

PPL Corp
 Form 10-Q
 August 07, 2018

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

FORM 10-Q

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

OR

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

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
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1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
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1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
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333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
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1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
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1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia)	61-0247570
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One Quality Street
Lexington, KY 40507-1462
(502) 627-2000

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

WPD - refers to PPL WPD Limited and its subsidiaries.

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

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

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

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

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

Adjusted Gross Margins - a non-GAAP financial measure of performance used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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

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

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

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

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

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

property or facility for furnishing of utility service to the public.

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

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

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

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DNO - Distribution Network Operator in the U.K.

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

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

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

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

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

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

ELG(s) - Effluent Limitation Guidelines, regulations promulgated by the EPA.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

GLT - gas line tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines, gas risers, leak mitigation, and gas main replacements.

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

IBEW - International Brotherhood of Electrical Workers.

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

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

kWh - kilowatt hour, basic unit of electrical energy.

LIBOR - London Interbank Offered Rate.

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

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

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

MW - megawatt, one thousand kilowatts.

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

NERC - North American Electric Reliability Corporation.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

OCI - other comprehensive income or loss.

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

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

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

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

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

PP&E - property, plant and equipment.

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

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

included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasury Stock Method - a method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

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

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

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

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Forward-looking Information

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

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

our ability to attract and retain qualified employees;

the effect of any business or industry restructuring;

development of new projects, markets and technologies;

performance of new ventures;

business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;

collective labor bargaining negotiations; and

the outcome of litigation against the Registrants and their subsidiaries.

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

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

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

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

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

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

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

(a) Net income equals comprehensive income.

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$180	\$157
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

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

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

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

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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

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

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

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$112	\$83
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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

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CONDENSED STATEMENTS OF INCOME

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

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

(a) Net income equals comprehensive income.

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

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CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

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

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

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

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

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CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

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

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

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CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

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

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

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

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CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

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

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

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

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CONDENSED STATEMENTS OF INCOME

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

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

(a) Net income approximates comprehensive income.

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

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CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

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

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

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CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

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

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

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CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

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

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

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

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CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

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

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

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

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Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

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

2. Summary of Significant Accounting Policies

(All Registrants)

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

New Accounting Guidance Adopted (All Registrants)

Accounting for Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

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

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

Reconciliation of Cash, Cash Equivalents and Restricted Cash

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

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

(a)

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash. On the Balance Sheets, the current portion of restricted cash is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

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3. Segment and Related Information

(PPL)

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

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

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

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

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

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

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

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

(PPL Electric, LKE, LG&amp)