2008 – 3rd Quarter Financial Statements and Additional Information

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Louisville Gas and Electric Company

Financial Statements and Additional Information
(Unaudited)

As of September 30, 2008 and December 31, 2007
and for the three-month and nine-month periods ended
September 30, 2008 and 2007

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	Louisville Gas and Electric Company
DSM	Demand Side Management
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
Mcf	Thousand cubic feet
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NOx	Nitrogen Oxide
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
S&P	Standard & Poor's Rating Service
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process

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Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
OPERATING REVENUES:				
Electric	$ 283	$ 270	$ 747	$ 718
Gas	47	36	295	240
Total operating revenues	330	306	1,042	958
OPERATING EXPENSES:				
Fuel for electric generation	94	89	253	245
Power purchased	27	17	73	60
Gas supply expenses	34	23	228	171
Other operation and maintenance expenses	90	67	249	201
Depreciation and amortization	32	31	95	94
Total operating expenses	277	227	898	771
OPERATING INCOME	53	79	144	187
Other expense (income) – net	(5)	(1)	(1)	-
Interest expense (Notes 3, 5 and 6)	4	7	19	22
Interest expense to affiliated companies (Note 9)	8	6	20	15
INCOME BEFORE INCOME TAXES	46	67	106	150
Federal and state income taxes (Note 5)	13	22	33	49
NET INCOME	$ 33	$ 45	$ 73	$ 101

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Balance at beginning of period	$ 690	$ 625	$ 690	$ 639
Net income	33	45	73	101
Preferred stock buyback	-	-	-	(4)
Subtotal	723	670	763	736
Cash dividends declared on stock:				
Cumulative preferred	-	-	-	1
Common	-	-	40	65
Subtotal	-	-	40	66
Balance at end of period	$ 723	$ 670	$ 723	$ 670

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	September 30, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 4	$ 4
Restricted cash	9	7
Accounts receivable – less reserves of $2 million as of September 30, 2008 and December 31, 2007	165	189
Materials and supplies:		
Fuel (predominantly coal)	35	46
Gas stored underground	127	81
Other materials and supplies	32	31
Prepayments and other current assets	5	13
Total current assets	377	371
Utility plant:		
At original cost	4,465	4,319
Less: reserve for depreciation	1,691	1,619
Net utility plant	2,774	2,700
Deferred debits and other assets:		
Restricted cash	13	12
Prepaid pension assets	15	14
Regulatory assets (Note 2):		
Pension and postretirement benefits	109	110
Other	117	94
Other assets	6	12
Total deferred debits and other assets	260	242
Total assets	$ 3,411	$ 3,313

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	September 30, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 120	$ 120
Notes payable to affiliated companies (Notes 6 and 9)	345	78
Accounts payable	109	111
Accounts payable to affiliated companies (Note 9)	38	57
Customer deposits	21	19
Property taxes	13	10
Other current liabilities	29	24
Total current liabilities	675	419
Long-term debt:		
Long-term debt (Note 6)	195	454
Long-term debt to affiliated company (Notes 6 and 9)	435	410
Total long-term debt	630	864
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	360	342
Accumulated provision for pensions and related benefits (Note 4)	100	94
Investment tax credit (Note 5)	49	46
Asset retirement obligation	31	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	248	241
Deferred income taxes – net	47	50
Gas supply adjustment and other	28	19
Long-term derivative liability	24	22
Other liabilities	23	25
Total deferred credits and other liabilities	910	869
Common equity:		
Common stock, without par value –		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	60	60
Accumulated other comprehensive loss	(11)	(13)
Retained earnings	723	690
Total common equity	1,196	1,161
Total liabilities and equity	$ 3,411	$ 3,313

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Nine Months Ended September 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 73	$ 101
Items not requiring cash currently:		
Depreciation and amortization	95	94
Deferred income taxes – net	11	4
Investment tax credit – net	3	6
Gain from disposal of assets	(9)	-
Other	13	(1)
Changes in current assets and liabilities:		
Accounts receivable	24	30
Material and supplies	(36)	(6)
Accounts payable	(8)	(27)
Other current liabilities	6	(2)
Pension funding	(5)	(56)
Fuel adjustment clause receivable, net	2	(10)
Gas supply clause receivable, net	(13)	(21)
Other	13	16
Net cash provided by operating activities	169	128
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(179)	(137)
Asset transferred to affiliate (Note 9)	10	-
Proceeds from sale of asset	9	-
Long-term derivative liability (non-hedging) (Note 3)	5	-
Net cash used for investing activities	(155)	(137)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company (Note 6)	25	138
Short-term borrowings from affiliated company - net (Note 6)	266	38
Reacquired bonds	(259)	-
Retirement of first mortgage bonds	-	(126)
Issuance of pollution control bonds	-	126
Retirement of preferred stock	-	(92)
Payment of dividends	(40)	(69)
Change in restricted cash	(1)	(9)
Long-term derivative liability (hedging) (Note 3)	(5)	(1)
Net cash provided by (used for) financing activities	(14)	5
CHANGE IN CASH AND CASH EQUIVALENTS	-	(4)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4	$ 3

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net income...	$ 33	$ 45	$ 73	$ 101
Gain/(loss) on derivative instruments and hedging activities – net of tax expense/(benefit) of less than $1 million and $(3) million in the three months ended September 30, 2008 and 2007, respectively, and $1 million in the nine months ended September 30, 2008 and 2007, (Note 3)...	-	(4)	2	1
Comprehensive income	$ 33	$ 41	$ 75	$ 102

The accompanying notes are an integral part of these financial statements.

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These unaudited financial statements and notes should be read in conjunction with the Company's financial statements and additional information for the year ended December 31, 2007, including the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The Company is currently evaluating the impact of adoption of SFAS No. 161 on its statements of operations, financial position and cash flows.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company expects the adoption of SFAS No. 160 to have no impact on its statements of operations, financial position and cash flows.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and the Company elected not to fair value its eligible financial assets and liabilities.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. All other amendments related to SFAS No. 157 have been evaluated and have no impact on the Company's financial statements. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, additional disclosures relating to its financial derivatives and AROs, as required, are now provided.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to LG&E's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2007.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

Louisville Gas and Electric Company
(unaudited)

(in millions)	September 30, 2008	December 31, 2007
ARO	$ 29	$ 24
Unamortized loss on bonds	24	19
GSC adjustments	35	20
MISO exit	12	13
FAC	8	9
ECR	4	4
Other	5	5
Subtotal	117	94
Pension and postretirement benefits	109	110
Total regulatory assets	$ 226	$ 204
Accumulated cost of removal of utility plant	$ 248	$ 241
Deferred income taxes -- net	47	50
Gas supply adjustments ($12 million and $10 million at September 30, 2008 and December 31, 2007, respectively) and other	28	19
Total regulatory liabilities	$ 323	$ 310

LG&E does not currently earn a rate of return on the GSC adjustments, FAC and gas performance-based ratemaking regulatory assets (included in "Other" above), all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. LG&E is seeking recovery of this asset with the Kentucky Commission as part of the current base rate case. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E is seeking recovery of this asset with the Kentucky Commission as part of the current base rate case. LG&E currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit and Mill Creek Ash Pond costs. Other regulatory liabilities include DSM and MISO costs currently included in base rates that will be netted against costs of withdrawing from the MISO in the next base rate case.

MISO Exit. LG&E and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, LG&E paid $13 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. LG&E and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided LG&E with an immediate recovery of less than $1 million and will provide an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in LG&E's base rate case, for which a hearing is scheduled beginning on January 13, 2009. The Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. In August 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period November 1, 2007 through April 30, 2008. A hearing was held on October 7, 2008. A second hearing has been scheduled for November 25, 2008, for the sole purpose of hearing public comments, if any, from several counties in which the newspapers failed to publish notice as requested in a timely manner. An order is expected in December of 2008 or the first quarter of 2009.

In January 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period May 1, 2007 through October 31, 2007. The Kentucky Commission issued an Order in May 2008, approving the charges and credits billed through the FAC during the review period.

In August 2007, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period of November 1, 2006 through April 30, 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

ECR. In June 2008, the Kentucky Commission initiated two six-month reviews for periods ending October 31, 2007 and April 30, 2008, of LG&E's environmental surcharge. The Kentucky Commission issued an Order in August 2008, approving the charges and credits billed through the ECR during the review period and the rate of return on capital.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of LG&E's environmental surcharge. The Kentucky Commission issued final Orders in March 2008, approving the charges and credits billed through the ECR during the review periods, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Other Regulatory Matters

Hurricane Ike Wind Storm. In September 2008, high winds from the remnants of the Hurricane Ike wind storm passed through LG&E's service territory causing significant outages and system damage. In October 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, $24 million of expenses related to the storm restoration. An order has been requested by the end of the year.

Base Rate Case. In July 2008, LG&E filed an application with the Kentucky Commission requesting increases in base gas rates of 4.5% or $30 million annually and in base electric rates of 2.0% or $15 million annually. A hearing is scheduled beginning on January 13, 2009. The requested rates have been suspended until February 5, 2009, at which time they may be put into effect, subject to refund, if the Kentucky Commission has not issued an order in the proceeding. In conjunction with the filing of the application for changes in base rates, based on previous orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT surcredit terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. The termination of the VDT surcredit and merger surcredit will result in a $21 million increase in revenues annually.

CMRG and KCCS Contributions. In July 2008, LG&E and KU, along with Duke Energy Kentucky, Inc. and Kentucky Power Company, filed an application with the Kentucky Commission requesting approval to establish regulatory assets related to contributions to the CMRG for the development of technologies for reducing carbon dioxide emissions and the KCCS to study the feasibility of geologic storage of carbon dioxide. The filing companies proposed that these contributions be treated as regulatory assets to be deferred until recovery is provided in the next base rate case of each company, at which time the regulatory assets will be amortized over the life of each project: four years with respect to the KCCS and ten years with respect to the CMRG. LG&E and KU jointly agreed to provide less than $2 million over two years to the KCCS and up to $2 million over ten years to the CMRG. In October 2008, an Order approving the establishment of the requested regulatory assets was received and rate recovery will be considered in each company's next base rate case.

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by LG&E and KU, together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005.

Initial CCN applications for two transmission lines associated with the TC2 unit were approved by the Kentucky Commission in September 2005 and May 2006. One of those CCNs, for a line running from Jefferson County into Hardin County, was brought up for review to the Franklin Circuit Court by a group of landowners. In August 2006, LG&E, KU and the Kentucky Commission obtained dismissal of that action, on grounds that the landowners had failed to comply with the statutory procedures governing the action for review. That dismissal was appealed by the landowners to the Kentucky Court of Appeals, and in December 2007, that Court reversed the lower court's dismissal and remanded the challenge of the CCN to the Franklin Circuit Court for further proceedings. LG&E and KU filed a motion for discretionary review with the Kentucky Supreme Court in May 2008, asking that Court to hear the matter and, ultimately, to reverse the Court of Appeals and uphold the Franklin Circuit Court's dismissal, which motion has been opposed by the counter-parties.

The referenced transmission lines are also subject to routine regulatory filings and require the acquisition of easements. All rights of way for one transmission line have been acquired. In April 2008, in proceedings involving the condemnation of an easement for a portion of the Jefferson County to Hardin County transmission line, a Meade County, Kentucky court issued a ruling upholding the objections of two property co-owners and dismissed the condemnation proceeding pending the completion of the CCN appeal described above. LG&E and KU have filed responsive pleadings, including a motion to vacate that decision by the trial court and a procedural request with the Court of Appeals seeking expedited review on a petition to direct the circuit court to proceed with the condemnation litigation. Additional condemnation proceedings involving other parcels of property to support this transmission line are also pending in neighboring Hardin County where three landowners have challenged LG&E's and KU's right to easements, on the same grounds cited by the Meade County court and other purported bases, including asserted deficiencies in the air permit relating to the TC2 generation unit. In May, July and August 2008, the Hardin County Circuit Court issued rulings denying the property owners' various motions, finding that LG&E and KU had established their condemnation rights and granting judgment in favor of LG&E and KU. In August 2008, the property owners petitioned for intermediate relief to the Kentucky Court of Appeals and received a stay preventing LG&E and KU access to the properties. LG&E and KU have made responsive pleadings at the Court of Appeals and continue to engage in settlement negotiations with the property owners. In a separate, further proceeding, certain landowners have filed a lawsuit in federal court in Louisville, Kentucky against the U.S. Army, LG&E and KU, alleging that the U.S. Army failed to comply with Section 106 of the National Historic Preservation Act in granting an easement across Fort Knox. LG&E and KU are working with the U.S. Army in defending against the claims. LG&E and KU are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to these real property proceedings.

Merger Surcredit. In December 2007, LG&E submitted its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008, to the Kentucky Commission. In June 2008, the Kentucky Commission issued an Order approving a settlement which provides for continuation of the merger surcredit until new base rates go into effect.

VDT. In accordance with the Kentucky Commission's Order dated March 24, 2006, the VDT surcredit terminated in the first billing month after the filing for a change in base rates. As LG&E filed its application with the Kentucky Commission for an increase in gas and electric base rates in July 2008, the VDT surcredit terminated with the first billing cycle in August 2008, subject to a final balancing adjustment of less than $1 million made in September 2008.

DSM. In July 2007, LG&E and KU filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. LG&E and KU filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the NERC, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E is a member of the SERC, which acts as LG&E's RRO. During May 2008, the SERC and LG&E agreed in principle to a settlement involving penalties totaling less than $1 million concerning LG&E's February 2008 self-report concerning possible violations of certain existing mitigation plans relating to reliability standards. The SERC and LG&E are currently involved in settlement negotiations concerning a June 2008 self-report by LG&E relating to three other standards. Additionally, LG&E has submitted to the SERC an October 2008 self report of a possible violation relating to one further standard, for which SERC proceedings are in the early stages and therefore unable to be determined. Mandatory reliability standard settlements commonly include other non-penalty elements, including compliance steps and mitigation plans. Settlements in principle with the SERC proceed to the NERC and FERC review before becoming final. While LG&E believes itself to be in compliance with the mandatory reliability standards, LG&E cannot predict the outcome of other analyses, including on-going SERC or other reviews described above.

Depreciation Study. In December 2007, LG&E filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received from the Kentucky Commission. In July 2008, LG&E filed a motion to consolidate the procedural schedule of the depreciation study with the application for a change in base rates. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding.

Brownfield Development Rider Tariff. In March 2008, LG&E received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E, for implementation within approximately eight months, for its large commercial and industrial customers. The tariff was filed in October 2008, with an effective date of December 1, 2008.

Collection Cycle Revision. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In December 2007, the Kentucky Commission denied LG&E's request to shorten the collection cycle. LG&E filed a motion with the Kentucky Commission for reconsideration and received an Order granting approval. The Kentucky Commission issued additional data requests to LG&E in February 2008, and in April 2008, issued an Order denying LG&E's request to revise its collection cycle without prejudice for refiling the request in a base rate proceeding. As part of the base rate case filed on July 29, 2008, the Company has included revisions to its terms and conditions tariffs in which LG&E has again proposed to change the due date for customer bill payments from 15 days to 10 days. If approved, this proposal would synchronize the collection cycles for both utilities.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented the proposed interconnection guidelines to the Kentucky Commission in October 2008. An order is expected by the end of the year.

Note 3 - Financial Instruments

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. The fair values of the swaps reflect price quotes from dealers. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of September 30, 2008 and December 31, 2007. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 4.16% at September 30, 2008. The interest rate swaps are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. The swap agreements have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. Financial instruments designated as highly effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity.

Through September 30, 2008, LG&E recorded a pre-tax loss of $1 million in other expense (income) during 2008, to reflect the ineffective portion of the interest rate swaps deemed highly effective. The interest rate swap that hedges LG&E's $83 million Trimble County 2000 Series A bond continues to be highly effective. In June 2008, the interest rate swaps designated to hedge LG&E's $128 million Jefferson County 2003 Series A bond were no longer highly effective, as a result of failed auctions on the bonds. See Note 6, Short-Term and Long-Term Debt. Through September 30, 2008, LG&E recorded a $5 million mark-to-market loss in earnings on the interest rate swaps deemed ineffective related to the Jefferson County 2003 Series A bond. Amounts recorded in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $13 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

Energy Trading and Risk Management Activities (non-hedging derivatives). LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended.

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at September 30, 2008 and 2007, had a maturity of less than one year. Energy trading and risk management contracts are valued using prices actively quoted for proposed or executed transactions or quoted by brokers or observable inputs other than quoted prices. Collateral related to the energy trading and risk management contracts is categorized as restricted cash.

Effective January 1, 2008, LG&E adopted the required provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which will be adopted effective January 1, 2009, consistent with FASB Staff Position 157-2. LG&E has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by SFAS No. 157. The following table sets forth by level within the fair value hierarchy LG&E's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2008. There are no Level 3 measurements for this period.

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Assets:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Energy trading and risk management contracts cash collateral	1	-	1
Interest rate swap cash collateral	13	-	13
Total Assets	$ 14	$ 1	$ 15
Liabilities:			
Interest rate swap	$ -	$ 24	$ 24
Total Liabilities	$ -	$ 24	$ 24

Note 4 - Pension and Other Postretirement Benefit Plans

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both LG&E employees and E.ON U.S. Services employees who are providing services to the utility. The E.ON U.S. Services costs that are allocated to LG&E are approximately 43% of E.ON U.S. Services total costs for both 2008 and 2007.

Pension Benefits

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Service cost	$ 2	$ 4	$ 7	$ 11
Interest cost	14	19	40	60
Expected return on plan assets	(17)	(26)	(50)	(81)
Amortization of prior service costs	3	4	9	13
Amortization of actuarial loss	1	1	2	4
Benefit cost	$ 3	$ 2	$ 8	$ 7

Other Postretirement Benefits

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Service cost	$ -	$ 1	$ 1	$ 1
Interest cost	1	3	4	4
Amortization of transition costs	-	-	1	1
Amortization of prior service costs	1	1	1	1
Benefit cost	$ 2	$ 5	$ 7	$ 7

During 2008, LG&E made contributions to other postretirement benefit plans of $4 million. LG&E anticipates making further voluntary contributions to the postretirement plan, but no additional contributions to the pension plan in 2008.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including LG&E, calculates its separate income tax for each tax period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal income tax examinations for years before 2005. Statutes of limitations related to 2005 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process".

This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed.

LG&E adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109,* effective January 1, 2007. At the date of adoption, LG&E had $1 million of unrecognized tax benefits related to federal and state income taxes. If recognized, the amount of unrecognized tax benefits would reduce the effective income tax rate. Possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total less than $1 million, and are based on the expiration of the audit periods as defined in the statutes.

The amount LG&E recognized as interest accrued related to unrecognized tax benefits was less than $1 million as of September 30, 2008 and December 31, 2007. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, LG&E accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by LG&E upon adoption of FIN 48, or through September 30, 2008.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E received an Order from the Kentucky Commission approving the accounting of the investment tax credit. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $3 million during each of the three month periods ended September 30, 2008 and 2007, and $6 million and $8 million during the nine months ended September 30, 2008 and 2007, respectively, decreasing current federal income taxes.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. In August 2008, the plaintiffs submitted an amended complaint alleging additional claims for relief. In November 2008, the Court dismissed the suit. The dismissal is subject to appeal by the plaintiffs; however, it is unclear at this time if they will do so. LG&E is not currently a party to this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 - Short-Term and Long-Term Debt

LG&E's long-term debt includes $120 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Jefferson County Series 2001 A and B and Trimble County Series 2001 A and B. Maturity dates for these bonds range from 2026 to 2027. LG&E does not expect to pay these amounts in 2008. The average annualized interest rate for these bonds during the nine months ended September 30, 2008, was 2.53%.

As of September 30, 2008, LG&E maintained bilateral lines of credit totaling $125 million which mature in June 2012. At that time, there was no balance outstanding under any of these facilities.

Pollution control series bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during April 2007, the county's debt was also secured by an equal amount of LG&E's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless LG&E defaults on the loan agreement. Subsequent to April 2007, the loan agreement is an unsecured obligation of LG&E.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At September 30, 2008, LG&E had an aggregate $574 million of outstanding pollution control indebtedness, of which $135 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" where there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture, which can be as high as 15%. During the nine months ended September 30, 2008 and 2007, the average rate on the auction rate bonds was 4.58% and 3.46%, respectively. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first nine months of 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A-, and subsequently to BBB+, by S&P due to downgrades of the bond insurer. The ratings of the following bonds were downgraded from Aaa to Aa3 by Moody's and from AAA to AA by S&P due to downgrades of the bond insurer: Trimble County 2000 Series A, Jefferson County 2000 Series A, Jefferson County 2001 Series A, Trimble County 2002 Series A, Louisville Metro 2005 Series A, Louisville Metro 2007 Series A and B and Trimble County 2007 Series A.

In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A and 2007 Series A and B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. These conversions were completed in March 2008, for the 2005 Series, and in April 2008, for the two 2007 Series. In connection with the conversions, LG&E purchased the bonds from the remarketing agent.

In March 2008, LG&E issued notices to bondholders of its intention to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in May 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

In June 2008, LG&E issued notices to bondholders of its intention to convert the Louisville Metro 2003 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in July 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

As of September 30, 2008, LG&E had repurchased bonds in the amount of $259 million. LG&E will hold some or all of such repurchased bonds until a later date, at which time LG&E may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemption and refinancing, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds available to LG&E at market-based rates (based on highly rated commercial paper issues) of up to $400 million. Details of the balances are as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2008	$400	$345	$ 55	2.45%
December 31, 2007	$400	$ 78	$322	4.75%

E.ON U.S. maintains a revolving credit facility totaling $489 million at September 30, 2008 and $150 million at December 31, 2007, to ensure funding availability for the money pool. The revolving facility as of September 30, 2008, is split into separate loans. One facility, totaling $150 million, is with E.ON North America, Inc., while the remaining loans, totaling $339 million, are with Fidelia; both are affiliated companies. The facility as of December 31, 2007, is with E.ON North America, Inc. The balances are as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2008	$489	$469	$20	3.94%
December 31, 2007	$150	$ 62	$88	4.97%

There were no redemptions of long-term debt year-to-date through September 30, 2008.

The Company issued unsecured long-term debt year-to-date through September 30, 2008, totaling $25 million. This debt, due to Fidelia, has a maturity date in 2018.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report for the year ended December 31, 2007 (including in Notes 2 and 9 to the financial statements of LG&E contained therein). See the above-referenced notes in LG&E's Annual Report regarding such commitments or contingencies.

Construction Program. LG&E had approximately $57 million of commitments in connection with its construction program at September 30, 2008.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the KDAQ issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit and in April 2008, they filed a petition seeking veto of the permit revision. In September 2008, the EPA issued an order denying nine of eleven claims alleged in one of the petitions, but finding deficiencies in two areas of the permit. The KDAQ has 90 days to respond to the EPA's order. Although the Company does not expect material changes in the permit as a result of the petitions, the EPA has yet to rule on several additional claims. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to LG&E's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

In July 2008, a federal appeals court issued a ruling finding statutory and regulatory infirmities in the CAIR and potentially vacating it, and has conducted subsequent proceedings on the matter. During October 2008, the appellate court issued a ruling requesting briefs of the parties regarding whether vacating the CAIR is the applicable relief to be granted. LG&E, KU and industry parties are monitoring these further proceedings. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. LG&E is also reviewing aspects of its compliance plan relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the current invalidation of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and LG&E's and KU's compliance plans relating thereto, due to the interconnection of the CAIR and CAIR-associated steps with such associated programs. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants.

In February 2008, a federal appellate court issued a decision vacating the CAMR. Certain parties have filed a petition seeking review in the U.S. Supreme Court. Depending on the final outcome of the pending appeal, the CAMR could be superseded by new mercury reduction rules with different or more stringent requirements. Kentucky has subsequently proposed to repeal the corresponding state mercury regulations. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR provided for more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts. Additionally, because the regional haze SIPs incorporate certain CAIR requirements, the final outcome of the challenge to CAIR could potentially impact regional haze SIPs. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2007 time period at a cost of $197 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge mechanisms. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, LG&E expects to incur additional capital expenditures totaling $100 million during the 2008 through 2010 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. LG&E is also monitoring relevant regulatory proceedings involving the EPA's advanced notice of proposed rulemaking for regulation of GHGs under the existing authority of the Clean Air Act and proposed rules governing carbon sequestration. LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain projects undertaken at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. LG&E and KU have complied with the information requests and are not able to predict further proceedings in this matter at this time.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station and claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2008	2007	2008	2007
LG&E Electric				
Revenues	$ 283	$ 270	$ 747	$ 718
Net income	37	50	70	97
Total assets	2,637	2,558	2,637	2,558
LG&E Gas				
Revenues	47	36	295	240
Net income	(4)	(5)	3	4
Total assets	774	659	774	659
Total				
Revenues	330	306	1,042	958
Net income	33	45	73	101
Total assets	3,411	3,217	3,411	3,217

Note 9 - Related Party Transactions

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between LG&E and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between LG&E and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under PUHCA 2005 and the applicable Kentucky Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

LG&E and KU purchase energy from each other in order to effectively manage the load of their retail and wholesale customers. These sales and purchases are included in the statements of income as electric operating revenues and purchased power operating expense. LG&E intercompany electric revenues and purchased power expense were as follows:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Electric operating revenues from KU	$21	$18	$73	$71
Purchased power from KU	15	7	44	33

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense was as follows:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Interest on money pool loans	$ 2	$ 1	$ 4	$ 3
Interest on Fidelia loans	6	5	17	12

Other Intercompany Billings

E.ON U.S. Services provides LG&E with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of LG&E, labor and burdens of E.ON U.S. Services employees performing services for LG&E, coal purchases and other vouchers paid by E.ON U.S. Services on behalf of LG&E. The cost of these services is directly charged to LG&E, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services include cash received by E.ON U.S. Services on behalf of LG&E, primarily tax settlements, and other payments made by LG&E on behalf of other non-regulated businesses which are reimbursed through E.ON U.S. Services.

Intercompany billings to and from LG&E were as follows:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
E.ON U.S. Services billings to LG&E	$50	$52	$152	$302
LG&E billings to KU	-	2	5	35
KU billings to LG&E	21	11	58	33
LG&E billings to E.ON U.S. Services	1	9	4	11

In June 2008, LG&E transferred assets related to Trimble County Unit 2 with a net book value of $10 million to KU.

In March 2008, LG&E paid a dividend of $40 million to its common shareholder, E.ON U.S.

Note 10 - Subsequent Events

On October 21, 2008, the Kentucky Commission authorized the Company to issue up to $100 million of new long-term debt to its affiliate Fidelia.

On October 27, 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, $24 million of expenses related to the Hurricane Ike wind storm restoration. An order has been requested by the end of the year.

On October 30, 2008, the Kentucky Commission issued an Order approving the establishment of regulatory assets for the Companies' contributions to the CMRG and KCCS. Rate recovery will be considered in each company's next base rate case.

On November 5, 2008, the ratings of the Trimble County 2000 Series A bonds, Trimble County 2002 Series A bonds, Trimble County 2007 Series A bonds, Jefferson County 2000 Series A bonds, Jefferson County 2001 Series A bonds, Louisville Metro 2005 Series A bonds, Louisville Metro 2007 Series A bonds and Louisville Metro 2007 Series B bonds were downgraded from Aa3 to A2 by Moody's, due to downgrades of the bond insurer.

LG&E's contract with the International Brotherhood of Electrical Workers Local 2100 ("IBEW") was set to expire at midnight on November 10, 2008. By agreement, LG&E and the IBEW extended the contract through midnight on November 12, 2008. The IBEW has scheduled a vote on November 12, 2008, on a tentative agreement for a new contract that was reached on November 6, 2008. The IBEW's negotiating committee has recommended ratification of the new three year contract.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on LG&E's financial results of operations and financial condition during the three and nine month periods ended September 30, 2008, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2007.

Executive Summary

Business

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. As of September 30, 2008, LG&E provided natural gas to approximately 324,000 customers and electricity to approximately 402,000 customers in Louisville and adjacent areas in Kentucky. LG&E's electric service area covers approximately 700 square miles in 9 counties. LG&E provides natural gas service in its electric service area and 8 additional counties in Kentucky. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

LG&E is a wholly-owned subsidiary of E.ON U.S., an indirect wholly-owned subsidiary of E.ON, a German corporation, making LG&E an indirect wholly-owned subsidiary of E.ON. LG&E's affiliate, KU, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

In July 2008, LG&E filed an application with the Kentucky Commission for increases in base gas rates of approximately 4.5% or $30 million annually and in base electric rates of approximately 2.0% or $15 million annually. In conjunction with the filing of the application for changes in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT surcredit terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. The termination of the VDT surcredit and merger surcredit will result in a $21 million increase in revenues annually. A hearing is scheduled beginning on January 13, 2009. The requested rates have been suspended until February 5, 2009, at which time they may be put into effect, subject to refund, if the Kentucky Commission has not issued an order in the proceeding.

In September 2008, high winds from the remnants of the Hurricane Ike wind storm passed through LG&E's service territory causing significant outages and system damage. In October 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, $24 million of expenses related to the storm restoration. An order has been requested by the end of the year.

Environmental Matters

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

The electric and gas utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Three Months Ended September 30, 2008, Compared to Three Months Ended September 30, 2007

Net Income

Net income for the three months ended September 30, 2008, decreased $12 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($50 million), partially offset by increased revenues ($24 million), decreased income taxes ($9 million), increased other income ($4 million) and decreased interest expense ($1 million).

Revenues

Electric revenues increased $13 million in the three months ended September 30, 2008, primarily due to:

- Increased wholesale sales ($19 million) due to increased volumes and increased wholesale market pricing
- Increased fuel costs billed to customers through the FAC ($10 million) due to increased fuel prices
- Increase demand charges ($3 million) due to higher peak load
- Decrease in the merger surcredit distribution to customers ($3 million)
- Decreased sales volumes to native load ($22 million) due in part to a 15% decrease in cooling degree days and outages related to damage from the Hurricane Ike wind storm

Natural gas revenues increased $11 million in the three months ended September 30, 2008, primarily due to:

- Increased average cost of gas billed to retail customers ($14 million) due to increased gas costs
- Decreased sales volumes ($3 million) due to a decrease in gas demand

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expense. Increases or decreases in the costs of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $5 million in the three months ended September 30, 2008, primarily due to:

- Increased commodity and transportation costs for coal and natural gas ($8 million)
- Decreased generation ($3 million) due to decreased native load sales

Power purchased expense increased $10 million in the three months ended September 30, 2008, primarily due to:

- Increased volumes purchased for native load ($8 million) due to increased intercompany purchases as a result of lower KU native load due to milder weather and lower industrial sales
- Increased native load sales ($2 million) due to increased fuel prices and increased volumes due to increased unit outages

Gas supply expenses increased $11 million in the three months ended September 30, 2008, due to increased cost of net gas supply billed to customers, primarily due to increased cost per Mcf.

Other operation and maintenance expense increased $23 million in the three months ended September 30, 2008, primarily due to increased maintenance expense ($17 million) and increased other operation expense ($6 million).

Maintenance expense increased $17 million in the three months ended September 30, 2008, primarily due to increased electric maintenance due to higher costs for outside contractors and materials partially as a result of the Hurricane Ike wind storm.

Other operation expense increased $6 million in the three months ended September 30, 2008, primarily due to increased overhead lines expense as a result of the Hurricane Ike wind storm.

Interest expense, including interest expense to affiliated companies, decreased $1 million in the three months ended September 30, 2008, primarily due to repurchased bonds ($3 million) offset by increased borrowings ($2 million).

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	(1.6)	3.9
Reduction of income tax reserve	(0.4)	(0.9)
Amortization of investment tax credits	(2.2)	(1.5)
Other differences	(2.5)	(3.7)
Effective income tax rate	28.3%	32.8%

The effective income tax rate decreased for the three months ended September 30, 2008, compared to the three months ended September 30, 2007, due primarily to a decrease in state income taxes net of federal benefit. State income taxes were favorably impacted by $4 million of coal and recycle credits recorded during the period. Amortization of investment tax credits increased as a percentage of the effective tax rate due to the lower level of pretax income. These items were partially offset by various other differences.

Nine Months Ended September 30, 2008, Compared to
Nine Months Ended September 30, 2007

Net Income

Net income for the nine months ended September 30, 2008, decreased $28 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($127 million) and increased interest expense ($2 million), partially offset by increased revenues ($84 million) and lower income taxes ($16 million) attributable to lower pre-tax income.

Revenues

Electric revenues in the nine months ended September 30, 2008, increased $29 million primarily due to:

- Increased wholesales sales ($32 million) due to increased wholesale market pricing and decreased native load
- Increased fuel costs billed to customers through the FAC ($17 million) due to increased fuel prices
- Increased ECR surcharge ($4 million) due to increased recoverable capital spending
- Increased demand charges ($4 million) due to higher peak load
- Decreased merger surcredit distribution to customers ($2 million)
- Decreased sales volumes to native load ($32 million) due in part to an 18% decrease in cooling degree days and outages related to damage from the Hurricane Ike wind storm

Natural gas revenues in the nine months ended September 30, 2008, increased $55 million primarily due to:

- Increased average cost of gas billed to retail customers ($47 million) due to increased gas costs
- Increased sales volumes ($8 million) due to a 5% increase in heating degree days

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expense. Increases or decreases in the cost of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $8 million in the nine months ended September 30, 2008, primarily due to:

- Increased commodity and transportation costs for coal and natural gas ($17 million)
- Decreased generation ($9 million) due to decreased native load sales

Power purchased expense increased $13 million in the nine months ended September 30, 2008, primarily due to:

- Increased volumes purchased ($11 million) due to increased intercompany purchases as a result of lower KU native load due to milder weather and lower industrial sales
- Increased prices for purchases used to serve retail customers ($2 million)

Gas supply expense increased $57 million in the nine months ended September 30, 2008, primarily due to:

- Increased cost of net gas supply billed to customers ($61 million), primarily due to the commodity cost per Mcf
- Decreased costs ($4 million) due to decreased gas purchases for wholesale sales

Other operation and maintenance expense increased $48 million in the nine months ended September 30, 2008, primarily due to increased maintenance expense ($28 million) and increased other operation expense ($20 million).

Maintenance expense increased $28 million in the nine months ended September 30, 2008, primarily due to:

- Increased maintenance of overhead conductors and devices and tree trimming ($16 million) due to storm restoration
- Increased boiler and electric plant maintenance expense ($7 million) due to a scheduled outage and higher cost for outside contractors and material
- Increased distribution expense ($2 million) due to storm restoration
- Increased cost for other indirect maintenance ($2 million) due to increased software maintenance lease cost
- Increased steam expense ($1 million) due to high energy piping inspections and repairs

Other operation expense increased $20 million in the nine months ended September 30, 2008, primarily due to:

- Increased steam expense ($9 million) due to a non-recurring capital lease adjustment in 2007
- Increased distribution expense ($7 million) due to storm restoration
- Increased generation expense ($3 million) due to increased regional transmission organization charges primarily due to increased volume of transactions
- Increased cost of consumables ($1 million) due to contract pricing

Interest expense, including interest expense to affiliated companies, increased $2 million in the nine months ended September 30, 2008, primarily due to increased interest expense to affiliated companies due to increased borrowing.

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	0.9	3.6
Reduction of income tax reserve	(0.2)	(0.4)
Amortization of investment tax credits	(2.7)	(2.0)
Other differences	(1.9)	(3.5)
Effective income tax rate	31.1%	32.7%

The effective income tax rate decreased for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, due primarily to a decrease in state income taxes net of federal benefit. State income taxes were favorably impacted by $5 million of coal and recycle credits recorded during the period. Amortization of investment tax credits increased as a percentage of the effective tax rate due to the lower level of pretax income. These items were partially offset by various other differences.

Liquidity and Capital Resources

LG&E uses net cash generated from its operations, external financing (including financing from affiliates) and/or infusions of capital from its parent to fund construction of plant and equipment and the payment of dividends. LG&E currently has a working capital deficiency of $298 million, primarily due to short-term debt from affiliates associated with the repurchase of certain of its tax-exempt bonds totaling $259 million. These bonds are being held until they can be refinanced or restructured. See Note 6 of Notes to Financial Statements. LG&E believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

LG&E and KU sponsor pension and postretirement benefit plans for their employees. The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under the defined benefit pension plans. The market value of the combined investments within the plans declined by approximately 18% during the nine months ended September 30, 2008 due to the recent volatility in the capital markets. The benefit plan assets and obligations of LG&E and KU are remeasured annually using a December 31 measurement date. LG&E and KU expect that investment losses will result in an increase to the plans' unfunded status upon actuarial revaluation of the plans. Changes in the value of plan assets will not impact the income statement for 2008; however, reduced benefit plan assets will result in increased benefit costs in future years and may increase the amount, and accelerate the timing of, required future funding contributions. Such increases could be material to LG&E and KU beginning in 2009, however, the amount of such contributions cannot be determined at this time.

Operating Activities

Cash provided by operations was $169 million and $128 million for the nine months ended September 30, 2008 and 2007, respectively.

The 2008 increase of $41 million was primarily the result of increases in cash due to changes in:
- Pension funding ($51 million) due to higher pension funding in 2007
- Accounts payable ($19 million)
- Fuel adjustment clause receivable, net ($12 million)
- Gas supply clause receivable ($8 million)
- Other current liabilities ($8 million)

These increases were partially offset by cash used by changes in:
- Materials and supplies ($30 million)
- Earnings, net of non-cash items ($18 million)
- Accounts receivable ($6 million)
- Other ($3 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $179 million and $137 million in the nine months ended September 30, 2008 and 2007, respectively. Net cash used for investing activities increased $18 million in the nine months ended September 30, 2008 compared to 2007, due to increased capital expenditures of $42 million, partially offset by an asset transferred to an affiliate of $10 million, proceeds from the sale of assets of $9 million, and cash provided by changes in long-term derivative liability (non-hedging) of $5 million.

Financing Activities

Net cash flows from financing activities were outflows of $14 million and inflows of $5 million in the nine months ended September 30, 2008 and 2007, respectively. Net cash provided by (used for) financing activities changed $19 million in the nine months ended September 30, 2008 compared to 2007, due to the reacquisition of bonds in the amount of $259 million, lower long-term borrowings from an affiliated company of $113 million and increased change in the mark-to-market of long-term derivative liability (cash flow hedge) of $4 million, partially offset by increased short-term borrowings from an affiliated company of $228 million, the retirement of preferred stock of $92 million in 2007, decreased dividend payments of $29 million and a change in restricted cash of $8 million.

See Note 6 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. LG&E expects its capital expenditures for the three year period ending December 31, 2010, to total approximately $735 million, consisting primarily of construction of TC2 totaling approximately $85 million (including $25 million for environmental controls), gas main replacement initiatives of approximately $50 million, redevelopment of the Ohio Falls hydroelectric facility totaling approximately $45 million, a customer care system totaling approximately $30 million, on-going construction related to distribution assets totaling approximately $260 million and generation assets totaling approximately $240 million and other projects including information technology of approximately $25 million.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

LG&E has a variety of funding alternatives available to meet its capital requirements. LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds of up to $400 million available to LG&E at market-based rates. Fidelia also provides long-term intercompany funding to LG&E. See Note 6 of Notes to Financial Statements.

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes the issuance of long-term debt. In November 2007, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds.

A significant portion of LG&E's short-term debt balance ($259 million) is related to the repurchase of auction rate tax-exempt bonds. Given the uncertainty surrounding the timing of when the bonds could be remarketed to the public due to the current state of the capital markets and the $400 million limit on short-term debt, the Company sought additional authority to issue long-term debt to reduce the existing short-term debt balances. In October 2008, the Kentucky Commission authorized the Company to issue up to $100 million of new long-term debt to its affiliate Fidelia. The Company currently believes this authorization provides the necessary flexibility to address any liquidity needs.

LG&E's debt ratings as of September 30, 2008, were:

	Moody's	S&P
Issuer rating	A2	-
Corporate credit rating	-	BBB+

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 6 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds caused by a change in the rating of the entity insuring those bonds.

Controls and Procedures

The Company is responsible for establishing and maintaining adequate internal control over financial reporting. 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 pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; 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 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.

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the nine months ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

LG&E is not subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently is not required to evaluate the effectiveness of the Company's internal control over financial reporting pursuant to Section 404 of the Act. However, as discussed above, management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2007. Management's assessment was not subject to audit by the Company's independent accounting firm.

Legal Proceedings

For a description of the significant legal proceedings involving LG&E, reference is made to the information under the following captions of LG&E's Financial Statements and Additional Information for the year ended December 31, 2007 (the "Annual Report"): Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in LG&E's Annual Report have not materially changed.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against LG&E. To the extent that damages are assessed in any of these lawsuits, LG&E believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on LG&E's financial position or results of operations.

2008 – 2nd Quarter Financial Statements and Additional Information

Louisville Gas and Electric Company

Financial Statements and Additional Information
(Unaudited)

As of June 30, 2008 and 2007

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	Louisville Gas and Electric Company
DSM	Demand Side Management
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen Oxide
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
S&P	Standard & Poor's Rating Service
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process

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Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
OPERATING REVENUES:				
Electric	$ 240	$ 226	$ 464	$ 449
Gas	58	51	248	203
Total operating revenues	298	277	712	652
OPERATING EXPENSES:				
Fuel for electric generation	80	79	160	156
Power purchased	22	16	46	42
Gas supply expenses	41	34	193	148
Other operation and maintenance expenses	79	66	159	135
Depreciation and amortization	31	32	63	63
Total operating expenses	253	227	621	544
OPERATING INCOME	45	50	91	108
Other expense (income) – net	2	(1)	4	1
Interest expense (Notes 3, 5 and 6)	7	9	15	15
Interest expense to affiliated companies (Note 9)	7	6	12	8
INCOME BEFORE INCOME TAXES	29	36	60	84
Federal and state income taxes (Note 5)	10	12	20	28
NET INCOME	$ 19	$ 24	$ 40	$ 56

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Balance at beginning of period	$ 671	$ 635	$ 690	$ 639
Net income	19	24	40	56
Preferred stock buyback	-	(4)	-	(4)
Subtotal	690	655	730	691
Cash dividends declared on stock:				
Cumulative preferred	-	-	-	1
Common	-	30	40	65
Subtotal	-	30	40	66
Balance at end of period	$ 690	$ 625	$ 690	$ 625

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	June 30, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 3	$ 4
Restricted cash	11	7
Accounts receivable – less reserves of $2 million as of June 30, 2008 and December 31, 2007	153	189
Accounts receivable from affiliated companies (Note 9)	11	-
Materials and supplies:		
Fuel (predominantly coal)	42	46
Gas stored underground	40	81
Other materials and supplies	31	31
Prepayments and other current assets (Note 9)	14	13
Total current assets	305	371
Utility plant:		
At original cost	4,402	4,319
Less: reserve for depreciation	1,664	1,619
Net utility plant	2,738	2,700
Deferred debits and other assets:		
Restricted cash	12	12
Prepaid pension assets	15	14
Regulatory assets (Note 2):		
Pension and postretirement benefits	109	110
Other	109	94
Other assets	9	12
Total deferred debits and other assets	254	242
Total assets	$3,297	$ 3,313

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	June 30, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 120	$ 120
Notes payable to affiliated companies (Notes 6 and 9)	188	78
Accounts payable	114	111
Accounts payable to affiliated companies (Note 9)	32	57
Customer deposits	21	19
Other current liabilities	41	34
Total current liabilities	516	419
Long-term debt:		
Long-term debt (Note 6)	323	454
Long-term debt to affiliated company (Notes 6 and 9)	410	410
Total long-term debt	733	864
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	352	342
Accumulated provision for pensions and related benefits (Note 4)	98	94
Investment tax credit (Note 5)	48	46
Asset retirement obligation	30	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	246	241
Deferred income taxes – net	47	50
Gas supply adjustment and other	18	19
Long-term derivative liability	22	22
Other liabilities	24	25
Total deferred credits and other liabilities	885	869
Common equity:		
Common stock, without par value –		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	60	60
Accumulated other comprehensive loss	(11)	(13)
Retained earnings	690	690
Total common equity	1,163	1,161
Total liabilities and equity	$ 3,297	$ 3,313

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Six Months Ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 40	$ 56
Items not requiring cash currently:		
Depreciation and amortization	63	63
Deferred income taxes – net	7	3
Investment tax credit – net	2	3
Other	9	7
Changes in current assets and liabilities:		
Accounts receivable	31	20
Material and supplies	45	46
Accounts payable	(9)	2
Other current liabilities	(4)	(21)
Pension funding	-	(56)
Gas supply clause receivable, net	(23)	(27)
Other	7	(4)
Net cash provided by operating activities	168	92
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(118)	(87)
Asset transferred to affiliate (Note 9)	10	-
Long-term derivative liability (non-hedging) (Note 3)	1	-
Net cash used for investing activities	(107)	(87)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company (Note 6)	-	138
Short-term borrowings from affiliated company - net (Note 6)	110	19
Reacquired bonds	(131)	-
Retirement of first mortgage bonds	-	(126)
Issuance of pollution control bonds	-	126
Retirement of preferred stock	-	(91)
Payment of dividends	(40)	(69)
Long-term derivative liability (hedging) (Note 3)	(1)	(4)
Net cash used in financing activities	(62)	(7)
CHANGE IN CASH AND CASH EQUIVALENTS	(1)	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3	$ 5

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net income	$ 19	$ 24	$ 40	$ 56
Gain on derivative instruments and hedging activities – net of tax expense of $3 million, $3 million, $1 million and $3 million, respectively (Note 3)	5	5	2	5
Other comprehensive income, net of tax	5	5	2	5
Comprehensive income	$ 24	$ 29	$ 42	$ 61

The accompanying notes are an integral part of these financial statements.

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited financial statements and notes should be read in conjunction with the Company's annual report for the year ended December 31, 2007, including management's discussion and analysis and the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The Company is currently evaluating the impact of adoption of SFAS No. 161 on its statements of operations, financial position and cash flows.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company expects the adoption of SFAS No. 160 to have no impact on its statements of operations, financial position and cash flows.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No.

159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, additional disclosures relating to its financial derivatives, AROs and pension assets, as required, are now provided.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to LG&E's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2007.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

Louisville Gas and Electric Company
(unaudited)

(in millions)	June 30, 2008	December 31, 2007
ARO	$ 25	$ 24
Unamortized loss on bonds	21	19
GSC adjustments	36	20
MISO exit	12	13
FAC	6	9
ECR	4	4
Other	5	5
Subtotal	109	94
Pension and postretirement benefits	109	110
Total regulatory assets	$ 218	$ 204
Accumulated cost of removal of utility plant	$ 246	$ 241
Deferred income taxes – net	47	50
Gas supply adjustments ($3 million and $10 million at June 30, 2008 and December 31, 2007, respectively) and other	18	19
Total regulatory liabilities	$ 311	$ 310

LG&E does not currently earn a rate of return on the GSC adjustments, FAC and gas performance-based ratemaking regulatory assets (included in "Other" above), all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E will seek recovery of this asset in future proceedings with the Kentucky Commission. LG&E currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit, gas performance-based ratemaking and Mill Creek Ash Pond costs. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO in the next base rate case.

MISO Exit. LG&E and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, LG&E paid approximately $13 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. LG&E and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided LG&E with an immediate recovery of less than $1 million and will provide an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in LG&E's next base rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. In January 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period May 1, 2007 through October 31, 2007. The Kentucky Commission issued an Order in May 2008, approving the charges and credits billed through the FAC during the review period.

In August 2007, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period of November 1, 2006 through April 30, 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

ECR. In June 2008, the Kentucky Commission initiated two six-month reviews for periods ending October 31, 2007 and April 30, 2008, of LG&E's environmental surcharge. An order is anticipated by the end of the year.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of LG&E's environmental surcharge. The Kentucky Commission issued final Orders in March 2008, approving the charges and credits billed through the ECR during the review periods, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

<u>Other Regulatory Matters</u>

Base Rate Case. In July 2008, LG&E filed an application with the Kentucky Commission for increases in gas and electric base rates. See Note 10, Subsequent Events.

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by LG&E and KU, together with the

Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005.

Initial CCN applications for two transmission lines associated with the TC2 unit were approved by the Kentucky Commission in September 2005 and May 2006. One of those CCNs, for a line running from Jefferson County into Hardin County, was brought up for review to the Franklin Circuit Court by a group of landowners. In August 2006, LG&E, KU and the Kentucky Commission obtained dismissal of that action, on grounds that the landowners had failed to comply with the statutory procedures governing the action for review. That dismissal was appealed by the landowners to the Kentucky Court of Appeals, and in December 2007, that Court reversed the lower court's dismissal and remanded the challenge of the CCN to the Franklin Circuit Court for further proceedings. LG&E, KU and the Kentucky Commission filed for reconsideration of the appellate court's ruling, but those requests were denied in April 2008. LG&E and KU filed a motion for discretionary review with the Kentucky Supreme Court in May 2008, asking that Court to hear the matter and, ultimately, to reverse the Court of Appeals and uphold the Franklin Circuit Court's dismissal, which motion has been opposed by the counter-parties.

The referenced transmission lines are also subject to routine regulatory filings and require the acquisition of easements. All rights of way for one transmission line have been acquired. In April 2008, in proceedings involving the condemnation of an easement for a portion of the Jefferson County to Hardin County transmission line, a Meade County, Kentucky circuit court judge issued a ruling upholding the objections of two co-owners of the property crossed by the easement and dismissed that eminent domain proceeding pending the completion of the CCN appeal described above. LG&E and KU have filed responsive pleadings, including a motion to vacate that decision by the trial court and a procedural request with the Court of Appeals seeking expedited review on a petition to direct the circuit court to proceed with the eminent domain litigation. Additional condemnation proceedings involving other parcels of property to support this transmission line are also pending in neighboring Hardin County where three landowners have challenged LG&E's and KU's right to easements, on the same grounds cited by the Meade County court and other purported basis. In May and June 2008, the Hardin County Circuit Court issued rulings denying the dismissal motions, finding that LG&E and KU had established their condemnation rights and granting judgment in favor of LG&E and KU. During July 2008, the landowners filed subsequent motions in Hardin Circuit Court seeking to further challenge LG&E's and KU's condemnation right by asserting deficiencies in the air permit relating to the proposed TC2 generation unit. LG&E and KU continue to engage in settlement negotiations with the property owners. In a separate, further proceeding, certain landowners have filed a lawsuit in federal court against the U.S. Army, LG&E and KU, alleging that the U.S. Army failed to comply with Section 106 of the National Historic Preservation Act in granting an easement across Fort Knox. LG&E and KU are working with the U.S. Army in defending against the claims.

Merger Surcredit. In December 2007, LG&E submitted its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008, to the Kentucky Commission. In June 2008, the Kentucky Commission issued an Order approving a settlement which provides for continuation of the merger surcredit for the period July 2008 through January 2009, which surcredits will terminate in connection with any new base rates to go into effect after January 2009. See Note 10, Subsequent Events.

VDT. In accordance with the Kentucky Commission's Order dated March 24, 2006, the VDT will terminate in the first billing month after the filing for a change in base rates. As a result of LG&E's filing of its application with the Kentucky Commission for an increase in gas and electric base rates in July 2008, the VDT terminated with the first billing cycle in August 2008, subject to a final balancing adjustment in September 2008.

DSM. In July 2007, LG&E and KU filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. LG&E and KU filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E is a member of the SERC, which acts as LG&E's RRO. The SERC has assessed LG&E's compliance with certain existing mitigation plans relating to two standards resulting from a prior RRO's audit of various reliability standards, and the parties agreed in principle to a penalty of less than $1 million in June 2008. While LG&E believes itself to be in substantial compliance with the mandatory reliability standards, LG&E cannot predict the outcome of other analyses, including on-going SERC reviews relating to six additional standards, which may be conducted regarding compliance with particular reliability standards.

Depreciation Study. In December 2007, LG&E filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received from the Kentucky Commission, the timing of which cannot currently be determined. A revised procedural schedule was issued in June 2008, but a hearing is not currently scheduled. In July 2008, LG&E filed a motion to consolidate the procedural schedule of the depreciation study with the application for a change in base rates. The Kentucky Commission has not yet ruled on the request.

Brownfield Development Rider Tariff. In March 2008, LG&E and KU received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E, for implementation within approximately eight months, for its large commercial and industrial customers.

Collection Cycle Revision. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In December 2007, the Kentucky Commission denied LG&E's request to shorten the collection cycle. LG&E filed a motion with the Kentucky Commission for reconsideration and received an Order granting approval. The Kentucky Commission issued additional data requests to LG&E in February 2008, and in April 2008, issued an Order denying LG&E's request to revise its collection cycle without prejudice for refiling the request in a base rate proceeding. In addition, as part of the base rate case filed on July 29, 2008, the Company has included revisions to its Terms and Conditions Tariffs. LG&E has again proposed to change the due date for customer bill payments from 15 days to 10 days. If approved, this proposal would synchronize the Collection Cycles for both utilities. See Note 10, Subsequent Events.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case are to present the proposed interconnection guidelines to the Kentucky Commission in September 2008.

Note 3 - Financial Instruments

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. The fair values of the swaps reflect price quotes from dealers. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of June 30, 2008 and December 31, 2007. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 1.62% at June 30, 2008. The interest rate swaps are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. The swap agreements have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. Financial instruments designated as highly effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity.

Through June, LG&E recorded a pre-tax loss of $1 million in other comprehensive income during 2008, to reflect the ineffective portion of the interest rate swaps deemed highly effective. The interest rate swap that hedges against LG&E's $83 million Trimble County 2000 Series A bond has been determined to be highly effective. In June, the interest rate swaps designated to hedge against LG&E's $128 million Jefferson County 2003 Series A bond were no longer highly effective, as a result of failed auctions on the bonds. See Note 6, Short-Term and Long-Term Debt. In June 2008, LG&E recorded a $1 million mark-to-market loss in earnings on the interest rate swaps deemed ineffective related to the Jefferson County 2003 Series A bond. Amounts recorded in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $12 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

Energy Trading and Risk Management Activities (non-hedging derivatives). LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended.

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at June 30, 2007, had a maturity of less than one year. There were no contracts outstanding at June 30, 2008. Energy trading and risk management contracts are valued using

Level 2, prices actively quoted for proposed or executed transactions or quoted by brokers or observable inputs other than quoted prices.

Effective January 1, 2008, LG&E adopted the required provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which will be adopted effective January 1, 2009, consistent with FASB Staff Position 157-2. LG&E has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by SFAS No. 157. The following table sets forth by level within the fair value hierarchy LG&E's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2008. There are no Level 1 or Level 3 measurements for this period.

Recurring Fair Value Measurements (in millions)	Level 2
Liabilities:	
Interest rate swaps	$ 22
Energy marketing contracts	-
Total	$ 22

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
(in millions)	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 1	$ 2	$ -	$ 1	$ 2	$ 3	$ -	$ 1
Interest cost	7	5	1	1	13	13	3	2
Expected return on plan assets	(8)	(7)	-	-	(16)	(18)	-	-
Amortization of prior service costs	1	1	-	-	3	3	1	1
Amortization of actuarial loss	-	-	1	-	-	1	-	-
Benefit cost	$ 1	$ 1	$ 2	$ 2	$ 2	$ 2	$ 4	$ 4

Net periodic benefit costs incurred by employees of LG&E are reflected in both utility plant on the balance sheets and in operating expense on the income statements. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to LG&E.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In March 2008, LG&E made contributions to other postretirement benefit plans of approximately $2 million. LG&E anticipates making further voluntary contributions in 2008 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law. See Note 10, Subsequent Events.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including LG&E, calculates its separate income tax for each tax period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed.

LG&E adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109,* effective January 1, 2007. At the date of adoption, LG&E had $1 million of unrecognized tax benefits related to federal and state income taxes. If recognized, the amount of unrecognized tax benefits would reduce the effective income tax rate. Possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total less than $1 million, and are based on the expiration of statutes during 2008.

The amount LG&E recognized as interest accrued related to unrecognized tax benefits in interest expense was less than $1 million at June 30, 2008 and December 31, 2007. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, LG&E accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by LG&E upon adoption of FIN 48, or through June 30, 2008.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E received an Order from the Kentucky Commission approving the accounting of the investment tax credit. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $2 million and $3 million during the three months ended June 30, 2008 and 2007, respectively, and $4 million and $5 million during the six months ended June 30, 2008 and 2007, respectively, decreasing current federal income taxes.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. LG&E is monitoring, but is not currently a party to, this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 - Short-Term and Long-Term Debt

LG&E's long-term debt includes $251 million classified as current liabilities ($131 million of which are currently being held by the Company as discussed below) because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Jefferson County Series 2001 A and B and Trimble County Series 2001 A and B. Maturity dates for these bonds range from 2026 to 2027. The repurchased bonds include the Louisville Metro 2005 Series A and 2007 Series A and B bonds and the Jefferson County 2000 Series A bonds. LG&E does not expect to pay these amounts in 2008. The average annualized interest rate for these bonds during the six months ended June 30, 2008, was 2.73%.

LG&E maintains bilateral lines of credit totaling $125 million which mature in June 2012. As of June 30, 2008, there was no balance outstanding under any of these facilities.

Pollution control series bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during April 2007, the county's debt was also secured by an equal amount of LG&E's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless LG&E defaults on the loan agreement.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At June 30, 2008, LG&E had an aggregate $574 million of outstanding pollution control indebtedness, of which $263 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" where there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture, which can be as high as 15%. During the six months ended June 30, 2008 and 2007, the average rate on the auction rate bonds was 4.81% and 3.30%, respectively. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first six months of 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A-, and subsequently to BBB+, by S&P due to downgrades of the bond insurer. The ratings of the following bonds were downgraded from Aaa to Aa3 by Moody's and from AAA to AA by S&P due to downgrades of the bond insurer: Trimble County 2000 Series A, Jefferson County 2000 Series A, Jefferson County 2001 Series A, Trimble County 2002 Series A, Louisville Metro 2005 Series A, Louisville Metro 2007 Series A and B and Trimble County 2007 Series A.

In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A and 2007 Series A and B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. These conversions were completed in March 2008, for the 2005 Series, and in April 2008, for the two 2007 Series. In connection with the conversions, LG&E purchased the bonds from the remarketing agent.

In March 2008, LG&E issued notices to bondholders of its intention to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in May 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

In June 2008, LG&E issued notices to bondholders of its intention to convert the Louisville Metro 2003 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in July 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent. See Note 10, Subsequent Events.

As of June 30, 2008, LG&E had repurchased bonds in the amount of $131 million. LG&E will hold some or all of such repurchased bonds until a later date, at which time LG&E may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemption and refinancing, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds available to LG&E at market-based rates (based on highly rated commercial paper issues) of up to $400 million. Details of the balances are as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2008	$400	$188	$212	2.43%
December 31, 2007	$400	$ 78	$322	4.75%

E.ON U.S. maintains a revolving credit facility totaling $311 million at June 30, 2008 and $150 million at December 31, 2007, to ensure funding availability for the money pool. The revolving facility as of June 30, 2008, is split into two separate loans totaling $311 million. One facility, totaling $150 million, is with E.ON North America, Inc., while the second, totaling $161 million, is with Fidelia; both are affiliated companies. The facility as of December 31, 2007, is with E.ON North America, Inc. The balances are as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2008	$311	$220	$91	3.17%
December 31, 2007	$150	$ 62	$88	4.97%

There were no redemptions or issuances of long-term debt year-to-date through June 30, 2008.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report for the year ended December 31, 2007 (including in Notes 2 and 9 to the financial statements of LG&E contained therein). See the above-referenced notes in LG&E's Annual Report regarding such commitments or contingencies.

Construction Program. LG&E had approximately $70 million of commitments in connection with its construction program at June 30, 2008.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division for Air

Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the Kentucky Division for Air Quality issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit and in April 2008, they filed a petition seeking veto of the permit revision. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to LG&E's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

In July 2008, a federal appeals court issued a ruling vacating the CAIR, which decision may be subject to rehearing or other subsequent proceedings. LG&E, KU and industry parties are monitoring these further proceedings. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. LG&E is also reviewing aspects of its compliance plan relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the current invalidation of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and LG&E's and KU's compliance plans relating thereto, due to the interconnection of the CAIR and CAIR-associated steps with such associated programs. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR.

In February 2008, a federal appellate court issued a decision vacating the CAMR. The parties are currently evaluating the possibility of seeking review in the U.S. Supreme Court. Depending on the final outcome of the pending appeal, the CAMR could be superceded by new mercury reduction rules with different or more stringent requirements. Kentucky has subsequently proposed to repeal the corresponding state mercury regulations. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts. Additionally, because the regional haze SIPS incorporate certain CAIR requirements, the final outcome of the challenge to CAIR could potentially impact regional haze SIPs. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2007 time period at a cost of $197 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge mechanisms. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, LG&E expects to incur additional capital expenditures totaling $130 million during the 2008 through 2010 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain projects undertaken at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. The

Companies have complied with the information requests and are not able to predict further proceedings in this matter at this time.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station and ongoing claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment follow:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2008	2007	2008	2007
LG&E Electric				
Revenues	$ 240	$ 226	$ 464	$ 449
Net income	21	26	33	47
Total assets	2,632	2,558	2,632	2,558
LG&E Gas				
Revenues	58	51	248	203
Net income	(2)	(2)	7	9
Total assets	665	597	665	597
Total				
Revenues	298	277	712	652
Net income	19	24	40	56
Total assets	3,297	3,155	3,297	3,155

Note 9 - Related Party Transactions

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between LG&E and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between LG&E and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under PUHCA 2005 and the applicable Kentucky Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

LG&E and KU purchase energy from each other in order to effectively manage the load of their retail and wholesale customers. These sales and purchases are included in the statements of income as electric operating revenues and purchased power operating expense. LG&E intercompany electric revenues and purchased power expense were as follows:

(in millions)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
Electric operating revenues from KU	$25	$23	$51	$53
Purchased power from KU	14	8	29	26

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense was as follows:

(in millions)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
Interest on money pool loans	$ 1	$ 1	$ 2	$ 1
Interest on Fidelia loans	6	5	10	7

Other Intercompany Billings

E.ON U.S. Services provides LG&E with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of LG&E, labor and burdens of E.ON U.S. Services employees performing services for LG&E, coal purchases and other vouchers paid by E.ON U.S. Services on behalf of LG&E. The cost of these services is directly charged to LG&E, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services include cash received by E.ON U.S. Services on behalf of LG&E, primarily tax settlements, and other payments made by LG&E on behalf of other non-regulated businesses which are reimbursed through E.ON U.S. Services.

Intercompany billings to and from LG&E were as follows:

(in millions)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
E.ON U.S. Services billings to LG&E	$60	$154	$102	$277
LG&E billings to KU	4	23	5	33
KU billings to LG&E	14	8	37	22
LG&E billings to E.ON U.S. Services	1	28	3	29

In June 2008, LG&E transferred assets related to Trimble County Unit 2 with a net book value of $10 million to KU.

In March 2008, LG&E paid a dividend of $40 million to its common shareholder, E.ON U.S.

Note 10 - Subsequent Events

On July 3, 2008, LG&E made contributions to other postretirement benefit plans of approximately $2 million.

On July 9, 2008, the Louisville Metro 2003 Series A bonds were converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

On July 25, 2008, LG&E borrowed $25 million from Fidelia for a period of 10 years at a fixed rate of 6.21%. The loan is unsecured.

On July 29, 2008, LG&E filed an application with the Kentucky Commission for increases in gas base rates of approximately 4.5% or $30 million annually and in electric base rates of approximately 2.0% or $15 million annually. LG&E has requested the increases based on the twelve month test year ended April 30, 2008. LG&E requested new base rates to become effective on and after September 1, 2008. In conjunction with the filing of the application for changes in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. Under Kentucky Commission practice, new rates will most likely be suspended an additional five months with an effective date on and after February 1, 2009, subject to refund if an order is not issued by such time. The rate review proceeding, which will likely involve opposition filings by intervenors or other third-parties, should be completed in early 2009, subject to a number of factors.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on LG&E's financial results of operations and financial condition during the three and six month periods ended June 30, 2008, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2007.

Executive Summary

Business

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. As of December 31, 2007, LG&E provided natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's electric service area covers approximately 700 square miles in 9 counties. LG&E provides natural gas service in its electric service area and 8 additional counties in Kentucky. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

LG&E is a wholly-owned subsidiary of E.ON U.S., an indirect wholly-owned subsidiary of E.ON, a German corporation, making LG&E an indirect wholly-owned subsidiary of E.ON. LG&E's affiliate, KU, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

In July 2008, LG&E filed an application with the Kentucky Commission for increases in base gas rates of approximately 4.5% or $30 million annually and in base electric rates of approximately 2.0% or $15 million annually. In conjunction with the filing of the application for changes in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. The termination of the VDT and merger surcredit will result in a $21 million increase in revenues annually. These proceedings should be completed by early 2009.

Environmental Matters

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

The electric and gas utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Three Months Ended June 30, 2008, Compared to Three Months Ended June 30, 2007

Net Income

Net income for the three months ended June 30, 2008, decreased $5 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($26 million) and increased other expense ($3 million), partially offset by increased revenues ($21 million), lower income taxes ($2 million) attributable to lower pre-tax income and lower interest expense ($1 million).

Revenues

Electric revenues increased $14 million in the three months ended June 30, 2008, primarily due to:

- Increased wholesale sales ($18 million) due to increased volumes and increased wholesale market pricing
- Increased fuel costs ($3 million) billed to customers through the FAC due to increased fuel prices
- Increased demand side management cost recovery ($2 million) due to additional conservation programs
- Increased ECR surcharge ($2 million) due to increased recoverable capital spending
- Decreased sales volumes to native load ($11 million) due in part to a 19% decrease in cooling degree days

Natural gas revenues increased $7 million in the three months ended June 30, 2008, primarily due to:

- Increased average cost of gas billed to retail customers ($9 million) due to increased gas costs
- Decreased sales volumes ($2 million) due to a 15% decrease in heating degree days

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expense. Increases or decreases in the costs of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $1 million in the three months ended June 30, 2008, primarily due to increased transportation costs.

Power purchased expense increased $6 million in the three months ended June 30, 2008, primarily due to:

- Increased volumes purchased ($7 million) due to increased intercompany purchases
- Decreased native load and industrial sales ($1 million) due to lower industrial production in the Company's service territory

Gas supply expenses increased $7 million in the three months ended June 30, 2008, primarily due to:

- Increased costs of net gas supply ($12 million) primarily due to increased unit costs
- Decreased volumes of natural gas delivered to the distribution system ($5 million) due to decreased demand

Other operation and maintenance expense increased $13 million in the three months ended June 30, 2008, primarily due to increased operation expense ($11 million) and increased maintenance expense ($2 million).

Other operation expense increased $11 million in the three months ended June 30, 2008, primarily due to:

- Increased steam expense ($6 million) in 2008, due to a non-recurring capital lease adjustment in 2007
- Increased demand side management conservation expense ($2 million) due to additional conservation programs
- Increased 401k, medical insurance and pension interest expense ($1 million)
- Increased contract labor and material costs for outages ($1 million)
- Increased generation expense ($1 million)

Maintenance expense increased $2 million in the three months ended June 30, 2008, primarily due to increased electric maintenance due to higher costs for outside contractors and materials.

Interest expense, including interest expense to affiliated companies, decreased $1 million in the three months ended June 30, 2008, primarily due to:

- Decreased interest expense ($3 million) due to less interest related to a capital lease for equipment recorded in 2007
- Increased interest expense ($1 million) due to higher variable rates on pollution control bonds
- Increased interest expense to affiliated companies ($1 million) due to increased borrowing

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	2.9	3.3
Amortization of investment tax credits	(3.4)	(2.8)
Other differences	-	(2.2)
Effective income tax rate	34.5%	33.3%

The effective income tax rate increased for the three months ended June 30, 2008, compared to the three months ended June 30, 2007, due primarily to a non-recurring item in the three-month period ended June 30, 2008. This was partially offset by a decrease in state income taxes net of federal benefit due to an increase in state coal credits and an increase in amortization of investment tax credits due to the changes in levels of pretax income.

Six Months Ended June 30, 2008, Compared to
Six Months Ended June 30, 2007

Net Income

Net income for the six months ended June 30, 2008, decreased $16 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($77 million), increased interest expense to affiliated companies ($4 million) and increased other expense ($3 million), partially offset by increased revenues ($60 million) and lower income taxes ($8 million) attributable to lower pre-tax income.

Revenues

Electric revenues in the six months ended June 30, 2008, increased $15 million primarily due to:

- Increased wholesales sales ($12 million) due to increased wholesale market pricing
- Increased fuel costs ($7 million) billed to customers through the FAC due to increased fuel prices
- Increased ECR surcharge ($4 million) due to increased recoverable capital spending
- Increased demand side management cost recovery ($2 million) due to additional conservation programs
- Decreased sales volumes delivered ($10 million) resulting in part from a 25% decrease in cooling days

Natural gas revenues in the six months ended June 30, 2008, increased $45 million primarily due to:

- Increased average cost of gas ($36 million) billed to retail customers due to increased gas costs
- Increased sales volumes delivered ($11 million) due to a 5% increase in heating degree days
- Decreased wholesale sales ($2 million) due to decreased volumes

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expense. Increases or decreases in the cost of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $4 million in the six months ended June 30, 2008, primarily due to:

- Increased contract and spot market pricing for coal and natural gas ($11 million) due to increased coal transportation costs
- Decreased generation ($7 million) due to decreased native load sales

Power purchased expense increased $4 million in the six months ended June 30, 2008, primarily due to:

- Increased volumes purchased ($2 million) due to increased intercompany purchases as a result of lower KU native load due to milder weather and lower industrial sales
- Increased fuel costs ($1 million) associated with these intercompany purchases
- Increased prices for purchases used to serve retail customers ($1 million)

Gas supply expense increased $45 million in the six months ended June 30, 2008, primarily due to:

- Increased cost of net gas supply ($41 million) primarily due to increased unit cost
- Increased volumes of natural gas delivered to the distribution system ($4 million) due to increased demand

Other operation and maintenance expense increased $24 million in the six months ended June 30, 2008, primarily due to increased maintenance expense ($12 million) and increased other operation expense ($12 million).

Maintenance expense increased $12 million in the six months ended June 30, 2008, primarily due to:

- Increased boiler and electric plant maintenance expense ($7 million) due to higher cost for outside contractors and materials
- Increased maintenance of overhead lines ($3 million) due to an increase in storm restoration work for 2008
- Increased maintenance supervisor and engineering expense ($1 million) due to engineering consulting and testing costs for new projects in 2008
- Increased gas mains maintenance expense ($1 million)

Other operation expense increased $12 million in the six months ended June 30, 2008, primarily due to:

- Increased steam expense ($7 million) due to a non-recurring capital lease adjustment in 2007
- Increased demand side management conservation expense ($3 million) due to additional conservation programs
- Increased generation expense ($1 million) due to outages
- Increased distribution expense ($1 million) due to increased gas leak repairs and regulatory inspections

Interest expense, including interest expense to affiliated companies, increased $4 million in the six months ended June 30, 2008, primarily due to increased interest expense to affiliated companies due to increased borrowing.

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	2.9	3.3
Reserve release	-	(0.1)
Amortization of investment tax credits	(3.3)	(2.4)
Other differences	(1.3)	(2.5)
Effective income tax rate	33.3%	33.3%

The effective income tax rate for the six months ended June 30, 2008, compared to the six months ended June 30, 2007, remained the same. State income taxes net of federal benefit decreased due to an increase in state coal credits. Amortization of investment tax credits increased due to the changes in levels of pretax income. These items were offset by various other differences.

Liquidity and Capital Resources

LG&E uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. LG&E believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

Cash provided by operations was $168 million and $92 million for the six months ended June 30, 2008 and 2007, respectively.

The 2008 increase of $76 million was primarily the result of increases in cash due to changes in:

- Pension funding ($56 million) due to higher pension funding in 2007
- Other current liabilities ($17 million)
- Accounts receivable ($11 million)
- Other ($11 million)
- Gas supply clause receivable ($4 million)

These increases were partially offset by cash used by changes in:

- Accounts payable ($11 million)
- Earnings, net of non-cash items ($11 million)
- Materials and supplies ($1 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $118 million and $87 million in the six months ended June 30, 2008 and 2007, respectively. Net cash used for investing activities increased $20 million in the six months ended June 30, 2008 compared to 2007, due to increased capital expenditures of $31 million, partially offset by an asset transferred to an affiliate of $10 million and cash provided by changes in long-term derivative liability (non-hedging) of $1 million.

Financing Activities

Net cash outflows from financing activities were $62 million and $7 million in the six months ended June 30, 2008 and 2007, respectively. Net cash used in financing activities increased $55 million in the six months ended June 30, 2008 compared to 2007, due to lower long-term borrowings from affiliated company of $138 million and the reacquisition of bonds in the amount of $131 million, partially offset by increased short-term borrowings from affiliated company of $91 million, the retirement of preferred stock of $91 million in 2007, decreased dividend payments of $29 million, and decreased change in the mark-to-market of long-term derivative liability (cash flow hedge) of $3 million.

See Note 6 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

LG&E expects its capital expenditures for the three year period ending December 31, 2010, to total approximately $735 million, consisting primarily of construction of TC2 totaling approximately $85 million (including $25 million for environmental controls), gas main replacement initiatives of approximately $50 million, redevelopment of the Ohio Falls hydroelectric facility totaling approximately $45 million, a customer care system totaling approximately $30 million and on-going construction related to generation and distribution assets.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

LG&E has a variety of funding alternatives available to meet its capital requirements. LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds of up to $400 million available to LG&E at market-based rates. Fidelia also provides long-term intercompany funding to LG&E. See Note 6 of Notes to Financial Statements.

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Note 7 of Notes to Financial Statements for current commitments. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes the issuance of long-term debt. In November 2007, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds.

LG&E's debt ratings as of June 30, 2008, were:

	Moody's	S&P
Issuer rating	A2	-
Corporate credit rating	-	BBB+

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 6 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds caused by a change in the rating of the entity insuring those bonds.

Controls and Procedures

The Company is responsible for establishing and maintaining adequate internal control over financial reporting. 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 pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; 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 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.

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework . The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the six months ended June 30, 2008, that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

LG&E is no longer subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

Legal Proceedings

For a description of the significant legal proceedings involving LG&E, reference is made to the information under the following captions of LG&E's Annual Report for the year ended December 31, 2007: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in LG&E's Annual Report have not materially changed.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against LG&E. To the extent that damages are assessed in any of these lawsuits, LG&E believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on LG&E's financial position or results of operations.

2008 – 1st Quarter Financial Statements and Additional Information

Louisville Gas and Electric Company

Financial Statements and Additional Information
(Unaudited)

As of March 31, 2008 and 2007

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
DSM	Demand Side Management
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
S&P	Standard & Poor's Rating Service
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2

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Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2008	2007
OPERATING REVENUES:		
Electric	$ 224	$ 222
Gas	191	153
Total operating revenues	415	375
OPERATING EXPENSES:		
Fuel for electric generation	80	76
Power purchased	24	26
Gas supply expenses	153	115
Other operation and maintenance expenses	80	69
Depreciation and amortization	31	31
Total operating expenses	368	317
OPERATING INCOME	47	58
Other expense – net	2	2
Interest expense (Notes 3 and 6)	8	5
Interest expense to affiliated companies (Note 9)	6	3
INCOME BEFORE INCOME TAXES	31	48
Federal and state income taxes (Note 5)	10	16
NET INCOME	$ 21	$ 32

The accompanying notes are an integral part of these financial statements.

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2008	2007
Balance at beginning of period	$ 690	$ 639
Net income	21	32
Subtotal	711	671
Cash dividends declared on stock:		
Cumulative preferred	-	1
Common	40	35
Subtotal	40	36
Balance at end of period	$ 671	$ 635

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	March 31, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 3	$ 4
Restricted cash	2	7
Accounts receivable – less reserves of $2 million as of March 31, 2008 and December 31, 2007	179	189
Accounts receivable from affiliated companies (Note 9)	5	-
Materials and supplies:		
Fuel (predominantly coal)	37	46
Gas stored underground	23	81
Other materials and supplies	31	31
Reacquired bonds	40	-
Prepayments and other current assets (Note 9)	5	13
Total current assets	325	371
Utility plant:		
At original cost	4,364	4,319
Less: reserve for depreciation	1,645	1,619
Net utility plant	2,719	2,700
Deferred debits and other assets:		
Restricted cash	13	12
Prepaid pension assets	15	14
Regulatory assets (Note 2):		
Pension and postretirement benefits	109	110
Other	92	94
Other assets	11	12
Total deferred debits and other assets	240	242
Total assets	$ 3,284	$ 3,313

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	March 31, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 160	$ 120
Notes payable to affiliated companies (Notes 6 and 9)	108	78
Accounts payable	107	111
Accounts payable to affiliated companies (Note 9)	18	57
Customer deposits	20	19
Other current liabilities	32	34
Total current liabilities	445	419
Long-term debt:		
Long-term debt (Note 6)	414	454
Long-term debt to affiliated company (Notes 6 and 9)	410	410
Total long-term debt	824	864
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	341	342
Accumulated provision for pensions and related benefits (Note 4)	95	94
Investment tax credit (Note 5)	46	46
Asset retirement obligation	30	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	244	241
Deferred income taxes – net	49	50
Gas supply adjustment and other	16	19
Long-term derivative liability	29	22
Other liabilities	26	25
Total deferred credits and other liabilities	876	869
Common equity:		
Common stock, without par value – Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	60	60
Accumulated other comprehensive loss	(16)	(13)
Retained earnings	671	690
Total common equity	1,139	1,161
Total liabilities and equity	$ 3,284	$ 3,313

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 21	32
Items not requiring cash currently:		
Depreciation and amortization	31	31
Deferred income taxes – net	(1)	1
Other	(3)	2
Changes in current assets and liabilities:		
Accounts receivable	5	29
Material and supplies	67	48
Accounts payable	(22)	2
Accrued income taxes	-	5
Prepayments and other current assets	8	-
Other current liabilities	(2)	3
Pension and postretirement funding	1	(56)
Gas supply clause receivable, net	(8)	(23)
Other	8	10
Net cash provided by operating activities	105	84
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(67)	(34)
Restricted cash	5	(7)
Net cash used for investing activities	(62)	(41)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings from affiliated company	355	197
Repayment of short-term borrowings from affiliated company	(325)	(241)
Reacquired bonds	(40)	-
Payment of dividends	(40)	(1)
Long-term derivative liability	7	1
Restricted cash	(1)	-
Net cash used in financing activities	(44)	(44)
CHANGE IN CASH AND CASH EQUIVALENTS	(1)	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3	$ 6

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2008	2007
Net income	$ 21	$ 32
Loss on derivative instruments and hedging activities – net of tax benefit/(expense) of $2 million and $(1) million, respectively (Note 3)	(3)	-
Other comprehensive loss, net of tax	(3)	-
Comprehensive income	$ 18	$ 32

The accompanying notes are an integral part of these financial statements.

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited financial statements and notes should be read in conjunction with the Company's annual report for the year ended December 31, 2007, including management's discussion and analysis and the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The Company is currently evaluating the impact of adoption of SFAS No. 161 on its statements of operations, financial position and cash flows.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company expects the adoption of SFAS No. 160 to have no impact on its statements of operations, financial position and cash flows.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No.

159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, the Company will provide additional disclosures relating to its financial derivatives, AROs and pension assets, as required, in 2008.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to LG&E's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2007.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

Louisville Gas and Electric Company
(unaudited)

(in millions)	March 31, 2008	December 31, 2007
ARO	$ 25	$ 24
Unamortized loss on bonds	20	19
GSC adjustments	23	20
MISO exit	12	13
FAC	3	9
ECR	4	4
Other	5	5
Subtotal	92	94
Pension and postretirement benefits	109	110
Total regulatory assets	$ 201	$ 204
Accumulated cost of removal of utility plant	$ 244	$ 241
Deferred income taxes – net	49	50
Gas supply adjustments ($5 and $10 million at March 31, 2008 and December 31, 2007, respectively) and other	16	19
Total regulatory liabilities	$ 309	$ 310

LG&E does not currently earn a rate of return on the GSC adjustments, FAC and gas performance-based ratemaking regulatory assets, all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E will seek recovery of this asset in future proceedings with the Kentucky Commission. LG&E currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit, gas performance-based ratemaking and Mill Creek Ash Pond costs. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO in the next rate case.

MISO Exit. LG&E and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, LG&E paid approximately $13 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. LG&E and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided LG&E with an immediate recovery of less than $1 million and will provide an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in LG&E's next rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. In January 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period May 1, 2007 through October 31, 2007. A public hearing was held in March 2008. An order is anticipated in the third quarter of 2008.

In August 2007, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period of November 1, 2006 through April 30, 2007. A public hearing was held in October 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

ECR. In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of LG&E's environmental surcharge. All parties to the case submitted requests with the Kentucky Commission to waive rights to a hearing on this matter. The Kentucky Commission issued final Orders in March 2008, approving the charges and credits billed through the ECR during the review period, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Other Regulatory Matters

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by LG&E and KU, together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005, and was never appealed.

Initial CCN applications for two transmission lines associated with the TC2 unit were approved in September 2005 and May 2006. One of those CCNs, for a line running from Jefferson County into

Hardin County, was brought up for review to the Franklin Circuit Court by a group of landowners. In August 2006, LG&E, KU and the Kentucky Commission obtained dismissal of that action, on grounds that the landowners had failed to comply with the statutory procedures governing the action for review. That dismissal was appealed by the landowners to the Kentucky Court of Appeals, and in December 2007, that Court reversed the lower court's dismissal and remanded the challenge of the CCN to the Franklin Circuit Court for further proceedings. LG&E, KU and the Kentucky Commission filed for reconsideration of the appellate court's ruling, but those requests were denied in April 2008. LG&E and KU will file a motion for discretionary review with the Kentucky Supreme Court in May 2008, asking that Court to hear the matter and, ultimately, to reverse the Court of Appeals and uphold the Franklin Circuit Court's dismissal.

The referenced transmission lines are also subject to routine regulatory filings and require the acquisition of easements. In April 2008, in proceedings involving the condemnation of an easement for a portion of the Jefferson County to Hardin County transmission line (all rights of way for the other line have been acquired), a Meade County, Kentucky circuit court judge issued a ruling upholding the objections of two co-owners of the property crossed by the easement and dismissed that eminent domain proceeding pending the completion of the CCN appeal described above. LG&E and KU have filed responsive pleadings, including a motion to vacate that decision by the trial court and a procedural request with the Court of Appeals seeking expedited review on a petition to direct the circuit court to proceed with the eminent domain litigation. Additional condemnation proceedings involving other parcels of property to support this same transmission line are also pending in neighboring Hardin County, and three landowners there have now sought dismissal of certain of those proceedings in Hardin County, on the same grounds cited by the Meade County court. LG&E and KU have opposed those efforts to dismiss, and are awaiting ruling by the Hardin County Circuit Court.

Merger Surcredit. In December 2007, LG&E submitted to the Kentucky Commission its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. The Kentucky Commission issued a procedural schedule for this proceeding in March 2008, with data discovery to be completed in May 2008. A public hearing is scheduled in May 2008, and an order is expected by the end of the second quarter of 2008.

DSM. In July 2007, LG&E and KU filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. LG&E and KU filed revised tariffs in April 2008, under authority of this Order.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E is a member of the SERC, which acts as LG&E's RRO. The SERC is currently assessing LG&E's compliance with certain existing mitigation plans resulting from a prior RRO's audit of various reliability standards, and LG&E and SERC are in discussions regarding potential settlement, further mitigation steps or other resolution actions regarding these items. While LG&E believes itself to be in substantial compliance with the mandatory reliability standards, LG&E cannot predict the outcome of the current SERC proceeding or of other analysis which may be conducted regarding compliance with particular reliability standards.

Depreciation Study. In December 2007, LG&E filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received by the Kentucky Commission, the timing of which cannot currently be determined.

Brownfield Development Rider Tariff. In March 2008, LG&E and KU received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E, for implementation within approximately eight months, for its large commercial and industrial customers.

Collection Cycle Revision. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In December 2007, the Kentucky Commission denied LG&E's request to shorten the collection cycle. LG&E filed a motion with the Kentucky Commission for reconsideration and received an Order granting approval. The Kentucky Commission issued additional data requests to LG&E in February 2008. An order is anticipated in the second quarter of 2008.

Note 3 - Financial Instruments

Effective January 1, 2008, LG&E adopted the required provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which will be adopted effective January 1, 2009, consistent with FASB Staff Position 157-2. LG&E has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by SFAS No. 157.

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. The fair values of the swaps reflect price quotes from dealers. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity.

The following table sets forth by level within the fair value hierarchy LG&E's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2008. There are no Level 2 or Level 3 measurements for this period.

Recurring Fair Value Measurements (in millions)	Level 1
Liabilities:	
Interest rate swaps	$29
Total	$29

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of March 31, 2008 and December 31, 2007. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 2.16% at March 31, 2008. The swap agreements in effect at March 31, 2008, have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. LG&E's hedges have been determined to be highly effective. For the three months ended March 31, 2008, the Company recorded a pre-tax loss of $6 million in other comprehensive income to reflect the ineffective portion of the hedge. Amounts in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $13 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

Energy Trading and Risk Management Activities (non-hedging derivatives). LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended.

The table below summarizes LG&E's energy trading and risk management activities for the three months ended March 31, 2007:

(in millions)	
Fair value of contracts at beginning of period, net asset	$ 1
Unrealized gains and losses recognized at contract inception during the period	-
Realized gains and losses recognized during the period	-
Changes in fair values attributable to changes in valuation techniques and assumptions	(2)
Other unrealized gains and losses and changes in fair values	-
Fair value of contracts at end of period, net (liability) asset	$ (1)

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at March 31, 2007, had a maturity of less than one year. There were no contracts outstanding at March 31, 2008. All amounts for 2008 are less than $1 million. Energy trading and risk management contracts are valued using Level 1, prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three months ended March 31:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	2008	2007	2008	2007
Service cost	$ 1	$ 1	$ -	$ 1
Interest cost	6	8	1	1
Expected return on plan assets	(7)	(11)	-	-
Amortization of prior service costs	1	2	1	1
Amortization of actuarial loss	-	1	-	-
Benefit cost year-to-date	$ 1	$ 2	$ 1	$ 2

Net periodic benefit costs incurred by employees of LG&E are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to LG&E.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In March 2008, LG&E made contributions to other postretirement benefit plans of approximately $2 million. LG&E anticipates making further voluntary contributions in 2008 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including LG&E, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company, or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

LG&E adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109,* effective January 1, 2007. At the date of adoption, LG&E had $1 million of unrecognized tax benefits related to federal and state income taxes. If recognized, the entire $1 million of unrecognized tax benefits would reduce the effective income tax rate.

Possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total less than $1 million, and are based on the expiration of statutes during 2008.

LG&E, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, LG&E recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest is recorded as interest expense and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheets, on a pre-tax basis. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes.

The amount LG&E recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at March 31, 2008 and March 31, 2007. At the date of adoption, LG&E accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by LG&E upon adoption of FIN 48, or through March 31, 2008.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E received an Order from the Kentucky Commission approving the accounting of the investment tax credit. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $1 million and $3 million during the three months ended March 31, 2008 and March 31, 2007, respectively, decreasing current federal income taxes.

In March 2008, certain groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was violative of certain environmental laws and demanded relief, including suspension or termination of the program. LG&E is monitoring, but is not currently a party to, this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 - Short-Term and Long-Term Debt

LG&E's long-term debt includes $160 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Jefferson County Series 2001 A and B, Trimble County Series 2001 A and B and Jefferson County Series 2005 A. Maturity dates for these bonds range from 2026 to 2035. LG&E does not expect to pay these amounts in 2008. The average annualized interest rate for these bonds during the three months ended March 31, 2008, was 3.23%.

During June 2007, LG&E's five existing lines of credit totaling $185 million expired and were replaced with short-term bilateral lines of credit facilities totaling $125 million. There was no outstanding balance under any of these facilities at March 31, 2008. During the third quarter of 2007, LG&E extended the maturity date of these facilities through June 2012.

Pollution control series bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during April 2007, the county's debt was also secured by an equal amount of LG&E's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless LG&E defaults on the loan agreement.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At March 31, 2008, LG&E had an aggregate $574 million of outstanding pollution control indebtedness, of which $354 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" where there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture, which can be as high as 15%. During the three months ended March 31, 2008 and March 31, 2007, the average rate on the auction rate bonds was 4.82% and 3.65%, respectively. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first quarter of 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer. In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A, 2007 Series A and B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. These conversions were completed in March 2008, for the 2005 Series and in April 2008, for the two 2007 Series. In connection with the conversions, LG&E purchased the bonds from the remarketing agent. In March 2008, LG&E issued notices to bondholders of its intention to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in May 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent. LG&E will hold some or all of such bonds until a later date, including potential further conversion, remarketing or refinancing. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemption and refinancing, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures. See Note 10, Subsequent Events.

LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds available to LG&E at market-based rates (based on highly rated commercial paper issues) of up to $400 million. Details of the balances were as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2008	$400	$108	$292	3.08%
December 31, 2007	$400	$78	$322	4.75%

E.ON U.S. maintains a revolving credit facility totaling $311 million at March 31, 2008 and $150 million at December 31, 2007, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2008	$311	$94	$217	3.36%
December 31, 2007	$150	$62	$88	4.97%

There were no redemptions or issuances of long-term debt year-to-date through March 31, 2008.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report for the year ended December 31, 2007 (including in Notes 2 and 9 to the financial statements of LG&E contained therein). See the above-referenced notes in LG&E's Annual Report regarding such commitments or contingencies.

Construction Program. LG&E had approximately $105 million of commitments in connection with its construction program at March 31, 2008.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division for Air Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the Kentucky Division for Air Quality issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to LG&E's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. LG&E's weighted-average company-wide emission rate for SO_2 in the first quarter of 2008 was approximately 0.51 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality and the Louisville Metro Air Pollution Control District. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In February 2008, a federal appellate court issued a decision vacating the CAMR, but the EPA and other parties have filed a motion for rehearing. Depending on the final outcome of the pending appeal, the CAMR could be superceded by new mercury reduction rules with different or more stringent requirements. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR, but those state requirements are likely to be revised to reflect the outcome of the challenge to the CAMR at the federal level. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants, but those rules are not expected to have a material impact on LG&E's power plant operations.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2007 time period at a cost of $197 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge mechanisms. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve the emissions reductions mandated by the CAIR, LG&E expects to incur additional capital expenditures totaling $130 million during the 2008 through 2010 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain projects undertaken at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. The Companies have complied with the information requests and are not able to predict further proceedings in this matter at this time.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station and ongoing claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment for the three months ended March 31 follow:

	Three Months Ended March 31,	
(in millions)	2008	2007
LG&E Electric		
Revenues	$ 224	$ 222
Net income	11	21
Total assets	2,680	2,570
LG&E Gas		
Revenues	191	153
Net income	10	11
Total assets	604	553
Total		
Revenues	415	375
Net income	21	32
Total assets	3,284	3,123

Note 9 - Related Party Transactions

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between LG&E and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between LG&E and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under PUHCA 2005 and the applicable Kentucky Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

LG&E and KU purchase energy from each other in order to effectively manage the load of their retail and wholesale customers. These sales and purchases are included in the statements of income as electric operating revenues and purchased power operating expense. LG&E intercompany electric revenues and purchased power expense for the three months ended March 31, were as follows:

(in millions)	2008	2007
Electric operating revenues from KU	$27	$30
Purchased power from KU	14	18

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense for the three months ended March 31, was as follows:

(in millions)	2008	2007
Interest on money pool loans	$ 1	$ 1
Interest on Fidelia loans	5	3

Other Intercompany Billings

E.ON U.S. Services provides LG&E with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of LG&E, labor and burdens of E.ON U.S. Services employees performing services for LG&E and vouchers paid by E.ON U.S. Services on behalf of LG&E. The cost of these services is directly charged to LG&E, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned combustion turbines and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services include cash received by E.ON U.S. Services on behalf of LG&E, primarily tax settlements, and other payments made by LG&E on behalf of other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from LG&E for the three months ended March 31 were as follows:

(in millions)	2008	2007
E.ON U.S. Services billings to LG&E	$42	$123
LG&E billings to KU	1	10
KU billings to LG&E	23	14
LG&E billings to E.ON U.S. Services	3	1

In March 2008, LG&E paid a dividend of $40 million to its common shareholder, E.ON U.S. LLC.

Note 10 - Subsequent Events

On April 4, 2008, the 2007 Series A and B bonds were converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

On May 1, 2008, the 2000 Series A bonds were converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on LG&E's financial results of operations and financial condition during the three month period ended March 31, 2008, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2007.

Executive Summary

Business

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. As of December 31, 2007, LG&E provided natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties. LG&E also provides natural gas service in limited additional areas. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

LG&E is a wholly-owned subsidiary of E.ON U.S., an indirect wholly-owned subsidiary of E.ON, a German corporation, making LG&E an indirect wholly-owned subsidiary of E.ON. LG&E's affiliate, KU, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

Environmental Matters

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

The electric and gas utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Net Income

Net income for the three months ended March 31, 2008, decreased $11 million compared to the same period in 2007. The decrease was primarily the result of increased operating expenses ($51 million) and increased interest expense ($6 million), partially offset by increased revenues ($40 million) and decreased income taxes ($6 million), attributable to a decreased pre-tax income.

Revenues

Electric revenues in the three months ended March 31, 2008, increased $2 million primarily due to:

- Increased fuel costs ($5 million) billed to customers through the FAC due to higher fuel costs (coal and natural gas) and higher transportation costs
- Increased ECR surcharge ($2 million) due to increased recoverable capital spending
- Decreased wholesale sales ($5 million) due to increased native load demand

Natural gas revenues in the three months ended March 31, 2008, increased $38 million primarily due to:

- Increased average cost of gas billed to retail customers ($23 million) due to higher gas expenses
- Increased volumes ($17 million), resulting from an 8% increase in heating degree days in the first quarter of 2008 as compared to the same period in 2007
- Decreased wholesale sales ($2 million)

Expenses

Fuel for electric generation and natural gas supply expenses comprise a large component of total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission and the FERC.

Fuel for electric generation increased $4 million in the three months ended March 31, 2008, primarily due to:

- Increased spot market pricing for coal/natural gas ($7 million) due to mine safety compliance costs and higher transportation costs
- Decreased generation ($3 million) due to lower wholesale sales

Power purchased expense decreased $2 million in the three months ended March 31, 2008, primarily due to:

- Decreased volumes purchased ($5 million) due to lower intercompany purchases and higher native load
- Increased cost per mWh of purchases ($3 million) due to higher fuel prices

Gas supply expenses increased $38 million in the three months ended March 31, 2008, primarily due to:

- Increased cost of net gas supply ($29 million) due to higher inventory unit cost and adjustments to the GSC for recoveries
- Increased volumes of natural gas delivered to the distribution system ($9 million) due to higher demand

Other operation and maintenance expenses increased $11 million in the three months ended March 31, 2008, primarily due to increased maintenance expenses ($9 million) and increased other operation expenses ($2 million).

Maintenance expense increased $9 million in the three months ended March 31, 2008, primarily due to:

- Increased boiler maintenance expense ($5 million) due to spring outages
- Increased electric maintenance ($2 million) due to major inspection work
- Increased contractor and overtime labor ($2 million) related to storm restoration

Other operation expense increased $2 million in the three months ended March 31, 2008, primarily due to:

- Increased scrubber reactant expense ($1 million) due to higher priced lime contract
- Increased labor expense ($1 million) resulting from storm restoration

Interest expense, including interest expense to affiliated companies, increased $6 million in the three months ended March 31, 2008, primarily due to:

- Increased interest expense ($3 million) due to increased variable rates on pollution control bonds
- Increased interest expense to affiliated companies ($3 million) due to increased borrowings from affiliated companies

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	2.7	3.3
Reserve release	0.0	(0.2)
Amortization of investment tax credits	(3.2)	(2.1)
Other differences	(2.3)	(2.7)
Effective income tax rate	32.2%	33.3%

The effective income tax rate decreased for the three months ended March 31, 2008, compared to the three months ended March 31, 2007, due primarily to a decrease in state income taxes net of federal benefit due to an increase in state coal credits and a decrease in amortization of investment tax credits due to the changes in levels of pretax income.

Liquidity and Capital Resources

LG&E uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. LG&E believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

Cash provided by operations was $105 million and $84 million for the three months ended March 31, 2008 and 2007, respectively.

The 2008 increase of $21 million was primarily the result of increases in cash due to changes in:

- Pension and post retirement funding ($57 million) due to higher pension funding in 2007
- Materials and supplies ($19 million)
- Gas supply clause receivable ($15 million)
- Prepayments and other current assets ($8 million)

These increases were partially offset by cash used by changes in:

- Accounts payable ($24 million)
- Accounts receivable ($24 million)
- Earnings, net of non-cash items ($18 million)
- Other current liabilities ($5 million)
- Accrued income taxes ($5 million)
- Other ($2 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $67 million and $34 million in the three months ended March 31, 2008 and 2007, respectively. Net cash used for investing activities decreased $21 million in the three months ended March 31, 2008 compared to 2007, due to decreased capital expenditures of $33 million and increased restricted cash of $12 million. Restricted cash represents the escrowed proceeds of the Pollution Control Bonds issued which are disbursed as qualifying costs are incurred.

Financing Activities

Net cash outflows from financing activities were $44 million in the three months ended March 31, 2008 and 2007, respectively.

See Note 6 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

LG&E expects its capital expenditures for the three year period ending December 31, 2010, to total approximately $735 million, consisting primarily of construction of TC2 totaling approximately $85 million (including $25 million for environmental controls), gas main replacement initiatives of approximately $50 million, redevelopment of the Ohio Falls hydroelectric facility totaling approximately $45 million, a customer care system totaling approximately $30 million and on-going construction related to generation and distribution assets.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

LG&E has a variety of funding alternatives available to meet its capital requirements. LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds of up to $400 million available to LG&E at market-based rates. Fidelia also provides long-term intercompany funding to LG&E. See Note 6 of Notes to Financial Statements.

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Note 7 of Notes to Financial Statements for current commitments. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes the issuance of long-term debt. In

November 2007, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds.

LG&E's debt ratings as of March 31, 2008, were:

	Moody's	S&P
Issuer rating	A2	-
Corporate credit rating	-	BBB+

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 6 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds.

Controls and Procedures

The Company is responsible for establishing and maintaining adequate internal control over financial reporting. 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 pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; 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 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.

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework . The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2008, that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

LG&E is no longer subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

Legal Proceedings

For a description of the significant legal proceedings involving LG&E, reference is made to the information under the following captions of LG&E's Annual Report for the year ended December 31, 2007: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in LG&E's Annual Report have not materially changed.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against LG&E. To the extent that damages are assessed in any of these lawsuits, LG&E believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on LG&E's financial position or results of operations.

Report of Certain Material Changes
January 2009 – December 2009

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PUBLIC SERVICE COMMISSION

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Louisville Gas and Electric Company
State Regulation and Rates
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February 6, 2009

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Mr. Derouen:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to January 2009, LG&E filed a unanimous Settlement Agreement, Stipulation, and Recommendation for the consolidated depreciation and base rate electric and gas cases.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

LG&E
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PUBLIC SERVICE
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Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

March 6, 2009

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Mr. Derouen:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes regarding which LG&E believe it may have filed a Form 8-K with the Securities and Exchange Commission ("SEC") if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to February 2009, LG&E reports the following:

- Issuance of the Commission's Order approving the settlement agreement in LG&E's base gas and electric rate cases.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar