156 million as of the date borrowed. At December 31, 2018, the USD equivalent of unused capacity under the U.K. committed credit facilities was $1.1 billion.

The commitments under the U.K.'s credit facilities are provided by a diverse bank group with no one bank providing more than 13% of the total committed capacity.

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. The Registrants monitor compliance with the covenants on a regular basis. At December 31, 2018, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

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

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	$ 375	$ 113	$ —	$ 262
LG&E Money Pool (a)	500	—	279	221
KU Money Pool (a)	500	—	235	265

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

See Note 14 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 credit facilities. The following commercial paper programs were in place at:

	December 31, 2018		
	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	$1,000	$ 669	$ 331
PPL Electric	650	—	650
LG&E	350	279	71
KU	350	235	115
Total LKE	700	514	186
Total PPL	$2,350	$ 1,183	$ 1,167

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Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries are authorized to incur, subject to market conditions, up to $4 billion of long-term indebtedness in 2019, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

In 2018, PPL was authorized to issue, subject to market conditions, up to $3.5 billion of equity over three years.

(PPL Electric)

PPL Electric is authorized to incur, subject to market conditions, up to $650 million of long-term indebtedness in 2019, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

(LKE, LG&E and KU)

LG&E is authorized to incur, subject to market conditions and regulatory approvals, up to $700 million of long-term indebtedness in 2019. The proceeds would be used to pay down LG&E's short-term debt balance, fund capital expenditures and for general corporate purposes. LG&E currently plans to remarket, subject to market conditions, $234 million of its Pollution Control Bonds with put dates in 2019.

KU is authorized to incur, subject to market conditions and regulatory approvals, up to $500 million of long-term indebtedness in 2019, the proceeds of which would be used to pay down KU's short-term debt balances, fund capital expenditures and for general corporate purposes. KU currently plans to remarket, subject to market conditions, $96 million of its Pollution Control Bonds with put dates in 2019.

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

From time to time, LKE's member or the parents of PPL Electric, LG&E and KU make capital contributions to subsidiaries. The proceeds from these contributions are used to fund capital expenditures and for other general corporate purposes and, in the case of LKE, to make contributions to its subsidiaries.

Forecasted Uses of Cash

(All Registrants)

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, the Registrants currently expect to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock, distributions by LKE to its member, and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2019 through 2023. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

	Total	Projected 2019 (b)	2020	2021	2022	2023
PPL						
Construction expenditures (a)						
Generating facilities	$855	$268	$157	$193	$107	$130
Distribution facilities	9,327	1,899	1,843	1,880	1,832	1,873
Transmission facilities	3,238	867	892	630	482	367
Environmental	682	198	112	109	148	115
Other	449	101	109	104	72	63
Total Capital Expenditures	$14,551	$3,333	$3,113	$2,916	$2,641	$2,548

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	Total	Projected 2019 (b)	2020	2021	2022	2023
PPL Electric (a)						
Distribution facilities	$1,946	$430	$408	$402	$403	$303
Transmission facilities	2,415	698	702	406	362	247
Total Capital Expenditures	$4,361	$1,128	$1,110	$808	$765	$550
LKE						
Generating facilities	$855	$268	$157	$193	$107	$130
Distribution facilities	1,816	432	370	395	305	314
Transmission facilities	823	169	190	224	120	120
Environmental	682	198	112	109	148	115
Other	425	97	101	97	70	60
Total Capital Expenditures	$4,601	$1,164	$930	$1,018	$750	$739
LG&E						
Generating facilities	$381	$107	$62	$93	$58	$61
Distribution facilities	1,165	287	239	262	187	190
Transmission facilities	173	37	34	42	27	33
Environmental	261	71	39	54	67	30
Other	201	47	49	46	32	27
Total Capital Expenditures	$2,181	$549	$423	$497	$371	$341
KU						
Generating facilities	$474	$161	$95	$100	$49	$69
Distribution facilities	651	145	131	133	118	124
Transmission facilities	650	132	156	182	93	87
Environmental	421	127	73	55	81	85
Other	200	45	48	47	33	27
Total Capital Expenditures	$2,396	$610	$503	$517	$374	$392

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately $81 million for PPL and $50 million for PPL Electric.
(b) The 2019 total excludes amounts included in accounts payable as of December 31, 2018.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes PPL Electric's asset optimization program to replace aging transmission and distribution assets.

In addition to cash on hand and cash from operations, the Registrants plan to fund capital expenditures in 2019 with proceeds from the sources noted below.

Source	PPL	PPL Electric	LKE	LG&E	KU
Issuance of common stock	X				
Issuance of long-term debt securities	X	X	X	X	X

Equity contributions from parent/member		X		X	X	X
Short-term debt	X	X		X	X	X

X = Expected funding source.

Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2018, estimated contractual cash obligations were as follows:

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	Total	2019	2020 - 2021	2022 - 2023	After 2023
PPL					
Long-term Debt (a)	$20,694	$530	$2,514	$3,507	$14,143
Interest on Long-term Debt (b)	14,941	886	1,680	1,474	10,901
Operating Leases (c)	116	26	36	21	33
Purchase Obligations (d)	3,134	1,165	1,061	406	502
Pension Benefit Plan Funding Obligations (e)	784	265	353	166	—
Total Contractual Cash Obligations	$39,669	$2,872	$5,644	$5,574	$25,579
PPL Electric					
Long-term Debt (a)	$3,739	$—	$500	$564	$2,675
Interest on Long-term Debt (b)	3,243	158	310	271	2,504
Unconditional Power Purchase Obligations	53	22	31	—	—
Total Contractual Cash Obligations	$7,035	$180	$841	$835	$5,179
LKE					
Long-term Debt (a)	$5,541	$530	$1,323	$13	$3,675
Interest on Long-term Debt (b)	3,023	212	369	307	2,135
Operating Leases (c)	70	20	26	13	11
Coal and Natural Gas Purchase Obligations (f)	1,733	614	811	283	25
Unconditional Power Purchase Obligations (g)	564	27	53	54	430
Construction Obligations (h)	385	291	81	13	—
Pension Benefit Plan Obligations (e)	20	20	—	—	—
Other Obligations	328	140	85	56	47
Total Contractual Cash Obligations	$11,664	$1,854	$2,748	$739	$6,323
LG&E					
Long-term Debt (a)	$1,824	$434	$98	$—	$1,292
Interest on Long-term Debt (b)	1,136	66	114	108	848
Operating Leases (c)	30	10	10	6	4
Coal and Natural Gas Purchase Obligations (f)	942	303	442	177	20
Unconditional Power Purchase Obligations (g)	391	19	37	38	297
Construction Obligations (h)	143	123	17	3	—
Other Obligations	112	42	29	25	16
Total Contractual Cash Obligations	$4,578	$997	$747	$357	$2,477
KU					
Long-term Debt (a)	$2,342	$96	$500	$13	$1,733
Interest on Long-term Debt (b)	1,618	93	167	151	1,207
Operating Leases (c)	39	10	16	7	6
Coal and Natural Gas Purchase Obligations (f)	791	311	369	106	5
Unconditional Power Purchase Obligations (g)	173	8	16	16	133
Construction Obligations (h)	197	137	53	7	—
Other Obligations	135	43	38	23	31
Total Contractual Cash Obligations	$5,295	$698	$1,159	$323	$3,115

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

(b) Assumes interest payments through stated maturity or earlier put dates. For PPL, LKE, LG&E and KU the payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.

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

(d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes, as applicable, the purchase obligations of electricity, coal, natural gas and limestone, as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above.

(e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2016. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2019 for PPL's and LKE's U.S. pension plans (for PPL Electric, LG&E and KU includes their share of these amounts). Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 11 to the Financial Statements for a discussion of expected contributions.

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(f) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 13 to the Financial Statements for additional information.

(g) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 13 to the Financial Statements for additional information.

(h) Represents construction commitments, including commitments for LG&E's and KU's Trimble County landfill construction, CCR Rule Closure and Process Water Program along with Cane Run plant demolition, which are also reflected in the Capital Expenditures table presented above.

Dividends/Distributions

(PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. In November 2018, PPL declared its quarterly common stock dividend, payable January 2, 2019, at 41.0 cents per share (equivalent to $1.64 per annum). On February 14, 2019, PPL announced that the company is increasing its common stock dividend to 41.25 cents per share on a quarterly basis (equivalent to $1.65 per annum). Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors.

Subject to certain exceptions, PPL may not declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2018, no interest payments were deferred.

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

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

(All Registrants)

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

Purchase or Redemption of Debt Securities

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

Rating Agency Actions

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

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

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

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2018.

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	Senior Unsecured		Senior Secured		Commercial Paper	
Issuer	Moody's	S&P	Moody's	S&P	Moody's	S&P
PPL						
PPL Capital Funding	Baa2	BBB+			P-2	A-2
WPD plc	Baa3	BBB+				
WPD (East Midlands)	Baa1	A-				
WPD (West Midlands)	Baa1	A-				
WPD (South Wales)	Baa1	A-				
WPD (South West)	Baa1	A-				
PPL and PPL Electric						
PPL Electric			A1	A	P-2	A-2
PPL and LKE						
LKE	Baa1	BBB+				
LG&E			A1	A	P-2	A-2
KU			A1	A	P-2	A-2

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

(PPL)

In March 2018, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £30 million 0.01% Index-linked Senior Notes due 2036.

In May 2018, Moody's and S&P assigned ratings of Baa1 and A- to WPD (West Midlands)'s £30 million 0.01% Index-linked Senior Notes due 2028.

In October 2018, Moody's and S&P assigned ratings of Baa3 and BBB+ to WPD plc's £350 million 3.5% Senior Notes due 2026.

(PPL and PPL Electric)

In June 2018, Moody's and S&P assigned ratings of A1 and A to PPL Electric's $400 million 4.15% First Mortgage Bonds due 2048.

(PPL, LKE and LG&E)

In February 2018, Moody’s assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's $28 million 2.30% Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026, previously issued on behalf of LG&E.

In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's $35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Jefferson, Kentucky's $35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

Ratings Triggers

(PPL)

As discussed in Note 8 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East

Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event for each company. These notes totaled £5.1 billion (approximately $6.5 billion) nominal value at December 31, 2018.

(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 17 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 December 31, 2018.

Guarantees for Subsidiaries (PPL)

PPL guarantees certain consolidated affiliate financing arrangements. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, accelerate maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL believes that these covenants will not limit access to relevant funding sources. See Note 13 to the Financial Statements for additional information about guarantees.

Off-Balance Sheet Arrangements (All Registrants)

The Registrants have entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 13 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

(All Registrants)

See Notes 1, 16, and 17 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.

The following interest rate hedges were outstanding at December 31.

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	2018				2017		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
PPL							
Cash flow hedges							
Cross-currency swaps (c)	$702	$ 137	$ (76)	2028	$702	$ 103	$ (84)
Economic hedges							
Interest rate swaps (d)	147	(20)	(1)	2033	147	(27)	(1)
LKE							
Economic hedges							
Interest rate swaps (d)	147	(20)	(1)	2033	147	(27)	(1)
LG&E							
Economic hedges							
Interest rate swaps (d)	147	(20)	(1)	2033	147	(27)	(1)

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, 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 December 31, 2018 and 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 December 31 is shown below.

	10% Adverse Movement in Rates	
	2018	2017
PPL	$652	$620
PPL Electric	188	162
LKE	172	168
LG&E	62	62
KU	92	92

Foreign Currency Risk (PPL)

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

The following foreign currency hedges were outstanding at December 31.

	2018				2017		
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Economic hedges (b)	£1,540	$ 201	$ (181)	2020	£2,563	$ 15	$ (323)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To economically hedge the translation of expected earnings denominated in GBP.

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(All Registrants)

Commodity Price Risk

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

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

Volumetric Risk

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

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

Defined Benefit Plans - Equity Securities Price Risk

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

Credit Risk

(All Registrants)

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

(PPL and PPL Electric)

In January 2017, the PUC issued a Final Order approving PPL Electric's PLR procurement plan for the period June 2017 through May 2021, which includes a total of eight solicitations for electricity supply semi-annually in April and October. To date, PPL Electric has conducted four of its planned eight competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2018, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Note 17 to the Financial Statements for additional information on credit risk.

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Foreign Currency Translation (PPL)

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2018, changes in this exchange rate resulted in a foreign currency translation loss of $453 million, which primarily reflected a $754 million decrease to PP&E and $150 million decrease to goodwill partially offset by a $445 million decrease to long-term debt and a $6 million decrease to other net liabilities. In 2017, changes in this exchange rate resulted in a foreign currency translation gain of $537 million, which primarily reflected a $935 million increase to PP&E and $198 million increase to goodwill partially offset by a $549 million increase to long-term debt and an increase of $47 million to other net liabilities. In 2016, changes in this exchange rate resulted in a foreign currency translation loss of $1.1 billion, which primarily reflected a $2.1 billion decrease to PP&E and $490 million decrease to goodwill partially offset by a $1.3 billion decrease to long-term debt and a decrease of $208 million to other net liabilities.

(All Registrants)

Related Party Transactions

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 14 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results.

Capacity Needs (PPL, LKE, LG&E and KU)

As a result of environmental requirements and energy efficiency measures, KU anticipates retiring two older coal-fired electricity generating units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

(All Registrants)

Environmental Matters

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. 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 below for further discussion of the EPA's CCR Rule and Note 13 to the Financial Statements for a discussion of the more significant environmental matters including: Legal Matters, NAAQS, Climate Change and ELGs. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2019 through 2023. See Note 19 to the Financial Statements for information related to the impacts of CCRs on AROs.

EPA's CCR Rule (PPL, LKE, LG&E and KU)

Over the next several years, LG&E and KU anticipate undertaking extensive measures, including significant capital expenditures, in complying with the provisions of the EPA's CCR Rule. Although LG&E and KU have identified compliance strategies and are finalizing closure plans and schedules as required by the CCR Rule, remaining regulatory uncertainties could substantially impact current plans. As a result of a judicial settlement, legislative amendments, and the EPA's review of the current program, the EPA is in the process of undertaking significant revisions to the CCR Rule. On July 30, 2018, the EPA published certain amendments to the CCR Rule which include extending the deadline for commencement of closure of certain impoundments from April 2019 to October 31, 2020. The EPA has announced that additional amendments to the rule will be proposed. On August 21, 2018, the D.C. Circuit Court of Appeals vacated and remanded portions of the CCR Rule, including the provisions allowing unlined impoundments to continue operating and provisions exempting certain inactive impoundments from regulation. The exact impact of the judicial decision will be highly dependent on the EPA's rulemaking actions on remand and any subsequent legal challenges. LG&E and KU are evaluating the specific plan impacts of developments to date and will continue to monitor the EPA's ongoing regulatory proceedings.

In connection with the CCR Rule, LG&E and KU have recorded adjustments to existing AROs beginning in 2015 and continue to record adjustments as required. See Note 19 to the Financial Statements for additional information on AROs. LG&E and KU continue to perform technical evaluations related to their plans to close impoundments at all of their generating plants. Although LG&E and KU believe their recorded liabilities appropriately reflect their obligations under current rules, changes to current compliance strategies as a result of ongoing regulatory proceedings or other developments could result in additional closure costs. It is not currently possible to determine the magnitude of any potential cost increases related to changes in compliance strategies or plans, and the timing of future cash outflows are indeterminable at this time. As rules are revised, technical evaluations are completed, and the timing and details of impoundment closures develop further on a plant by-plant basis, LG&E and KU will updated their cost estimates and record any changes as necessary to their ARO liability, which could be material. These costs are subject to rate recovery.

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Sustainability

Increasing attention has been focused on a broad range of corporate activities under the heading of “sustainability”, which has resulted in a significant increase in the number of requests from interested parties for information on sustainability topics. These parties range from investor groups focused on environmental, social, governance and other matters to non-investors concerned with a variety of public policy matters. Often the scope of the information sought is very broad and not necessarily relevant to an issuer’s business or industry. As a result, a number of private groups have proposed to standardize the subject matter constituting sustainability, either generally or by industry. Those efforts remain ongoing. In addition, certain of these private groups have advocated that the SEC promulgate regulations requiring specific sustainability reporting under the Securities Exchange Act of 1934, as amended (the “’34 Act”), or that issuers voluntarily include certain sustainability disclosure in their ’34 Act reports. To date, no new reporting requirements have been adopted or proposed by the SEC.

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

Cybersecurity

See “Cybersecurity Management” in “Item 1. Business” and “Item 1A. Risk factors” for a discussion of cybersecurity risks affecting the Registrants and the related strategies for managing these risks.

Competition

See "Competition" under each of PPL's reportable segments in "Item 1. Business - General - Segment Information" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting the Registrants.

New Accounting Guidance

See Note 1 and 21 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to an understanding of the reported financial condition or results of operations and require management to make estimates or other judgments of matters that are inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial

Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed with PPL's Audit Committee these critical accounting policies, the following disclosures regarding their application, and the estimates and assumptions regarding them.

Defined Benefits

(All Registrants)

Certain of the Registrants and/or their subsidiaries sponsor or participate in, as applicable, certain qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. These plans are applicable to certain of the Registrants' employees (based on eligibility for their applicable plans). The Registrants and certain of their subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. Consequently, the funded status of all defined benefit plans is fully

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recognized on the Balance Sheets. See Notes 7 and 11 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

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

Plan Sponsor	PPL	PPL Electric	LKE	LG&E	KU
PPL Services	S	P			
WPD (a)	S				
LKE			S	P	P
LG&E				S	

(a) Does not sponsor or participate in other postretirement benefits plans.

Management makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. As such, annual net periodic defined benefit costs are recorded in current earnings or regulatory assets and liabilities based on estimated results. Any differences between actual and estimated results are recorded in AOCI, or in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in AOCI or regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The significant assumptions are:

- Discount Rate - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.

- Expected Return on Plan Assets - Management projects the long-term rates of return on plan assets that will be earned over the life of the plan. These projected returns reduce the net benefit costs the Registrants record currently.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

(PPL)

In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate. The spot-rate yield curve uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Historically, WPD used the single weighted-average discount rate derived from the spot rates used to discount the benefit obligation. Concurrent with the annual remeasurement of plan assets and obligations at December 31, 2015, WPD began using individual spot rates to measure service cost and interest cost beginning with the calculation of 2016 net periodic defined benefit cost.

An individual bond matching approach, which is used for the U.S. pension plans as discussed below, is not used for the U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support such an approach.

(All Registrants)

In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed.

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To determine the expected return on plan assets, plan sponsors project the long-term rates of return on plan assets using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

In selecting a rate of compensation increase, plan sponsors consider past experience in light of movements in inflation rates.

The following table provides the weighted-average assumptions selected for discount rate, expected return on plan assets and rate of compensation increase at December 31 used to measure current year obligations and subsequent year net periodic defined benefit costs under GAAP, as applicable.

Assumption / Registrant	2018	2017
Discount rate		
Pension - PPL (U.S.)	4.35%	3.70%
Pension - PPL (U.K.) Obligations	2.98%	2.65%
Pension - PPL (U.K.) Service Cost (a)	3.12%	2.73%
Pension - PPL (U.K.) Interest Cost (a)	2.62%	2.31%
Pension - LKE	4.35%	3.69%
Pension - LG&E	4.33%	3.65%
Other Postretirement - PPL	4.31%	3.64%
Other Postretirement - LKE	4.32%	3.65%
Expected return on plan assets		
Pension - PPL (U.S.)	7.25%	7.25%
Pension - PPL (U.K.)	7.21%	7.23%
Pension - LKE	7.25%	7.25%
Pension - LG&E	7.25%	7.25%
Other Postretirement - PPL	6.46%	6.40%
Other Postretirement - LKE	7.00%	7.15%
Rate of compensation increase		
Pension - PPL (U.S.)	3.79%	3.78%
Pension - PPL (U.K.)	3.50%	3.50%
Pension - LKE	3.50%	3.50%
Other Postretirement - PPL	3.76%	3.75%
Other Postretirement - LKE	3.50%	3.50%

(a) WPD uses individual spot rates from the yield curve used to discount the benefit obligation to measure service cost and interest cost for the calculation of net periodic defined benefit cost. PPL's U.S. plans use a single discount rate derived from an individual bond matching model to measure the benefit obligation, service cost and interest cost. See Note 1 to the Financial Statements for additional details.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. At December 31, 2018, the defined benefit plans were recorded in the Registrants' financial statements as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Balance Sheet:					

Regulatory assets (a)	$963	$ 558	$405	$249	$156
Regulatory liabilities	37	5	32	—	32
Pension assets	535	—	—	—	—
Pension liabilities	783	285	286	11	1
Other postretirement and postemployment benefit liabilities	239	120	100	69	31
AOCI (pre-tax)	3,209	—	121	—	—
Statement of Income:					
Defined benefits expense	$(184)	$ 3	$24	$6	$3
Increase (decrease) from prior year	(97)	(9)	(9)	(5)	(2)

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15 year amortization period for actuarial gains and losses is

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recorded as a regulatory asset. At December 31, 2018, the balances were $45 million for PPL and LKE, $25 million for LG&E and $20 million for KU. See Note 7 to the Financial Statements for additional information.

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

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

Actuarial assumption	Increase (Decrease) Defined Benefit Asset	Increase (Decrease) Defined Benefit Liabilities	(Increase) Decrease AOCI (pre-tax)	Increase (Decrease) Net Regulatory Assets	Increase (Decrease) Defined Benefit Costs
PPL					
Discount rates	$ (296)	$ 134	$ 342	$ 88	$ 43
Expected return on plan assets	n/a	n/a	n/a	n/a	30
Rate of compensation increase	(44)	15	51	9	12
PPL Electric					
Discount rates		55	—	55	7
Expected return on plan assets		n/a	—	n/a	4
Rate of compensation increase		6	—	6	1
LKE					
Discount rates		57	24	33	8
Expected return on plan assets		n/a	n/a	n/a	4
Rate of compensation increase		7	4	3	2
LG&E					
Discount rates		18	n/a	18	2
Expected return on plan assets		n/a	n/a	n/a	1
Rate of compensation increase		1	n/a	1	—
KU					
Discount rates		15	n/a	15	2
Expected return on plan assets		n/a	n/a	n/a	1
Rate of compensation increase		2	n/a	2	—

Income Taxes (All Registrants)

The Registrants recognized certain provisional amounts relating to the impact of the enactment of the TCJA in their December 31, 2017 financial statements, in accordance with SEC guidance. Included in those provisional amounts were estimates of: tax depreciation, deductible executive compensation, accumulated foreign earnings, foreign tax credits, and deemed dividends from foreign subsidiaries, all of which were based on the interpretation and application of various provisions of the TCJA.

In the third quarter of 2018, PPL filed its consolidated federal income tax return, which was prepared using guidance issued by the U.S. Treasury Department and the IRS since the filing of each Registrant's 2017 Form 10-K. Accordingly, the Registrants have updated the following provisional amounts and now consider them to be complete: (1) the amount of the deemed dividend and associated foreign tax credits relating to the transition tax imposed on accumulated foreign earnings as of December 31, 2017; (2) the amount of accelerated 100% "bonus" depreciation PPL was eligible to claim in its 2017 federal income tax return; and (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on

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the changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts is required.

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of December 31, 2018 with respect to all provisional amounts.

In 2018, the IRS issued proposed regulations for certain provisions of the TCJA, including interest deductibility, Base Erosion Anti-Avoidance Tax (BEAT), and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to BEAT and GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant.

Significant management judgment is also required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns, valuation allowances on deferred tax assets and whether the undistributed earnings of WPD are considered indefinitely reinvested.

Additionally, significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date.

At December 31, 2018, no significant changes in unrecognized tax benefits are projected over the next 12 months.

The need for valuation allowances to reduce deferred tax assets also requires significant management judgment. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

See Note 6 to the Financial Statements for income tax disclosures, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested. Based on this conclusion, PPL Global does not record deferred U.S. federal income taxes on WPD's undistributed earnings.

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Regulatory Assets and Liabilities

(All Registrants)

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

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to the Registrants and other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

See Note 7 to the Financial Statements for regulatory assets and regulatory liabilities recorded at December 31, 2018 and 2017, as well as additional information on those regulatory assets and liabilities. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. As the regulatory model is incentive-based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP for entities subject to cost-based rate regulation and does not record regulatory assets and liabilities. Therefore, the accounting treatment of adjustments to base revenue and/or allowed revenue is evaluated based on revenue recognition guidance. See Note 1 to the Financial Statements for additional information.

Price Risk Management (PPL)

See "Financial Condition - Risk Management" above, as well as "Price Risk Management" in Note 1 to the Financial Statements.

Goodwill Impairment (PPL, LKE, LG&E and KU)

Goodwill is tested for impairment at the reporting unit level. PPL has determined its reporting units to be primarily at the same level as its reportable segments. LKE, LG&E and KU are individually single operating and reportable segments. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the reporting unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL, LKE, LG&E and KU determine whether a potential impairment exists by comparing the estimated fair value of the reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

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. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

PPL, LKE, LG&E and KU elected to perform the two-step quantitative impairment test of goodwill for all reporting units in the fourth quarter of 2018. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting units. Significant assumptions used in the discounted cash flows include discount and growth rates, outcomes of future rate filings, and projected operating and capital cash flows. Projected operating and capital cash flows is based on the Registrants' internal business plan, which assumes the occurrence of certain events in the future. Significant assumptions used in the market multiples include utility sector market performance and comparable transactions.

PPL's goodwill was $3.2 billion at December 31, 2018, which primarily consists of $2.4 billion related to the acquisition of WPD and $662 million related to the acquisition of LKE. The goodwill balances of LKE, LG&E and KU at December 31, 2018 were $996 million, $389 million and $607 million. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations for the most recent impairment tests performed as of October 1, 2018 did not require the second-step assessment and did not result in any impairment.

A high degree of judgment is required in developing estimates related to fair value conclusions. A decrease in the forecasted cash flows of 10%, an increase in the discount rate by 0.25%, or a 10% decrease in the market multiples would not have resulted in an impairment of goodwill for these reporting units.

Asset Retirement Obligations (PPL, LKE, LG&E and KU)

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the useful life of the asset. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

See Note 7 and Note 19 to the Financial Statements for additional information on AROs.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that consider estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset.

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At December 31, 2018, the total recorded balances and information on the most significant recorded AROs were as follows.

		Most Significant AROs		
	Total ARO Recorded	Amount Recorded	% of Total	Description
PPL	$ 347	$ 245	71	Ponds, landfills and natural gas mains
LKE	296	245	83	Ponds, landfills and natural gas mains
LG&E	103	81	79	Ponds, landfills and natural gas mains
KU	193	164	85	Ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2018, a 10% increase to retirement cost would increase these ARO liabilities by $33 million. A 0.25% decrease in the discount rate would increase these ARO liabilities by $4 million and a 0.25% increase in the inflation rate would increase these ARO liabilities by $3 million. There would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions.

Revenue Recognition - Unbilled Revenues (LKE, LG&E and KU)

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of the actual meter reads taken throughout the month, estimates are recorded for unbilled revenues at the end of each reporting period. For LG&E and KU, such unbilled revenue amounts reflect estimates of deliveries to customers since the date of the last reading of their meters. The unbilled revenue estimates reflect consideration of factors including daily load models, estimated usage for each customer class, the effect of current and different rate schedules, the meter read schedule, the billing schedule, actual weather data and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. See "Unbilled revenues" on the Registrants' Balance Sheets for balances at December 31, 2018 and 2017.

Other Information (All Registrants)

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Reference is made to "Risk Management" for the Registrants in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 14, 2019

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareowners and the Board of Directors of PPL Corporation
Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of PPL Corporation and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 14, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 14, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowner and the Board of Directors of PPL Electric Utilities Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PPL Electric Utilities Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 14, 2019

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Sole Member and the Board of Directors of LG&E and KU Energy LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of LG&E and KU Energy LLC and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Louisville, Kentucky
February 14, 2019

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Stockholder and the Board of Directors of Louisville Gas and Electric Company
Opinion on the Financial Statements
We have audited the accompanying balance sheets of Louisville Gas and Electric Company (the "Company") as of December 31, 2018 and 2017, the related statements of income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.
Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Louisville, Kentucky
February 14, 2019

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder and the Board of Directors of Kentucky Utilities Company

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Kentucky Utilities Company (the “Company”) as of December 31, 2018 and 2017, the related statements of income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Louisville, Kentucky
February 14, 2019
We have served as the Company’s auditor since 2015.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, except share data)

	2018	2017	2016
Operating Revenues	$7,785	$7,447	$7,517
Operating Expenses			
Operation			
Fuel	799	759	791
Energy purchases	745	685	706
Other operation and maintenance	1,983	1,802	1,857
Depreciation	1,094	1,008	926
Taxes, other than income	312	292	301
Total Operating Expenses	4,933	4,546	4,581
Operating Income	2,852	2,901	2,936
Other Income (Expense) - net	396	(88)	502
Interest Expense	963	901	888
Income Before Income Taxes	2,285	1,912	2,550
Income Taxes	458	784	648
Net Income	$1,827	$1,128	$1,902
Earnings Per Share of Common Stock:			
Net Income Available to PPL Common Shareowners:			
Basic	$2.59	$1.64	$2.80
Diluted	$2.58	$1.64	$2.79
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	704,439	685,240	677,592
Diluted	708,619	687,334	680,446

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

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

	2018	2017	2016
Net income	$ 1,827	$ 1,128	$ 1,902
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of ($2), ($1), ($4)	(444)	538	(1,107)
Qualifying derivatives, net of tax of ($9), $19, ($18)	36	(79)	91
Defined benefit plans:			
Prior service costs, net of tax of $3, $0, $2	(11)	—	(3)
Net actuarial gain (loss), net of tax of $44, $72, $40	(187)	(308)	(61)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Qualifying derivatives, net of tax of $6, ($18), $21	(29)	73	(91)
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0	—	1	(1)
Defined benefit plans:			
Prior service costs, net of tax of $0, ($1), ($1)	2	1	1
Net actuarial (gain) loss, net of tax of ($36), ($37), ($35)	142	130	121
	(491)	356	(1,050)

Total other comprehensive income (loss)						
Comprehensive income	$	1,336	$	1,484	$	852

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	$1,827	$1,128	$1,902
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,094	1,008	926
Amortization	78	97	80
Defined benefit plans - (income)	(192)	(95)	(40)
Deferred income taxes and investment tax credits	355	707	560
Unrealized (gains) losses on derivatives, and other hedging activities	(186)	178	19
Stock compensation expense	26	38	28
Other	(3)	(9)	(12)
Change in current assets and current liabilities			
Accounts receivable	28	(33)	(15)
Accounts payable	78	(10)	57
Unbilled revenues	41	(48)	(63)
Fuel, materials and supplies	17	40	(3)
Customer deposits	(35)	16	(50)
Regulatory assets and liabilities, net	13	(12)	(59)
Other current liabilities	(22)	6	(6)
Other	33	(5)	55
Other operating activities			
Defined benefit plans - funding	(361)	(565)	(427)
Proceeds from transfer of excess benefit plan funds	65	—	—
Other assets	(75)	32	33
Other liabilities	40	(12)	(95)
Net cash provided by operating activities	2,821	2,461	2,890
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(3,238)	(3,133)	(2,920)
Purchase of available-for-sale securities	(65)	—	—
Other investing activities	(58)	(28)	(6)
Net cash used in investing activities	(3,361)	(3,161)	(2,926)
Cash Flows from Financing Activities			
Issuance of long-term debt	1,059	1,515	1,342
Retirement of long-term debt	(277)	(168)	(930)
Issuance of common stock	698	453	144
Payment of common stock dividends	(1,133)	(1,072)	(1,030)
Net increase in short-term debt	363	115	29
Other financing activities	(20)	(19)	6
Net cash provided by (used in) financing activities	690	824	(439)
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	(18)	15	(28)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	132	139	(503)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	511	372	875
Cash, Cash Equivalents and Restricted Cash at End of Period	$643	$511	$372

Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for:			
Interest - net of amount capitalized	$910	$845	$854
Income taxes - net	$127	$65	$70
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$345	$360	$281
Accrued expenditures for intangible assets at December 31,	$64	$68	$117

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

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$621	$485
Accounts receivable (less reserve: 2018, $56; 2017, $51)		
Customer	663	681
Other	107	100
Unbilled revenues	496	543
Fuel, materials and supplies	303	320
Prepayments	70	66
Price risk management assets	109	49
Other current assets	63	50
Total Current Assets	2,432	2,294
Property, Plant and Equipment		
Regulated utility plant	39,734	38,228
Less: accumulated depreciation - regulated utility plant	7,310	6,785
Regulated utility plant, net	32,424	31,443
Non-regulated property, plant and equipment	355	384
Less: accumulated depreciation - non-regulated property, plant and equipment	101	110
Non-regulated property, plant and equipment, net	254	274
Construction work in progress	1,780	1,375
Property, Plant and Equipment, net	34,458	33,092
Other Noncurrent Assets		
Regulatory assets	1,673	1,504
Goodwill	3,162	3,258
Other intangibles	716	697
Pension benefit asset	535	284
Price risk management assets	228	215
Other noncurrent assets	192	135
Total Other Noncurrent Assets	6,506	6,093
Total Assets	$43,396	$41,479

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

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	$1,430	$1,080
Long-term debt due within one year	530	348
Accounts payable	989	924
Taxes	110	105
Interest	278	282
Dividends	296	273
Customer deposits	257	292
Regulatory liabilities	122	95
Other current liabilities	551	624
Total Current Liabilities	4,563	4,023
Long-term Debt	20,069	19,847
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,796	2,462
Investment tax credits	126	129
Accrued pension obligations	771	800
Asset retirement obligations	264	312
Regulatory liabilities	2,714	2,704
Other deferred credits and noncurrent liabilities	436	441
Total Deferred Credits and Other Noncurrent Liabilities	7,107	6,848
Commitments and Contingent Liabilities (Notes 7 and 13)		
Equity		
Common stock - $0.01 par value (a)	7	7
Additional paid-in capital	11,021	10,305
Earnings reinvested	4,593	3,871
Accumulated other comprehensive loss	(3,964)	(3,422)
Total Equity	11,657	10,761
Total Liabilities and Equity	$43,396	$41,479

(a) 1,560,000 shares authorized; 720,323 and 693,398 shares issued and outstanding at December 31, 2018 and December 31, 2017.

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

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CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries
(Millions of Dollars)

	PPL Shareowners Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2015	673,857	$ 7	$ 9,687	$ 2,953	$ (2,728)	$ 9,919
Common stock issued	5,874		185			185
Stock-based compensation			(31)			(31)
Net income				1,902		1,902
Dividends and dividend equivalents (b)				(1,033)		(1,033)
Other comprehensive income (loss)					(1,050)	(1,050)
Adoption of stock-based compensation guidance cumulative effect adjustment (Note 1)				7		7
December 31, 2016	679,731	$ 7	$ 9,841	$ 3,829	$ (3,778)	$ 9,899
Common stock issued	13,667		482			482
Stock-based compensation			(18)			(18)
Net income				1,128		1,128
Dividends and dividend equivalents (b)				(1,086)		(1,086)
Other comprehensive income (loss)					356	356
December 31, 2017	693,398	$ 7	$ 10,305	$ 3,871	$ (3,422)	$ 10,761
Common stock issued	26,925		718			718
Stock-based compensation			(2)			(2)
Net income				1,827		1,827
Dividends and dividend equivalents (b)				(1,156)		(1,156)
Other comprehensive income (loss)					(491)	(491)
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment (Note 1)				51	(51)	—
December 31, 2018	720,323	$ 7	$ 11,021	$ 4,593	$ (3,964)	$ 11,657

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.
(b) Dividends declared per share of common stock at December 31, 2018, 2017 and 2016: $1.64, $1.58 and $1.52.

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

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CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2018	2017	2016
Operating Revenues	$2,277	$2,195	$2,156
Operating Expenses			
Operation			
Energy purchases	544	507	535
Other operation and maintenance	578	572	602
Depreciation	352	309	253
Taxes, other than income	109	107	105
Total Operating Expenses	1,583	1,495	1,495
Operating Income	694	700	661
Other Income (Expense) - net	23	12	20
Interest Income from Affiliate	8	5	—
Interest Expense	159	142	129
Income Before Income Taxes	566	575	552
Income Taxes	136	213	212
Net Income (a)	$430	$362	$340

(a) Net income equals comprehensive income.

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	$430	$362	$340
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	352	309	253
Amortization	22	33	32
Defined benefit plans - expense	3	12	11
Deferred income taxes and investment tax credits	125	258	221
Other	(4)	(8)	(13)
Change in current assets and current liabilities			
Accounts receivable	47	(57)	16
Accounts payable	10	3	58
Unbilled revenues	7	(13)	(23)
Prepayments	1	3	43
Regulatory assets and liabilities	(19)	(5)	(62)
Taxes payable	4	(4)	(12)
Other	10	(1)	(7)
Other operating activities			
Defined benefit plans - funding	(28)	(24)	—
Other assets	(37)	15	19
Other liabilities	55	(3)	(4)
Net cash provided by operating activities	978	880	872
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(1,192)	(1,244)	(1,125)
Expenditures for intangible assets	(4)	(10)	(9)
Other investing activities	3	2	4
Net cash used in investing activities	(1,193)	(1,252)	(1,130)
Cash Flows from Financing Activities			
Issuance of long-term debt	398	470	224
Retirement of long-term debt	—	—	(224)
Contributions from PPL	429	575	220
Payment of common stock dividends to parent	(390)	(336)	(288)
Net increase (decrease) in short-term debt	—	(295)	295
Other financing activities	(4)	(6)	(3)
Net cash provided by financing activities	433	408	224
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	218	36	(34)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	51	15	49
Cash, Cash Equivalents and Restricted Cash at End of Period	$269	$51	$15

Supplemental Disclosures of Cash Flow Information
Cash paid (received) during the period for:

Interest - net of amount capitalized	$144	$128	$115
Income taxes - net	$(20)	$4	$(48)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$158	$133	$126

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

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$267	$49
Accounts receivable (less reserve: 2018, $27; 2017, $24)		
Customer	264	279
Other	38	71
Accounts receivable from affiliates	11	—
Unbilled revenues	120	127
Materials and supplies	25	34
Prepayments	5	6
Regulatory assets	11	16
Other current assets	9	6
Total Current Assets	750	588
Property, Plant and Equipment		
Regulated utility plant	11,637	10,785
Less: accumulated depreciation - regulated utility plant	2,856	2,778
Regulated utility plant, net	8,781	8,007
Construction work in progress	586	508
Property, Plant and Equipment, net	9,367	8,515
Other Noncurrent Assets		
Regulatory assets	824	709
Intangibles	260	259
Other noncurrent assets	42	11
Total Other Noncurrent Assets	1,126	979
Total Assets	$11,243	$10,082

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

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Accounts payable	$418	$386
Accounts payable to affiliates	25	31
Taxes	12	8
Interest	37	36
Regulatory liabilities	74	86
Other current liabilities	101	98
Total Current Liabilities	667	645
Long-term Debt	3,694	3,298
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,320	1,154
Accrued pension obligations	282	246
Regulatory liabilities	675	668
Other deferred credits and noncurrent liabilities	144	79
Total Deferred Credits and Other Noncurrent Liabilities	2,421	2,147
Commitments and Contingent Liabilities (Notes 7 and 13)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,158	2,729
Earnings reinvested	939	899
Total Equity	4,461	3,992
Total Liabilities and Equity	$11,243	$10,082

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

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

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CONSOLIDATED STATEMENTS OF EQUITY
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2015	66,368	$ 364	$ 1,934	$ 821	$3,119
Net income				340	340
Capital contributions from parent			220		220
Dividends declared on common stock				(288)	(288)
December 31, 2016	66,368	$ 364	$ 2,154	$ 873	$3,391
Net income				362	362
Capital contributions from parent			575		575
Dividends declared on common stock				(336)	(336)
December 31, 2017	66,368	$ 364	$ 2,729	$ 899	$3,992
Net income				430	430
Capital contributions from parent			429		429
Dividends declared on common stock				(390)	(390)
December 31, 2018	66,368	$ 364	$ 3,158	$ 939	$4,461

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

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

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CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2018	2017	2016
Operating Revenues	$3,214	$3,156	$3,141
Operating Expenses			
Operation			
Fuel	799	759	791
Energy purchases	201	178	171
Other operation and maintenance	848	801	798
Depreciation	475	439	404
Taxes, other than income	70	65	62
Total Operating Expenses	2,393	2,242	2,226
Operating Income	821	914	915
Other Income (Expense) - net	(16)	(8)	(15)
Interest Expense	206	197	197
Interest Expense with Affiliate	25	18	17
Income Before Income Taxes	574	691	686
Income Taxes	129	375	257
Net Income	$445	$316	$429

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2018	2017	2016
Net income	$445	$316	$429
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Defined benefit plans:			
Prior service costs, net of tax of $0, $1, $0	—	(2)	—
Net actuarial gain (loss), net of tax of ($2), $13, $18	7	(23)	(27)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0	—	1	(1)
Defined benefit plans:			
Prior service costs, net of tax of $0, ($1), ($1)	2	1	2
Net actuarial (gain) loss, net of tax of ($3), ($2), ($1)	8	5	2
Total other comprehensive income (loss)	17	(18)	(24)
Comprehensive income	$462	$298	$405

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	$445	$316	$429
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	475	439	404
Amortization	18	24	29
Defined benefit plans - expense	17	25	27
Deferred income taxes and investment tax credits	94	294	291
Other	(4)	—	—
Change in current assets and current liabilities			
Accounts receivable	1	(12)	(31)
Accounts payable	39	(9)	24
Accounts payable to affiliates	2	2	1
Unbilled revenues	34	(33)	(23)
Fuel, materials and supplies	7	45	2
Regulatory assets and liabilities, net	32	(7)	1
Taxes payable	(3)	27	(7)
Other	(24)	41	(6)
Other operating activities			
Defined benefit plans - funding	(131)	(35)	(85)
Settlement of interest rate swaps	—	—	(9)
Expenditures for asset retirement obligations	(72)	(34)	(26)
Other assets	(24)	8	2
Other liabilities	9	8	4
Net cash provided by operating activities	915	1,099	1,027
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(1,117)	(892)	(791)
Other investing activities	1	4	1
Net cash used in investing activities	(1,116)	(888)	(790)
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates	(112)	62	109
Issuance of long-term note with affiliate	250	—	—
Issuance of long-term debt	118	160	221
Retirement of long-term debt	(27)	(70)	(246)
Distributions to member	(302)	(402)	(316)
Contributions from member	—	—	61
Net increase (decrease) in short-term debt	270	59	(80)
Other financing activities	(2)	(3)	(3)
Net cash provided by (used in) financing activities	195	(194)	(254)
Net Increase (Decrease) in Cash and Cash Equivalents	(6)	17	(17)
Cash and Cash Equivalents at Beginning of Period	30	13	30
Cash and Cash Equivalents at End of Period	$24	$30	$13

Supplemental Disclosures of Cash Flow Information

Cash paid (received) during the period for:			
Interest - net of amount capitalized	$218	$204	$198
Income taxes - net	$46	$48	$(24)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$150	$174	$104

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

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$24	$30
Accounts receivable (less reserve: 2018, $27; 2017, $25)		
Customer	239	246
Other	63	44
Unbilled revenues	169	203
Fuel, materials and supplies	248	254
Prepayments	25	25
Regulatory assets	25	18
Other current assets	—	8
Total Current Assets	793	828
Property, Plant and Equipment		
Regulated utility plant	13,721	13,187
Less: accumulated depreciation - regulated utility plant	2,125	1,785
Regulated utility plant, net	11,596	11,402
Construction work in progress	1,018	627
Property, Plant and Equipment, net	12,614	12,029
Other Noncurrent Assets		
Regulatory assets	849	795
Goodwill	996	996
Other intangibles	78	86
Other noncurrent assets	82	68
Total Other Noncurrent Assets	2,005	1,945
Total Assets	$15,412	$14,802

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

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	$514	$244
Long-term debt due within one year	530	98
Notes payable with affiliates	113	225
Accounts payable	366	338
Accounts payable to affiliates	9	7
Customer deposits	61	58
Taxes	63	66
Price risk management liabilities	4	4
Regulatory liabilities	48	9
Interest	32	32
Asset retirement obligations	82	85
Other current liabilities	126	161
Total Current Liabilities	1,948	1,327
Long-term Debt		
Long-term debt	4,322	4,661
Long-term debt to affiliate	650	400
Total Long-term Debt	4,972	5,061
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	956	866
Investment tax credits	126	129
Price risk management liabilities	16	22
Accrued pension obligations	282	365
Asset retirement obligations	214	271
Regulatory liabilities	2,039	2,036
Other deferred credits and noncurrent liabilities	136	162
Total Deferred Credits and Other Noncurrent Liabilities	3,769	3,851
Commitments and Contingent Liabilities (Notes 7 and 13)		
Member's equity	4,723	4,563
Total Liabilities and Equity	$15,412	$14,802

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

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

	Member's Equity
December 31, 2015	$ 4,517
Net income	429
Contributions from member	61
Distributions to member	(316)
Other comprehensive income (loss)	(24)
December 31, 2016	$ 4,667
Net income	$ 316
Distributions to member	(402)
Other comprehensive income (loss)	(18)
December 31, 2017	$ 4,563
Net income	$ 445
Distributions to member	(302)
Other comprehensive income (loss)	17
December 31, 2018	$ 4,723

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

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STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars)

	2018	2017	2016
Operating Revenues			
Retail and wholesale	$1,467	$1,422	$1,406
Electric revenue from affiliate	29	31	24
Total Operating Revenues	1,496	1,453	1,430
Operating Expenses			
Operation			
Fuel	308	292	301
Energy purchases	183	160	153
Energy purchases from affiliate	13	10	14
Other operation and maintenance	376	350	350
Depreciation	195	183	170
Taxes, other than income	36	33	32
Total Operating Expenses	1,111	1,028	1,020
Operating Income	385	425	410
Other Income (Expense) – net	(12)	(10)	(10)
Interest Expense	76	71	71
Income Before Income Taxes	297	344	329
Income Taxes	64	131	126
Net Income (a)	$233	$213	$203

(a) Net income equals comprehensive income.

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

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STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	$233	$213	$203
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	195	183	170
Amortization	14	14	14
Defined benefit plans - expense	3	7	8
Deferred income taxes and investment tax credits	60	126	147
Other	—	1	—
Change in current assets and current liabilities			
Accounts receivable	4	(7)	(22)
Accounts receivable from affiliates	—	4	(16)
Accounts payable	10	(7)	31
Accounts payable to affiliates	1	(4)	1
Unbilled revenues	14	(16)	(8)
Fuel, materials and supplies	4	12	8
Regulatory assets and liabilities, net	5	(5)	(1)
Taxes payable	1	(15)	20
Other	(10)	16	(2)
Other operating activities			
Defined benefit plans - funding	(61)	(4)	(46)
Settlement of interest rate swaps	—	—	(9)
Expenditures for asset retirement obligations	(22)	(15)	(18)
Other assets	(12)	5	—
Other liabilities	4	4	2
Net cash provided by operating activities	443	512	482
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(554)	(458)	(439)
Net cash used in investing activities	(554)	(458)	(439)
Cash Flows from Financing Activities			
Issuance of long-term debt	100	160	125
Retirement of long-term debt	—	(70)	(150)
Payment of common stock dividends to parent	(156)	(192)	(128)
Contributions from parent	83	30	71
Net increase in short-term debt	80	30	27
Other financing activities	(1)	(2)	(2)
Net cash provided by (used in) financing activities	106	(44)	(57)
Net Increase (Decrease) in Cash and Cash Equivalents	(5)	10	(14)
Cash and Cash Equivalents at Beginning of Period	15	5	19
Cash and Cash Equivalents at End of Period	$10	$15	$5

Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	$71	$65	$65

Income taxes - net	$7	$22	$(43)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$61	$92	$56

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

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BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$10	$15
Accounts receivable (less reserve: 2018, $1; 2017, $1)		
Customer	110	116
Other	30	13
Unbilled revenues	77	91
Accounts receivable from affiliates	24	24
Fuel, materials and supplies	127	131
Prepayments	12	11
Regulatory assets	21	12
Other current assets	—	3
Total Current Assets	411	416
Property, Plant and Equipment		
Regulated utility plant	5,816	5,587
Less: accumulated depreciation - regulated utility plant	741	614
Regulated utility plant, net	5,075	4,973
Construction work in progress	514	305
Property, Plant and Equipment, net	5,589	5,278
Other Noncurrent Assets		
Regulatory assets	431	411
Goodwill	389	389
Other intangibles	47	53
Other noncurrent assets	16	12
Total Other Noncurrent Assets	883	865
Total Assets	$6,883	$6,559

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

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BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	$279	$199
Long-term debt due within one year	434	98
Accounts payable	172	179
Accounts payable to affiliates	26	23
Customer deposits	29	27
Taxes	26	25
Price risk management liabilities	4	4
Regulatory liabilities	17	3
Interest	11	11
Asset retirement obligations	23	24
Other current liabilities	39	52
Total Current Liabilities	1,060	645
Long-term Debt	1,375	1,611
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	628	572
Investment tax credits	34	35
Price risk management liabilities	16	22
Accrued pension obligations	11	45
Asset retirement obligations	80	97
Regulatory liabilities	915	919
Other deferred credits and noncurrent liabilities	77	86
Total Deferred Credits and Other Noncurrent Liabilities	1,761	1,776
Commitments and Contingent Liabilities (Notes 7 and 13)		
Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,795	1,712
Earnings reinvested	468	391
Total Equity	2,687	2,527
Total Liabilities and Equity	$6,883	$6,559

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

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

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STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2015	21,294	$ 424	$ 1,611	$ 295	$2,330
Net income				203	203
Capital contributions from LKE			71		71
Cash dividends declared on common stock				(128)	(128)
December 31, 2016	21,294	$ 424	$ 1,682	$ 370	$2,476
Net income				213	213
Capital contributions from LKE			30		30
Cash dividends declared on common stock				(192)	(192)
December 31, 2017	21,294	$ 424	$ 1,712	$ 391	$2,527
Net income				233	233
Capital contributions from LKE			83		83
Cash dividends declared on common stock				(156)	(156)
December 31, 2018	21,294	$ 424	$ 1,795	$ 468	$2,687

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

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

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STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars)

	2018	2017	2016
Operating Revenues			
Retail and wholesale	$1,747	$1,734	$1,735
Electric revenue from affiliate	13	10	14
Total Operating Revenues	1,760	1,744	1,749
Operating Expenses			
Operation			
Fuel	491	467	490
Energy purchases	18	18	18
Energy purchases from affiliate	29	31	24
Other operation and maintenance	441	423	422
Depreciation	279	255	234
Taxes, other than income	34	32	30
Total Operating Expenses	1,292	1,226	1,218
Operating Income	468	518	531
Other Income (Expense) – net	(6)	(4)	(7)
Interest Expense	100	96	96
Income Before Income Taxes	362	418	428
Income Taxes	76	159	163
Net Income (a)	$286	$259	$265

(a) Net income approximates comprehensive income.

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

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STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	$286	$259	$265
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	279	255	234
Amortization	3	9	14
Defined benefit plans - expense	—	4	5
Deferred income taxes and investment tax credits	48	152	126
Other	(4)	—	(1)
Change in current assets and current liabilities			
Accounts receivable	(4)	(5)	(8)
Accounts payable	29	—	(10)
Accounts payable to affiliates	(3)	(6)	15
Unbilled revenues	20	(17)	(15)
Fuel, materials and supplies	3	32	(6)
Regulatory assets and liabilities, net	27	(2)	2
Taxes payable	5	(26)	25
Other	(3)	9	(4)
Other operating activities			
Defined benefit plans - funding	(54)	(23)	(20)
Expenditures for asset retirement obligations	(50)	(19)	(8)
Other assets	(12)	3	(6)
Other liabilities	11	9	(2)
Net cash provided by operating activities	581	634	606
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(562)	(432)	(350)
Other investing activities	1	4	1
Net cash used in investing activities	(561)	(428)	(349)
Cash Flows from Financing Activities			
Issuance of long-term debt	18	—	96
Retirement of long-term debt	(27)	—	(96)
Payment of common stock dividends to parent	(246)	(226)	(248)
Contributions from parent	45	—	20
Net increase (decrease) in short-term debt	190	29	(32)
Other financing activities	(1)	(1)	(1)
Net cash used in financing activities	(21)	(198)	(261)
Net Increase (Decrease) in Cash and Cash Equivalents	(1)	8	(4)
Cash and Cash Equivalents at Beginning of Period	15	7	11
Cash and Cash Equivalents at End of Period	$14	$15	$7

Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	$95	$92	$89
Income taxes - net	$25	$34	$13

Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$88	$82	$47

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

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BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$14	$15
Accounts receivable (less reserve: 2018, $2; 2017, $1)		
Customer	129	130
Other	34	30
Unbilled revenues	92	112
Fuel, materials and supplies	121	123
Prepayments	11	14
Regulatory assets	4	6
Other current assets	—	5
Total Current Assets	405	435
Property, Plant and Equipment		
Regulated utility plant	7,895	7,592
Less: accumulated depreciation - regulated utility plant	1,382	1,170
Regulated utility plant, net	6,513	6,422
Construction work in progress	503	321
Property, Plant and Equipment, net	7,016	6,743
Other Noncurrent Assets		
Regulatory assets	418	384
Goodwill	607	607
Other intangibles	31	33
Other noncurrent assets	63	52
Total Other Noncurrent Assets	1,119	1,076
Total Assets	$8,540	$8,254

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

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BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	$235	$45
Long-term debt due within one year	96	—
Accounts payable	171	137
Accounts payable to affiliates	53	53
Customer deposits	32	31
Taxes	24	19
Regulatory liabilities	31	6
Interest	16	16
Asset retirement obligations	59	61
Other current liabilities	35	46
Total Current Liabilities	752	414
Long-term Debt	2,225	2,328
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	735	691
Investment tax credits	92	94
Accrued pension obligations	1	36
Asset retirement obligations	134	174
Regulatory liabilities	1,124	1,117
Other deferred credits and noncurrent liabilities	35	43
Total Deferred Credits and Other Noncurrent Liabilities	2,121	2,155
Commitments and Contingent Liabilities (Notes 7 and 13)		
Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,661	2,616
Earnings reinvested	473	433
Total Equity	3,442	3,357
Total Liabilities and Equity	$8,540	$8,254

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

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

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STATEMENTS OF EQUITY
Kentucky Utilities Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2015	37,818	$ 308	$ 2,596	$ 383	$ —	$ 3,287
Net income				265		265
Capital contributions from LKE			20			20
Cash dividends declared on common stock				(248)		(248)
Other comprehensive income (loss)					(1)	(1)
December 31, 2016	37,818	$ 308	$ 2,616	$ 400	$ (1)	$ 3,323
Net income				259		259
Cash dividends declared on common stock				(226)		(226)
Other comprehensive income (loss)					1	1
December 31, 2017	37,818	$ 308	$ 2,616	$ 433	$ —	$ 3,357
Net income				286		286
Capital contributions from LKE			45			45
Cash dividends declared on common stock				(246)		(246)
December 31, 2018	37,818	$ 308	$ 2,661	$ 473	$ —	$ 3,442

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

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

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COMBINED NOTES TO FINANCIAL STATEMENTS

Index to Combined Notes to Consolidated Financial Statements

The notes to the consolidated financial statements that follow are a combined presentation. The following list indicates the Registrants to which the footnotes apply:

	Registrant				
	PPL	PPL Electric	LKE	LG&E	KU
1. Summary of Significant Accounting Policies	x	x	x	x	x
2. Segment and Related Information	x	x	x	x	x
3. Revenue from Contracts with Customers	x	x	x	x	x
4. Preferred Securities	x	x		x	x
5. Earnings Per Share	x				
6. Income and Other Taxes	x	x	x	x	x
7. Utility Rate Regulation	x	x	x	x	x
8. Financing Activities	x	x	x	x	x
9. Leases	x		x	x	x
10. Stock-Based Compensation	x	x	x		
11. Retirement and Postemployment Benefits	x	x	x	x	x
12. Jointly Owned Facilities	x		x	x	x
13. Commitments and Contingencies	x	x	x	x	x
14. Related Party Transactions		x	x	x	x
15. Other Income (Expense) - net	x	x			
16. Fair Value Measurements	x	x	x	x	x
17. Derivative Instruments and Hedging Activities	x	x	x	x	x
18. Goodwill and Other Intangible Assets	x	x	x	x	x
19. Asset Retirement Obligations	x		x	x	x
20. Accumulated Other Comprehensive Income (Loss)	x		x		
21. New Accounting Guidance Pending Adoption	x	x	x	x	x

1. Summary of Significant Accounting Policies

(All Registrants)

General

Capitalized terms and abbreviations appearing in the combined notes to financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

Business and Consolidation

(PPL)

PPL is a utility holding company that, through its regulated subsidiaries, is primarily engaged in: 1) the distribution of electricity in the U.K.; 2) the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas, primarily in Kentucky; and 3) the transmission, distribution and sale of electricity in Pennsylvania. Headquartered in Allentown, PA, PPL's principal subsidiaries are PPL Global, LKE (including its principal subsidiaries, LG&E and KU) and PPL Electric. PPL's corporate level financing subsidiary is PPL Capital Funding.

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WPD, a subsidiary of PPL Global, through indirect, wholly owned subsidiaries, operates distribution networks providing electricity service in the U.K. WPD serves end-users in South Wales and southwest and central England. Its principal subsidiaries are WPD (South Wales), WPD (South West), WPD (East Midlands) and WPD (West Midlands).

PPL consolidates WPD on a one-month lag. Material events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

(PPL and PPL Electric)

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

(PPL, LKE, LG&E and KU)

LKE is a utility holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name.

(All Registrants)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for Variable Interest Entities (VIEs). The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and as a result are the primary beneficiary of the entity. The Registrants are not the primary beneficiary in any VIEs. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated.

The financial statements of PPL, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 12 for additional information.

Regulation

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem for a given time period through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(All Registrants)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 7 for additional details regarding regulatory matters.

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Accounting Records

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

Earnings Per Share (PPL)

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

Price Risk Management

(All Registrants)

Interest rate contracts are used to hedge exposure to changes in the fair value of debt instruments and to hedge exposure to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

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

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

(PPL)

Processes exist that allow for subsequent review and validation of the contract information as it relates to interest rate and foreign currency derivatives. The accounting department provides the treasury department with guidelines on appropriate

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accounting classifications for various contract types and strategies. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions to hedge the value of a net investment of foreign operations can be designated as net investment hedges.
- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency forwards and options to hedge GBP-denominated earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.

(All Registrants)

- Derivative transactions may be marked to fair value through regulatory assets/liabilities at PPL Electric, LG&E and KU if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts.

See Notes 16 and 17 for additional information on derivatives.

Revenue

(PPL)

Operating Revenues

For the years ended December 31, the Statements of Income "Operating Revenues" line item contains revenue from the following:

	2018	2017	2016
Domestic electric and gas revenues (a)	$5,491	$5,351	$5,297
U.K. operating revenues (b)	2,268	2,091	2,207
Domestic - other	26	5	13
Total	$7,785	$7,447	$7,517

(a) Represents revenues from cost-based rate-regulated generation, transmission and/or distribution in Pennsylvania, Kentucky and Virginia, including regulated wholesale revenue.

(b) Primarily represents regulated electricity distribution revenues from the operation of WPD's distribution networks.

Revenue Recognition

(All Registrants)

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

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

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced for electric distribution companies on April 1, 2015. Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn, subject to certain true-ups, and provides for an increase or reduction in revenues based on incentives or penalties for performance relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue (adjusted for inflation using RPI), performance incentive revenues/penalties and adjustments for over or under-recovery from prior periods.

As the regulatory model is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is evaluated based on revenue recognition accounting guidance.

Unlike prior price control reviews, base demand revenue under RIIO-ED1 is adjusted during the price control period. The most significant of those adjustments are:

- Inflation True-Up - The base demand revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue. Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment.

- Annual Iteration Process (AIP) - The RIIO-ED1 price control period also includes an AIP. This will allow future base demand revenues agreed with the regulator as part of the price control review, to be updated during the price control period for financial adjustments including tax, pensions, cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1 plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment.

As both MOD and TRU are changes to future base demand revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers.

In addition to base demand revenue, certain other items are added or subtracted to arrive at allowed revenue. The most significant of these are:

- Incentives - Ofgem has established incentives to provide opportunities for DNO's to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. The annual incentives and penalties are reflected in customers' rates on a two-year lag from the time they are earned and/or assessed. Incentive revenues and penalties are included in revenues when they are billed to customers.

Correction Factor - During the current price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the revenue allowed for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years when they are billed to customers, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for the periods beginning with the 2014/15 regulatory year and refunded/recovered under RIIO-ED1 are refunded/recovered on a two year lag (previously one year). Therefore the 2015/16 over/under-recovery adjustment occurred in the 2017/18 regulatory year.

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Accounts Receivable

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

Allowance for Doubtful Accounts

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs and the age of the receivable. Specific events, such as bankruptcies, are also considered when applicable. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Additions		Deductions (a)	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
PPL					
2018	$ 51	$ 41	$ 3	$ 39	$ 56
2017	54	28	(1)	30	51
2016	41	44	—	31	54
PPL Electric					
2018	$ 24	$ 29	$ —	$ 26	$ 27
2017	28	18	—	22	24
2016	16	35	—	23	28
LKE					
2018	$ 25	$ 10	$ 3	$ 11	$ 27
2017	24	8	(1)	6	25
2016	23	8	—	7	24
LG&E					
2018	$ 1	$ 4	$ 1	$ 5	$ 1
2017	2	2	(1)	2	1
2016	1	2	1	2	2
KU					
2018	$ 1	$ 5	$ 2	$ 6	$ 2
2017	2	4	(1)	4	1
2016	2	4	—	4	2

(a) Primarily related to uncollectible accounts written off.

Cash

(All Registrants)

Cash Equivalents

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

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(PPL and PPL Electric)

Restricted Cash and Cash Equivalents

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. On the Balance Sheets, the current portion of restricted cash and cash equivalents is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

(All Registrants)

Fair Value Measurements

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

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

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

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

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

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

Investments

(All Registrants)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Other current assets" on the Balance Sheets.

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(PPL)

Investments in Debt Securities

Investments in debt securities are classified as held-to-maturity and measured at amortized cost when there is an intent and ability to hold the securities to maturity. Debt securities held principally to capitalize on fluctuations in their value with the intention of selling them in the near-term are classified as trading. All other investments in debt securities are classified as available-for-sale. Both trading and available-for-sale securities are carried at fair value. The specific identification method is used to calculate realized gains and losses on debt securities. Unrealized gains and losses on available-for-sale debt securities are reported in other comprehensive income until realized.

The criteria for determining whether a decline in fair value of a debt security is other than temporary and whether the other-than-temporary impairment is recognized in earnings or reported in OCI require that when a debt security is in an unrealized loss position and:

- there is an intent or a requirement to sell the security before recovery, the other-than-temporary impairment is recognized currently in earnings; or
- there is no intent or requirement to sell the security before recovery, the portion of the other-than-temporary impairment that is considered a credit loss is recognized currently in earnings and the remainder of the other-than-temporary impairment is reported in OCI, net of tax; or
- there is no intent or requirement to sell the security before recovery and there is no credit loss, the unrealized loss is reported in OCI, net of tax.

(PPL, LKE, LG&E and KU)

Investments in Equity Securities

LG&E and KU each have an investment in OVEC, which is recorded at cost. The investment is recorded in "Other noncurrent assets" on the PPL, LKE, LG&E and KU Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is approximately 120 MW for LG&E and approximately 53 MW for KU.

LG&E's and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of their investments; however, LG&E and KU are responsible for a pro-rata share of certain OVEC obligations, pursuant to their power purchase contract with OVEC. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with an offsetting regulatory liability, both of which are being amortized using the units-of-production method until March 2026. For information relating to the bankruptcy filing of a co-sponsor of OVEC and potential impact, see footnote (f) under “Guarantees and Other Assurances” in Note 13. See also Notes 7, 13 and 18 for additional discussion of the power purchase agreement.

Long-Lived and Intangible Assets

Property, Plant and Equipment

(All Registrants)

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations is recorded at fair value at the time of acquisition. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued to PP&E in advance of the period in which the work is performed. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. For LKE, LG&E and

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

AFUDC is capitalized at PPL Electric as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LG&E and KU generally do not record AFUDC, except for certain instances in KU's FERC approved rates charged to its municipal customers, as a return is provided on construction work in progress.

(PPL)

PPL capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC for PPL, was $15 million in 2018 and $11 million in 2017 and 2016.

Depreciation

(All Registrants)

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that
was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

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

	2018	2017	2016
PPL	2.77%	2.65%	2.73%
PPL Electric	3.01%	2.86%	2.63%
LKE	3.69%	3.64%	3.69%
LG&E	3.63%	3.63%	3.58%
KU	3.74%	3.66%	3.77%

(All Registrants)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider:

- the expected use of the asset;
- the expected useful life of other assets to which the useful life of the intangible asset may relate;
- legal, regulatory, or contractual provisions that may limit the useful life;
- the company's historical experience as evidence of its ability to support renewal or extension;
- the effects of obsolescence, demand, competition, and other economic factors; and,
- the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

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Asset Impairment (Excluding Investments)

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

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

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

PPL, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. PPL's, LKE's, LG&E's and KU's reporting units are primarily at the operating segment level.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

PPL, LKE, LG&E and KU elected to bypass the qualitative step zero evaluation of goodwill and quantitatively tested the goodwill of all reporting units for impairment as of the fourth quarter of 2018. No impairment was recognized.

(PPL, LKE, LG&E and KU)

Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income to reflect changes in the obligation due to the passage of time. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 7 and Note 19 for additional information on AROs.

Compensation and Benefits

Defined Benefits (All Registrants)

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

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The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed.

In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate. The spot-rate yield curve uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. WPD uses the single weighted-average discount rate derived from the spot rates to discount the benefit obligation. In addition, the spot rates that match the cash flows associated with the service cost and interest cost are used to discount those components of net periodic defined benefit cost.

See Note 7 for a discussion of the regulatory treatment of defined benefit costs and Note 11 for a discussion of defined benefits.

Stock-Based Compensation (PPL, PPL Electric and LKE)

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Forfeitures of awards are recognized when they occur. See Note 10 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Electric and LKE includes an allocation of PPL Services' expense.

Taxes

Income Taxes

(All Registrants)

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

The Registrants recognized certain provisional amounts relating to the impact of the enactment of the TCJA in their December 31, 2017 financial statements, in accordance with SEC guidance. Included in those provisional amounts were estimates of: tax depreciation, deductible executive compensation, accumulated foreign earnings, foreign tax credits, and deemed dividends from foreign subsidiaries, all of which were based on the interpretation and application of various provisions of the TCJA.

In the third quarter of 2018, PPL filed its consolidated federal income tax return, which was prepared using guidance issued by the U.S. Treasury Department and the IRS since the filing of each Registrant's 2017 Form 10-K. Accordingly, the Registrants have updated the following provisional amounts and now consider them to be complete: (1) the amount of the deemed dividend and associated foreign tax credits relating to the transition tax imposed on accumulated foreign earnings as of December 31, 2017; (2) the amount of accelerated 100% "bonus" depreciation PPL was eligible to claim in its 2017 federal income tax return;

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and (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on the changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts is required. See Note 6 to the Financial Statements for the final amounts reported in PPL's 2017 federal income tax return, provisional adjustment amounts for the year ended December 31, 2017, the related measurement period adjustments and the resulting tax impact for 2018.

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of December 31, 2018 with respect to all provisional amounts.

In 2018, the IRS issued proposed regulations for certain provisions of the TCJA, including interest deductibility, Base Erosion Anti-Avoidance Tax (BEAT), and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to BEAT and GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant.

Significant management judgment is also required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns, valuation allowances on deferred tax assets and whether the undistributed earnings of WPD are considered indefinitely reinvested.

Additionally, significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in future periods.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred income tax assets to the amounts that are more likely than not to be realized. The Registrants consider the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

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

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

The Registrants use the portfolio approach method of accounting for deferred taxes related to pre-tax other comprehensive income or loss transactions. The portfolio approach involves a strict period-by-period cumulative incremental allocation of income taxes to the change in income and losses reflected in OCI. Under this approach, the net cumulative tax effect is ignored.

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The net change in pre-tax income and losses recorded in AOCI under this approach would be eliminated only on the date the entire balance is sold or otherwise disposed of.

See Note 6 for additional discussion regarding income taxes, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested.

The provision for PPL's, PPL Electric's, LKE's, LG&E's and KU's deferred income taxes for regulatory assets and liabilities is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulatory assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in noncurrent "Regulatory assets" or "Regulatory liabilities."

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

The income tax provision for PPL Electric, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if PPL Electric, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes.

At December 31, the following intercompany tax receivables (payables) were recorded:

	2018	2017
PPL Electric	$19	$61
LKE	(16)	(23)
LG&E	—	—
KU	(5)	—

Taxes, Other Than Income (All Registrants)

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

Other

(All Registrants)

Leases

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 9 for additional information.

Fuel, Materials and Supplies

Fuel, natural gas stored underground and materials and supplies are valued using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 7 for further discussion of the fuel adjustment clause and gas supply clause.

(PPL, LKE, LG&E and KU)

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

	PPL		LKE		LG&E		KU	
	2018	2017	2018	2017	2018	2017	2018	2017
Fuel	$98	$107	$98	$107	$42	$45	$56	$62
Natural gas stored underground	41	43	41	43	41	43	—	—
Materials and supplies	164	170	109	104	44	43	65	61
Total	$303	$320	$248	$254	$127	$131	$121	$123

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Guarantees (All Registrants)

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 13 for further discussion of recorded and unrecorded guarantees.

Treasury Stock (PPL)

PPL restores all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions (PPL)

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are generally translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in AOCI.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 15 for additional information.

New Accounting Guidance Adopted (All Registrants)

Accounting for Revenue from Contracts with Customers

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

The adoption of this guidance did not have a material impact on the Registrants' revenue recognition policies. See Note 3 for the required disclosures resulting from the adoption of this standard.

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

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

For PPL, the non-service cost components of net periodic benefit costs were in a net credit position for the twelve months ended December 31, 2018. The non-service cost credits that would have been capitalized under previous guidance, but are now recorded as income within "Other Income (Expense) - net," were $22 million ($17 million after-tax or $0.02 per share) for the twelve months ended December 31, 2018. For PPL Electric, LG&E and KU, non-service costs or credits that would have been capitalized under previous guidance are now recognized as a regulatory asset or regulatory liability, as applicable, in accordance with regulatory approvals.

The following provides the non-service cost components of net periodic benefits (costs) or credits presented in "Other Income (Expense) - net" in 2018 and reclassified from "Other operation and maintenance" to "Other Income (Expense) - net" in 2017 and 2016 on the Statements of Income as a result of the adoption.

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	2018	2017	2016
PPL	$257	$167	$112
PPL Electric	5	1	3
LKE	4	(5)	(6)
LG&E	(2)	(5)	(5)
KU	3	(1)	(2)

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

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

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

Reconciliation of Cash, Cash Equivalents and Restricted Cash

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

	PPL		PPL Electric	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cash and cash equivalents	$621	$ 485	$267	$ 49
Restricted cash - current	3	3	2	2
Restricted cash - noncurrent (a)	19	23	—	—
Total Cash, Cash Equivalents and Restricted Cash	$643	$ 511	$269	$ 51

(a) Primarily consists of funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (PPL and LKE)

Effective October 1, 2018, prospectively adopted accounting guidance that gives entities the option to reclassify tax effects stranded within AOCI as a result of the TCJA to retained earnings. The reclassification applies only to those stranded tax effects arising from the TCJA enactment.

The adoption of this guidance resulted in PPL and LKE reclassifying $51 million and $18 million of deferred tax effects (primarily related to pension and other post-retirement benefits) stranded in AOCI as a result of the TCJA to retained earnings.

2. Segment and Related Information

(PPL)

PPL is organized into three segments: U.K. Regulated, Kentucky Regulated and Pennsylvania Regulated. PPL's segments are segmented by geographic location.

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.

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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 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.

"Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments, certain other unallocated costs, as well as the financial results of Safari Energy, which is presented to reconcile segment information to PPL's consolidated results.

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

	2018	2017	2016
Operating Revenues from external customers (a)			
U.K. Regulated	$2,268	$2,091	$2,207
Kentucky Regulated	3,214	3,156	3,141
Pennsylvania Regulated	2,277	2,195	2,156
Corporate and Other	26	5	13
Total	$7,785	$7,447	$7,517
Depreciation			
U.K. Regulated	$247	$230	$233
Kentucky Regulated	475	439	404
Pennsylvania Regulated	352	309	253
Corporate and Other	20	30	36
Total	$1,094	$1,008	$926
Amortization (b)			
U.K. Regulated	$34	$34	$16
Kentucky Regulated	18	24	29
Pennsylvania Regulated	22	33	32
Corporate and Other	4	6	3
Total	$78	$97	$80
Unrealized (gains) losses on derivatives and other hedging activities (c)			
U.K. Regulated	$(190)	$166	$13
Kentucky Regulated	6	6	6
Corporate and Other	(2)	6	—
Total	$(186)	$178	$19
Interest Expense			
U.K. Regulated	$413	$397	$402
Kentucky Regulated	274	261	260
Pennsylvania Regulated	159	142	129
Corporate and Other	117	101	97
Total	$963	$901	$888

Income Before Income Taxes			
U.K. Regulated	$1,339	$804	$1,479
Kentucky Regulated	531	645	640
Pennsylvania Regulated	567	575	550
Corporate and Other	(152)	(112)	(119)
Total	$2,285	$1,912	$2,550

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	2018	2017	2016
Income Taxes (d)			
U.K. Regulated	$225	$152	$233
Kentucky Regulated	120	359	242
Pennsylvania Regulated	136	216	212
Corporate and Other	(23)	57	(39)
Total	$458	$784	$648
Deferred income taxes and investment tax credits (e)			
U.K. Regulated	$118	$66	$31
Kentucky Regulated	94	294	291
Pennsylvania Regulated	125	257	221
Corporate and Other	18	90	17
Total	$355	$707	$560
Net Income			
U.K. Regulated	$1,114	$652	$1,246
Kentucky Regulated	411	286	398
Pennsylvania Regulated	431	359	338
Corporate and Other	(129)	(169)	(80)
Total	$1,827	$1,128	$1,902

(a) See Note 1 for additional information on Operating Revenues.
(b) Represents non-cash expense items that include amortization of regulatory assets, debt discounts and premiums and debt issuance costs.
(c) Includes unrealized gains and losses from economic activity. See Note 17 for additional information.
(d) Represents both current and deferred income taxes, including investment tax credits. See Note 6 for additional information on the impact of the TCJA in 2018 and 2017.
(e) Represents a non-cash expense item that is also included in "Income Taxes."

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

	2018	2017	2016
Expenditures for long-lived assets			
U.K. Regulated	$954	$1,015	$1,031
Kentucky Regulated	1,117	892	791
Pennsylvania Regulated	1,196	1,254	1,134
Corporate and Other	1	10	1
Total	$3,268	$3,171	$2,957

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

	As of December 31,	
	2018	2017
Total Assets		
U.K. Regulated (a)	$16,700	$16,813

Kentucky Regulated	15,078	14,468
Pennsylvania Regulated	11,257	10,082
Corporate and Other (b)	361	116
Total	$43,396	$41,479

(a) Includes $12.4 billion and $12.5 billion of net PP&E as of December 31, 2018 and December 31, 2017. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E, goodwill, the elimination of inter-segment transactions as well as the assets of Safari Energy.

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Geographic data for the years ended December 31 are as follows:

	2018	2017	2016
Revenues from external customers			
U.K.	$2,268	$2,091	$2,207
U.S.	5,517	5,356	5,310
Total	$7,785	$7,447	$7,517

	As of December 31,	
	2018	2017
Long-Lived Assets		
U.K.	$12,791	$12,851
U.S.	22,384	20,936
Total	$35,175	$33,787

(PPL Electric, LKE, LG&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.

3. Revenue from Contracts with Customers

(All Registrants)

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

(PPL)

U.K. Regulated Segment Revenue

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

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

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

(PPL and PPL Electric)

Pennsylvania Regulated Segment Revenue

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

Distribution Revenue

PPL Electric provides distribution services to residential, commercial, industrial, municipal and governmental end users of energy. PPL Electric satisfies its performance obligation to its distribution customers and revenue is recognized over-time as electricity is delivered and simultaneously consumed by the customer. The amount of revenue recognized is the volume of electricity delivered during the period multiplied by a per-unit of energy tariff, plus a monthly fixed charge. This method of recognition fairly presents PPL Electric's transfer of electric service to the customer as the calculation is based on actual

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volumes, and the per-unit of energy tariff rate and the monthly fixed charge are set by the PUC. Customers are typically billed monthly and outstanding amounts are typically due within 21 days of the date of the bill.

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

Transmission Revenue

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

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

(PPL, LKE, LG&E and KU)

Kentucky Regulated Segment Revenue

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

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

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

(All Registrants)

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

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	2018				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	$7,785	$2,277	$3,214	$1,496	$1,760
Revenues derived from:					
Alternative revenue programs (b)	32	(6)	38	12	26
Other (c)	(38)	(12)	(17)	(5)	(12)
Revenues from Contracts with Customers	$7,779	$2,259	$3,235	$1,503	$1,774

(a) PPL includes $2.3 billion for the year ended December 31, 2018 of revenues from external customers reported by the U.K. Regulated segment. PPL Electric and LKE represent revenues from external customers reported by the Pennsylvania Regulated and Kentucky Regulated segments. See Note 2 for additional information.

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

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

As discussed in Note 2, PPL's segments are segmented by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the table above. For PPL Electric, revenues from contracts with customers are further disaggregated by distribution and transmission, which were $1.9 billion and $405 million for the year ended December 31, 2018.

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

	2018				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	$2,127	$ —	$—	$—	$—
Residential	2,704	1,379	1,325	666	659
Commercial	1,233	368	865	455	410
Industrial	624	54	570	180	390
Other (b)	489	53	278	129	149
Wholesale - municipal	118	—	118	—	118
Wholesale - other (c)	79	—	79	73	48
Transmission	405	405	—	—	—
Revenues from Contracts with Customers	$7,779	$ 2,259	$3,235	$1,503	$1,774

(a) Represents customers of WPD.

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

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

Contract receivables from customers are primarily included in "Accounts receivable - Customer" and "Unbilled revenues" on the Balance Sheets. For PPL Electric, the "Accounts receivable - Customer" balance includes purchased receivables from alternative electricity suppliers. See Note 7 for additional information regarding the purchase of receivables program.

The following table shows the accounts receivable balances from contracts with customers that were impaired for the year ended December 31:

	2018
PPL	$ 34
PPL Electric	24
LKE	9
LG&E	4
KU	5

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

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities as of December 31, 2017	$ 29	$ 19	$ 8	$ 4	$ 4
Contract liabilities as of December 31, 2018	42	23	9	5	4

The following table shows the revenue recognized in 2018 that was included in the contract liability balance at the beginning of the year.

	2018
PPL	$ 21
PPL Electric	8
LKE	8
LG&E	4
KU	4

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

At December 31, 2018, PPL had $49 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately $37 million within the next 12 months.

4. Preferred Securities

(PPL)

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2018, 2017 or 2016.

(PPL Electric)

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2018, 2017 or 2016.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a $25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2018, 2017 or 2016.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2018, 2017 or 2016.

5. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below. In 2018, these securities also included the PPL common stock forward sale agreements. See Note 8 for additional information

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on these agreements. The forward sale agreements are dilutive under the Treasury Stock Method to the extent the average stock price of PPL's common shares exceeds the forward sale price prescribed in the agreements.

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

	2018	2017	2016
Income (Numerator)			
Net income	$ 1,827	$ 1,128	$ 1,902
Less amounts allocated to participating securities	2	2	6
Net income available to PPL common shareowners - Basic and Diluted	$ 1,825	$ 1,126	$ 1,896
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	704,439	685,240	677,592
Add incremental non-participating securities:			
Share-based payment awards (a)	445	2,094	2,854
Forward sale agreements	3,735	—	—
Weighted-average shares - Diluted EPS	708,619	687,334	680,446
Basic EPS			
Net Income available to PPL common shareowners	$ 2.59	$ 1.64	$ 2.80
Diluted EPS			
Net Income available to PPL common shareowners	$ 2.58	$ 1.64	$ 2.79

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

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

	2018
Stock-based compensation plans (a)	720
DRIP	1,974

(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 8 for additional information on common stock issued under ATM Program and settlement of a portion of the PPL common stock forward sale agreements.

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

	2018	2017	2016
Stock options	172	696	696
Performance units	—	—	176
Restricted stock units	11	—	—

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6. Income and Other Taxes

(All Registrants)
Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, President Trump signed into law the TCJA. Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017. The TCJA included significant changes to the taxation of corporations, including provisions specifically applicable to regulated public utilities. The more significant changes that impact the Registrants were:

- The reduction in the U.S. federal corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%, effective January 1, 2018;
- The exclusion from U.S. federal taxable income of dividends from foreign subsidiaries and the associated "transition tax;"
- Limitations on the tax deductibility of interest expense, with an exception to these limitations for regulated public utilities;
- Full current year expensing of capital expenditures with an exception for regulated public utilities that qualify for the exception to the interest expense limitation; and
- The continuation of certain rate normalization requirements for accelerated depreciation benefits. For non-regulated businesses, the TCJA generally provides for full expensing of property acquired after September 27, 2017.

Under GAAP, the tax effect of changes in tax laws must be recognized in the period in which the law is enacted, or December 2017 for the TCJA. The changes enacted by the TCJA were recorded as an adjustment to the Registrants' deferred tax provisions, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	$321	$ (13)	$112	$ —	$ —

The components of these adjustments are discussed below:

Reduction of U.S. Federal Corporate Income Tax Rate

GAAP requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Registrants' deferred taxes were remeasured based upon the U.S. federal corporate income tax rate of 21%. For PPL's regulated entities, the changes in deferred taxes were, in large part, recorded as an offset to either a regulatory asset or regulatory liability and will be reflected in future rates charged to customers. The tax rate reduction impacts on non-regulated deferred tax assets and liabilities were recorded as an adjustment to the Registrants' deferred tax provisions, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	$220	$ (13)	$112	$ —	$ —

As indicated in Note 1 - "Summary of Significant Accounting Policies - Income Taxes", PPL's U.S. regulated operations' accounting for income taxes are impacted by rate regulation. Therefore, reductions in accumulated deferred income tax balances due to the reduction in the U.S. federal corporate income tax rate to 21% under the provisions of the TCJA will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers over a period of time. The TCJA includes provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Refunds of other deferred taxes either have been or will be determined by the Registrants' regulators. The Balance Sheets at December 31, 2017 reflect the increase to the Registrants' net regulatory liabilities as a result of the TCJA as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Net Increase in Regulatory Liabilities	$2,185	$ 1,019	$1,166	$ 532	$634

Transition Tax

The TCJA included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings

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in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately $462 million for purposes of the 2017 tax provision. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, the foreign tax credits associated with the deemed dividend were recorded as a deferred tax asset. However, it is expected that under the TCJA, the current and prior year foreign tax credit carryforwards will not be fully realizable.

As a result, the net deferred income tax expense impact of the deemed repatriation was $101 million and was recorded in "Income Taxes" on the PPL Statement of Income for the year ended December 31, 2017 and "Deferred tax liabilities" on the PPL Balance Sheet at December 31, 2017.

2018 Impacts of TCJA

The Registrants recognized certain provisional amounts relating to the impact of the enactment of the TCJA in their December 31, 2017 financial statements, in accordance with SEC guidance. Included in those provisional amounts were estimates of: tax depreciation, deductible executive compensation, accumulated foreign earnings, foreign tax credits, and deemed dividends from foreign subsidiaries, all of which were based on the interpretation and application of various provisions of the TCJA.

In the third quarter of 2018, PPL filed its consolidated federal income tax return, which was prepared using guidance issued by the U.S. Treasury Department and the IRS since the filing of each Registrant's 2017 Form 10-K. Accordingly, the Registrants have updated the following provisional amounts and now consider them to be complete: (1) the amount of the deemed dividend and associated foreign tax credits relating to the transition tax imposed on accumulated foreign earnings as of December 31, 2017; (2) the amount of accelerated 100% "bonus" depreciation PPL was eligible to claim in its 2017 federal income tax return; and (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on the changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts is required. The final amounts reported in PPL's 2017 federal income tax return, provisional amounts for the year ended December 31, 2017, the related measurement period adjustments, and the resulting tax impact for the year ended December 31,2018 are as follows.

	Taxable Income (Loss) (a)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	2018 Adjustments
PPL			
Deemed Dividend	$397	$ 462	$ (65)
Bonus Depreciation (b)	(67)	—	(67)
Consolidated Federal Net Operating Loss due to the TCJA (c)	(330)	(462)	132
Total	$—	$ —	$ —
PPL Electric			
Bonus Depreciation (b)	$(39)	$ —	$ (39)

Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(68)	(105)	37
Total	$(107)	$ (105)	$ (2)
LKE			
Bonus Depreciation (b)	$(28)	$ —	$ (28)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(32)	(45)	13
Total	$(60)	$ (45)	$ (15)
LG&E			
Bonus Depreciation (b)	$(17)	$ —	$ (17)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	17	—	17
Total	$—	$ —	$ —
KU			
Bonus Depreciation (b)	$(11)	$ —	$ (11)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	11	—	11
Total	$—	$ —	$ —

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(a) The above table reflects, for each item, the amount subject to change as a result of the TCJA and does not reflect the total amount of each item included in the return and the provision.

(b) The TCJA increased the bonus depreciation percentage from 50% to 100% for qualified property acquired and placed in service after September 27, 2017 and before January 1, 2018. Increases in tax depreciation reduce the Registrants' taxes payable and increase net deferred tax liabilities with no impact to “Income Taxes” on the Statements of Income.

(c) An increase in the consolidated federal net operating loss reduces net deferred tax liabilities with the opposite effect if there is a decrease in the consolidated federal net operating loss. These increases or decreases have no impact to “Income Taxes” on the Statements of Income.

	Income Tax Expense (Benefit)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	2018 Adjustments
PPL			
Deemed Dividend	$139	$ 161	$ (22)
Foreign Tax Credits	(157)	(205)	48
Valuation of Foreign Tax Credit Carryforward	110	145	(35)
Reduction in U.S. federal income tax rate	229	220	9
Total	$321	$ 321	$ —
PPL Electric			
Reduction in U.S. federal income tax rate	$(13)	$ (13)	$ —
LKE			
Reduction in U.S. federal income tax rate	$110	$ 112	$ (2)

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of December 31, 2018 with respect to all provisional amounts.

In 2018, the IRS issued proposed regulations for certain provisions of the TCJA, including interest deductibility, Base Erosion Anti-Avoidance Tax (BEAT), and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to BEAT and GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant.

(PPL)

"Income Before Income Taxes" included the following:

	2018	2017	2016
Domestic income	$1,127	$874	$1,463
Foreign income	1,158	1,038	1,087
Total	$2,285	$1,912	$2,550

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

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K.

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

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	2018	2017
Deferred Tax Assets		
Deferred investment tax credits	$31	$33
Regulatory liabilities	87	68
Income taxes due to customer	479	499
Accrued pension and postretirement costs	277	232
Federal loss carryforwards	325	356
State loss carryforwards	419	409
Federal and state tax credit carryforwards	392	455
Foreign capital loss carryforwards	313	329
Foreign loss carryforwards	1	2
Foreign - regulatory obligations	—	2
Foreign - other	9	7
Contributions in aid of construction	139	134
Domestic - other	81	102
Unrealized losses on qualifying derivatives	7	10
Valuation allowances	(808)	(838)
Total deferred tax assets	1,752	1,800
Deferred Tax Liabilities		
Domestic plant - net	3,359	3,168
Regulatory assets	314	288
Reacquired debt costs	12	15
Foreign plant - net	724	726
Foreign - pensions	83	32
Domestic - other	28	9
Total deferred tax liabilities	4,520	4,238
Net deferred tax liability	$2,768	$2,438

State deferred taxes are determined on a by entity, by jurisdiction basis. As a result, $28 million and $24 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheets for 2018 and 2017.

At December 31, 2018, PPL had the following loss and tax credit carryforwards, related deferred tax assets and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses	$1,519	$ 319	$ —	2031-2037
Federal charitable contributions	29	6	—	2020-2022
State net operating losses	5,725	418	(370)	2019-2038
State charitable contributions	7	1	—	2020-2022
Foreign net operating losses	6	1	—	Indefinite
Foreign capital losses	1,842	313	(313)	Indefinite
Credit carryforwards				
Federal investment tax credit		133	—	2025-2036
Federal alternative minimum tax credit (a)		15	—	Indefinite

Federal foreign tax credits (b)	218	(113)	2024-2027
Federal - other	25	(8)	2019-2038
State - other	1	—	Indefinite

(a) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.

(b) Includes $62 million of foreign tax credits carried forward from 2016 and $156 million of additional foreign tax credits from 2017 related to the taxable deemed dividend associated with the TCJA.

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

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	Balance at Beginning of Period	Additions Charged to Income		Additions Charged to Other Accounts	Deductions		Balance at End of Period
2018	$ 838	$ 26		$ —	$ 56	(a)	$ 808
2017	593	256	(b)	—	11		838
2016	662	17		2	88	(c)	593

(a) Decrease in the valuation allowance of approximately $35 million due to the change in the total foreign tax credits available after finalization of the deemed dividend calculation required by the TCJA in 2017. In addition, the deferred tax assets and corresponding valuation allowances were reduced in 2018 by approximately $19 million due to the effect of foreign currency exchange rates.

(b) Increase in valuation allowance of approximately $145 million related to expected future utilization of both 2017 foreign tax credits and pre-2017 foreign tax credits carried forward. For additional information, see the "Reconciliation of Income Tax Expense" and associated notes below.

In addition, the reduction of the U.S. federal corporate income tax rate enacted by the TCJA in 2017 resulted in a $62 million increase in federal deferred tax assets and a corresponding valuation allowance related to the federal tax benefits of state net operating losses.

(c) The reduction of the U.K. statutory income tax rate in 2016 resulted in a $19 million reduction in deferred tax assets and corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for additional information on the impact of the U.K. Finance Act 2016. In addition, deferred tax assets and corresponding valuation allowances were reduced in 2016 by approximately $65 million due to the effect of foreign currency exchange rates.

PPL Global does not record U.S. income taxes on the unremitted earnings of WPD, as management has determined that such earnings are indefinitely reinvested. Current year distributions from WPD to the U.S. are sourced from a portion of the current year’s earnings of the WPD group. There have been no material changes to the facts underlying PPL’s assertion that historically reinvested earnings of WPD as well as some portion of current year earnings will continue to be indefinitely reinvested. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate annual distributions from WPD in excess of some portion of WPD's future annual earnings. The cumulative undistributed earnings are included in "Earnings reinvested" on the Balance Sheets. The amount considered indefinitely reinvested at December 31, 2018 was $6.7 billion. The foregoing is not impacted by U.S. tax reform and the conversion from a worldwide to a participation exemption system. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings in the event of repatriation to the U.S.

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

	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	$(19)	$6	$(14)
Current - State	17	25	21
Current - Foreign	104	45	80

Total Current Expense	102	76	87
Deferred - Federal (a)	203	532	385
Deferred - State	100	88	89
Deferred - Foreign	107	133	86
Total Deferred Expense, excluding operating loss carryforwards	410	753	560
Amortization of investment tax credit	(3)	(3)	(3)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	(20)	(16)	25
Deferred - State	(31)	(26)	(21)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(51)	(42)	4
Total income taxes	$458	$784	$648
Total income tax expense - Federal	$161	$519	$393
Total income tax expense - State	86	87	89
Total income tax expense - Foreign	211	178	166
Total income taxes	$458	$784	$648

(a) Due to the enactment of the TCJA, PPL recorded the following in 2017:

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- $220 million of deferred income tax expense related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities;
- $162 million of deferred tax expense related to the utilization of current year losses resulting from the taxable deemed dividend; partially offset by,
- $60 million of deferred tax benefits related to the $205 million of 2017 foreign tax credits partially offset by $145 million of valuation allowances.

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

	2018	2017	2016
Stock-based compensation recorded to Earnings reinvested	$—	$—	$(7)
Other comprehensive income	(6)	(34)	(6)
Valuation allowance on state deferred taxes recorded to other comprehensive income	—	(1)	1
Total	$(6)	$(35)	$(12)

	2018	2017	2016
Reconciliation of Income Tax Expense			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$480	$669	$893
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit (a)	40	46	46
Valuation allowance adjustments (b)	21	36	16
Impact of lower U.K. income tax rates(c)	(25)	(176)	(177)
U.S. income tax on foreign earnings - net of foreign tax credit (a)(d)	3	47	(42)
Foreign income return adjustments	—	(8)	2
Impact of the U.K. Finance Act on deferred tax balances (e)	(13)	(16)	(49)
Depreciation and other items not normalized	(11)	(10)	(10)
Amortization of excess deferred federal and state income taxes(f)	(37)	—	—
Interest benefit on U.K. financing entities	(17)	(16)	(17)
Stock-based compensation	4	(3)	(10)
Deferred tax impact of U.S. tax reform (g)	—	220	—
Deferred tax impact of Kentucky tax reform (h)	9	—	—
Other (i)	4	(5)	(4)
Total increase (decrease)	(22)	115	(245)
Total income taxes	$458	$784	$648
Effective income tax rate	20.0 %	41.0 %	25.4 %

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

(b) During 2017, PPL recorded an increase in valuation allowances of $23 million primarily related to foreign tax credits recorded in 2016. The future utilization of these credits is expected to be lower as a result of the TCJA.

During 2018, 2017 and 2016, PPL recorded deferred income tax expense of $24 million, $16 million and $13 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

(c) The reduction in the U.S. federal corporate income tax rate from 35% to 21% significantly reduced the difference between the U.K. and U.S. income tax rates in 2018 compared with 2017.

(d) During 2017, PPL recorded a federal income tax benefit of $35 million primarily attributable to U.K. pension contributions.

During 2017, PPL recorded deferred income tax expense of $83 million primarily related to enactment of the TCJA. The enacted tax law included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL’s unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately $462 million, including $205 million of foreign tax credits. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, these credits were recorded as a deferred tax asset. However, it is expected that under the TCJA, only $83 million of the $205 million of foreign tax credits will be realized in the carry forward period. Accordingly, a valuation allowance on the current year foreign tax credits in the amount of $122 million has been recorded to reflect the reduction in the future utilization of the credits. The foreign tax credits associated with the deemed repatriation result in a gross carryforward and corresponding deferred tax asset of $205 million offset by a valuation allowance of $122 million.

During 2016, PPL recorded lower income taxes primarily attributable to foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the company's most recent business plan.

(e) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a $42 million deferred income tax benefit during 2016.

(f) During 2018, PPL recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(g) During 2017, PPL recorded deferred income tax expense related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

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

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(i) During 2018, PPL filed its consolidated federal income tax return, which included updates to the TCJA provisional amounts recorded in 2017. The adjustments to the various provisional amounts that are considered complete as of the filed tax return resulted in an immaterial impact to income tax expense and are discussed in the TCJA section above.

	2018	2017	2016
Taxes, other than income			
State gross receipts	$103	$102	$100
State capital stock	—	(6)	—
Foreign property	134	127	135
Domestic Other	75	69	66
Total	$312	$292	$301

(PPL Electric)

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

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

	2018	2017
Deferred Tax Assets		
Accrued pension and postretirement costs	$110	$81
Contributions in aid of construction	118	117
Regulatory liabilities	35	25
Income taxes due to customers	181	193
State loss carryforwards	14	19
Federal loss carryforwards	79	91
Other	25	27
Total deferred tax assets	562	553
Deferred Tax Liabilities		
Electric utility plant - net	1,681	1,544
Reacquired debt costs	6	8
Regulatory assets	176	150
Other	19	5
Total deferred tax liabilities	1,882	1,707
Net deferred tax liability	$1,320	$1,154

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

At December 31, 2018, PPL Electric had the following loss carryforwards and related deferred tax assets:

	Gross	Deferred Tax Asset	Expiration
Loss carryforwards			
Federal net operating losses	$370	$ 78	2031-2037

Federal charitable contributions	6	1	2020-2022
State net operating losses	180	14	2031-2032
State charitable contributions	5	—	2020-2022

Credit carryforwards were insignificant at December 31, 2018.

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

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	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	$2	$(65)	$(29)
Current - State	9	20	19
Total Current Expense (Benefit)	11	(45)	(10)
Deferred - Federal (a)	96	234	193
Deferred - State	37	29	29
Total Deferred Expense, excluding operating loss carryforwards	133	263	222
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	(8)	(5)	—
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(8)	(5)	—
Total income taxes	$136	$213	$212
Total income tax expense - Federal	$90	$164	$164
Total income tax expense - State	46	49	48
Total income taxes	$136	$213	$212

(a) Due to the enactment of the TCJA in 2017, PPL Electric recorded a $13 million deferred tax benefit related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities.

	2018	2017	2016
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$119	$201	$193
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit (a)	43	36	36
Depreciation and other items not normalized	(11)	(8)	(8)
Amortization of excess deferred federal income taxes (a)	(17)	—	—
Stock-based compensation	1	(2)	(6)
Deferred tax impact of U.S. tax reform (b)	—	(13)	—
Other	1	(1)	(3)
Total increase (decrease)	17	12	19
Total income taxes	$136	$213	$212
Effective income tax rate	24.0 %	37.0 %	38.4 %

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

(b) During 2017, PPL Electric recorded a deferred tax benefit related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2018	2017	2016
Taxes, other than income			
State gross receipts	$103	$102	$100
Property and other	6	5	5
Total	$109	$107	$105

(LKE)

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

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

	2018	2017
Deferred Tax Assets		
Federal loss carryforwards	$142	$150
State loss carryforwards	33	41
Federal tax credit carryforwards	169	181
Contributions in aid of construction	21	17
Regulatory liabilities	52	43
Accrued pension and postretirement costs	92	100
Income taxes due to customers	299	305
Deferred investment tax credits	32	33
Valuation allowances	(8)	(8)
Other	29	33
Total deferred tax assets	861	895
Deferred Tax Liabilities		
Plant - net	1,671	1,615
Regulatory assets	138	138
Other	8	8
Total deferred tax liabilities	1,817	1,761
Net deferred tax liability	$956	$866

At December 31, 2018, LKE had the following loss and tax credit carryforwards, related deferred tax assets, and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses	$674	$ 142	$ —	2031 - 2037
Federal charitable contributions	11	2	—	2020 - 2022
State net operating losses	848	33	—	2029 - 2038
Credit carryforwards				
Federal investment tax credit		133	—	2025 - 2028, 2036
Federal alternative minimum tax credit (a)		14	—	Indefinite
Federal - other		22	(8)	2019-2038
State - other		1	—	Indefinite

(a) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2018	$ 8	$ —	$ —	$ 8
2017	11	4 (a)	7 (b)	8

2016 12	—	1	(b) 11

(a) Federal tax credits expiring in 2021 that are more likely than not to expire before being utilized.
(b) Federal tax credit expiring.

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

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were:

	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	$31	$74	$(36)
Current - State	4	6	1
Total Current Expense (Benefit)	35	80	(35)
Deferred - Federal (a)	65	268	248
Deferred - State	34	32	38
Total Deferred Expense, excluding benefits of operating loss carryforwards	99	300	286
Amortization of investment tax credit - Federal	(3)	(3)	(3)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(2)	(2)	10
Deferred - State	—	—	(1)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(2)	(2)	9
Total income taxes (b)	$129	$375	$257
Total income tax expense - Federal	$91	$337	$219
Total income tax expense - State	38	38	38
Total income taxes (b)	$129	$375	$257

(a) Due to the enactment of the TCJA in 2017, LKE recorded $112 million of deferred income tax expense, of which $108 million related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities and $4 million related to valuation allowances on tax credits expiring in 2021.

(b) Excludes deferred federal and state tax expense (benefit) recorded to OCI of $5 million in 2018, $(10) million in 2017 and $(16) million in 2016.

	2018	2017	2016
Reconciliation of Income Tax Expense			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$121	$242	$240
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	22	26	26
Amortization of investment tax credit	(3)	(3)	(3)
Amortization of excess deferred federal and state income taxes (b)	(20)	(2)	(1)
Stock-based compensation	1	1	(3)
Deferred tax impact of U.S. tax reform (c)	—	112	—
Deferred tax impact of state tax reform (d)	9	—	—
Other (e)	(1)	(1)	(2)
Total increase	8	133	17
Total income taxes	$129	$375	$257
Effective income tax rate	22.5 %	54.3 %	37.5 %

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

(b) During 2018, LKE recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(c) During 2017, LKE recorded deferred income tax expense primarily due to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

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

(e) During 2018, PPL filed its consolidated federal income tax return, which included updates to the TCJA provisional amounts recorded in 2017. The adjustments to the various provisional amounts that are considered complete as of the filed tax return resulted in an immaterial impact to income tax expense and are discussed in the TCJA section above.

	2018	2017	2016
Taxes, other than income			
Property and other	$ 70	$ 65	$ 62
Total	$ 70	$ 65	$ 62

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for

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regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

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

	2018	2017
Deferred Tax Assets		
Federal loss carryforwards	$—	$29
Contributions in aid of construction	14	11
Regulatory liabilities	24	21
Accrued pension and postretirement costs	16	14
Deferred investment tax credits	9	9
Income taxes due to customers	139	142
Other	15	19
Total deferred tax assets	217	245
Deferred Tax Liabilities		
Plant - net	751	724
Regulatory assets	88	88
Other	6	5
Total deferred tax liabilities	845	817
Net deferred tax liability	$628	$572

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2018 LG&E had $6 million of federal credit carryforwards that expire from 2036 - 2038.

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

	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	$—	$—	$(22)
Current - State	4	5	1
Total current Expense (Benefit)	4	5	(21)
Deferred - Federal	51	112	134
Deferred - State	10	14	18
Total Deferred Expense, excluding benefits of operating loss carryforwards	61	126	152
Amortization of investment tax credit - Federal	(1)	(1)	(1)
Tax benefit of operating loss carryforwards			
Deferred - Federal	—	1	(4)
Total Tax Benefit of Operating Loss Carryforwards	—	1	(4)
Total income taxes	$64	$131	$126
Total income tax expense - Federal	$50	$112	$107
Total income tax expense - State	14	19	19
Total income taxes	$64	$131	$126

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	2018	2017	2016
Reconciliation of Income Tax Expense			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$62	$120	$115
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	11	14	12
Amortization of investment tax credit	(1)	(1)	(1)
Amortization of excess deferred federal and state income taxes (b)	(8)	(1)	—
Other	—	(1)	—
Total increase	2	11	11
Total income taxes	$64	$131	$126
Effective income tax rate	21.5%	38.1 %	38.3 %

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

(b) During 2018, LG&E recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2018	2017	2016
Taxes, other than income			
Property and other	$ 36	$ 33	$ 32
Total	$ 36	$ 33	$ 32

(KU)

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

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

	2018	2017
Deferred Tax Assets		
Federal loss carryforwards	$—	$13
Contributions in aid of construction	7	6
Regulatory liabilities	28	22
Accrued pension and postretirement costs	7	7
Deferred investment tax credits	23	24
Income taxes due to customers	160	163
Other	3	8
Total deferred tax assets	228	243
Deferred Tax Liabilities		
Plant - net	911	882
Regulatory assets	50	50
Other	2	2
Total deferred tax liabilities	963	934
Net deferred tax liability	$735	$691

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

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

	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	$22	$—	$31
Current - State	6	7	5
Total Current Expense (Benefit)	28	7	36
Deferred - Federal	40	138	131
Deferred - State	10	16	19
Total Deferred Expense, excluding benefits of operating loss carryforwards	50	154	150
Amortization of investment tax credit - Federal	(2)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	—	—	(21)
Total Tax Benefit of Operating Loss Carryforwards	—	—	(21)
Total income taxes	$76	$159	$163
Total income tax expense - Federal	$60	$136	$139
Total income tax expense - State	16	23	24
Total income taxes	$76	$159	$163

	2018	2017	2016
Reconciliation of Income Tax Expense			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$76	$146	$150
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	13	15	16
Amortization of investment tax credit	(2)	(2)	(2)
Amortization of excess deferred federal and state income taxes (b)	(12)	(1)	(1)
Other	1	1	—
Total increase (decrease)	—	13	13
Total income taxes	$76	$159	$163
Effective income tax rate	21.0%	38.0 %	38.1 %

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

(b) During 2018, KU recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2018	2017	2016
Taxes, other than income			
Property and other	$ 34	$ 32	$ 30
Total	$ 34	$ 32	$ 30

Unrecognized Tax Benefits (All Registrants)

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2018, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
U.S. (federal)	2013 and prior	2013 and prior	2013 and prior	2013 and prior	2013 and prior
Pennsylvania (state)	2011 and prior	2011 and prior			
Kentucky (state)	2013 and prior		2013 and prior	2013 and prior	2013 and prior
U.K. (foreign)	2015 and prior				

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Other

Kentucky State Tax Reform (All Registrants)

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

As indicated in Note 1, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In the second quarter of 2018, LG&E and KU recorded the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, as an increase in regulatory liabilities of $16 million and $19 million. In a separate regulatory proceeding, LG&E and KU have requested to begin returning state excess deferred income taxes to customers in conjunction with the 2018 Kentucky base rate case, which was filed on September 28, 2018. See Note 7 for additional information related to the rate case proceedings. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

7. Utility Rate Regulation

Regulatory Assets and Liabilities

(All Registrants)

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

(PPL)

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities. See Note 1 for additional information.

(PPL, LKE, LG&E and KU)

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

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

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of power purchases. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate-making impact of the fair value adjustments. LG&E's and KU's customer rates continue to reflect the original contracted prices for remaining contracts.

(PPL, LKE and KU)

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except the levelized fuel factor and regulatory assets or liabilities recorded for pension and postretirement benefits and AROs related to certain CCR

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impoundments, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

KU's rates to 10 municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except regulatory assets recorded for AROs related to certain CCR impoundments, are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets.

(PPL and PPL Electric)

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

(All Registrants)

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

	PPL		PPL Electric	
	2018	2017	2018	2017
Current Regulatory Assets:				
Environmental cost recovery	$—	$5	$—	$—
Generation formula rate	—	6	—	—
Gas supply clause	12	4	—	—
Smart meter rider	11	15	11	15
Plant outage costs	10	3	—	—
Other	3	1	—	1
Total current regulatory assets (a)	$36	$34	$11	$16
Noncurrent Regulatory Assets:				
Defined benefit plans	$963	$880	$558	$504
Taxes recoverable through future rates	3	3	3	3
Storm costs	56	33	22	—
Unamortized loss on debt	45	54	22	29
Interest rate swaps	20	26	—	—
Terminated interest rate swaps	87	92	—	—
Accumulated cost of removal of utility plant	200	173	200	173
AROs	273	234	—	—
Act 129 compliance rider	19	—	19	—
Other	7	9	—	—

Total noncurrent regulatory assets	$1,673	$1,504	$824	$709
Current Regulatory Liabilities:				
Generation supply charge	$33	$34	$33	$34
Transmission service charge	3	9	3	9
Environmental cost recovery	16	1	—	—
Universal service rider	27	26	27	26
Transmission formula rate	3	9	3	9
TCJA customer refund	20	—	3	—
Storm damage expense rider	5	8	5	8
Other	15	8	—	—
Total current regulatory liabilities	$122	$95	$74	$86

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	PPL		PPL Electric	
	2018	2017	2018	2017
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$674	$677	$—	$—
Power purchase agreement - OVEC	59	68	—	—
Net deferred taxes	1,826	1,853	629	668
Defined benefit plans	37	27	5	—
Terminated interest rate swaps	72	74	—	—
TCJA customer refund	41	—	41	—
Other	5	5	—	—
Total noncurrent regulatory liabilities	$2,714	$2,704	$675	$668

	LKE		LG&E		KU	
	2018	2017	2018	2017	2018	2017
Current Regulatory Assets:						
Plant outage costs	$10	$3	$7	$3	$3	$—
Generation formula rate	—	6	—	—	—	6
Gas supply clause	12	4	12	4	—	—
Other	3	5	2	5	1	—
Total current regulatory assets	$25	$18	$21	$12	$4	$6
Noncurrent Regulatory Assets:						
Defined benefit plans	$405	$376	$249	$234	$156	$142
Storm costs	34	33	20	18	14	15
Unamortized loss on debt	23	25	15	16	8	9
Interest rate swaps	20	26	20	26	—	—
Terminated interest rate swaps	87	92	51	54	36	38
AROs	273	234	75	61	198	173
Other	7	9	1	2	6	7
Total noncurrent regulatory assets	$849	$795	$431	$411	$418	$384

Current Regulatory Liabilities:						
Environmental cost recovery	$16	$1	$6	$—	$10	$1
Fuel adjustment clauses	—	3	—	—	—	3
Gas line tracker	2	3	2	3	—	—
TCJA customer refund	17	—	7	—	10	—
Generation formula Rate	7	—	—	—	7	—
Other	6	2	2	—	4	2
Total current regulatory liabilities	$48	$9	$17	$3	$31	$6
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$674	$677	$279	$282	$395	$395
Power purchase agreement - OVEC	59	68	41	47	18	21
Net deferred taxes	1,197	1,185	557	552	640	633
Defined benefit plans	32	27	—	—	32	27
Terminated interest rate swaps	72	74	36	37	36	37
Other	5	5	2	1	3	4

Total noncurrent regulatory liabilities	$2,039	$2,036	$915	$919	$1,124	$1,117

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

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

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Defined Benefit Plans

(All Registrants)

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

Effective January 1, 2018, the Registrants adopted new accounting guidance that changes the income statement presentation of net periodic benefit cost and limits the capitalization to the service cost component of net periodic benefit cost. The non-service costs or credits that would have been capitalized under previous guidance are still able to be recovered through future base rates and are therefore now recognized as a regulatory asset or liability and amortized over the weighted average useful life of the asset base on which those non-service costs would have been capitalized. As of December 31, 2018, the regulatory liability balances were $11 million for PPL, $5 million for PPL Electric and $6 million for LKE and KU. As of December 31, 2018, the regulatory asset balances were $1 million for PPL, LKE and LG&E.

(PPL, LKE, LG&E and KU)

As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15-year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2018, the balances were $45 million for PPL and LKE, $25 million for LG&E and $20 million for KU. As of December 31, 2017, the balances were $33 million for PPL and LKE, $18 million for LG&E and $15 million for KU.

(All Registrants)

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once such authority is granted, LG&E and KU can request recovery of those expenses in a base rate case and begin amortizing the costs when recovery starts. PPL Electric can recover qualifying expenses caused by major storm events, as defined in its retail tariff, over three years through the Storm Damage Expense Rider commencing in the application year after the storm occurred. PPL Electric's regulatory assets for storm costs are being amortized through various dates ending in 2021. The amortization period of LG&E's and KU's regulatory assets for storm costs are subject to the results of the current Kentucky rate case discussed below in "Regulatory Matters - Kentucky Activities - Rate Case Proceedings."

Unamortized Loss on Debt

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

2042 for KU, and through 2044 for LKE and LG&E.

Accumulated Cost of Removal of Utility Plant

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

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

TCJA Customer Refund

As a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, the regulators of PPL Electric, LG&E and KU have ruled that these tax benefits should be refunded to customers. In some instances, timing differences occur between the recognition of these tax benefits and the refund of the benefit to the customers which create a regulatory asset or liability.

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LG&E and KU are currently distributing these amounts through the TCJA bill credit until tax-related savings will be reflected in base rates.

PPL Electric's current liability relates to the period of July 1, 2018 through December 31, 2018 and will be credited back to distribution customers through a negative surcharge which became effective July 1, 2018. Additionally, PPL Electric's noncurrent liability balance relates to the period of January 1, 2018 through June 30, 2018 which is not yet reflected in distribution customer rates. PPL Electric must propose to the PUC the method by which it would like to return the amount of this liability to customers at the earlier of May 2021 or PPL Electric's next rate case.

Net Deferred Taxes

Regulatory liabilities associated with net deferred taxes represent the future revenue impact from the adjustment of deferred income taxes required primarily for excess deferred taxes and unamortized investment tax credits, largely a result of the TCJA enacted in 2017. See Note 6 for additional information on the TCJA.

(PPL and PPL Electric)

Generation Supply Charge (GSC)

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

Transmission Service Charge (TSC)

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

Transmission Formula Rate

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

Storm Damage Expense Rider (SDER)

The SDER is a reconcilable automatic adjustment clause under which PPL Electric annually will compare actual storm costs to storm costs allowed in base rates and refund or recover any differences from customers. In the 2015 rate case settlement approved by the PUC in November 2015, it was determined that reportable storm damage expenses to be recovered annually through base rates will be set at $20 million. The SDER will recover from or refund to customers, as appropriate, only applicable expenses from reportable storms that are greater than or less than $20 million recovered annually through base rates. Storm costs incurred in PPL Electric's territory from a March 2018 storm will be amortized from 2019 through 2021.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

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Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, PPL Electric is currently in Phase III of the energy efficiency and conservation plan which was approved in June 2016. Phase III allows PPL Electric to recover the maximum $313 million over the five year period, June 1, 2016 through May 31, 2021. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The actual Phase III program costs are reconcilable after each 12 month period, and any over- or under-recovery from customers will be refunded or recovered over the next rate filing period.

Smart Meter Rider (SMR)

Act 129 requires each electric distribution company (EDC) with more than 100,000 customers to have a PUC approved Smart Meter Technology Procurement and Installation Plan (SMP). Under its SMP, PPL Electric will replace its current meters with new meters that meet the Act 129 requirements by the end of 2019. Under Act 129, EDCs are able to recover the costs and earn a return on capital of providing smart metering technology. PPL Electric uses a mechanism known as the Smart Meter Rider (SMR) to recover the costs to implement its SMP on a full and current basis. The SMR is a reconciliation mechanism whereby any over-or under-recovery from prior years is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarters.

Universal Service Rider (USR)

The USR provides for recovery of costs associated with universal service programs, OnTrack and Winter Relief Assistance Program (WRAP), provided by PPL Electric to residential customers. OnTrack is a special payment program for low-income households and WRAP provides low-income customers a means to reduce electric bills through energy saving methods. The USR rate is applied to residential customers who receive distribution service. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

(PPL, LKE, LG&E and KU)

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements, which apply to coal combustion wastes and by-products from coal-fired electricity generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. The KPSC has authorized a return on equity of 9.7% for all existing approved ECR plans and projects. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and

KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months. LG&E's fuel adjustment clause asset is included within other current regulatory assets above.

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

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AROs

As discussed in Note 1, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition. See Notes 1, 13 and 18 for additional discussion of the power purchase agreement.

Interest Rate Swaps

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

Terminated Interest Rate Swaps

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

Plant Outage Costs

The Stipulation to the 2016 Kentucky rate case that became effective July 1, 2017 provided for the normalization of expenses associated with plant outages using an eight-year average. The eight-year average is comprised of four historical years' and four forecasted years' expenses. Plant outage expenses that are greater or less than the eight-year average will be collected from or returned to customers, through future base rates. Prior year plant outage liabilities are included within other current regulatory liabilities above.

(PPL, LKE and LG&E)

Gas Line Tracker

The GLT authorizes LG&E to recover its incremental operating expenses, depreciation, property taxes and cost of capital, including a return on equity, for capital associated with the five year gas service riser, leak mitigation and customer service line ownership programs. As part of this program, LG&E makes necessary repairs to the gas distribution system and assumes ownership of service lines when replaced. In the 2016 rate case, the KPSC approved additional projects for recovery through the GLT mechanism related to further gas line replacements and transmission pipeline modernizations. Effective July 1, 2017, LG&E is authorized to earn a 9.7% return on equity for the GLT mechanism. As part of the 2016 rate case, LG&E now annually files a combined application which includes revised rates based on projected costs and a balancing adjustment calculation with rates effective on the first billing cycle in

May. After the completion of a plan year, the balancing adjustment, as part of the combined application filing to the KPSC, amends rates charged for the differences between the actual costs and actual GLT charges for the preceding year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to these cost differences.

Gas Supply Clause

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

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(PPL, LKE and KU)

Generation Formula Rate

KU provides wholesale requirements service to its municipal customers and bills for this service pursuant to a FERC approved generation formula rate. Under this formula, rates are put into effect each July utilizing a return on rate base calculation and actual expenses from the preceding year. The regulatory asset or liability represents the difference between the revenue requirement in effect for the current year and actual expenditures incurred for the current year.

Regulatory Matters

(PPL, LKE, LG&E and KU)

Kentucky Activities

Rate Case Proceedings

On September 28, 2018, LG&E and KU filed requests with the KPSC for an increase in annual base electricity rates of approximately $112 million at KU and increases in annual base electricity and gas rates of approximately $35 million and $25 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.9% at KU and electricity and gas rate increases of 3% and 7.5% at LG&E. As discussed in the "TCJA Impact on LG&E and KU Rates" section below, LG&E's and KU's applications seek to include applicable changes associated with the TCJA in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when the new base rates go into effect.

New rates are expected to become effective on May 1, 2019. The applications are based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%. A number of parties have been granted intervention requests in the proceeding. Data discovery and the filing of written testimony will continue through February 2019 and a hearing is scheduled in March 2019. LG&E and KU cannot predict the outcome of these proceedings.

CPCN Filing

On January 10, 2018, LG&E and KU filed an application for a CPCN with the KPSC requesting approval for implementing Advanced Metering Systems across their Kentucky service territories, including gas operations for LG&E. The application projected completion in 2021 with estimated capital costs of $166 million and $155 million for LG&E and KU. On August 30, 2018, the KPSC issued an Order denying the CPCN for full deployment of the Advanced Metering Systems. The KPSC acknowledged the benefits of Advanced Metering Systems, expanded LG&E's and KU's Advanced Metering System pilot programs and encouraged LG&E and KU to consider other items to enhance the customer experience. This decision is not expected to have a significant impact on LG&E's and KU's results of operations.

TCJA Impact on LG&E and KU Rates

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

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019 and thereafter until tax-reform related savings are reflected in changes in base rates. The estimated impact of the rate reduction represents approximately $91 million in KU electricity revenues ($70 million through the new bill credit and $21 million through existing rate mechanisms), $69 million in LG&E electricity revenues ($49 million through the new bill credit and $20 million through existing rate mechanisms) and $17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019.

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

On September 28, 2018, the KPSC issued an Order on reconsideration, pursuant to LG&E's and KU's petition, implementing rates reflecting electricity revenue reductions of $101 million for KU ($80 million through the new bill credit and $21 million through existing rate mechanisms), $74 million for LG&E electricity revenues ($54 million through the new bill credit and $20 million through existing rate mechanisms) and $16 million LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. This represents lower revenue reduction amounts than the March 20, 2018 Order of approximately $13 million ($7 million at KU and $6 million at LG&E).

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

On November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. LG&E and KU are currently assessing the Notice of Proposed Rulemaking and are continuing to monitor guidance issued by the FERC. On February 5, 2019, in connection with a separate element of federal and Kentucky state tax reform effects, LG&E and KU filed a request with the FERC to amend their transmission formula rates, effective June 1, 2019, to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. LG&E and KU do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

(LKE and LG&E)

Gas Franchise

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

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

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(PPL and PPL Electric)

Pennsylvania Activities

TCJA Impact on PPL Electric Rates

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 that required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to be effective July 1, 2018, and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to charge a negative surcharge of 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. PPL Electric recorded a $41 million noncurrent regulatory liability and a corresponding reduction of revenue to be distributed to customers pursuant to a future rate adjustment related to the period January 1, 2018 through June 30, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the FERC, to accelerate incorporation of the changes to the federal corporate income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM Transmission Owners joint filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. On November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers should include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. PPL Electric is currently assessing the Notice of Proposed Rulemaking and is continuing to monitor guidance issued by the FERC. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

Federal Matters

(PPL and PPL Electric)

FERC Formula Rate

In April 2018, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement, which includes the impact of the TCJA. The filing establishes the revenue requirement used to set rates that took effect in June 2018. The time period for any challenges to PPL Electric's annual update has expired. No formal challenges were submitted.

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(PPL, LKE, LG&E and KU)

FERC Transmission Rate Filing

On August 3, 2018, LG&E and KU submitted an application to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application seeks termination of LG&E's and KU's commitment to provide mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky. The amounts at issue are generally waivers or credits for either LG&E and KU or for MISO transmission charges depending upon the direction of transmission service incurred by the municipalities. LG&E and KU estimate that such charges may average approximately $22 million annually, depending upon actual transmission customer and market volumes, structures and prices, with such charges allocated according to LG&E's and KU's respective transmission system ownership ratio. Due to the development of robust accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. LG&E and KU currently receive recovery of such expenses in other rate mechanisms. LG&E and KU cannot predict the outcome of the proceeding, including any effects on their financial condition or results of operations.

Transmission Customer Complaint

On September 21, 2018, a transmission customer filed a complaint with the FERC against LG&E and KU alleging LG&E and KU have violated and continue to violate their obligations under an existing rate schedule to credit this customer for certain transmission charges from MISO. On October 11, 2018, LG&E and KU filed an answer to the complaint arguing such MISO transmission transactions are not covered by the rate schedule, and the amounts in question are not eligible for credits. LG&E and KU cannot predict the outcome of the proceeding, but believe that any potential required credits, including amounts currently reserved, would be subject to rate recovery.

Other

Purchase of Receivables Program

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During 2018, 2017 and 2016, PPL Electric purchased $1.3 billion, $1.3 billion and $1.4 billion of accounts receivable from alternative suppliers.

8. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets except for borrowings under LG&E's Term Loan Facility which are recorded as "Long-term debt due within one year" on the December 31, 2018 Balance Sheet and "Long-term debt" on the December 31, 2017 Balance Sheet. The following credit facilities were in place at:

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	December 31, 2018					December 31, 2017	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
PPL							
U.K.							
WPD plc							
Syndicated Credit Facility (a) (c)	Jan. 2023	£ 210	£ 157	£ —	£ 54	£ 148	£ —
WPD (South West)							
Syndicated Credit Facility (a) (c)	July 2021	245	—	—	245	—	—
WPD (East Midlands)							
Syndicated Credit Facility (a) (c)	July 2021	300	38	—	262	180	—
WPD (West Midlands)							
Syndicated Credit Facility (a) (c)	July 2021	300	—	—	300	120	—
Uncommitted Credit Facilities		130	—	4	126	—	4
Total U.K. Credit Facilities (b)		£ 1,185	£ 195	£ 4	£ 987	£ 448	£ 4
U.S.							
PPL Capital Funding							
Syndicated Credit Facility (c) (d)	Jan. 2023	$ 950	$ —	$ 669	$ 281	$ —	$ 230
Bilateral Credit Facility (c) (d)	Mar. 2019	100	—	15	85	—	18
Total PPL Capital Funding Credit Facilities		$ 1,050	$ —	$ 684	$ 366	$ —	$ 248
PPL Electric							
Syndicated Credit Facility (c) (d)	Jan. 2023	$ 650	$ —	$ 1	$ 649	$ —	$ 1
LG&E							
Syndicated Credit Facility (c) (d)	Jan. 2023	$ 500	$ —	$ 279	$ 221	$ —	$ 199
Term Loan Credit Facility (c) (e)	Oct. 2019	200	200	—	—	100	—
Total LG&E Credit Facilities		$ 700	$ 200	$ 279	$ 221	$ 100	$ 199
KU							
Syndicated Credit Facility (c) (d)	Jan. 2023	$ 400	$ —	$ 235	$ 165	$ —	$ 45
Letter of Credit Facility (c) (d) (f)	Oct. 2020	198	—	198	—	—	198
Total KU Credit Facilities		$ 598	$ —	$ 433	$ 165	$ —	$ 243

(a) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.

(b) The WPD plc amounts borrowed at December 31, 2018 and 2017 included USD-denominated borrowings of $200 million for both periods, which bore interest at 3.17% and 2.17%. The unused capacity reflects the amount borrowed in GBP of £156 million as of the date borrowed. The WPD (East Midlands) amount borrowed at December 31, 2018 and December 31, 2017 was a GBP-denominated borrowing, which equated to $48 million and $244 million and bore interest at 1.12%. and 0.89%. The WPD (West Midlands) amount borrowed at December 31, 2017 was a GBP-denominated borrowing, which equated to $162 million and bore interest at 0.89%. At December 31, 2018, the unused capacity under the U.K. credit facilities was approximately $1.3 billion.

(c)

Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

(d) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated and bilateral credit facilities and subject to certain conditions, PPL Capital Funding may request that the capacity of its facility expiring in March 2019 be increased by up to $30 million, LG&E and KU each may request up to a $100 million increase in its facility's capacity.

(e) LG&E entered into a term loan credit agreement in October 2017 whereby it may borrow up to $200 million. The outstanding borrowings at December 31, 2018 and December 31, 2017 bore interest at an average rate of 2.97% and 2.06%.

(f) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

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

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	December 31, 2018				December 31, 2017	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.82%	$ 1,000	$ 669	$ 331	1.64%	$ 230
PPL Electric		650	—	650		—
LG&E	2.94%	350	279	71	1.83%	199
KU	2.94%	350	235	115	1.97%	45
Total		$ 2,350	$ 1,183	$ 1,167		$ 474

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

See Note 14 for discussion of intercompany borrowings.

Long-term Debt (All Registrants)

	Weighted-Average Rate (g)		Maturities (g)	December 31, 2018	December 31, 2017
PPL					
U.S.					
Senior Unsecured Notes	3.88	%	2020 - 2047	$4,325	$4,575
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.99	%	2019 - 2048	7,705	7,314
Junior Subordinated Notes	5.68	%	2067 - 2073	930	930
Term Loan Credit Facility	2.97	%	2019	200	100
Total U.S. Long-term Debt				13,160	12,919
U.K.					
Senior Unsecured Notes (d)	5.13	%	2020 - 2040	6,471	6,351
Index-linked Senior Unsecured Notes (e)	1.45	%	2026 - 2056	1,063	1,012
Total U.K. Long-term Debt (f)				7,534	7,363
Total Long-term Debt Before Adjustments				20,694	20,282
Fair market value adjustments				16	21
Unamortized premium and (discount), net (e)				9	14
Unamortized debt issuance costs				(120)	(122)
Total Long-term Debt				20,599	20,195
Less current portion of Long-term Debt				530	348
Total Long-term Debt, noncurrent				$20,069	$19,847
PPL Electric					
Senior Secured Notes/First Mortgage Bonds (a) (b)	4.22	%	2020 - 2048	$3,739	$3,339
Total Long-term Debt Before Adjustments				3,739	3,339
Unamortized discount				(18)	(16)
Unamortized debt issuance costs				(27)	(25)
Total Long-term Debt				3,694	3,298
Less current portion of Long-term Debt				—	—

Total Long-term Debt, noncurrent	$3,694	$3,298

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	Weighted-Average Rate (g)		Maturities (g)	December 31, 2018	2017
LKE					
Senior Unsecured Notes	3.97	%	2020 - 2021	$725	$725
Term Loan Credit Facility	2.97	%	2019	200	100
First Mortgage Bonds (a) (c)	3.76	%	2019 - 2045	3,966	3,975
Long-term debt to affiliate	3.69	%	2026 - 2028	650	400
Total Long-term Debt Before Adjustments				5,541	5,200
Unamortized discount				(13)	(14)
Unamortized debt issuance costs				(26)	(27)
Total Long-term Debt				5,502	5,159
Less current portion of Long-term Debt				530	98
Total Long-term Debt, noncurrent				$4,972	$5,061
LG&E					
Term Loan Credit Facility	2.97	%	2019	$200	$100
First Mortgage Bonds (a) (c)	3.58	%	2019 - 2045	1,624	1,624
Total Long-term Debt Before Adjustments				1,824	1,724
Unamortized discount				(4)	(4)
Unamortized debt issuance costs				(11)	(11)
Total Long-term Debt				1,809	1,709
Less current portion of Long-term Debt				434	98
Total Long-term Debt, noncurrent				$1,375	$1,611
KU					
First Mortgage Bonds (a) (c)	3.89	%	2019 - 2045	$2,342	$2,351
Total Long-term Debt Before Adjustments				2,342	2,351
Unamortized discount				(8)	(9)
Unamortized debt issuance costs				(13)	(14)
Total Long-term Debt				2,321	2,328
Less current portion of Long-term Debt				96	—
Total Long-term Debt, noncurrent				$2,225	$2,328

(a) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately $9.4 billion and $8.5 billion at December 31, 2018 and 2017.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was $5.1 billion and $4.7 billion at December 31, 2018 and 2017.

Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was $6.3 billion and $6.0 billion at December 31, 2018 and 2017.

(b) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (a) above. This amount includes $224 million of which PPL Electric is allowed to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, or term rate of at least one year and $90 million that may be redeemed, in whole or in part, at par beginning in October 2020, and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.

(c) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amounts, contain payment

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

At December 31, 2018, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled $505 million for LKE, comprised of $391 million and $114 million for LG&E and KU respectively. At December 31, 2018, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled $375 million for LKE, comprised of $147 million and $228 million for LG&E and KU respectively. These variable rate tax-exempt revenue bonds are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

(d) Includes £225 million ($287 million at December 31, 2018) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.

(e) The principal amount of the notes issued by WPD (South West), WPD (East Midlands) and WPD (South Wales) is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2017 to 2018 was an increase of approximately £26 million ($33 million) resulting from inflation. In addition, this amount includes £319 million ($407 million at December 31, 2018) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.

(f) Includes £5.3 billion ($6.7 billion at December 31, 2018) of notes that may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event, which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.

(g) The table reflects principal maturities only, based on stated maturities or earlier put dates, and the weighted-average rates as of December 31, 2018.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2019 through 2023 and thereafter are as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2019	$530	$—	$530	$434	$96
2020	1,266	100	975	—	500
2021	1,248	400	348	98	—
2022	1,274	474	—	—	—
2023	2,233	90	13	—	13
Thereafter	14,143	2,675	3,675	1,292	1,733
Total	$20,694	$3,739	$5,541	$1,824	$2,342

(PPL)

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

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

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

In October 2018, WPD plc issued £350 million of 3.5% Senior Notes due 2026. WPD plc received proceeds of £346 million, which equated to $456 million at the time of issuance, net of fees and a discount. The proceeds were used for general corporate purposes.

(PPL and PPL Electric)

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

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(PPL, LKE and LG&E)

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

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

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

(LKE)

In May 2018, LKE borrowed $250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028. The proceeds were used to repay its outstanding notes payable to a PPL Energy Funding subsidiary. See Note 14 for additional information related to intercompany borrowings.

Legal Separateness (All Registrants)

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

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

(PPL)

Equity Securities

Equity Forward Contracts

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

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Full settlement of these forward sale agreements will occur no later than November 2019. Upon any physical settlements of any forward sale agreement, PPL will issue and deliver to the applicable forward counterparty shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of $26.7057 per share, reduced during the period the applicable forward contract is outstanding as specified in such forward sale agreement. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under each forward sale agreement. The forward sale agreements are classified as equity transactions. PPL only receives proceeds and issues shares of common stock upon any settlements of the forward sale agreements. PPL intends to use net proceeds that it receives upon any settlement for general corporate purposes.

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In September 2018, PPL settled a portion of the initial forward sale agreements by issuing 20 million shares of PPL common stock, resulting in net cash proceeds of $520 million. For the unsettled portion of the agreements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the Treasury Stock Method. See Note 5 for information on the forward sale agreements impact on the calculation of diluted EPS.

ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of $1.0 billion of its common stock through an at-the-market offering program; including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. PPL issued 4.2 million shares of common stock and received gross proceeds of $119 million for the year ended December 31, 2018.

Distributions and Related Restrictions

In November 2018, PPL declared its quarterly common stock dividend, payable January 2, 2019, at 41.0 cents per share (equivalent to $1.64 per annum). On February 14, 2019, PPL announced that the company is increasing its common stock dividend to 41.25 cents per share on a quarterly basis (equivalent to $1.65 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.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2018, no interest payments were deferred.

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(All Registrants)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its distributions to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, the FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2018, net assets of $2.8 billion ($1.2 billion for LG&E and $1.6 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of $3.3 billion ($1.5 billion for LG&E and $1.8 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

9. Leases

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land, gas storage and other equipment.

Rent - Operating Leases

Rent expense for the years ended December 31 for operating leases was as follows:

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	2018	2017	2016
PPL	$ 45	$ 45	$ 50
LKE	29	26	26
LG&E	16	15	15
KU	12	11	11

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	LKE	LG&E	KU
2019	$26	$ 20	$ 10	$10
2020	21	15	6	9
2021	15	11	4	7
2022	13	7	3	4
2023	8	6	3	3
Thereafter	33	11	4	6
Total	$116	$ 70	$ 30	$39

10. Stock-Based Compensation

(PPL, PPL Electric and LKE)

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

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

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

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

Restricted Stock Units

Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a restriction period, generally three years.

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

The fair value of restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units granted under the ICPKE may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for

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termination, retirement, disability and death of employees. Restrictions lapse on restricted stock units fully, in certain situations, as defined by each of the Plans.

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

	2018	2017	2016
PPL	$30.58	$35.30	$33.84
PPL Electric	30.00	35.45	34.32
LKE	30.98	35.25	33.73

Restricted stock unit activity for 2018 was:

	Restricted Shares/Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,291,649	$ 34.07
Granted	369,308	30.58
Vested	(529,263)	32.97
Forfeited	(33,491)	33.30
Nonvested, end of period (a)	1,098,203	33.45
PPL Electric		
Nonvested, beginning of period	184,416	$ 34.20
Transfer between registrants	(2,906)	33.95
Granted	76,051	30.00
Vested	(56,352)	32.39
Forfeited	(13,872)	33.50
Nonvested, end of period	187,337	33.09
LKE		
Nonvested, beginning of period	231,557	$ 34.01
Transfer between registrants	(1,284)	33.98
Granted	58,377	30.98
Vested	(154,606)	33.38
Forfeited	(1,014)	29.52
Nonvested, end of period	133,030	33.45

(a) Excludes 45,298 restricted stock units for which restrictions lapsed for former PPL Energy Supply employees as a result of the June 2015 spinoff, but for which distribution will not occur until the end of the original restriction period of the awards.

Substantially all restricted stock unit awards are expected to vest.

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

	2018	2017	2016

PPL	$ 16	$ 20	$ 30
PPL Electric	2	3	3
LKE	5	4	5

Performance Units - Total Shareowner Return

Performance units based on relative Total Shareowner Return (TSR) are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on TSR during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the TSR of the companies included in the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on

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thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each year's awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, TSR performance units are subject to forfeiture upon termination of employment except for retirement, one year or more from commencement of the performance period, disability or death of an employee.

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

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

The weighted-average assumptions used in the model were:

	2018	2017	2016
Expected stock volatility	17.60 %	17.40 %	19.60 %
Expected life	3 years	3 years	3 years

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

	2018	2017	2016
PPL	$38.26	$38.38	$35.74
PPL Electric	38.37	38.37	35.68
LKE	38.32	38.24	35.28

TSR performance unit activity for 2018 was:

	TSR Performance Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	978,231	$ 36.67
Granted	263,593	38.26

Vested	(89,015	)	34.78
Forfeited (a)	(312,685	)	35.26
Nonvested, end of period	840,124		37.89
PPL Electric			
Nonvested, beginning of period	75,513		$ 37.00
Granted	22,394		38.37
Vested	(5,817	)	35.34
Forfeited (a)	(24,227	)	36.27
Nonvested, end of period	67,863		37.86

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	TSR Performance Units	Weighted-Average Grant Date Fair Value Per Share
LKE		
Nonvested, beginning of period	180,289	$ 36.69
Granted	53,961	38.32
Vested	(14,547)	35.04
Forfeited (a)	(70,707)	35.91
Nonvested, end of period	148,996	37.81

(a) Primarily related to the forfeiture of 2015 performance units as performance during the period was below the minimum established performance threshold, which resulted in no payout.

The total fair value of TSR performance units vesting for the year ended December 31, 2018, 2017 and 2016 was $3 million, $8 million and $12 million for PPL and insignificant for PPL Electric and LKE.

Performance Units - Return on Equity

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

Payout of these performance units will be based on the calculated average of the annual corporate ROE for each year of the three-year performance period for PPL Corporation. ROE performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable ROE performance goal. ROE performance units can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, these performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee.

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

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

	2018	2017
PPL	$32.21	$32.42
PPL Electric	32.32	34.41

LKE	32.28	34.29

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ROE performance unit activity for 2018 was:

	ROE Performance Unit	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	96,928	$ 34.42
Granted	234,664	32.21
Forfeited	(2,634)	32.96
Nonvested, end of period	328,958	32.86
PPL Electric		
Nonvested, beginning of period	8,696	$ 34.41
Granted	19,899	32.32
Forfeited	(2,635)	32.96
Nonvested, end of period	25,960	32.96
LKE		
Nonvested, beginning of period	20,539	$ 34.29
Granted	49,081	32.28
Nonvested, end of period	69,620	32.87

Stock Options

PPL's CGNC eliminated the use of stock options due to changes in its long-term incentive mix beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2018, are fully vested. All options expire no later than 10 years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans.

Stock option activity for 2018 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
PPL				
Outstanding at beginning of period	3,762,183	$ 29.42		
Exercised	(151,750)	28.43		
Forfeited	(695,908)	42.87		
Outstanding and exercisable at end of period	2,914,525	26.26	3.4	$ 6

For 2018, 2017 and 2016, PPL received $5 million, $19 million and $52 million in cash from stock options exercised. The related income tax benefits realized were not significant.

The total intrinsic value of stock options exercised for 2018 was insignificant and was $8 million and $18 million for 2017 and 2016.

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Compensation Expense

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

	2018	2017	2016
PPL	$ 25	$ 32	$ 27
PPL Electric	10	18	16
LKE	8	8	7

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

	2018	2017	2016
PPL	$ 10	$ 13	$ 12
PPL Electric	3	8	7
LKE	2	3	3

At December 31, 2018, unrecognized compensation expense related to nonvested stock awards was:

	Unrecognized Compensation Expense	Weighted-Average Period for Recognition
PPL	$ 10	1.6
PPL Electric	2	1.7
LKE	1	1.4

11. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

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

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Effective April 1, 2010, the principal defined benefit pension plan applicable to WPD (South West) and WPD (South Wales) was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plans are offered benefits under a defined contribution plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

Certain employees of PPL's domestic subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. WPD does not sponsor any postretirement benefit plans other than pensions.

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(PPL)

The following table provides the components of net periodic defined benefit costs (credits) for PPL's domestic (U.S.) and WPD's (U.K.) pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Net periodic defined benefit costs (credits):									
Service cost	$62	$65	$66	$82	$76	$69	$7	$7	$7
Interest cost	156	168	174	185	178	235	21	23	26
Expected return on plan assets	(249)	(231)	(228)	(587)	(514)	(504)	(23)	(22)	(22)
Amortization of:									
Prior service cost (credit)	10	10	8	—	—	—	(1)	(1)	—
Actuarial (gain) loss	84	69	50	151	144	138	—	1	1
Net periodic defined benefit costs (credits) prior to settlements and termination benefits	63	81	70	(169)	(116)	(62)	4	8	12
Settlements	—	1	3	—	—	—	—	—	—
Termination benefits	—	1	—	—	—	—	—	—	—
Net periodic defined benefit costs (credits)	$63	$83	$73	$(169)	$(116)	$(62)	$4	$8	$12
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Settlement	—	(1)	(3)	—	—	—	—	—	—
Net (gain) loss	157	27	253	201	346	7	8	(28)	9
Prior service cost (credit)	1	(1)	15	13	—	—	—	8	—
Amortization of:									
Prior service (cost) credit	(10)	(10)	(8)	—	—	—	1	1	(1)
Actuarial gain (loss)	(84)	(69)	(50)	(151)	(144)	(138)	—	(1)	(1)
Total recognized in OCI and regulatory assets/liabilities (a)	64	(54)	207	63	202	(131)	9	(20)	7
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (a)	$127	$29	$280	$(106)	$86	$(193)	$13	$(12)	$19

(a) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits	Other Postretirement

				Benefits		
	2018	2017	2016	2018	2017	2016
OCI	$90	$(53)	$236	$20	$(25)	$ 7
Regulatory assets/liabilities	(26)	(1)	(29)	(11)	5	—
Total recognized in OCI and regulatory assets/liabilities	$64	$(54)	$207	$9	$(20)	$ 7

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(LKE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016
Net periodic defined benefit costs (credits):						
Service cost	$25	$24	$23	$4	$4	$5
Interest cost	63	68	71	8	9	9
Expected return on plan assets	(102)	(92)	(91)	(9)	(7)	(6)
Amortization of:						
Prior service cost	9	8	8	1	1	3
Actuarial (gain) loss (a)	35	31	21	—	—	(1)
Net periodic defined benefit costs (b)	$30	$39	$32	$4	$7	$10
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:						
Net (gain) loss	$40	$30	$119	$1	$(14)	$6
Prior service cost	—	7	—	—	8	—
Amortization of:						
Prior service credit	(9)	(8)	(8)	(1)	(1)	(3)
Actuarial gain (loss)	(35)	(32)	(21)	—	—	1
Total recognized in OCI and regulatory assets/liabilities	(4)	(3)	90	—	(7)	4
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	$26	$36	$122	$4	$—	$14

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LKE's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was $11 million in 2018 and 2017 and $6 million in 2016.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of $6 million in 2018 and $5 million in 2017 was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016
OCI	$(25)	$33	$ 42	$ 4	$ (2)	$ 2
Regulatory assets/liabilities	21	(36)	48	(4)	(5)	2

Total recognized in OCI and regulatory assets/liabilities	$(4)	$(3)	$ 90	$—	$(7)	$ 4

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31.

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	Pension Benefits		
	2018	2017	2016
Net periodic defined benefit costs (credits):			
Service cost	$1	$1	$1
Interest cost	12	13	15
Expected return on plan assets	(22)	(22)	(21)
Amortization of:			
Prior service cost	5	5	4
Actuarial loss (a)	7	9	7
Net periodic defined benefit costs (b)	$3	$6	$6
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:			
Net (gain) loss	$22	$(9)	$22
Prior service cost	—	7	—
Amortization of:			
Prior service credit	(5)	(5)	(4)
Actuarial gain	(7)	(9)	(7)
Total recognized in regulatory assets/liabilities	10	(16)	11
Total recognized in net periodic defined benefit costs and regulatory assets	$13	$(10)	$17

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LG&E's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was $2 million in 2018, $7 million in 2017 and $5 million in 2016.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of $6 million in 2018 and $5 million in 2017 was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2018	2017	2016	2018	2017	2016	2018	2017	2016
PPL	$40	$ 59	$ 53	$(226)	$(151)	$(95)	$ 2	$ 5	$ 7
PPL Electric (a)	4	12	10				(1)	—	1
LKE (b)	21	28	24				3	5	6
LG&E (b)	4	8	8				2	3	3
KU (a) (b)	2	4	5				1	1	2

(a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS.

(b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between net periodic defined benefit costs calculated in accordance with LKE's, LG&E's and KU's pension accounting policy and the net periodic defined benefit costs calculated using a 15 year amortization period for gains and losses is recorded as a regulatory asset. Of the costs charged to Other operation and maintenance, Other Income (Expense) - net or regulatory assets, excluding amounts charged to construction and other non-expense accounts, $3 million for LG&E and $2 million for KU were recorded as regulatory assets in 2018, $4 million for LG&E and $2 million for KU were recorded as regulatory assets in 2017 and $3 million for LG&E and $2 million for KU were recorded as regulatory assets in 2016.

In the table above, LG&E amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016
LG&E Non-Union Only	$2	$ 5	$ 4	$ 2	$ 3	$ 3

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(PPL, LKE and LG&E)

PPL, LKE and LG&E use the base mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables with collar and factor adjustments, where applicable) for all U.S. defined benefit pension and other postretirement benefit plans. For 2016, PPL, LKE and LG&E estimated projected mortality improvements using the IRS BB-2D two-dimensional improvement scale on a generational basis for all U.S. defined benefit pension and other postretirement benefit plans. In 2017, PPL, LKE and LG&E updated to the MP-2017 mortality improvement scale from 2006 on a generational basis and continue to use this improvement scale in 2018.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits					
	U.S.		U.K.		Other Postretirement Benefits	
	2018	2017	2018	2017	2018	2017
PPL						
Discount rate	4.35 %	3.70 %	2.98 %	2.65 %	4.31 %	3.64 %
Rate of compensation increase	3.79 %	3.78 %	3.50 %	3.50 %	3.76 %	3.75 %
LKE						
Discount rate	4.35 %	3.69 %			4.32 %	3.65 %
Rate of compensation increase	3.50 %	3.50 %			3.50 %	3.50 %
LG&E						
Discount rate	4.33 %	3.65 %				

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
PPL									
Discount rate service cost	3.70 %	4.21 %	4.59 %	2.73 %	2.99 %	3.90 %	3.64 %	4.11 %	4.48 %
Discount rate interest cost	3.70 %	4.21 %	4.59 %	2.31 %	2.41 %	3.14 %	3.64 %	4.11 %	4.48 %
Rate of compensation increase	3.78 %	3.95 %	3.93 %	3.50 %	3.50 %	4.00 %	3.75 %	3.92 %	3.91 %
Expected return on plan assets	7.25 %	7.00 %	7.00 %	7.23 %	7.22 %	7.20 %	6.40 %	6.21 %	6.11 %
LKE									
Discount rate	3.69 %	4.19 %	4.56 %				3.65 %	4.12 %	4.49 %
Rate of compensation increase	3.50 %	3.50 %	3.50 %				3.50 %	3.50 %	3.50 %
Expected return on plan assets (a)	7.25 %	7.00 %	7.00 %				7.15 %	6.82 %	6.82 %
LG&E									
Discount rate	3.65 %	4.13 %	4.49 %						

Expected return on plan assets (a)	7.25%	7.00%	7.00%

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

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(PPL and LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2018	2017	2016
PPL and LKE			
Health care cost trend rate assumed for next year			
– obligations	6.6 %	6.6 %	7.0 %
– cost	6.6 %	7.0 %	6.8 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
– obligations	5.0 %	5.0 %	5.0 %
– cost	5.0 %	5.0 %	5.0 %
Year that the rate reaches the ultimate trend rate			
– obligations	2023	2022	2022
– cost	2022	2022	2020

(PPL)

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits					
	U.S.		U.K.		Other Postretirement Benefits	
	2018	2017	2018	2017	2018	2017
Change in Benefit Obligation						
Benefit Obligation, beginning of period	$4,288	$4,079	$8,219	$7,383	$589	$591
Service cost	62	65	82	76	7	7
Interest cost	156	168	185	178	21	23
Participant contributions	—	—	13	13	13	14
Plan amendments	1	(1)	12	—	—	8
Actuarial (gain) loss	(352)	233	(406)	293	(34)	4
Settlements	—	(6)	—	(1)	—	—
Termination benefits	—	1	—	—	—	—
Gross benefits paid	(272)	(251)	(381)	(345)	(58)	(59)
Federal subsidy	—	—	—	—	—	1
Currency conversion	—	—	(449)	622	—	—
Benefit Obligation, end of period	3,883	4,288	7,275	8,219	538	589
Change in Plan Assets						
Plan assets at fair value, beginning of period	3,488	3,243	8,490	7,211	405	378
Actual return on plan assets	(260)	437	(30)	480	(20)	54
Employer contributions	153	65	188	486	23	15
Participant contributions	—	—	13	13	11	13
Transfer out (a)	—	—	—	—	(65)	—
Settlements	—	(6)	—	(1)	—	—
Gross benefits paid	(272)	(251)	(381)	(345)	(53)	(55)
Currency conversion	—	—	(479)	646	—	—
Plan assets at fair value, end of period	3,109	3,488	7,801	8,490	301	405

Funded Status, end of period	$(774)	$(800)	$526	$271	$(237)	$(184)
Amounts recognized in the Balance Sheets consist of:						
Noncurrent asset	$—	$—	$535	$284	$2	$2
Current liability	(13)	(13)	(1)	—	(3)	(3)
Noncurrent liability	(761)	(787)	(8)	(13)	(236)	(183)
Net amount recognized, end of period	$(774)	$(800)	$526	$271	$(237)	$(184)

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	Pension Benefits					
	U.S.		U.K.		Other Postretirement Benefits	
	2018	2017	2018	2017	2018	2017
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Prior service cost (credit)	$40	$49	$12	$—	$ 10	$ 9
Net actuarial (gain) loss	1,207	1,134	2,806	2,755	24	16
Total (b)	$1,247	$1,183	$2,818	$2,755	$ 34	$ 25
Total accumulated benefit obligation for defined benefit pension plans	$3,668	$4,000	$6,689	$7,542		

(a) In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA to be used to pay medical claims of active bargaining unit employees.

(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and as a result, does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
AOCI	$370	$374	$ 21	$ 15
Regulatory assets/liabilities	877	809	13	10
Total	$1,247	$1,183	$ 34	$ 25

The actuarial (gain) loss for all pension plans in 2018 and 2017 was primarily related to a change in the discount rate used to measure the benefit obligations of those plans.

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	U.S.		U.K.	
	PBO in excess of plan assets		PBO in excess of plan assets	
	2018	2017	2018	2017
Projected benefit obligation	$3,883	$4,288	$9	$3,083
Fair value of plan assets	3,109	3,488	—	3,070

	U.S.		U.K.	
	ABO in excess of plan assets		ABO in excess of	

			plan assets	
	2018	2017	2018	2017
Accumulated benefit obligation	$3,668	$4,000	$9	$10
Fair value of plan assets	3,109	3,488	—	—

(LKE)

The funded status of LKE's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
Change in Benefit Obligation				
Benefit Obligation, beginning of period	$1,771	$1,669	$223	$220
Service cost	25	24	4	4
Interest cost	63	68	8	9
Participant contributions	—	—	8	8
Plan amendments (a)	—	6	—	8
Actuarial (gain) loss (b)	(168)	113	(16)	(7)
Gross benefits paid (a)	(111)	(109)	(22)	(19)
Benefit Obligation, end of period	1,580	1,771	205	223

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	Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
Change in Plan Assets				
Plan assets at fair value, beginning of period	1,402	1,315	116	98
Actual return on plan assets	(106)	175	(9)	14
Employer contributions	109	21	24	15
Participant contributions	—	—	8	8
Gross benefits paid	(111)	(109)	(22)	(19)
Plan assets at fair value, end of period	1,294	1,402	117	116
Funded Status, end of period	$(286)	$(369)	$(88)	$(107)
Amounts recognized in the Balance Sheets consist of:				
Noncurrent asset	$—	$—	$2	$2
Current liability	(4)	(4)	(3)	(3)
Noncurrent liability	(282)	(365)	(87)	(106)
Net amount recognized, end of period	$(286)	$(369)	$(88)	$(107)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost	$35	$44	$12	$13
Net actuarial (gain) loss	439	434	(25)	(26)
Total	$474	$478	$(13)	$(13)
Total accumulated benefit obligation for defined benefit pension plans	$1,467	$1,616		

(a) The pension plans were amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. Gross benefits paid by the plans include lump-sum cash payments made to participants during 2018 and 2017 of $52 million and $50 million in connection with these offerings.

(b) The actuarial (gain) loss for all pension plans in 2018 and 2017 was primarily related to change in the discount rate used to measure the benefit obligations of those plans.

The amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
AOCI	$118	$144	$10	$6
Regulatory assets/liabilities	356	334	(23)	(19)
Total	$474	$478	$(13)	$(13)

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligations (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2018	2017
Projected benefit obligation	$1,580	$1,771
Fair value of plan assets	1,294	1,402

	ABO in excess of plan assets	
	2018	2017
Accumulated benefit obligation	$1,467	$1,616
Fair value of plan assets	1,294	1,402

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(LG&E)

The funded status of LG&E's plan at December 31, was as follows:

	Pension Benefits	
	2018	2017
Change in Benefit Obligation		
Benefit Obligation, beginning of period	$326	$329
Service cost	1	1
Interest cost	12	13
Plan amendments (a)	—	6
Actuarial (gain) loss	(24)	11
Gross benefits paid (a)	(30)	(34)
Benefit Obligation, end of period	285	326
Change in Plan Assets		
Plan assets at fair value, beginning of period	325	318
Actual return on plan assets	(24)	41
Employer contributions	10	—
Gross benefits paid	(30)	(34)
Plan assets at fair value, end of period	281	325
Funded Status, end of period	$(4)	$(1)
Amounts recognized in the Balance Sheets consist of:		
Noncurrent liability	$(4)	$(1)
Net amount recognized, end of period	$(4)	$(1)
Amounts recognized in regulatory assets (pre-tax) consist of:		
Prior service cost	$22	$27
Net actuarial loss	107	92
Total	$129	$119
Total accumulated benefit obligation for defined benefit pension plan	$285	$326

(a) The pension plan was amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. Gross benefits paid by the plan include lump-sum cash payments made to participants during 2018 and 2017 of $16 million and $19 million in connection with this offering.

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2018 and 2017.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows:

	2018	2017
Pension	$ 7	$ 44
Other postretirement benefits	65	74

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retirees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows:

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	2018	2017
Pension	$285	$246
Other postretirement benefits	120	62

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS. These allocations are based on KU's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows.

	2018	2017
Pension	$ 1	$ 36
Other postretirement benefits	25	32

Plan Assets - U.S. Pension Plans

(PPL, LKE and LG&E)

PPL's primary legacy pension plan and the pension plans sponsored by LKE and LG&E are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2018 are presented below.

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The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		2018
	2018 (a)	2017 (a)	Target Asset Allocation (a)
Growth Portfolio	55 %	56 %	55 %
Equity securities	30 %	32 %	
Debt securities (b)	15 %	14 %	
Alternative investments	10 %	10 %	
Immunizing Portfolio	43 %	43 %	43 %
Debt securities (b)	39 %	39 %	
Derivatives	4 %	4 %	
Liquidity Portfolio	2 %	1 %	2 %
Total	100 %	100 %	100 %

(a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.
(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of these plans' assets of $1.3 billion and $1.4 billion at December 31, 2018 and 2017 represents an interest of approximately 42% and 40% in the Master Trust.

(LG&E)

LG&E has a pension plan whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of $281 million and $325 million at December 31, 2018 and 2017 represents an interest of approximately 9% in the Master Trust.

(PPL, LKE and LG&E)

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2018				December 31, 2017			
		Fair Value Measurements Using				Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	$220	$ 220	$ —	$ —				