E.ON U.S. LLC

Response to the AG's Request for Information
Dated February 1, 2008

Case No. 2007-00455

Question No. 98

Witness: Valerie L. Scott

Q-98. Please provide the most recent 10-K filings with the SEC, to the extent they exist for:

a. E.ON

b. LG&E

c. LEC

d. WKEC

e. LEM, and,

f. any other subsidiaries or affiliates involved in the Lease Agreement or Power Purchase Agreement.

A-98. a. E.ON U.S. LLC has never been required to file a Form 10-K with the SEC as it is not a registered public company.

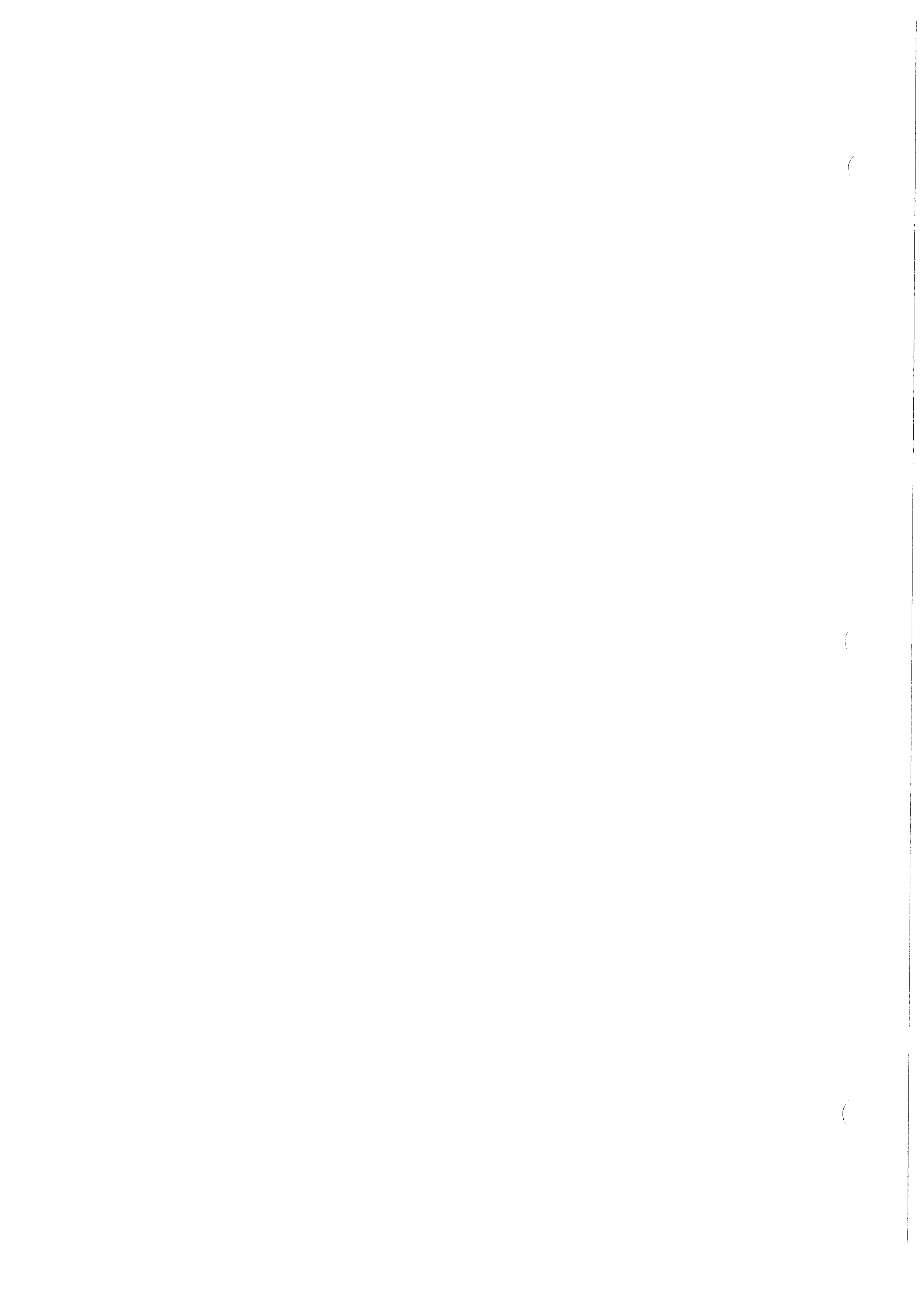
b. Attached is a copy of Louisville Gas and Electric Company's December 31, 2006 Form 10-K.

c. Attached is a copy of LG&E Energy Corp.'s December 31, 1999 Form 10-K. LG&E Energy Corp. did not file Form 10-K after its acquisition in December 2000, by PowerGen.

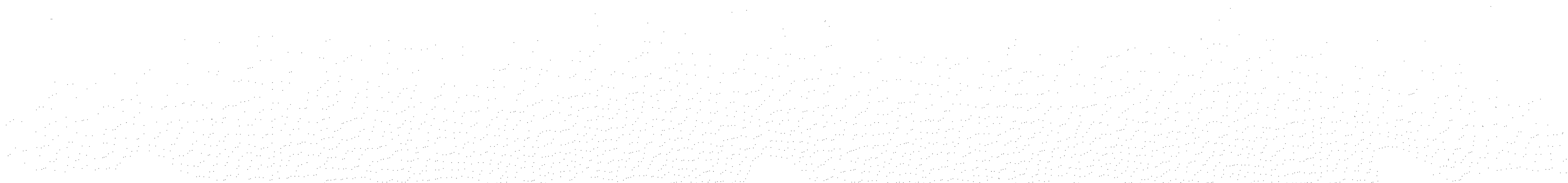
d. Western Kentucky Energy Corp. has never been required to file a Form 10-K with the SEC as it is not a registered public company.

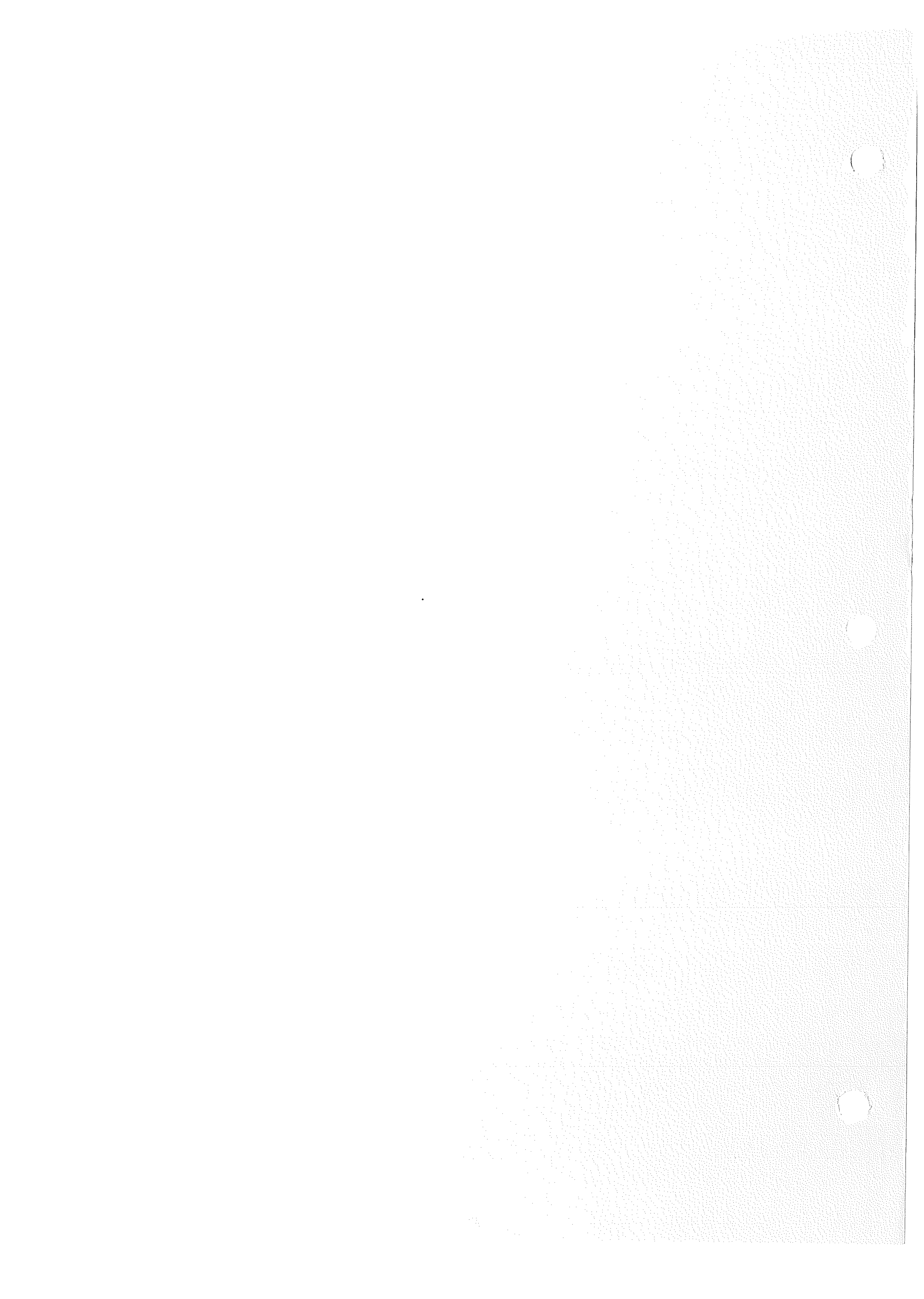
e. LG&E Energy Marketing Inc. has never been required to file a Form 10-K with the SEC as it is not a registered public company.

f. No other subsidiaries or affiliates involved in the Lease Agreement or Power Purchase Agreement have been required to file Form 10-K with the SEC.



SEC FORM 10-K – DECEMBER 31, 2006





UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the fiscal year ended December 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

Registrant, State of Incorporation,
Address, and Telephone Number

Louisville Gas and Electric Company

(A Kentucky Corporation)
220 West Main Street
P. O. Box 32010
Louisville, Kentucky 40232
(502) 627-2000

Commission File Number	IRS Employer Identification Number
1-2893	**61-0264150**

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

None.

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

Louisville Gas and Electric Company
5% Cumulative Preferred Stock, $25 Par Value
$5.875 Cumulative Preferred Stock, Without Par Value
Auction Rate Series A Preferred Stock, Without Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

As of June 30, 2006, the aggregate market value of the common stock of Louisville Gas and Electric Company held by non-affiliates was $0. As of February 28, 2007, Louisville Gas and Electric Company had 21,294,223 shares of common stock outstanding, all held by E.ON U.S. LLC.

DOCUMENTS INCORPORATED BY REFERENCE

Louisville Gas and Electric Company's proxy statement, as applicable, to be filed with the Commission during April 2007, is incorporated by reference into Part III of this Form 10-K.

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INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
DOE	Department of Energy
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
ESM	Earnings Sharing Mechanism
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
FT and FT-A	Firm Transportation
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRC	Internal Revenue Code of 1986, as amended
IRP	Integrated Resource Plan
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LG&E	*Louisville Gas and Electric Company*
LG&E Energy	LG&E Energy LLC (now E.ON U.S. LLC)
Mcf	Thousand Cubic Feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator, Inc
MMBtu	Million British thermal units
Mva	Megavolt-ampere
Mw	Megawatts
Mwh	Megawatt hours
NNS	No-Notice Service
NOx	Nitrogen Oxide
OVEC	Ohio Valley Electric Corporation
PBR	Performance-Based Ratemaking
Powergen	Powergen Limited (formerly Powergen plc)
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SO_2	Sulfur Dioxide
TC1	Trimble County Unit 1
TC2	Trimble County Unit 2
Tennessee Gas	Tennessee Gas Pipeline Company
Texas Gas	Texas Gas Transmission LLC
VDT	Value Delivery Team Process
WNA	Weather Normalization Adjustment

PART I

Item 1. Business.

LG&E is a subsidiary of E.ON U.S. LLC (E.ON U.S.) (formerly known as LG&E Energy LLC and LG&E Energy Corp.). E.ON U.S. is a subsidiary of E.ON AG (E.ON), a German corporation. E.ON acquired LG&E Energy through its July 1, 2002 acquisition of Powergen plc, now Powergen Limited, a United Kingdom company and holding company for E.ON UK plc, E.ON's United Kingdom market unit operating parent. As contemplated in their regulatory filings in connection with the E.ON acquisition, E.ON, Powergen and E.ON U.S. completed an administrative reorganization to move the E.ON U.S. group from an indirect Powergen subsidiary to an indirect E.ON subsidiary. This reorganization was effective in March 2003. In early 2004, E.ON U.S. began direct reporting arrangements to E.ON.

LG&E is now an indirect subsidiary of E.ON. As a result of these acquisitions and otherwise, E.ON and E.ON U.S. registered as holding companies under PUHCA 2005 in June 2006, and were formerly registered holding companies under PUHCA 1935.

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 order to comply with PUHCA 1935, E.ON U.S. Services (formerly LG&E Energy Services), which was formed as a subsidiary service company of E.ON U.S., provides services to affiliated entities, including LG&E, at cost as permitted under PUHCA 1935 and PUHCA 2005.

E.ON, its utility subsidiaries, including LG&E, and certain of its non-utility subsidiaries are subject to certain regulation by the FERC under the Federal Power Act, PUHCA 2005 and the EPAct 2005, including with respect to record-keeping and reporting, acquisitions and sales of utility securities and properties, financial matters and intra-system sales of goods and services. LG&E believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business. LG&E will seek additional authorization when necessary.

LG&E has continued its separate identity and its preferred stock and debt securities were not affected by these transactions.

General

LG&E, incorporated in 1913 in Kentucky, is a regulated public utility that supplies natural gas to approximately 324,000 customers and electricity to approximately 398,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties and has an estimated population of one million. Included in this area is the Fort Knox Military Reservation, to which LG&E transports natural gas and provides electric service, but does not provide any distribution services. 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 combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers. See Item 2, Properties.

Operating Revenues

For the year ended December 31, 2006, 70% of total operating revenues were derived from electric operations and 30% from natural gas operations. Electric and gas operating revenues and the percentages by class of service on a combined basis for this period were as follows:

(in millions)	Electric	Gas	Combined	% Combined
Residential	$ 272	$ 248	$ 520	48%
Commercial	227	103	330	30%
Industrial	134	16	150	14%
Public authorities	69	19	88	8%
Total retail	702	386	1,088	100%
Wholesale sales	224	1	225	
Gas transported	—	5	5	
Miscellaneous	17	3	20	
Total	$ 943	$ 395	$ 1,338	

See Note 11 of Notes to Financial Statements under Item 8 for financial information concerning segments of business for the three years ended December 31, 2006.

Electric Operations

The sources of LG&E's electric operating revenues and the sales volumes for the three years ended December 31, 2006, were as follows:

(in millions)	2006	2005	2004
ELECTRIC OPERATING REVENUES			
Residential	$ 272	$ 276	$ 241
Commercial	227	221	202
Industrial	134	128	120
Public authorities	69	66	62
Total retail	702	691	625
Wholesale sales	224	259	185
Provision for rate collections (refunds)	—	—	(11)
Miscellaneous	17	37	17
Total	$ 943	$ 987	$ 816

(Thousands of Mwh)	2006	2005	2004
ELECTRIC SALES			
Residential	4,018	4,265	3,923
Commercial	3,614	3,682	3,534
Industrial	3,068	3,077	3,019
Public authorities	1,265	1,268	1,248
Total retail	11,965	12,292	11,724
Wholesale sales	7,621	8,704	7,819
Total	19,586	20,996	19,543

LG&E set its annual peak load of 2,729 Mw on August 3, 2006, when the temperature reached 94 degrees Fahrenheit in Louisville. LG&E's record peak load of 2,754 Mw occurred in July 2005.

The electric utility business is affected by seasonal weather patterns. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. See Results of Operations under Item 7.

LG&E currently maintains a 12% - 14% reserve margin range. At December 31, 2006, LG&E owned steam and combustion turbine generating facilities with a net summer capability of 3,083 Mw and an 80 Mw nameplate-rated hydroelectric facility on the Ohio River with a net summer capability of 48 Mw. See Item 2, Properties. LG&E also obtains power from other utilities under bulk power purchase and interchange contracts. At December 31, 2006, LG&E's system net summer capability, including purchases from others and excluding the hydroelectric facility, was 3,207 Mw.

LG&E uses efficient coal-fired boilers, fully equipped with SO_2 removal systems, to generate most of its electricity. LG&E's weighted-average system-wide emission rate for SO_2 in 2006 was approximately 0.50 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality.

LG&E and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two power stations that burn coal to generate electricity, Kyger Creek Station in Ohio and Clifty

Creek Station in Indiana. LG&E owns 5.63% of OVEC's common stock. Pursuant to current contractual arrangements, LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity.

LG&E was formerly a member of the MISO, a non-profit independent transmission system operator that serves the electrical transmission needs of much of the Midwest. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since its exit from the MISO, LG&E has been operating under a FERC-approved open access-transmission tariff. LG&E further contracted with the Tennessee Valley Authority to act as its reliability coordinator and Southwest Power Pool, Inc. to function as its independent transmission operator, pursuant to FERC requirements, with respect to transmission matters.

LG&E has changed its regional reliability council membership from the Reliability First Corporation to the SERC Reliability Corporation, effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

Gas Operations

The sources of LG&E's natural gas operating revenues and the sales volumes for the three years ended December 31, 2006, were as follows:

(in millions)	2006	2005	2004
GAS OPERATING REVENUES			
Residential	$ 248	$ 265	$ 223
Commercial	103	108	89
Industrial	16	19	15
Public authorities	19	19	15
Total retail	386	411	342
Wholesale sales	1	19	7
Gas transported	5	5	6
Miscellaneous	3	2	2
Total	$ 395	$ 437	$ 357
(Millions of cu. ft.)			
GAS SALES			
Residential	17,816	20,801	21,402
Commercial	8,130	9,131	9,144
Industrial	1,491	1,711	1,736
Public authorities	1,499	1,574	1,646
Total retail	28,936	33,217	33,928
Wholesale sales	149	2,652	1,221
Gas transported	12,000	12,549	13,692
Total	41,085	48,418	48,841

The natural gas utility business is affected by seasonal weather patterns. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. While natural gas usage patterns are seasonal, LG&E received approval from the Kentucky Commission for a WNA mechanism. The WNA

mechanism adjusts the distribution cost recovery component of the natural gas billings of residential and commercial customers to normal temperatures during the heating season months of November through April, somewhat mitigating the effect of weather extremes. In October 2006, the Kentucky Commission approved LG&E's request to extend the current WNA mechanism through April 30, 2009. See Results of Operations under Item 7.

LG&E has five underground natural gas storage fields that help provide economical and reliable natural gas service to ultimate consumers. By using natural gas storage facilities, LG&E avoids the costs associated with typically more expensive pipeline transportation capacity to serve peak winter space-heating loads. LG&E stores natural gas in the summer season for withdrawal in the subsequent winter heating season. Without its storage capacity, LG&E would be forced to buy additional natural gas and pipeline transportation services during the winter months when customer demand increases and when the prices for natural gas supply and transportation services are typically at their highest. Currently, LG&E buys competitively priced natural gas from several large suppliers under contracts of varying duration. LG&E's underground storage facilities, in combination with its purchasing practices, enable it to offer natural gas sales service at competitive rates. At December 31, 2006, LG&E had an inventory balance of natural gas stored underground of approximately 11.6 million Mcf of working natural gas valued at approximately $83 million.

A number of industrial customers purchase their natural gas requirements directly from alternate suppliers for delivery through LG&E's distribution system. These large industrial customers account for approximately one-fourth of LG&E's annual throughput.

During 2006, the maximum daily gas sendout was approximately 380,000 Mcf, occurring on December 7, 2006, when the average temperature for the day was 19 degrees Fahrenheit. Supply on that day consisted of approximately 226,000 Mcf from purchases, approximately 84,000 Mcf delivered from underground storage and approximately 70,000 Mcf transported for industrial customers. For a further discussion, see Gas Supply under Item 1.

Rates and Regulation

E.ON, LG&E's ultimate parent, is a registered holding company under PUHCA 2005 and was a registered holding company under PUHCA 1935. As a registered holding company, E.ON, its utility subsidiaries, including LG&E, and certain of its non-utility subsidiaries have been subject to extensive regulation by the SEC and the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. LG&E believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

In August 2005, President Bush signed into law the EPAct 2005, significantly changing many federal statutes, repealing PUHCA 1935 as of February 8, 2006 and enacting PUHCA 2005. As part of the repeal of PUHCA 1935, the FERC was given more authority over the merger and acquisition of public utilities and more authority over the books and records of public utilities. Despite these increases in the FERC's authority, LG&E believes that the repeal of PUHCA 1935 will lessen its regulatory burdens and provide more flexibility in the event of expansion.

Besides repealing PUHCA 1935, the EPAct 2005 is also expected to have substantial long-term effects on

energy markets, energy investment and regulation of public utilities and holding company systems by the FERC and the DOE. The FERC and the DOE are in various stages of rulemaking in implementing the EPAct 2005. While the precise impact of these rulemakings cannot be determined at this time, LG&E generally views the EPAct 2005 as legislation that will enhance the utility industry going forward.

The Kentucky Commission has regulatory jurisdiction over LG&E's retail rates and service, and over the issuance of certain of its securities. The Kentucky Commission has the ability to examine the rates LG&E charges its retail customers at any time.

Pursuant to Kentucky law, the Kentucky Commission has established the boundaries of the service territory or area of each retail electric supplier in Kentucky (including LG&E), other than municipal corporations. Within this service territory each such supplier has the exclusive right to render retail electric service.

LG&E's retail electric rates contain an FAC, whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to retail electric customers. The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. The Kentucky Commission also requires that electric utilities, including LG&E, file documents relating to fuel procurement and the purchase of power and energy from other utilities.

Prior to 2004, LG&E's retail electric rates were subject to an ESM which set an upper (12.5%) and lower (10.5%) limit for rate of return on equity. Any earnings excess or deficiency was shared 40% with ratepayers and 60% with shareholders. LG&E filed its final 2003 ESM calculations with the Kentucky Commission in March 2004 and applied for recovery of $13 million which was challenged by intervenors. In June 2004, the Kentucky Commission issued an Order largely accepting proposed settlement agreements by LG&E and the intervenors regarding the ESM. Under the settlements, LG&E continued to collect the $13 million of previously requested 2003 ESM revenue through March 2005. As part of the settlements, the parties agreed to a termination of the ESM relating to all periods after 2003. For discussion of current ESM matters, see Note 2 of Notes to Financial Statements under Item 8.

In June 2001, LG&E filed an application ("VDT case") with the Kentucky Commission to create a regulatory asset relating to first quarter 2001 charges for a workforce reduction program. In December 2001, the Kentucky Commission approved a settlement in the VDT case and allowed LG&E to establish a regulatory asset of $141 million for the workforce reduction costs and begin amortizing these costs over a five year period starting in April 2001. The settlement reduced revenues by approximately $26 million through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to LG&E) of the stipulated savings, net of amortization costs, of the workforce reduction. For discussion of current VDT matters, see Note 2 of Notes to Financial Statements under Item 8.

LG&E's retail rates contain an ECR surcharge which recovers costs incurred by LG&E that are required to comply with the Clean Air Act and other environmental regulations. See Note 2 of Notes to Financial Statements under Item 8.

LG&E's natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in LG&E's rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by Order of the Kentucky Commission provides for quarterly rate adjustments to reflect the expected cost of natural gas supply in that quarter. In addition, the GSC contains a mechanism whereby any over- or under-

recoveries of natural gas supply cost from prior quarters are to be refunded to or recovered from customers through the adjustment factor determined for subsequent quarters.

Integrated resource planning regulations in Kentucky require LG&E and the other major utilities to make triennial filings with the Kentucky Commission of various historical and forecasted information relating to load, capacity margins and DSM techniques. LG&E filed its most recent IRP in April 2005. The AG and KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report with no substantive issues noted and closed the case by Order in February 2006.

In December 2003, LG&E filed an application with the Kentucky Commission requesting adjustments in LG&E's electric and natural gas rates. In June 2004, the Kentucky Commission issued an Order approving increases in LG&E's annual electric base rates of approximately $43 million (7.7%) and annual natural gas base rates of approximately $12 million (3.4%). The rate increases took effect on July 1, 2004.

Subsequently during 2004 and 2005, the AG conducted an investigation regarding the proceedings resulting in the rate increases. The AG requested information from LG&E and the Kentucky Commission and its staff regarding alleged improper communications between LG&E and the Kentucky Commission related to the rate proceedings. The AG also requested rehearing of the rate increase orders on the basis of these allegations, as well as calculational aspects of the increased rates. In February 2005, the AG submitted a confidential report on its investigation with the Kentucky Commission and filed a motion summarizing the report as containing evidence of improper communications and record-keeping errors by LG&E in respect of its activities with state governmental agencies, including the Kentucky Commission.

In December 2005, the Kentucky Commission issued an Order noting completion of its inquiry, including review of the AG's investigative report. The Order concluded that no improper communications occurred during the rate proceedings. Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating the granted rate increase. In March 2006, the Kentucky Commission issued an Order resolving this issue in LG&E's favor consistent with the original rate increase order.

In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for sale of the Waterside property to the Louisville Arena Authority, a non-profit corporation, in connection with the development and construction of a new multi-purpose arena in downtown Louisville. The Kentucky Commission issued an Order in September 2006, approving the proposed transaction. In November 2006, LG&E entered into a definitive relocation agreement with the Louisville Arena Authority providing for the reimbursement of the costs to be incurred in moving certain facilities related to the arena transaction. Those costs are currently estimated to be approximately $63 million. The parties further entered into a definitive property sale agreement providing for the sale of LG&E's downtown site to the Louisville Arena Authority for approximately $10 million, representing the appraised value of the parcel, less certain agreed upon demolition costs. The amounts specified in the agreements are subject to certain adjustments. Depending upon continuing progress of the proposed arena, the transactions contemplated by the agreements are anticipated to occur between 2006 and 2010.

For a further discussion of regulatory matters, see Note 2 of Notes to Financial Statements under Item 8.

Construction Program and Financing

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric and natural gas needs of its service area. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. LG&E's estimates of its construction expenditures can vary substantially due to numerous items beyond LG&E's control, such as changes in interest rates, economic conditions, construction costs and new environmental or other governmental laws and regulations.

During the five years ended December 31, 2006, gross property additions amounted to approximately $872 million. Internally generated funds and external financings for the five-year period were utilized to provide for these gross additions. The gross additions during this period amounted to approximately 21% of total utility plant at December 31, 2006, and consisted of $698 million for electric properties and $174 million for natural gas properties. Gross retirements during the same period were $171 million, consisting of $138 million for electric properties and $33 million for natural gas properties.

Capital expenditures during the three years ending December 31, 2009, are estimated to be approximately $665 million. The major expenditures during this period relate to the development and construction of TC2, of which LG&E's portion totals approximately $150 million (including $40 million for environmental controls), other environmental control equipment of approximately $80 million and approximately $30 million for the redevelopment of the Ohio Falls hydro facility.

Coal Supply

Coal-fired generating units provided approximately 97% of LG&E's net kilowatt-hour generation for 2006. The remaining net generation for 2006 was provided by natural gas and oil-fueled combustion turbine peaking units and a hydroelectric plant. Coal is expected to be the predominant fuel used by LG&E in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. LG&E has no nuclear generating units and has no plans to build any in the foreseeable future.

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

LG&E has entered into coal supply agreements with various suppliers for coal deliveries for 2007 and beyond and normally augments its coal supply agreements with spot market purchases. LG&E has a coal inventory policy which it believes provides adequate protection under most contingencies. A coal inventory of approximately one million tons, or a 47-day supply, was on hand at December 31, 2006.

LG&E expects to continue purchasing most of its coal, which has sulfur content in the 2% - 3.5% range, from western Kentucky, southern Indiana, southern Illinois, Ohio and West Virginia for the foreseeable future. This supply, in combination with the Company's SO_2 removal systems, is expected to enable LG&E to continue to provide electric service in compliance with existing environmental laws and regulations.

Coal is delivered to LG&E's Mill Creek station by rail and barge, Trimble County station by barge and Cane Run station by rail.

The historical average delivered cost of coal purchased and the percentage of spot coal purchases were:

	2006	2005	2004
Per ton	$ 34.83	$ 30.37	$ 26.25
Per MMBtu	$ 1.51	$ 1.32	$ 1.15
Spot purchases as % of all sources	8%	14%	7%

Gas Supply

LG&E purchases natural gas supplies from multiple sources under contracts for varying periods of time, while transportation services are purchased from Texas Gas and Tennessee Gas.

LG&E transports natural gas on the Texas Gas system under Rate Schedules NNS and FT service. LG&E's winter season NNS levels are 184,900 MMBtu/day and its winter season FT levels are 28,000 MMBtu/day. LG&E's summer season NNS levels are 60,000 MMBtu/day and its summer season FT levels are 28,000 MMBtu/day. Each of the NNS agreements with Texas Gas is subject to termination by LG&E in equal portions during 2008, 2010 and 2011. Each of the FT agreements with Texas Gas is subject to termination by LG&E during 2008 and 2011. LG&E also transports on the Tennessee Gas system under Tennessee Gas' Rate Schedule FT-A. LG&E's contract levels with Tennessee Gas are 51,000 MMBtu/day throughout the year. The FT-A agreement with Tennessee Gas expires during 2012.

LG&E participates in rate and other proceedings affecting the regulated interstate natural gas pipelines that provide it service. Both Texas Gas and Tennessee Gas have active proceedings at the FERC in which LG&E is participating. During 2005, Texas Gas filed an application with the FERC to increase its base rates. Texas Gas began billing its rates subject to refund in that same year, pending approval of final rates by the FERC. Along with other interested parties, LG&E participated in this proceeding. The intervening parties reached a settlement of the issues, and the FERC approved the settlement in 2006. Shortly thereafter, Texas Gas refunded all amounts collected in excess of the final approved rates and refunded the applicable amounts to all customers. LG&E is in the process of refunding its portion of those refunded amounts to its retail customers through the GSC. The rates of Tennessee Gas are not being billed subject to refund.

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

LG&E owns and operates five underground natural gas storage fields with a current working natural gas capacity of approximately 15.1 million Mcf. Natural gas is purchased and injected into storage during the summer season and is then withdrawn to supplement pipeline supplies to meet the gas-system load requirements during the winter heating season. See Gas Operations under Item 1.

The estimated maximum deliverability from storage during the early part of the heating season is expected to be in excess of 350,000 Mcf/day. Under mid-winter design conditions, LG&E expects to be able to withdraw in excess of 300,000 Mcf/day from its storage facilities. The deliverability of natural gas from LG&E's storage facilities decreases as storage inventory levels are reduced by seasonal withdrawals.

LG&E relies upon its significant underground storage to mitigate the price volatility to which customers might otherwise be exposed. In 2000, the Kentucky Commission issued an Order establishing Administrative Case

No. 384 — *An Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of such Increase on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Distribution Companies*. Subsequent to this investigation, the Kentucky Commission issued an Order in July 2001, encouraging natural gas distribution companies in Kentucky to take various actions, among them to propose a natural gas hedge plan. LG&E currently operates under a hedge plan proposed by LG&E beginning with the 2004/2005 winter heating season. This hedge plan relies upon LG&E's underground natural gas storage to mitigate customer exposure to price volatility. In 2004, the Kentucky Commission approved LG&E's proposed hedge plan, validating the effectiveness of storage to mitigate potential volatility associated with high winter natural gas prices. The Kentucky Commission also ordered that LG&E need not file hedge plans in the future unless it intended to utilize financial hedging instruments.

The average cost per Mcf of natural gas purchased by LG&E was $7.80 in 2006, $10.23 in 2005 and $7.18 in 2004. For further discussion of wholesale natural gas prices, see Note 2 of Notes to Financial Statements under Item 8.

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. For the five-year period ending with 2006 expenditures for pollution control facilities represented $179 million or 20% of total construction expenditures. LG&E estimates that construction expenditures for environmental control equipment from 2007 through 2009 will be approximately $120 million. For a discussion of environmental matters, see Note 9 of Notes to Financial Statements under Item 8.

In October 2006, E.ON U.S., LG&E and KU announced plans to provide up to $25 million over a period of up to twelve years to FutureGen Industrial Alliance, Inc. ("FutureGen"), a non-profit consortium. FutureGen will conduct research, development and demonstration activities relating to advanced coal technologies, including proposed construction of the world's first coal-fired, "near zero emissions" power plant. Among the members of FutureGen are companies with interests in coal-fired electric power generation or coal production. FutureGen has signed an initial cooperative agreement with the DOE and expects to sign a full-scope cooperative agreement in 2007. Beyond their initial aggregate membership amount and contributions paid through 2006 of approximately $1 million, E.ON U.S., LG&E and KU have rights at sequential future times to terminate participation prior to incurring the obligation to contribute the relevant remaining contribution amounts.

Competition

At this time, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on LG&E, which may be significant, cannot currently be predicted. Some states that have already deregulated have begun discussions that could lead to re-regulation.

Over the last several years, LG&E has taken many steps to maintain efficient rate structures while achieving high levels of customer satisfaction, including: an increase in focus on commercial, industrial and residential customers; an increase in employee involvement and training; and continuous modifications of its organizational structure. LG&E also strives to control costs through competitive bidding and process improvements. LG&E's performance in national customer satisfaction surveys continues to be high.

EMPLOYEES AND LABOR RELATIONS

LG&E had approximately 917 full-time regular employees at February 28, 2007. Of the total, 632 operating, maintenance and construction employees were represented by the IBEW Local 2100. LG&E and employees represented by the IBEW Local 2100 signed a three-year collective bargaining agreement in November 2005 with annual benefits re-openers.

E.ON U.S. Services provides services to affiliated entities, including LG&E, at cost as permitted under PUHCA 2005. On February 28, 2007, approximately 993 employees worked for E.ON U.S. Services.

Executive Officers of LG&E at February 28, 2007:

Name	Age	Position	Effective Date of Election to Present Position
Victor A. Staffieri	51	Chairman of the Board, President and Chief Executive Officer	May 1, 2001
John R. McCall	63	Executive Vice President, General Counsel and Corporate Secretary	July 1, 1994
S. Bradford Rives	48	Chief Financial Officer	September 15, 2003
Paul W. Thompson	50	Senior Vice President - Energy Services	June 7, 2000
Chris Hermann	59	Senior Vice President - Energy Delivery	February 14, 2003
Wendy C. Welsh	53	Senior Vice President - Information Technology	December 11, 2000
Martyn Gallus	42	Senior Vice President - Energy Marketing	December 11, 2000
Paula H. Pottinger	50	Senior Vice President - Human Resources	January 2, 2006

Other Officers of LG&E at February 28, 2007:

Name	Age	Position	Effective Date of Election to Present Position
David A. Vogel*	41	Vice President - Retail and Gas Storage Operations	March 1, 2003
Michael S. Beer	48	Vice President - Federal Regulation and Policy	September 27, 2004
George R. Siemens	57	Vice President - External Affairs	January 11, 2001
D. Ralph Bowling	49	Vice President - Power Operations WKE	August 1, 2002
R. W. Chip Keeling	50	Vice President - Communications	March 18, 2002
John N. Voyles, Jr.	52	Vice President - Regulated Generation	June 16, 2003
Daniel K. Arbough	45	Treasurer	December 11, 2000
Valerie L. Scott	50	Controller	January 1, 2005

Officers generally serve in the same capacities at LG&E and its affiliates, E.ON U.S. and KU.

* Mr. Vogel announced his resignation from the Company during March 2007.

The present term of office of each of the above executive and other officers extends to the meeting of the Board of Directors following the 2007 Annual Meeting of Shareholders.

There are no family relationships between or among executive and other officers of LG&E. The above tables indicate officers serving as executive officers of LG&E at February 28, 2007.

Before he was elected to his current position, Mr. Staffieri was President and Chief Operating Officer of LG&E Energy from March 1999 to April 2001 (including President of LG&E from June 2000 to April 2001).

Mr. McCall has been Executive Vice President, General Counsel and Corporate Secretary of LG&E Energy and LG&E since July 1994.

Before he was elected to his current position, Mr. Rives was Senior Vice President - Finance and Controller of LG&E Energy and LG&E from December 2000 to September 2003.

Before he was elected to his current position, Mr. Thompson was Senior Vice President - Energy Services for LG&E Energy from August 1999 to June 2000.

Before he was elected to his current position, Mr. Hermann was Senior Vice President - Distribution Operations, from December 2000 to February 2003.

Before she was elected to her current position, Ms. Welsh was Vice President - Information Technology from February 1998 to December 2000 for LG&E Energy.

Before he was elected to his current position, Mr. Gallus was Vice President, Energy Marketing from August 1998 to December 2000 for LG&E Energy.

Before she was elected to her current position, Ms. Pottinger was Director, Human Resources from June 1997 to June 2002 and Vice President - Human Resources from June 2002 to January 2006.

Before he was elected to his current position, Mr. Vogel was Vice President - Retail Services from December 2000 to March 2003.

In addition to being elected to his current position, Mr. Arbough has held the positions of Director, Corporate Finance of LG&E Energy and LG&E from May 1998 to present.

Before he was elected to his current position, Mr. Beer was Senior Counsel Specialist, Regulatory from February 2000 to February 2001 and Vice President - Rates and Regulatory from February 2001 to September 2004.

Before he was elected to his current position, Mr. Siemens held the position of Director of External Affairs for LG&E Energy from August 1982 to January 2001.

Before he was elected to his current position, Mr. Bowling was General Manager Black Fossil Operations for E.ON U.K. in the United Kingdom from January 2002 to August 2002.

Before he was elected to his current position, Mr. Keeling was Director, Corporate Communications for LG&E

Energy from February 2000 to March 2002.

Before he was elected to his current position, Mr. Voyles was General Manager, Cane Run, Ohio Falls and Combustion Turbines, November 1998 to February 2003 and Director, Generation Services, February 2003 to June 2003.

Before she was elected to her current position, Ms. Scott was Director, Trading Controls and Energy Marketing Accounting from February 1999 to September 2002 and Director, Financial Planning and Accounting - Utility Operations from September 2002 to December 2004.

Item 1A. Risk Factors

In addition to the other information in this Form 10-K and other documents furnished to or filed by LG&E with the SEC from time to time, the following factors should be carefully considered in evaluating the Company. Such factors could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

The electric and gas rates that LG&E charges customers, as well as other aspects of the business, are subject to significant state and FERC regulation.

The rates that the Company is allowed to charge for its services are a primary item influencing the results of operations, financial position and liquidity of the Company. The regulation of the rates that are collected from customers is determined, in large part, by governmental organizations outside the Company's control, including the Kentucky Commission. This commission regulates many aspects of utility operations, including financial and capital structure matters, siting and construction of facilities, terms and conditions of service, safety and operations, accounting and cost allocation methodologies and other matters. While rate regulation is premised on recovery of prudently incurred costs and reasonable rate of return on capital, such cannot be assured. Regulatory proceedings regarding all matters of operations can thus significantly affect the earnings, liquidity and business activities of the Company.

Transmission and interstate market activities of LG&E, as well as other aspects of the business, are subject to significant FERC regulation.

The Company's business is subject to regulation under the FERC covering matters including rates charged to transmission users and wholesale customers, interstate market structure and design, construction and operation of transmission facilities, acquisition and disposal of utility assets and securities, Standards of Conduct, Codes of Conduct, cost allocations and financial matters. Existing FERC regulation, changes thereto or issuance of new rules in these areas, can affect the earnings, operations and other activities of the Company.

LG&E's exit from the MISO, as well as changes in transmission and wholesale power market structures, could increase costs or reduce revenues.

LG&E withdrew from the MISO effective September 1, 2006. The resulting changes to transmission and wholesale power market structures and prices are not completely estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. As required by the FERC, in connection with its exit, the Company has engaged two independent third parties to perform certain oversight and functional control activities relating to transmission and related activities. Such activities may have an

effect on the Company's ability to access the transmission system for wholesale, native load and off-system power activities. The Company will save certain MISO membership costs and charges, but is subject to MISO charges for off-system transactions in the MISO day-ahead and real-time energy markets as well as fees related to the new transmission service vendors. The Company believes that, over time, the benefits and savings from its exit of the MISO will outweigh the costs and expenses. However, until post-MISO market conditions and operations have matured, the effects on financial condition, liquidity or results of operations will remain difficult to fully predict.

LG&E undertakes significant capital projects and is subject to unforeseen costs, delays or failures in such projects, as well as risk of full recovery of such costs.

In the ordinary course of business, the Company is continually developing, permitting and constructing new generation and transmission facilities, as well as maintaining and improving existing facilities. The completion of these facilities without delays or cost overruns is subject to risks in many areas including approval and licensing; permitting; construction problems or delays; increases in commodity or equipment prices or in labor rates; contractor performance; weather and geological issues and political, labor and regulatory developments. Delays, additional costs or unsatisfactory regulatory treatment can result in reduced earnings. Further, if construction projects are not completed according to specifications, the Company may incur reduced plant efficiency, higher operating costs or continued capital costs

Projects underway at LG&E include plans to construct a new base-load generating unit, TC2, and associated transmission facilities; the upgrade or construction of other transmission facilities and upgrades to emissions reduction equipment. These projects are in varying stages of construction, planning or regulatory approval.

LG&E's costs of compliance with environmental laws are significant and are subject to continuing changes.

LG&E is subject to extensive federal, state and local environmental requirements which, among other things, regulate air emissions, water discharges and the management of hazardous and solid waste in order to adequately protect the environment. Compliance by the Company requires significant expenditures for installation of pollution control equipment, environmental monitoring, emission fees and permits at all of its facilities. If the Company fails to comply with environmental laws and regulations, even if caused by factors beyond its control, civil or criminal penalties and fines can result. Revised or additional laws and regulations could result in significant additional expense and operating restrictions on LG&E's facilities or increased compliance costs which may not be fully recoverable from customers. The cost impact of such changes would depend upon the specific requirements enacted and cannot be determined at this time

LG&E is undertaking significant emissions construction projects relating to upcoming compliance with the Clean Air Act, CAIR and CAMR standards, among others. Rate recovery and other regulatory proceedings regarding these matters occur periodically and will continue for some time.

LG&E's operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances.

Customer demand for electricity and natural gas is seasonal and can cause extreme variability in load due to higher or lower than normal temperatures. Generally, demand for electricity peaks during the summer and demand for natural gas peaks during the winter. As a result, LG&E's overall operating results can fluctuate

substantially on a seasonal basis. LG&E maintains adequate generating and natural gas supply resources to accommodate system demands for electricity and natural gas. In addition, the Company has generally sold less electricity or natural gas, as applicable, and consequently earned lower revenues, when weather conditions have been milder. However, the natural gas rates contain a WNA mechanism which adjusts the distribution cost recovery component of the natural gas billings of residential and commercial customers to normal temperatures during the heating season months of November through April, somewhat mitigating the effect of weather extremes. Severe weather, such as tornadoes, ice storms, thunderstorms, high wind or floods could also significantly affect the Company's operations by causing power outages, damaging infrastructure and requiring significant repair costs. Terrorism, explosions or fires pose similar risks. LG&E maintains a comprehensive storm management plan for efficient and timely restoration of service to customers after major storm events.

LG&E is subject to risks regarding potential developments concerning global climate change matters.

LG&E is exposed to risks related to possible developments concerning climate change or global warming, including regulations relating to GHG. Such developments could include potential federal or state legislation or industry initiatives limiting GHG emissions, establishing costs or charges on GHG emissions or on fuels relating to such emissions, requiring remediation, sequestration or generation fleet-diversification to address GHG emissions, promoting energy efficiency or other measures. These actions could have substantial effects on the Company's financial condition or results of operations, including increased capital expenditures or operating costs and changes in rate structures, fuel prices or customer demand levels. The Company's generation fleet is predominantly coal-fired and may, as a relative matter, be highly impacted by developments in this area.

LG&E's business is concentrated in the Midwest United States, specifically Kentucky.

The operations of the Company are located in Kentucky and are therefore impacted by changes in the Midwest United States economy in general, and the Kentucky economy in particular. General economic conditions, such as population growth, industrial growth or expansion and economic development, as well as the operational or financial performance of major industries or customers in the Company's service territory can affect the demand for electricity and natural gas.

LG&E is subject to operational risks relating to its generating plants, transmission facilities and distribution equipment.

Operation of power plants, transmission and distribution facilities subjects LG&E to many risks, including the breakdown or failure of equipment, accidents, labor disputes, delivery/transportation problems, disruptions of fuel supply and performance below expected levels. Because LG&E's transmission facilities are interconnected with those of third parties, the operation of its facilities may be adversely affected by unexpected or uncontrollable events occurring on the systems of such third parties. Operation of the Company's power plants below expected capacity levels could result in lost revenues or increased expenses, including higher maintenance costs that may not be recovered from customers. Unplanned outages may result in significant replacement power costs. While LG&E believes appropriate prevention or mitigation measures are in place, where possible, with respect to these potential business disruptions, no assurances can be given that such events will not occur in the future or will not negatively affect its financial condition or results of operations.

LG&E could be negatively affected by rising interest rates, downgrades to credit ratings or other negative developments in its ability to access capital markets.

In the ordinary course of business, the Company has significant long-term and short-term financing requirements to fund its capital expenditures, debt interest or maturities and operating needs. If rating agencies were to downgrade the Company's credit ratings, particularly below investment grade, or withdraw such ratings, it could significantly limit access to the capital market and the Company's borrowing costs could increase. In addition, the Company's financing costs can be affected by financial matters involving its parent holding company, including its overall credit rating, its provision of intra-company financing and the terms and rates of such financing.

LG&E is subject to commodity price risk, credit risk, counterparty risk and other risks associated with the energy business.

LG&E is exposed to market, operating and financial risks common to utility operations. Although the Company operates largely in regulated markets, increases in the cost of power and fuel, such as coal or natural gas, as well as other major inputs and supplies, can affect its margins because authorized rate structures and pass-through cost mechanisms may include timing lags or regulatory discretion which do not lead to full cost recovery. Changes in the wholesale market price for electricity can impact LG&E's financial results by altering the revenues from off-system sales of excess power from period to period. LG&E is also exposed to risk that counterparties could fail to perform their obligations to provide energy, fuel, goods, services or payments resulting in potential increased costs to the Company.

LG&E is subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related benefits.

The Company's funding obligations concerning defined benefit pension and postretirement plans are subject to risks relating to developments in future costs, returns on investments, interest rates and other actuarial matters which may differ from assumptions currently in effect for the plans and may lead to higher required funding outlays. Further, higher wage levels, whether related to collective bargaining agreements or employment market conditions, and costs of providing health care benefits to employees may adversely affect LG&E's results of operations, financial position or liquidity.

Item 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

LG&E's power generating system consists of the coal-fired units operated at its three steam generating stations. Combustion turbines supplement the system during peak or emergency periods. LG&E owns and operates the following electric generating stations unless otherwise stated:

	Summer Capability Rating (Mw)
Steam Stations:	
Mill Creek — Jefferson County, KY	
Unit 1	303
Unit 2	301
Unit 3	391
Unit 4	477
Total Mill Creek	1,472
Cane Run — Jefferson County, KY	
Unit 4	155
Unit 5	168
Unit 6	240
Total Cane Run	563
Trimble County — Trimble County, KY (a)	383
Combustion Turbine Generators (Peaking capability):	
Zorn — Jefferson County, KY	14
Paddy's Run — Jefferson County, KY (b)	119
Cane Run — Jefferson County, KY	14
Waterside — Jefferson County, KY (c)	—
E.W. Brown — Mercer County, KY (d)	190
Trimble County — Trimble County, KY (e)	328
Total combustion turbine generators	665
Total capability rating	3,083

(a) Amount shown represents LG&E's 75% interest. See Notes 9 and 10 of Notes to Financial Statements under Item 8 for further discussion on ownership.

(b) Amount shown represents LG&E's 53% interest in Unit 13 and 100% ownership of Units 11 and 12. See Notes 9 and 10 of Notes to Financial Statements, under Item 8 for further discussion on ownership. Unit 12 was mothballed in November 2006. Life assessment (repair or retire) studies are ongoing.

(c) Pursuant to the Definitive Property Sale Agreement entered into with the Louisville Arena Authority in 2006, the Waterside property will be sold to the Louisville Arena Authority when the relocation of the LG&E assets has been completed, which is expected to occur by the end of 2008. The Waterside units were retired in December 2006.

(d) Amount shown represents LG&E's 53% interest in Unit 5, 38% interest in Units 6 and 7 and 10% of the Inlet Air Cooling system, attributable to Unit 5. See Notes 9 and 10 of Notes to Financial Statements, under Item 8 for further discussion on ownership. KU operates these units on behalf of LG&E.

(e) Amount shown represents LG&E's 29% interest in Units 5 and 6 and LG&E's 37% interest in Units 7, 8, 9 and 10. See Notes 9 and 10 of Notes to Financial Statements, under Item 8 for further discussion on ownership.

LG&E also owns an 80 Mw nameplate-rated hydroelectric generating station located in Jefferson County, Kentucky (Ohio Falls), with an expected summer capability rating of 48 Mw, operated under a license issued by the FERC.

At December 31, 2006, LG&E's electric transmission system included 41 substations (26 of which are shared with the distribution system) with a total capacity of approximately 11,900 Mva and approximately 894 miles of lines. The electric distribution system included 93 substations (26 of which are shared by the transmission system) with a total capacity of approximately 4,940 Mva, 3,931 miles of overhead lines and 2,161 miles of underground conduit.

LG&E's natural gas transmission system includes 260 miles of transmission mains and the natural gas distribution system includes 4,175 miles of distribution mains.

LG&E operates underground natural gas storage facilities with a current working gas capacity of approximately 15.1 million Mcf. See Gas Supply under Item 1.

In 1990, LG&E entered into an operating lease for its corporate office building located in downtown Louisville, Kentucky. The lease was renegotiated in 2002 and is scheduled to expire July 31, 2015.

Other properties owned by LG&E include office buildings, service centers, warehouses, garages and other structures and equipment, the use of which is common to both the electric and gas departments.

The trust indenture securing LG&E's first mortgage bonds constitutes a direct first mortgage lien upon much of the property owned by LG&E. In addition, Fidelia has a second secured lien on the property subject to the first mortgage bond lien for certain of its intercompany loans to LG&E.

ITEM 3. Legal Proceedings.

Rates and Regulatory Matters

For a discussion of current rate and regulatory matters, including electric and natural gas base rate increase proceedings, the Kentucky AG investigation, VDT proceedings, TC2 proceedings, various Kentucky Commission, FERC and MISO proceedings and other rate or regulatory matters affecting LG&E, see Rates and Regulation under Item 1 and Note 2 of Notes to Financial Statements under Item 8.

Environmental

For a discussion of environmental matters including additional reductions in SO_2, NOx and other emissions mandated by recent regulations; items regarding the Cane Run generating station, MGP sites; global warming or climate change matters and other environmental items affecting LG&E, see Executive Summary (Environmental Matters) and Note 9 of Notes to Financial Statements under Item 8.

FERC Audit Results

In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and subsidiaries, including LG&E, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and affiliates have agreed to certain corrective actions and have submitted procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organizational and operational improvements as described above and are not expected to have a material adverse impact on the Company's results of operations or financial condition.

Employment Discrimination Case

In October 2001, approximately 30 employees or former employees filed a complaint against LG&E claiming past and current instances of employment discrimination. LG&E has removed the case to the U.S. District Court for the Western District of Kentucky and filed an answer denying all plaintiffs' claims. To date, the U.S. Equal Employment Opportunity Commission has declined to proceed to litigation on any claims reviewed. Through continuing mediation, settlements have been reached with the majority of plaintiffs, including the lead plaintiff. In November 2006, LG&E obtained dismissal orders on all but two remaining plaintiffs. The complaint contains a claimed damage amount of $100 million as well as requests for injunctive relief, however, all prior settlements have been for non-material amounts and LG&E does not anticipate that the remaining outcome will have a material impact on its operations or financial condition.

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, respectively.

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

PART II.

ITEM 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

All LG&E common stock, 21,294,223 shares, is held by E.ON U.S. Therefore, there is no public market for LG&E's common stock.

The following table sets forth LG&E's cash distributions on common stock paid to E.ON U.S. during 2006:

(in millions)	
First quarter	$ 40
Second quarter	20
Third quarter	35
Fourth quarter	—

LG&E paid cash distributions on common stock to E.ON U.S. in the amount of $39 million in 2005 and $57 million in 2004.

ITEM 6. Selected Financial Data.

	Years Ended December 31				
(in millions)	2006	2005	2004	2003	2002
Operating revenues	$1,338	$1,424	$1,173	$1,094	$1,004
Net operating income	$ 223	$ 230	$ 185	$ 179	$ 173
Net income	$ 117	$ 129	$ 96	$ 91	$ 89
Total assets	$3,184	$3,146	$2,967	$2,882	$2,769
Long-term obligations (including amounts due within one year)	$ 820	$ 821	$ 872	$ 798	$ 617

Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Financial Statements should be read in conjunction with the above information.

ITEM 7. 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 2006, 2005 and 2004 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 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 materially vary. Factors that could cause actual results to materially differ 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; actions by credit rating agencies and other factors described from time to time in LG&E's reports to the SEC, including Risk Factors in Item 1A of this report on Form 10-K and in Exhibit No. 99.01 to this report on Form 10-K.

EXECUTIVE SUMMARY

Business

LG&E is a wholly-owned subsidiary of E.ON U.S., which is an indirect subsidiary of E.ON, a German company. LG&E maintains a separate corporate identity and serves customers in Kentucky.

LG&E, incorporated in 1913 in Kentucky, is a regulated public utility that supplies natural gas to approximately 324,000 customers and electricity to approximately 398,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties and has an estimated population of one million. Included in this area is the Fort Knox Military Reservation, to which LG&E transports natural gas and provides electric service, but does not provide any distribution services. LG&E also provides natural gas service in limited additional areas. LG&E's coal-fired electric generating plants, 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 combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

Customers

The following table provides statistics regarding LG&E's retail customers:

Customers (in thousands)

Retail Customer Data	Electric			Gas			2006% Retail Revenues	
	2006	2005	2004	2006	2005	2004	Electric	Gas
Residential	350	347	343	298	296	293	39%	64%
Industrial & Commercial	42	41	41	25	24	24	51%	31%
Other	6	6	6	1	1	1	10%	5%
Total Retail	398	394	390	324	321	318	100%	100%

Mission

The mission of LG&E is to build on our tradition and achieve world-class status providing reliable, low-cost energy services and superior customer satisfaction; and to promote safety, financial success and quality of life for our employees, communities and other stakeholders.

Strategy

LG&E's strategy focuses on the following:

- Achieve scale as an integrated U.S. electric and gas business through organic growth and acquisitions;
- Maintain excellent customer satisfaction;
- Maintain best-in-class cost position versus U.S. utility companies;
- Develop and transfer best practices throughout the company;
- Invest in infrastructure to meet expanding load and comply with increasing environmental requirements;
- Achieve appropriate regulated returns on all investment;
- Attract, retain and develop the best people; and
- Act with a commitment to corporate social responsibility that enhances the well being of our employees, demonstrates environmental stewardship, promotes quality of life in our communities and reflects the diversity of the society we serve.

Low Rates

LG&E believes it is well positioned in the regulated Kentucky market. LG&E continues to sustain high customer satisfaction, ranking first among all large Midwest utilities for the seventh time in eight years in the J.D. Power and Associates 2006 survey of residential electric customers. This excellent performance is balanced with cost control. The customer benefits of the LG&E culture of cost management are evident in rate comparisons among U.S. utilities. As of July 1, 2006, the average residential rate per thousand Kwh for LG&E customers was 6.54 cents versus the national average of U.S. investor-owned utilities of 10.98 cents.

LG&E must continue to address new cost pressures. The Kentucky Commission accepted the settlement agreements reached by the majority of the parties in the rate cases filed by LG&E in December 2003. New rates, implemented in July 2004, produced approximately $55 million of revenue for LG&E for a full year. Under the settlement agreements, the Company's base electric rates increased approximately $43 million

(7.7%) and base natural gas rates increased approximately $12 million (3.4%) annually. The 2004 increases were the first increases in electric base rates for LG&E in 13 years; the last natural gas rate increase for the Company took effect in September 2000. Competitors also face the same cost pressures that caused LG&E to initiate rate cases (e.g., pensions, benefits and reliability expenditures) and many other utility companies recently had rate cases. Despite these increases, LG&E's rates remain significantly lower than the national average.

Commodity Prices: Fuel and Electricity

Nationally, coal price increases continued during 2006, up approximately 10% from 2005, with modest increases projected over the near term. Nationwide coal stockpiles grew during 2006, due to a surplus of 37 million tons of coal production over consumption, driven by a 1.4% decline in power generation usage of coal and a 3% increase in coal supply.

During 2006, natural gas prices declined significantly from the record levels reached the prior year. During 2005, natural gas prices averaged over $8/MMBtu and spiked as high as $15/MMBtu in late September following hurricanes that interrupted natural gas production activities in the Gulf of Mexico. Prices in 2006 averaged just over $7/MMBtu and fell as low as $4/MMBtu. Price declines are in part the result of ample national gas storage inventories, which are the result of a warmer-than-normal winter in 2005/2006 and the absence of any hurricanes during 2006 that could have otherwise disrupted natural gas supplies in the Gulf of Mexico. Although the supply situation has improved from 2005, the underlying and fundamental U.S. supply/demand imbalance shows no significant signs of immediate or significant improvement.

LG&E's average coal and natural gas purchase prices for the last five years are as follows:

	2006	2005	2004	2003	2002
Coal (per MMBtu)	$ 1.51	$ 1.32	$ 1.15	$ 1.12	$ 1.11
Natural gas (per MMBtu)	$ 7.80	$ 10.23	$ 7.18	$ 6.30	$ 4.19

Actual fuel costs associated with retail electric sales are recovered from customers through the FAC. The FAC allows the Company to adjust customers' accounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component.

Actual natural gas costs are recovered from customers through the GSC. The GSC also contains an incentive component, the PBR component, which is determined for each 12-month period ending October 31.

Generation Reliability

Generation reliability also remains a key aspect to meeting the Company's strategy. LG&E believes that it has maintained good performance and reliability in the key area of utility generation operation. While maintaining low cost levels, LG&E has also been able to generate increasing volumes and expect to continue high levels of availability and low outage levels. This performance is also important to maintaining margins from off-system sales.

Generation Capacity

The installation of Trimble County Units 7-10, completed in 2004, increased LG&E's total system capability by 9%. However, the joint IRP submitted by LG&E and KU to the Kentucky Commission in 2005, outlining the least cost alternative to meet Kentucky's needs, indicated the requirement for additional base-load capacity by 2010. Consequently, LG&E and KU have begun construction of another base-load coal-fired unit at the Trimble County site. LG&E believes this is the least cost alternative to meet the future needs of its customers. TC2, with a 750 MW capacity rating, will be jointly owned by LG&E (14.25%) and KU (60.75%) and IMEA and IMPA (25% owners). TC2 is expected to cost $1.1 billion and be completed by 2010. LG&E's and KU's aggregate 75% share of the total TC2 capital cost is approximately $880 million, of which LG&E will spend approximately $180 million through 2009. Through December 2006, LG&E's expenditures for TC2 have been $32 million. See Note 10 of Notes to Financial Statements.

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.

A CCN application for TC2 construction was filed with the Kentucky Commission in December 2004, and initial CCN applications for three transmission lines were filed in early 2005, with further applications submitted in December 2005. The proposed air permit was filed with the Kentucky Division for Air Quality in December 2004. In November 2005, the Kentucky Commission approved the application to expand the Trimble County generating station. Kentucky Commission approval for one transmission line CCN was granted in September 2005, and a ruling that a second transmission line was not subject to the CCN process was received in February 2006. The Kentucky Commission granted approval for the remaining transmission line CCN in May 2006. In August 2006, LG&E and KU obtained dismissal of a judicial review of such CCN approval by certain property owners. A further appeal of such dismissal was thereafter filed, which action remains pending. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. In November 2005, the Kentucky Division for Air Quality issued the final air permit, which was challenged via a request for remand in December 2005 by three environmental advocacy groups, including the Sierra Club. Administrative proceedings with respect to the challenge continued throughout 2006. A ruling may occur during the first half of 2007.

In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E intends to spend approximately $76 million to refurbish the facility and add approximately 20 Mw of generating capacity over the next six years.

Environmental Matters

In addition to the TC2 project, the second major area of utility investment is environmental expenditures. LG&E is subject to SO_2 and NOx emission limits on its electric generating units pursuant to the Clean Air Act. LG&E placed into operation significant NOx controls for its generating units prior to the 2004 summer ozone season. As of December 31, 2006, LG&E has incurred total capital costs of approximately $187 million since

2000 to reduce its NOx emissions below required levels. In addition, LG&E has incurred additional operating and maintenance costs in operating the new NOx controls.

In March 2005, the EPA issued the final CAIR which requires substantial additional reductions in SO_2 and NOx emissions from electric generating units. The CAIR provides for a two-phased reduction program with Phase I reductions in NOx and SO_2 emissions in 2009 and 2010, respectively, and Phase II reductions in 2015. In March 2005, the EPA issued a related regulation, the final CAMR, which requires substantial mercury reductions from electric generating units. The CAMR also provides for a two-phased reduction, with the Phase I target in 2010 achieved as a "co-benefit" of the controls installed to meet the CAIR. Additional control measures will be required to meet the Phase II target in 2018. Both the CAIR and CAMR establish a cap and trade framework, in which limits are set on total emissions and allowances can be bought or sold on the open market, to be used for compliance, unless the state chooses another approach. LG&E currently has flue gas desulfurization equipment on all its units but will continue to evaluate improvements to further reduce SO_2 emissions.

Kentucky law permits LG&E to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism once approved by the Kentucky Commission. A majority of the applicable environmental costs, those related to servicing our native load, including investment and operating costs, are recoverable through the ECR. The remaining costs, attributable to off-system sales, are not recoverable through the ECR, however, these costs are recoverable in coordination with a general rate case.

COMPANY STRUCTURE

As contemplated in their regulatory filings in connection with the E.ON acquisition of Powergen in 2002, E.ON, Powergen and E.ON U.S. completed an administrative reorganization to move the LG&E Energy Corp. group from an indirect Powergen subsidiary to an indirect E.ON subsidiary. This reorganization was effective in March 2003. In early 2004, E.ON U.S. began direct reporting arrangements to E.ON.

Effective December 30, 2003, LG&E Energy LLC became the successor, by assignment and subsequent merger, to all the assets and liabilities of LG&E Energy Corp.

Effective December 1, 2005, LG&E Energy LLC was renamed E.ON U.S. LLC.

LG&E has continued its separate identity and the preferred stock and debt securities of LG&E were not affected by these transactions.

RESULTS OF OPERATIONS

Net Income

LG&E's net income in 2006 decreased $12 million (9%) compared to 2005. The primary drivers of the decrease were lower wholesale and retail electric sales volumes due to cooler summer weather in 2006 and increased interest expense. Partially offsetting the lower revenues were lower operation and maintenance expenses primarily from the expiration of the VDT amortization and lower costs associated with MISO Day 2.

LG&E's net income related to the electric business in 2006 decreased $12 million (10%) compared to 2005. Electric operating revenues decreased $44 million (4%) primarily due to lower wholesale and retail sales volumes associated with cooler summer weather in 2006 and lower MISO revenues. Partially offsetting the lower revenues were lower operation and maintenance expenses of $20 million (8%) primarily from the expiration of the VDT amortization and lower costs from MISO Day 2. Combined fuel and power purchased expenses in 2006 also declined $15 million (4%) from 2005. Interest expense increased $3 million (10%) in 2006.

LG&E's net income related to the natural gas business was unchanged from 2005.

LG&E's net income in 2005 increased $33 million (34%) compared to 2004. The increase resulted primarily from higher electric revenues due to increased retail sales volumes resulting from warmer summer weather and increased base rates implemented for service rendered on and after July 1, 2004. Wholesale revenues also increased due to higher volumes and higher prices. These increases were partially offset by increased fuel and power purchased costs largely due to MISO Day 2 costs.

LG&E's net income in 2005 related to the electric business increased $32 million (37%) compared to 2004. Electric operating revenues increased $171 million (21%), partially offset by higher fuel for electric generation and power purchased of $123 million (41%). Income tax and depreciation expense increased $12 million (25%) and $6 million (6%), respectively.

LG&E's net income in 2005 related to the natural gas business increased $1 million (11%) compared to 2004. Natural gas operating revenues increased $80 million (22%) offset by higher natural gas supply expenses of $73 million (27%). Other natural gas operation and maintenance expenses increased $4 million (7%) and depreciation expense increased $1 million (6%).

Revenues

The following table presents a comparison of operating revenues for the years 2006 and 2005 with the immediately preceding year.

(in millions) Cause	Increase (Decrease) From Prior Period Electric Revenues 2006	Electric Revenues 2005	Gas Revenues 2006	Gas Revenues 2005
Retail sales:				
Fuel and gas supply adjustments	$ 23	$ 23	$ 20	$ 67
LG&E/KU merger surcredit	3	(1)	—	—
Environmental cost recovery surcharge	3	10	—	—
Earnings sharing mechanism	—	(6)	—	—
Weather normalization adjustment	—	—	4	(3)
Rate changes	—	25	—	5
Variation in sales volumes and other	(18)	27	(48)	(1)
Total retail sales	11	78	(24)	68
Wholesale sales	(35)	73	(18)	12
MISO Day 2	(20)	18	—	—
Other	—	2	—	—
Total	$ (44)	$ 171	$ (42)	$ 80

Electric revenues in 2006 decreased $44 million (4%) primarily due to:

- Decreased wholesale sales ($35 million) primarily resulting from lower sales volumes due to decreased regional demand
- Decreased MISO related revenue ($20 million) due to exit from the MISO
- Decreased sales volumes and other ($18 million) resulting from a 12% decrease in cooling degree days in 2006 as compared to the same period in 2005 (the number of cooling degree days in 2006 was 9% below the 20-year average)
- Increased fuel costs ($23 million) billed to customers through the FAC
- Increased revenue due to lower merger surcredit given to customers based on lower sales volumes ($3 million)
- Increased ECR surcharge ($3 million) billed to customers

Electric revenues in 2005 increased $171 million (21%) primarily due to:

- Increased wholesale sales ($73 million) primarily due to an 11% higher sales volume due to increased regional demand and a 29% increase in prices caused by higher fuel prices
- Increased retail sales volumes and other ($27 million) primarily due to warmer summer weather resulting from a 13% increase in cooling degree days (the number of cooling degree days in 2005 was 14% above the 20-year average)
- Increased rates ($25 million) implemented in July 2004
- Increased fuel costs ($23 million) billed to customers through the FAC
- Increased MISO related revenue ($18 million) due to the inception of MISO Day 2 on April 1, 2005
- Increased ECR surcharge ($10 million) billed to customers
- Decreased ESM revenues ($6 million) billed to customers due to termination of the ESM program

Natural gas revenues in 2006 decreased $42 million (10%) primarily due to:

- Decreased sales volumes and other ($48 million) resulting from a 9% decrease in heating degree days in 2006 as compared to the same period in 2005 (the number of heating degree days in 2006 was 10% below the 20-year average)
- Decreased wholesale sales ($18 million) due to limited market opportunities to sell natural gas off-system
- Increased natural gas supply costs ($20 million) billed to customers through the GSC
- Increased weather normalization revenue ($4 million)

Natural gas revenues in 2005 increased $80 million (22%) primarily due to:

- Increased natural gas supply costs ($67 million) billed to customers through the GSC
- Increased wholesale sales ($12 million) due to increased market opportunities to sell natural gas off-system
- Increased rates ($5 million) implemented in July 2004
- Decreased weather normalization revenue ($3 million)

Expenses

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

Fuel for electric generation increased $12 million (4%) in 2006 primarily due to:

- Increased cost of fuel burned ($15 million) due to higher prices for coal
- Decreased generation ($3 million) due to lower demand

Fuel for electric generation increased $74 million (36%) in 2005 primarily due to:

- Increased cost of fuel burned ($62 million) due to the MISO's dispatch of natural gas-fired units and higher coal and natural gas prices
- Increased generation ($12 million) due to increased demand and the dispatch of units for MISO Day 2

Power purchased expense decreased $27 million (19%) in 2006 primarily due to:

- Decreased volumes purchased ($35 million) due to lower demand
- Increased unit cost per Mwh of purchases ($9 million) due to higher fuel prices

Power purchased expense increased $49 million (53%) in 2005 primarily due to:

- Increased unit cost per Mwh of purchases ($41 million) due to higher fuel prices
- Increased volumes purchased ($8 million) due to increased demand and unit outages
    - Purchased power costs from the MISO due to unit outages totaled $10 million

Gas supply expenses decreased $44 million (13%) in 2006 primarily due to:

- Decreased volumes of natural gas delivered to the distribution system ($64 million) due to milder winter weather
- Increased cost of net gas supply ($20 million) due to higher inventory unit cost

Gas supply expenses increased $73 million (27%) in 2005 primarily due to:

- Increased cost of net gas supply ($62 million) due to the increase in natural gas prices
- Increased volumes of natural gas delivered to the distribution system ($12 million)

Other operation and maintenance expenses decreased $20 million (6%) in 2006 primarily due to decreased other operation expenses ($37 million) partially offset by increased maintenance expenses ($15 million) and property and other taxes ($1 million).

Other operation expenses decreased $37 million (16%) in 2006 primarily due to:

- Decreased administrative and general expense ($21 million) primarily due to the completion of the VDT amortization
- Decreased other power supply costs ($11 million) resulting from lower MISO Day 2 costs
- Decreased electrical transmission costs ($9 million) due to lower MISO related expenses
- Increased steam generation expense ($2 million) primarily for scrubber reactant and waste disposal
- Increased distribution operations costs ($1 million) primarily due to higher storm restoration costs
- Increased underground storage costs ($1 million) due to higher costs of materials and contractor expenses

Maintenance expenses increased $15 million (24%) in 2006 primarily due to:

- Increased steam maintenance ($8 million) primarily related to Mill Creek Unit 4
- Increased distribution maintenance ($5 million) primarily related to vegetation management and storm restoration
- Increased administrative and general maintenance ($2 million)

Other operation and maintenance expenses increased $3 million (1%) in 2005 primarily due to higher other operation expenses ($11 million) and higher property taxes ($2 million), partially offset by lower maintenance expenses ($9 million).

Other operation expenses increased $11 million (5%) in 2005 primarily due to:

- Increased other power supply costs ($17 million) due largely to MISO Day 2 costs ($18 million) for administrative and allocated charges from the MISO for Day 2 operations
- Increased steam generation expense ($4 million) primarily for scrubber reactant and waste disposal
- Increased employee benefit costs ($3 million)
- Increased customer service and collection expenses ($2 million)
- Decreased transmission costs ($11 million), due largely to MISO Day 2 ($13 million). Prior to the MISO Day 2 market, most bilateral transactions required the purchase of transmission; however, with the Day 2 market, most transactions are handled directly with the MISO and no additional transmission is necessary
- Decreased distribution operating costs ($5 million) due to fewer storms

Maintenance expenses decreased $9 million (13%) in 2005 primarily due to:

- Decreased distribution maintenance ($9 million) due to fewer storms
- Decreased steam generation expense ($2 million)
- Increased administrative and general maintenance ($1 million)

Other expense (income) — net decreased $4 million in 2006 primarily due to:

- Decreased other income ($2 million)
- Increased other expense ($2 million)

Other expense (income) expense - net increased $4 million in 2005 primarily due to:

- Increased other income ($2 million)
- Decreased other expense ($1 million)

Interest expense, including interest expense to affiliated companies, increased $4 million (11%) in 2006 primarily due to:

- Increased interest rates on variable rate debt ($5 million)
- Increased interest on tax deficiencies ($2 million)
- Decreased interest expense on swaps ($2 million)

Interest expense, including interest expense to affiliated companies, increased $4 million (12%) in 2005 primarily due to:

- Increased interest rates on variable rate debt ($6 million)
- Increased borrowing from the money pool ($2 million)
- Decreased cost of interest rate swaps ($3 million)
- Decreased costs due to refinancing fixed rate debt with variable rate debt ($1 million)

Details of exposure to variable interest rates on long-term debt are shown in the table below:

	2006	2005	2004
Debt exposed to interest rate risk (in millions)	$363	$363	$306
Debt exposed to interest rate risk as a percentage of long-term debt	44.3%	44.2%	35.1%
Weighted average interest rate on variable rate debt for the year	3.47%	2.49%	1.28%
Weighted average interest rate on total long-term debt at year-end, including expense amortization and interest rate swaps	4.33%	4.13%	3.92%

See Note 7 of Notes to Financial Statements under Item 8.

Variations in income tax expenses are largely attributable to changes in pre-tax income. See Note 6 of Notes to Financial Statements under Item 8.

The rate of inflation may have a significant impact on LG&E's operations, its ability to control costs and the need to seek timely and adequate rate adjustments. However, relatively low rates of inflation in the past few years have moderated the impact on current operating results.

CRITICAL ACCOUNTING POLICIES/ESTIMATES

Preparation of financial statements and related disclosures in compliance with generally accepted accounting principles requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments, in and of themselves, could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. Specific risks for these critical accounting policies are described in the following paragraphs. Each of these has a higher likelihood of resulting in materially different reported amounts under different conditions or using different assumptions. Events rarely develop exactly as forecasted and the best

estimates routinely require adjustment. See also Note 1 of Notes to Financial Statements under Item 8.

Unbilled Revenue. At each month-end LG&E prepares a financial estimate that projects electric and natural gas usage by customers that has not been billed. The estimated usage is based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. At December 31, 2006, a 10% change in these estimated quantities would cause revenue and accounts receivable to change by approximately $5 million ($3 million for electric usage and $2 million for natural gas usage). See also Note 1 of Notes to Financial Statements under Item 8.

Allowance for Doubtful Accounts. At December 31, 2006 and 2005, the LG&E allowance for doubtful accounts was $2 million and $1 million, respectively. The allowance is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter.

Pension and Postretirement Benefits. LG&E has both funded and unfunded non-contributory defined benefit pension and postretirement benefit plans that together cover substantially all of its employees. The plans are accounted for under SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amended SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* and SFAS No. 87, *Employers' Accounting for Pensions*.

The pension and other postretirement benefit plan costs and liabilities are determined on an actuarial basis and are dependent upon numerous economic assumptions, such as discount rates, rates of compensation increases, estimates of the expected return on plan assets and health care cost trend rates and demographic and economic assumptions. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower health care costs or turnover or longer or shorter life spans of participants. These differences may result in a significant impact on the amount of expenses recorded in future periods. The underlying assumptions and estimates related to the pension and postretirement benefit plan costs and liabilities are reviewed annually.

The assumed discount rate, expected return on assets and rate of compensation increases generally have the most significant impact on the pension costs and liabilities. The discount rate is used to calculate the actuarial present value of the benefits provided by the plans. LG&E bases its discount rate assumption on the November Mercer Pension Discount Yield Curve, adjusted by the basis point change in the Moody's Investors Services, Inc. Aa Corporate Bond Rate in December. The Mercer Pension Discount Yield Curve provides a more refined estimate of the discount by matching the plan's specific cash flow to a spot-rate yield curve based on high-quality, fixed-income investments.

The expected long-term rate of return on assets is used to calculate the net periodic pension costs for the plans. To develop the expected long-term rate of return on assets assumption, consideration is given to the current level of expected returns on risk free investments (primarily government bonds), the historical performance of the asset managers versus their respective benchmarks, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on a target asset allocation. For 2006, the actual return

on pension assets was favorable compared to the assumed expected rate of return.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate could have an approximate $47 million positive or negative impact to the 2006 accumulated benefit obligation and an approximate $51 million positive or negative impact to the 2006 projected benefit obligation.

- A 25 basis point change in the expected rate of return on assets would have an approximate $1 million positive or negative impact on 2006 pension expense.

Compensation rate increases are used to calculate service costs and the projected benefit obligation. Such rates are based on a review of LG&E's historical salaries, promotion and bonus increases. For 2006 net periodic pension benefit costs, LG&E used an assumption of 5.25%.

The assumptions related to the discount rate, retirement, turnover and healthcare cost trends, which represent expected rates of increase in health care claim payments, generally have the most significant impact on postretirement benefit plan costs and liabilities. Unlike pensions, however, assumptions about per capita claims cost by age and participation rates also significantly impact postretirement liability computations. A 1% change in the healthcare cost trend rates could have a positive or negative impact on the 2006 postretirement benefit obligation and postretirement expense of approximately $3 million and less than $1 million, respectively.

Additionally, demographic and other economic assumptions affect the pension and postretirement computations. Beginning with the December 31, 2005 liability, LG&E replaced the 1983 Group Annuity Mortality tables for males and females with the RP 2000 combined tables for males and females projected to 2006. These updated mortality tables were used for the 2006 calculation and will be used in subsequent periods.

The benefit obligation is compared with the plan asset values to determine a net position. Asset values are increased primarily by actual rates of return on plan assets and by employer contributions. For an explanation of the investment policy including targeted asset allocations, see Note 5 of Notes to Financial Statements under Item 8.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the IRC. In accordance with these guidelines, LG&E made discretionary contributions to the pension plans of $18 million in 2006 and $35 million in 2004. No contributions were made in 2005. LG&E anticipates making additional contributions as deemed necessary. Additionally, LG&E made contributions of approximately $11 million, $10 million and $9 million to the postretirement plans in 2006, 2005 and 2004, respectively. LG&E may continue to make subsequent contributions in accordance with the maximum funding limitation governed by tax laws. In January 2007, LG&E made a discretionary contribution to the pension plan in the amount of $56 million, which was slightly more than the $52 million accrued benefit liability as of December 31, 2006. In 2007, LG&E anticipates making voluntary contributions to fund the Voluntary Employee Beneficiary Association (VEBA) trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law. See Note 15 of Notes to Financial Statements under Item 8.

As prescribed by SFAS No. 87, LG&E was required to recognize an additional minimum pension liability of $19 million during 2005 since the fair value of the plan assets was less than the accumulated benefit obligation at that time. This additional minimum pension liability was recorded as a reduction to other comprehensive income and

did not affect net income. Historically low corporate bond rates, used to determine the discount rate, significantly increased the potential value of the pension liabilities above the actual value of the plan assets. These provisions of SFAS No. 87 were not applicable to 2006 due to the implementation of SFAS No. 158.

Should poor market conditions return or should interest rates decline, LG&E's unfunded accumulated benefit obligations and future pension expense could increase. The Company believes that such increases are recoverable in whole or in part under future rate proceedings or mechanisms.

See also Notes 5 and 13 of Notes to Financial Statements under Item 8.

Regulatory Mechanisms. Judgments and uncertainties include future regulatory decisions, the impact of deregulation and competition on the ratemaking process and external regulatory decisions. Regulatory assets generally represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections. Management believes, based on Kentucky Commission Orders and historical precedents, the existing regulatory assets and liabilities are probable of recovery. This determination reflects the current regulatory climate in the state. If future recovery of costs ceases to be probable, the assets and liabilities would be required to be recognized in current period earnings. See also Note 2 of Notes to Financial Statements under Item 8.

Income Taxes. Income taxes are accounted for under SFAS No. 109, *Accounting for Income Taxes*. In accordance with this statement, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain.

To provide for these uncertainties or exposures, an allowance is maintained for tax contingencies based on management's best estimate of probable loss. Tax contingencies are analyzed periodically and adjustments are made when events occur to warrant a change. In September 2005, LG&E received notice from the Congressional Joint Committee on Taxation approving the Internal Revenue Service's audit of LG&E's income tax returns for the periods December 1999 through December 2003. As a result of resolving numerous tax matters during these periods, LG&E reduced income tax accruals by $4 million during 2005.

H. R. 4520, known as the "American Jobs Creation Act of 2004" allows electric utilities to take a deduction of up to 3% of their qualified production activities income starting in 2005. This deduction reduced LG&E's effective tax rate by less than 1% for 2006.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan," was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including the reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. As a result of the income tax rate change, LG&E's deferred tax reserve amount will exceed its actual deferred tax liability attributable to existing temporary differences since the new statutory rates are lower than the rates were when the deferred tax liability originated. This excess amount is referred to as excess deferred income taxes. In June 2005 and December 2006, LG&E received approval from the Kentucky Commission to establish and amortize a regulatory liability ($16 million) for its net excess deferred income tax balances.

Under this accounting treatment, LG&E will amortize its depreciation-related excess deferred income tax balances under the average rate assumption method. The average rate assumption method matches the amortization of the excess deferred income taxes with the life of the timing differences to which it relates. Excess deferred income tax balances related to non-depreciation timing differences were expensed in 2005 and 2006.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred taxes.

For further discussion of income tax issues, see Notes 1 and 6 of Notes to Financial Statements under Item 8.

RECENT ACCOUNTING PRONOUNCEMENTS

The following are recent accounting pronouncements affecting LG&E:

FIN 48

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109*. FIN 48 clarifies the accounting for the uncertainty of income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position will be measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 was adopted effective January 1, 2007. The impact of FIN 48 on the statements of operations, financial position and cash flows is not expected to be material.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 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. LG&E is now analyzing the future impacts of SFAS No. 157 on results of operations and financial condition.

SFAS No. 158

In September 2006, the FASB issued SFAS No. 158, which is effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities and for employers controlled by entities with publicly traded equity securities, which is applicable for LG&E. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or a liability in the balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires employers to measure the funded status of a plan as of the date of its year-end balance sheet. This statement amended SFAS No. 87, SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination*

Benefits, SFAS No. 106 and SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, provides guidance to regulated utilities for deferring costs that would otherwise be charged to expense or equity by non-regulated enterprises. In applying the provisions of this statement to the requirements of SFAS No. 158, LG&E recorded a regulatory asset representing the adjustment to the pension liability in recognizing the funded status of the pension liability. This adjustment would have been represented in Accumulated Other Comprehensive Income without the application of SFAS No. 71.

LG&E has adopted SFAS No. 158 effective for the fiscal year ending December 31, 2006. The incremental effects of applying SFAS No. 158 are shown in the following table:

(in millions)	Before Adoption of SFAS No. 158*	Adjustments	After Adoption of SFAS No. 158
Accrued pension and postretirement liability-noncurrent	$ (102)	$ (47)	$ (149)
Accrued pension and postretirement liability-current	—	(2)	(2)
Pension and postretirement regulatory asset	77	49	126

*Balances before the application of SFAS No. 158 include the effects of 2006 plan experience and changes in actuarial assumptions on the additional minimum liability, coupled with the regulatory impacts of SFAS No. 71.

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.

As of December 31, 2006, LG&E is in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds totaling $246 million that are subject to tender for purchase at the option of the holder as current portion of long-term debt. Backup credit facilities totaling $185 million are in place to fund such tenders, if necessary. LG&E has never needed to access these facilities. LG&E expects to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Operating Activities

Cash provided by operations was $320 million, $150 million and $171 million in 2006, 2005 and 2004, respectively.

The 2006 increase of $170 million was primarily the result of increases in cash due to changes in:

- Accounts receivable ($183 million) primarily from decreased natural gas prices and milder December weather
- Materials and supplies ($107 million) primarily resulting from decreased natural gas prices
- Property and other taxes payable ($21 million)
- GSC recovery ($20 million)

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

- Accounts payable ($102 million) due to lower natural gas prices
- Earnings, net of non-cash items ($22 million)
- Pension and postretirement funding ($19 million)
- Payment of the fee required to exit the MISO ($13 million)
- ECR recovery ($7 million)

The 2005 decrease of $21 million was primarily the result of decreases in cash due to changes in:

- Materials and supplies ($61 million) largely the result of increased coal and natural gas prices
- Accounts receivable ($17 million) primarily due to colder December weather
- Gas supply recovery ($13 million) primarily due to higher natural gas prices
- ESM recovery ($8 million) due to termination of the ESM program
- Property and other taxes payable ($7 million)

These decreases were partially offset by cash provided by changes in:

- Accounts payable ($49 million) primarily from the increase in natural gas prices
- Pension and postretirement funding ($34 million)

Investing Activities

LG&E's primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $146 million, $139 million and $148 million in 2006, 2005 and 2004, respectively. LG&E expects its capital expenditures for the three-year period ending December 31, 2009, to total approximately $665 million, which consists primarily of construction estimates associated with the construction of TC2 totaling approximately $150 million (including $40 million for environmental controls), other environmental control equipment of approximately $80 million, redevelopment of the Ohio Falls hydro facility totaling approximately $30 million and on-going construction related to generation and distribution assets.

Net cash used for investing activities in 2006 increased $9 million in 2006 compared to 2005 and decreased $21 million in 2005 compared to 2004, primarily due to the level of construction expenditures.

Financing Activities

Net cash outflows for financing activities were $173 million, $12 million and $7 million in 2006, 2005 and 2004, respectively.

Redemptions and maturities of long-term debt for 2006, 2005 and 2004 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity	
2006	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul	2006
2005	Pollution control bonds	$ 40	5.90 %	Secured	Apr	2023
2005	Due to Fidelia	$ 50	1.53 %	Secured	Jan	2005
2005	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul	2005
2004	Due to Fidelia	$ 50	1.53 %	Secured	Jan	2005
2004	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul	2004

LG&E did not issue any long-term debt in 2006. Issuances of long-term debt for 2005 and 2004 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2005	Pollution control bonds	$ 40	Variable	Secured	Feb 2035
2004	Due to Fidelia	$ 25	4.33%	Secured	Jan 2012
2004	Due to Fidelia	$ 100	1.53%	Secured	Jan 2005

See also Notes 7 and 15 of Notes to Financial Statements under Item 8.

Future Capital Requirements

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 9 of Notes to Financial Statements under Item 8 for current commitments. 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 maintains a series of bilateral credit facilities with banks totaling $185 million. Several intercompany financing arrangements are also available. 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 8 of Notes to Financial Statements under Item 8.

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 issuance of long-term debt. In February 2006, 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 from Moody's Investor Services, Inc. ("Moody's") and Standard and Poor's Rating Services ("S&P") as of December 31, 2006, were:

	Moody's	S&P
First mortgage bonds	A1	A-
Preferred stock	Baa1	BBB-
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.

Contractual Obligations

The following is provided to summarize contractual cash obligations for periods after December 31, 2006. LG&E anticipates cash from operations and external financing will be sufficient to fund future obligations. Future interest obligations cannot be quantified because most of LG&E's debt is variable rate. (See Statements of Capitalization)

(in millions)	Payments Due by Period						
Contractual Cash Obligations	2007	2008	2009	2010	2011	Thereafter	Total
Short-term debt (a)	$ 68	$ —	$ —	$ —	$ —	$ —	$ 68
Long-term debt	1	19	—	—	—	800(b)	820
Operating leases (c)	2	2	2	2	2	8	18
Unconditional power purchase obligations (d)	11	13	16	17	17	328	402
Coal and gas purchase obligations (e)	266	249	202	207	200	3	1,127
Retirement obligations (f)	36	37	36	35	34	168	346
Other obligations (g)	89	70	20	1	—	—	180
Total contractual cash obligations	$ 473	$ 390	$ 276	$ 262	$ 253	$ 1,307	$ 2,961

(a) Represents borrowings from affiliated company due within one year.

(b) Includes long-term debt of $246 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. Maturity dates for these bonds range from 2013 to 2027. LG&E does not expect to pay these amounts in 2007.

(c) Represents future operating lease payments.

(d) Represents future minimum payments under OVEC power purchase agreements through 2024.

(e) Represents contracts to purchase coal and natural gas.

(f) Represents currently projected cash flows for pension plans and other post-employment benefits as calculated by the actuary.

(g) Represents construction commitments, including commitments for TC2.

Off-Balance Sheet Arrangements

In the ordinary course of business LG&E has operating leases for various vehicles, equipment and real estate. See Note 9 of Notes to Financial Statements under Item 8 for further discussion of leases.

Sale and Leaseback Transaction

LG&E is a participant in a sale and leaseback transaction involving its 38% interest in two jointly-owned combustion turbines at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, LG&E and KU entered into a tax-efficient, 18-year lease of the combustion turbines. LG&E and KU have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if LG&E had retained its ownership. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, LG&E is obligated to pay to the lessor its share of certain fees or amounts. Primary events of default include loss or destruction of the combustion turbines, failure to insure or maintain the combustion turbines and unwinding of the transaction due to governmental actions. No events of default

currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the combustion turbines reverts jointly to LG&E and KU.

At December 31, 2006, the maximum aggregate amount of default fees or amounts was $9 million, of which LG&E would be responsible for 38% (approximately $3 million). LG&E has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay LG&E's full portion of any default fees or amounts.

Potential Preferred Stock Transaction

In October 2006, LG&E submitted an application to the Kentucky Commission seeking authorization for various potential financial transactions, including a request for approval of certain funding arrangements which could provide a source of funds for the possible redemption of LG&E's three existing series of preferred stock having an aggregate book value of approximately $90 million. In January 2007, the Kentucky Commission issued an Order granting approval of LG&E's application and in March 2007, a committee of LG&E's board authorized the redemption of the preferred stock, effective in April 2007. See also Note 15 of Notes to Financial Statements under Item 8.

MARKET RISKS

LG&E is exposed to market risks from changes in interest rates and commodity prices. To mitigate changes in cash flows attributable to these exposures, LG&E uses various financial instruments including derivatives. Derivative positions are monitored using techniques that include market value and sensitivity analysis. See Notes 1 and 3 of Notes to Financial Statements under Item 8.

Interest Rate Sensitivity

LG&E has short-term and long-term variable-rate debt obligations outstanding. At December 31, 2006, the potential change in interest expense associated with a 1% change in base interest rates of LG&E's unhedged debt is estimated at $4 million.

Interest rate swaps are used to hedge LG&E's underlying variable-rate debt obligations. These swaps hedge specific debt issuances and, consistent with management's designation, are accorded hedge accounting treatment. See Note 3 of Notes to Financial Statements under Item 8.

As of December 31, 2006, LG&E had swaps with an aggregate notional value of $211 million. The swaps exchange floating-rate interest payments for fixed rate interest payments to reduce the impact of interest rate changes on LG&E's pollution control bonds. The potential loss in fair value resulting from a hypothetical 1% adverse movement in base interest rates is estimated at approximately $21 million as of December 31, 2006. This estimate is derived from third-party valuations. Changes in the market value of these swaps if held to maturity, as LG&E intends to do, will have no effect on LG&E's net income or cash flow. See Note 3 of Notes to Financial Statements under Item 8.

Commodity and Other Price Sensitivities

LG&E is exposed to the market price volatility of coal, natural gas and oil (the fuels used to generate electricity) in its wholesale activities. It has limited exposure to such market price volatility as the result of its retail FAC and GSC commodity price pass-through mechanisms. LG&E can also be exposed to the market price volatility

of other significant input commodities, including but not limited to costs of steel, copper and specialized equipment or machinery used in the industry, as well as labor rates, in elements of its capital construction or operating and maintenance activities. In some cases, elements of these risks are mitigated via periodic rate or other regulatory recovery mechanisms or via the terms of applicable contractual arrangements.

Energy & Risk Management Activities

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, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were primarily physically settled and thus were treated as normal sales under SFAS No. 133, as amended, and were not marked to market.

The table below summarizes LG&E's energy trading and risk management activities for 2006 and 2005:

(in millions)	2006	2005
Fair value of contracts at beginning of period, net asset	$ 1	$ —
Fair value of contracts when entered into during the period	3	1
Contracts realized or otherwise settled during the period	(6)	—
Changes in fair values due to changes in assumptions	3	—
Fair value of contracts at end of period, net asset	$ 1	$ 1

The fair value of LG&E's energy trading and risk management contracts as of December 31, 2006 and 2005, was less than $1 million. No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. Changes in market pricing, interest rate and volatility assumptions were made during both years. The outstanding mark-to-market value is sensitive to changes in prices, price volatilities and interest rates. The Company estimates that a movement in prices of $1 and a change in interest and volatilities of 1% would result in a change of less than $1 million. All contracts outstanding at December 31, 2006 and 2005 have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

LG&E maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2006, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

RATES AND REGULATION

LG&E is subject to the jurisdiction of the Kentucky Commission in virtually all matters related to electric and natural gas utility regulation, and as such, its accounting is subject to SFAS No. 71. Given LG&E's competitive position in the marketplace and the status of regulation in Kentucky, LG&E has no plans or intentions to discontinue its application of SFAS No. 71. See Notes 2 and 9 of Notes to Financial Statements under Item 8 for a discussion of rates and regulation.

FUTURE OUTLOOK

Competition and Customer Choice

At this time, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on LG&E, which may be significant, cannot currently be predicted. Some states that have already deregulated have begun discussions that could lead to re-regulation.

Over the last several years, LG&E has taken many steps to maintain efficient rate structures while achieving high levels of customer satisfaction, including: an increase in focus on commercial, industrial and residential customers; an increase in employee involvement and training; and continuous modifications of its organizational structure. LG&E also strives to control costs through competitive bidding and process improvements. LG&E's performance in national customer satisfaction surveys continues to be high.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

See Management's Discussion and Analysis of Financial Condition and Results of Operations, Market Risks, under Item 7.

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

	Years Ended December 31		
	2006	2005	2004
OPERATING REVENUES:			
Electric (Note 12)	$ 943	$ 987	$ 816
Gas	395	437	357
Total operating revenues	1,338	1,424	1,173
OPERATING EXPENSES:			
Fuel for electric generation	294	282	208
Power purchased (Notes 9 and 12)	114	141	92
Gas supply expenses	295	339	266
Other operation and maintenance expenses	288	308	305
Depreciation and amortization (Note 1)	124	124	117
Total operating expenses	1,115	1,194	988
Net operating income	223	230	185
Other expense (income) - net	3	(1)	3
Interest expense (Notes 7 and 8)	28	24	21
Interest expense to affiliated companies (Note 12)	13	13	12
Income before income taxes	179	194	149
Federal and state income taxes (Note 6)	62	65	53
Net income	$ 117	$ 129	$ 96

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

Statements of Retained Earnings
(Millions of $)

	Years Ended December 31		
	2006	2005	2004
Balance January 1	$ 621	$ 534	$ 497
Add net income	117	129	96
	738	663	593
Deduct: Cash dividends declared on stock:			
5% cumulative preferred	1	1	1
Auction rate cumulative preferred	3	2	1
Common	95	39	57
	99	42	59
Balance December 31	$ 639	$ 621	$ 534

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

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

	Years Ended December 31		
	2006	2005	2004
Net income	$117	$129	$96
Gain (loss) on derivative instruments and hedging activities, net of tax benefit (expense) of $(1), $0 and $1 for 2006, 2005 and 2004, respectively (Notes 1 and 3)	2	—	(2)
Additional minimum pension liability adjustment, net of tax benefit (expense) of $(30), $6 and $4 for 2006, 2005 and 2004, respectively (Note 5)	47	(13)	(6)
Other comprehensive income (loss), net of tax (Note 13)	49	(13)	(8)
Comprehensive income	$166	$116	$88

The accompanying notes are an integral part of these financial statements

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

	December 31 2006	December 31 2005
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$ 7	$ 7
Accounts receivable - less reserve of $2 million in 2006 and $1 million in 2005 (Note 1)	165	231
Accounts receivable from affiliated companies (Note 12)	19	36
Materials and supplies (Note 1):		
Fuel (predominantly coal)	38	39
Gas stored underground	83	125
Other materials and supplies	30	28
Prepayments and other current assets	6	6
Total current assets	348	472
Utility plant, at original cost (Note 1):		
Electric	3,200	3,180
Gas	526	511
Common	180	199
Total utility plant, at original cost	3,906	3,890
Less: reserve for depreciation	1,534	1,509
Total utility plant, net	2,372	2,381
Construction work in progress	217	159
Total utility plant and construction work in progress	2,589	2,540
Deferred debits and other assets:		
Restricted cash (Note 1)	16	10
Regulatory assets (Notes 1 and 2):		
Pension and postretirement benefits	126	—
Other	93	84
Intangible pension asset	—	31
Other assets	12	9
Total deferred debits and other assets	247	134
Total Assets	$3,184	$3,146

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

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

	December 31	
	2006	2005
LIABILITIES AND EQUITY:		
Current liabilities:		
Current portion of long term debt (Note 7)	$ 248	$ 248
Notes payable to affiliated companies (Notes 8 and 12)	68	141
Accounts payable	103	141
Accounts payable to affiliated companies (Note 12)	55	56
Customer deposits	18	17
Other current liabilities	40	17
Total current liabilities	532	620
Long-term debt:		
Long-term bonds (Note 7)	328	328
Long-term notes to affiliated company (Note 7)	225	225
Mandatorily redeemable preferred stock (Note 7)	19	20
Total long-term debt	572	573
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 6)	333	322
Accumulated provision for pensions and related benefits (Note 5)	149	143
Investment tax credit, in process of amortization	41	42
Asset retirement obligations	28	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	232	219
Regulatory liability deferred income taxes	54	42
Other regulatory liabilities	35	20
Other liabilities	44	41
Total deferred credits and other liabilities	916	856
Commitments and contingencies (Note 9)		
Cumulative preferred stock	70	70
COMMON EQUITY:		
Common stock, without par value -		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	40	40
Accumulated other comprehensive income (Note 13)	(9)	(58)
Retained earnings	639	621
Total common equity	1,094	1,027
Total Liabilities and Equity	$3,184	$3,146

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

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

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 117	$ 129	$ 96
Items not requiring cash currently:			
Depreciation and amortization	124	119	117
Deferred income taxes - net	22	(14)	5
Investment tax credit - net	(1)	(4)	(4)
VDT amortization	8	30	30
Provision for pension and postretirement plans	(13)	14	25
Other	3	8	1
Change in certain current assets and liabilities:			
Accounts receivable	83	(100)	(83)
Materials and supplies	41	(66)	(5)
Accounts payable	(47)	55	6
Accrued income taxes	8	—	(5)
Property and other taxes payable	14	(7)	—
Prepayments and other	2	4	7
Pension and postretirement funding	(29)	(10)	(44)
Gas supply clause receivable, net	17	(3)	10
Litigation settlement	—	—	7
Earnings sharing mechanism receivable	—	2	10
MISO exit fee	(13)	—	—
Environmental cost recovery mechanism receivable	(7)	—	—
Other	(9)	(7)	(2)
Net cash provided by operating activities	320	150	171
CASH FLOWS FROM INVESTING ACTIVITIES:			
Construction expenditures	(146)	(139)	(148)
Change in restricted cash	(1)	1	(11)
Net cash used for investing activities	(147)	(138)	(159)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings from affiliated company	—	—	125
Repayment of long-term borrowings from affiliated company	—	(50)	(50)
Short-term borrowings from affiliated company	700	789	553
Repayment of short-term borrowings from affiliated company	(773)	(706)	(575)
Issuance of pollution control bonds	—	40	—
Issuance expense on pollution control bonds	—	(2)	—
Retirement of pollution control bonds	—	(40)	—
Retirement of mandatorily redeemable preferred stock	(1)	(1)	(1)
Payment of dividends	(99)	(42)	(59)
Net cash used for financing activities	(173)	(12)	(7)
Change in cash and cash equivalents	—	—	5
Cash and cash equivalents at beginning of year	7	7	2
Cash and cash equivalents at end of year	$ 7	$ 7	$ 7
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 64	$ 83	$ 52
Interest on borrowed money	24	21	18
Interest to affiliated companies on borrowed money	11	13	11

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

Louisville Gas and Electric Company
Statements of Capitalization
(Millions of $)

			December 31 2006	December 31 2005
LONG-TERM DEBT (Note 7):				
Pollution control series:				
S due September 1, 2017, variable %			$ 31	$ 31
T due September 1, 2017, variable %			60	60
U due August 15, 2013, variable %			35	35
Y due May 1, 2027, variable %			25	25
Z due August 1, 2030, variable %			83	83
AA due September 1, 2027, variable %			10	10
BB due September 1, 2026, variable %			23	23
CC due September 1, 2026, variable %			28	28
DD due November 1, 2027, variable %			35	35
EE due November 1, 2027, variable %			35	35
FF due October 1, 2032, variable %			42	42
GG due October 1, 2033, variable %			128	128
HH due February 1, 2035, variable %			40	40
Notes payable to Fidelia:				
Due January 16, 2012, 4.33%, secured			25	25
Due April 30, 2013, 4.55%, unsecured			100	100
Due August 15, 2013, 5.31%, secured			100	100
Mandatorily redeemable preferred stock:				
$5.875 series, outstanding shares of 200,000 in 2006 and 212,500 in 2005			20	21
Total long-term debt outstanding			820	821
Less current portion of long-term debt			248	248
Long-term debt			572	573
CUMULATIVE PREFERRED STOCK:				
	Shares Outstanding	Current Redemption Price		
$25 par value, 1,720,000 shares authorized - 5% series	860,287	$28.00	21	21
Without par value, 6,750,000 shares authorized - Auction rate	500,000	$100.00	49	49
			70	70
COMMON EQUITY:				
Common stock, without par value -				
Authorized 75,000,000 shares, outstanding 21,294,223 shares			424	424
Additional paid-in capital			40	40
Accumulated other comprehensive income (Note 13)			(9)	(58)
Retained earnings			639	621
Total common equity			1,094	1,027
Total capitalization			$1,736	$1,670

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

Note 1 - Summary of Significant Accounting Policies

LG&E, incorporated in 1913 in Kentucky, 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. LG&E supplies natural gas to approximately 324,000 customers and electricity to approximately 398,000 customers in Louisville and adjacent areas 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 combustion turbines.

LG&E is a wholly-owned subsidiary of E.ON U.S., formerly known as LG&E Energy LLC. E.ON U.S. is a wholly-owned subsidiary of E.ON AG (E.ON), a German corporation, making LG&E a 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.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2006 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

Regulatory Accounting. LG&E is subject to SFAS No. 71, under which costs that would otherwise be charged to expense are deferred as regulatory assets based on expected recovery from customers in future rates. Likewise, credits that would otherwise be reflected as income are deferred as regulatory liabilities based on expected return to customers in future rates. LG&E's current or expected recovery of deferred costs and expected return of deferred credits is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC or the Kentucky Commission. See Note 2, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. LG&E considers all debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter. The amounts charged to expense to accrue for estimated bad debts were $4 million, $3 million and $2 million and the net of accounts written off against the reserve were $3 million, $3 million and $5 million in 2006, 2005 and 2004, respectively.

Materials and Supplies. Fuel, natural gas stored underground and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies at cost and are not currently traded by LG&E. At December 31, 2006 and 2005, the emission allowances inventory was less than $1 million.

Other Property and Investments. Other property and investments on the balance sheet consists of LG&E's investment in OVEC and non-utility plant. LG&E and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two power plants that burn coal to generate electricity, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana. LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity.

As of December 31, 2006 and 2005, LG&E's investment in OVEC totaled less than $1 million. LG&E is not the primary beneficiary of OVEC; therefore, it is not consolidated into the financial statements of LG&E and is accounted for under the cost method of accounting. LG&E's maximum exposure to loss as a result of its involvement with OVEC is limited to the value of its investment. In the event of the inability of OVEC to fulfill its power provision requirements, LG&E anticipates substituting such power supply with either owned generation or market purchases and believes it would generally recover associated incremental costs through regulatory rate mechanisms. See Note 9, Commitments and Contingencies, for further discussion of developments regarding LG&E's ownership interest and power purchase rights.

Utility Plant. LG&E's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. LG&E has not recorded any allowance for funds used during construction, in accordance with Kentucky Commission regulations.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost, plus removal expense less salvage value, is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Depreciation and Amortization. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided were approximately 3.2% in 2006 (3.0% electric, 2.9% gas, and 7.8% common); 3.2% in 2005 (3.0% electric, 2.4% gas and 8.0% common); and 3.1% for 2004 (2.9% electric, 2.8% gas and 7.6% common), of average depreciable plant. Of the amount provided for depreciation, at December 31, 2006, approximately 0.4% electric, 0.9% gas and 0.4% common were related to the retirement, removal and disposal costs of long lived assets. Of the amount provided for depreciation, at December 31, 2005, approximately 0.4% electric, 0.8% gas and 0.02% common were related to the retirement, removal and disposal costs of long lived assets.

Restricted Cash. A deposit in the amount of $11 million, used as collateral for an $83 million interest rate swap expiring in 2020, is classified as restricted cash on LG&E's balance sheet. An advance deposit of $5 million from the Louisville Arena Authority is also restricted for equipment purchases related to relocating transmission facilities.

Unamortized Debt Expense. Debt expense is capitalized in deferred debits and amortized over the lives of the related bond issues.

Income Taxes. Income taxes are accounted for under SFAS No. 109. In accordance with this statement, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain. To provide for these uncertainties or exposures, an allowance is maintained for tax contingencies based on management's best estimate of probable loss. Tax contingencies are analyzed periodically and adjustments are made when events occur to warrant a change. See Note 6, Income Taxes.

Deferred Income Taxes. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

Investment Tax Credits. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. LG&E and KU received an investment tax credit related to TC2, for more details, see Note 6, Income Taxes.

Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of LG&E's tax liability based on credits for construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. LG&E accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable were approximately $53 million and $82 million at December 31, 2006 and 2005, respectively.

Fuel and Gas Costs. The cost of fuel for electric generation is charged to expense as used, and the cost of natural gas supply is charged to expense as delivered to the distribution system. LG&E implemented a Kentucky Commission-approved performance-based ratemaking mechanism related to natural gas procurement activity. See Note 2, Rates and Regulatory Matters.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accrued liabilities, including legal and environmental, are recorded when they are probable and estimable. Actual results could differ from those estimates.

Recent Accounting Pronouncements. The following are recent accounting pronouncements affecting LG&E:

FIN 48

In July 2006, the FASB issued FIN 48, which clarifies the accounting for the uncertainty of income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position will be measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 was adopted effective January 1, 2007. The impact of FIN 48 on the statements of operations, financial position, and cash flows is not expected to be material.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, which 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. LG&E is now analyzing the future impacts of SFAS No. 157 on results of operations and financial condition.

SFAS No. 158

In September 2006, the FASB issued SFAS No. 158, which is effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities, and for employers controlled by entities with publicly traded equity securities, which is applicable for LG&E. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or a liability in the balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires employers to measure the funded status of a plan as of the date of its year-end balance sheet. This statement amended SFAS No. 87, SFAS No. 88, SFAS No. 106 and SFAS No. 132.

SFAS No. 71, provides guidance to regulated utilities for deferring costs that would otherwise be charged to expense or equity by non-regulated enterprises. In applying the provisions of this statement to the requirements of SFAS No. 158, LG&E recorded a regulatory asset representing the adjustment to the pension liability in recognizing the funded status of the pension liability. This adjustment would have been represented in Accumulated Other Comprehensive Income without the application of SFAS No. 71.

LG&E has adopted SFAS No. 158 effective for fiscal year ending December 31, 2006. The incremental effects of applying SFAS No. 158 are shown in the following table:

(in millions)	Before Adoption of SFAS No. 158*	Adjustments	After Adoption of SFAS No. 158
Accrued pension and postretirement liability-noncurrent	$ (102)	$ (47)	$ (149)
Accrued pension and postretirement liability-current	—	(2)	(2)
Pension and postretirement regulatory asset	77	49	126

* Balances before the application of SFAS No. 158 include the effects of 2006 plan experience and changes in actuarial assumptions on the additional minimum liability, coupled with the regulatory impacts of SFAS No. 71.

Note 2 - Rates and Regulatory Matters

The Kentucky Commission has regulatory jurisdiction over LG&E's retail rates and service, and over the issuance of certain of its securities. The Kentucky Commission has the ability to examine the rates LG&E charges its retail customers at any time.

Electric and Gas Rate Cases

In December 2003, LG&E filed an application with the Kentucky Commission requesting adjustments in LG&E's electric and natural gas rates. LG&E asked for general adjustments in electric and natural gas rates based on the twelve month test period ended September 30, 2003. The revenue increases requested were $64

million for electric and $19 million for natural gas. In June 2004, the Kentucky Commission issued an Order approving increases in LG&E's annual electric base rates of approximately $43 million (8%) and annual natural gas base rates of approximately $12 million (3%). The rate increases took effect on July 1, 2004.

During 2004 and 2005, the AG conducted an investigation of LG&E, as well as of the Kentucky Commission and its staff, requesting information regarding allegedly improper communications between LG&E and the Kentucky Commission, particularly during the period covered by the rate cases. Concurrently, the AG had filed pleadings with the Kentucky Commission requesting rehearing of the rate cases on computational components of the increased rates, including income taxes, cost of removal and depreciation amounts. In August 2004, the Kentucky Commission denied the AG's rehearing request on the cost of removal and depreciation issues and granted rehearing on the income tax component. The Kentucky Commission further agreed to hold in abeyance further proceedings in the rate cases, until the AG filed its investigative report regarding the allegations of improper communication.

In January 2005 and February 2005, the AG filed a motion summarizing its investigative report as containing evidence of improper communications and record-keeping errors by LG&E in its conduct of activities before the Kentucky Commission or other state governmental entities and forwarded such report to the Kentucky Commission under continued confidential treatment to allow it to consider the report, including its impact, if any, on completing its investigation and any remaining steps in the rate cases. To date, LG&E has neither seen nor requested copies of the report or its contents.

In December 2005, the Kentucky Commission issued an Order noting completion of its inquiry, including review of the AG's investigative report. The Order concluded that no improper communications occurred during the rate proceedings. Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an Order resolving this issue in LG&E's favor consistent with the original rate increase order.

LG&E believes no improprieties have occurred in its communications with the Kentucky Commission and has cooperated with the proceedings before the AG and the Kentucky Commission. LG&E is currently unable to predict whether there will be any remaining actions or consequences as a result of the AG's report or investigation.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in LG&E's Balance Sheets as of December 31:

(in millions)	2006	2005
ARO	$ 22	$ 20
Gas supply adjustments	21	25
Unamortized loss on bonds	20	21
MISO exit	13	—
ECR	9	2
Merger surcredit	2	3
VDT costs	—	8
Other	6	5
Subtotal	93	84
Pension and postretirement benefits	126	—
Total regulatory assets	$219	$ 84
Accumulated cost of removal of utility plant	$232	$219
Deferred income taxes - net	54	42
Gas supply adjustments	31	18
Other	4	2
Total regulatory liabilities	$321	$281

LG&E does not currently earn a rate of return on the gas supply adjustments, FAC (included in other regulatory assets) 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 that the Company will seek recovery of 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 expects to 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 liabilities include DSM and MISO Schedule 10. See Note 1, Summary of Significant Accounting Policies.

Pension and Postretirement Benefits. LG&E adopted SFAS No. 158 in 2006. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability in the balance sheet and to recognize through comprehensive income the changes in the funded status in the year in which the changes occur. Under SFAS No. 71, LG&E can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky is based on SFAS No. 87 and SFAS No. 106, both of which were amended by SFAS No. 158. Regulators have been clear and consistent with their historical treatment of such rate recovery; therefore, LG&E has recorded a regulatory asset representing the probable recovery of the portion of the change in funded status of the postretirement and pension plans that is expected to be recovered. The regulatory asset will be adjusted annually as prior service cost and actuarial losses are recognized in net periodic benefit cost.

ARO. A summary of LG&E's net ARO assets, regulatory assets, liabilities and cost of removal established under FIN 47 and SFAS No. 143, *Accounting for Asset Retirement Obligations* follows:

(in millions)	ARO Net Assets	ARO Liabilities	Regulatory Assets	Accumulated Cost of Removal
As of December 31, 2004	$ 3	$(11)	$ 7	$ —
FIN 47 net asset additions	1	(15)	12	3
ARO accretion	—	(1)	1	—
As of December 31, 2005	4	(27)	20	3
ARO accretion	—	(1)	2	—
As of December 31, 2006	$ 4	$(28)	$22	$ 3

ARO depreciation, removal cost incurred and cost of removal depreciation during 2005 and 2006 and FIN 47 net asset additions for 2006 were less than $1 million. In addition, regulatory liabilities and cost of removal depreciation as of December 31, 2005 and 2006 were less than $1 million.

Pursuant to regulatory treatment prescribed under SFAS No. 71, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million in 2006 and $1 million in 2005 for the ARO accretion and depreciation expense. LG&E AROs are primarily related to the final retirement of assets associated with generating units and natural gas wells. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory asset or liability pursuant to regulatory treatment prescribed under SFAS No. 71. For the years ended December 31, 2006 and 2005, LG&E recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under SFAS No. 71.

LG&E transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under SFAS No. 143, no material asset retirement obligations are recorded for transmission and distribution assets.

Gas Supply Cost Adjustments. LG&E's natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in LG&E's rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by Order of the Kentucky Commission provides for quarterly rate adjustments to reflect the expected cost of natural gas supply in that quarter. In addition, the GSC contains a mechanism whereby any over- or under-recoveries of natural gas supply cost from prior quarters is to be refunded to or recovered from customers through the adjustment factor determined for subsequent quarters. In late 2005, as wholesale natural gas prices began to decrease, a one-time interim adjustment in the GSC was requested by LG&E and approved by the Kentucky Commission to pass the lower natural gas costs to the customers on a more timely basis.

LG&E's GSC was modified in 1997 to incorporate an experimental natural gas procurement incentive mechanism. Since November 1, 1997, LG&E has operated under this experimental PBR mechanism related to its natural gas procurement activities. LG&E's rates are adjusted annually to recover (or refund) its portion of the expense (or savings) incurred during each PBR year (12 months ending October 31). During the PBR year ending in 2006, LG&E achieved $17 million in savings. Of that total savings amount, LG&E's portion was approximately $5 million and the ratepayers' portion was approximately $12 million. Pursuant to the extension of LG&E's natural gas supply cost PBR mechanism effective November 1, 2001, the sharing mechanism under the PBR requires savings (and expenses) to be shared 25% with shareholders and 75% with ratepayers up to 4.5% of the benchmarked natural gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked

natural gas costs are shared 50% with shareholders and 50% with ratepayers. The current natural gas supply cost PBR mechanism was extended through 2010 without further modification.

Unamortized Loss on Bonds. The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized over the life of either replacement debt (in the case of refinancing) or the original life of the extinguished debt.

MISO Exit. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since the exit from the MISO, LG&E has been operating under a FERC-approved open access-transmission tariff. LG&E has further contracted with the Tennessee Valley Authority to act as its reliability coordinator and Southwest Power Pool, Inc. to function as its independent transmission operator, pursuant to FERC requirements, with respect to transmission matters.

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. In December 2006, LG&E provided notice to the MISO of its disagreement with the calculation of the exit fee. LG&E and the MISO continue to discuss the specifics of the exit fee calculation. The outcome of these discussions and the eventual settlement of the disputed amount cannot be estimated at this time. 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 Schedule 10 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.

ECR. Kentucky law permits LG&E to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism once approved by the Kentucky Commission.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of LG&E's environmental surcharge. A final order was received in January 2007, approving the changes and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and a rate of return on capital.

In June 2004, the Kentucky Commission issued an Order approving a settlement agreement that, among other things, revised the rate of return for LG&E's post-1995 plan. The Order also approved the elimination of LG&E's 1995 plan from its ECR billing mechanism, with all remaining costs associated with that plan to be included in their entirety in base rates.

In December 2004, LG&E filed an application with the Kentucky Commission to amend its compliance plan to allow recovery of costs associated with new and additional environmental compliance facilities, including the expansion of the landfill facility at the Mill Creek station. The estimated capital cost of the additional facilities over the next three years is approximately $25 million. A final Order was issued in June 2005, granting approval of the amendments to LG&E's compliance plan.

In June 2006, LG&E filed an application to amend its ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Company's generating facilities. The estimated capital cost of the upgrades for the years 2007 through 2009 is approximately $50 million, of which $40 million is for the Air Quality Control System at TC2. A final Order was issued by the Kentucky Commission in December 2006 approving all expenditures and investments as submitted.

Merger Surcredit. As part of the LG&E Energy merger with KU Energy Corporation in 1998, LG&E estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were deferred and amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted LG&E's proposal to reduce its retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. The surcredit mechanism provides that 50% of the net non-fuel cost savings estimated to be achieved from the merger be provided to ratepayers through a monthly bill credit, and 50% be retained by LG&E and KU, over a five-year period. The surcredit was allocated 47% to LG&E and 53% to KU. In that same order, the Kentucky Commission required LG&E and KU, after the end of the five-year period, to present a plan for sharing with ratepayers the then-projected non-fuel savings associated with the merger. The Companies submitted this filing in January 2003, proposing to continue to share with ratepayers, on a 50%/50% basis, the estimated fifth-year gross level of non-fuel savings associated with the merger. In October 2003, the Kentucky Commission issued an Order approving a settlement agreement reached with the parties in the case. LG&E's merger surcredit will remain in place for another five-year term beginning July 1, 2003 and the merger savings will continue to be shared 50% with ratepayers and 50% with shareholders.

VDT. In December 2001, the Kentucky Commission issued an Order approving a settlement agreement allowing LG&E to set up a regulatory asset of $141 million for workforce reduction costs and begin amortizing it over a five-year period starting in April 2001. Some employees rescinded their participation in the voluntary enhanced severance program, which thereby decreased the charge to the regulatory asset from $144 million to $141 million. The Order reduced revenues by approximately $26 million through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to LG&E) of savings as stipulated by LG&E, net of amortization costs of the workforce reduction. The five-year VDT amortization period expired in March 2006.

As part of the settlement agreements in the electric and natural gas rate cases, in September 2005, LG&E filed with the Kentucky Commission a plan for the future ratemaking treatment of the VDT surcredit and costs. In February 2006, the AG, KIUC and LG&E reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as LG&E files for a change in electric or natural gas base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement.

FAC. LG&E's retail electric rates contain an FAC, whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to retail electric customers. The FAC allows the Company to adjust customers' accounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

In January 2003, the Kentucky Commission reviewed KU's FAC and, as part of the Order in that case, required that an independent audit be conducted to examine operational and management aspects of both LG&E's and KU's fuel procurement functions. The final report was issued in February 2004. The report's recommendations

related to documentation and process improvements. Management Audit Action Plans were agreed upon by LG&E and the Kentucky Commission Staff in the second quarter of 2004. LG&E filed its first Audit Progress Report with the Kentucky Commission Staff in November 2004. The second Audit Progress Report was filed May 2005. The third Audit Progress Report was filed in December 2005. In January 2006, the Kentucky Commission staff informed LG&E and KU that reporting on all of the original recommendations, but one, has been concluded. LG&E filed another Audit Progress Report on the remaining open recommendation in August 2006.

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. In July 2006, the Kentucky Commission initiated a six-month review of the FAC for LG&E for the period of November 1, 2005 through April 30, 2006. The Kentucky Commission issued an Order in November 2006 approving the charges and credits billed through the FAC during the review period.

In December 2006, the Kentucky Commission initiated a two-year review of LG&E's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates. LG&E anticipates Kentucky Commission approval of the charges and credits billed and the fuel procurement practices of LG&E during the second quarter of 2007.

ESM. Prior to 2004, LG&E's retail electric rates were subject to an ESM which set an upper (12.5%) and lower (10.5%) limit for rate of return on equity. Any earnings excess or deficiency was shared 40% with ratepayers and 60% with shareholders. LG&E filed its final 2003 ESM calculations with the Kentucky Commission in March 2004, and applied for recovery of $13 million which was challenged by intervenors. In June 2004, the Kentucky Commission issued an Order largely accepting proposed settlement agreements by LG&E and the intervenors regarding the ESM. Under the settlements, LG&E continued to collect the $13 million of previously requested 2003 ESM revenue through March 2005. As part of the settlements, the parties agreed to a termination of the ESM relating to all periods after 2003.

DSM. LG&E's rates contain a DSM provision. The provision includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows LG&E to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

Accumulated Cost of Removal of Utility Plant. As of December 31, 2006 and 2005, LG&E has segregated the cost of removal, embedded in accumulated depreciation, of $232 million and $219 million, respectively, in accordance with FERC Order No. 631. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, LG&E has presented this cost of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes — Net. Deferred income taxes represent the future income tax effects of recognizing the regulatory assets and liabilities in the income statement. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

Other Regulatory Matters

Regional Reliability Council. LG&E has changed its regional reliability council membership from the Reliability First Corporation to the Southeastern Electric Reliability Council, effective January 1, 2007.

Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

Arena. In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for sale of the Waterside property to the Louisville Arena Authority. The Kentucky Commission issued an Order in September 2006, approving the proposed transaction. In November 2006, LG&E completed certain agreements pursuant to its August 2006 Memorandum of Understanding with the Louisville Arena Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement with the Louisville Arena Authority providing for the reimbursement to LG&E of the costs to be incurred in moving certain LG&E facilities related to the arena transaction. Those costs are currently estimated to be approximately $63 million. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Louisville Arena Authority for approximately $10 million, which represents the appraised value of the parcel, less certain agreed upon demolition costs. The amounts specified in the contracts are subject to certain adjustments. Depending upon continuing progress of the proposed arena, the transactions contemplated by the contracts will occur between 2006 and 2010.

TC2 CCN Application. A CCN application for TC2 construction was filed with the Kentucky Commission in December 2004, and initial CCN applications for three transmission lines were filed in early 2005, with further applications submitted in December 2005. The proposed air permit was filed with the Kentucky Division for Air Quality in December 2004. In November 2005, the Kentucky Commission approved the application to expand the Trimble County generating station. Kentucky Commission approval for one transmission line CCN was granted in September 2005, and a ruling that a second transmission line was not subject to the CCN process was received in February 2006. The Kentucky Commission granted approval for the remaining transmission line CCN in May 2006. In August 2006, LG&E and KU obtained dismissal of a judicial review of such CCN approval by certain property owners. A further appeal of such dismissal was thereafter filed, which action remains pending. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. In November 2005, the Kentucky Division for Air Quality issued the final air permit, which was challenged via a request for remand in December 2005 by three environmental advocacy groups, including the Sierra Club. Administrative proceedings with respect to the challenge continued throughout 2006. A ruling may occur during the first half of 2007.

Market-Based Rate Authority. Beginning in April 2004, the FERC initiated proceedings to modify its methods used to assess generation market power and has established more stringent interim market screen tests. During 2005, in connection with LG&E's tri-annual market-based rate tariff renewals, the FERC continued to contend that the Company failed such market screens in certain regions. LG&E disputed this contention.

In July 2006, the FERC issued an Order in LG&E's market-based rate proceeding accepting LG&E's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, LG&E received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E of power at market-based rates in the LG&E/KU and Big River Electric Corporation control areas. Certain general FERC proceedings continue with respect to market-based rate matters, and LG&E's market-based rate authority is subject to such future developments.

LG&E cannot predict the ultimate impact of the current or potential mitigation mechanisms on its future wholesale power sales.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2005, LG&E and KU filed their joint 2005 IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report, with no substantive issues noted and closed the case by Order in February 2006.

PUHCA 2005. E.ON, LG&E's ultimate parent, is a registered holding company under PUHCA 2005 and was a registered holding company under PUHCA 1935. E.ON, its utility subsidiaries, including LG&E, and certain of its non-utility subsidiaries are subject to extensive regulation by the SEC and the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. LG&E believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAct 2005. The EPAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing PUHCA 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

The FERC was directed by the EPAct 2005 to adopt rules to address many areas previously regulated by the other agencies under other statutes, including PUHCA 1935. The FERC is in various stages of rulemaking on these issues and LG&E is monitoring these rulemaking activities and actively participating in these and other rulemaking proceedings. LG&E is still evaluating the potential impacts of the EPAct 2005 and the associated rulemakings and cannot predict what impact the EPAct 2005, and any such rulemakings, will have on its operations or financial position.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252, Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. The Kentucky Commission held a public hearing in July 2006, in this proceeding with all Kentucky jurisdictional electric utilities. In December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E will develop a real-time pricing pilot for large industrial and commercial customers and file the details of the plan with the Kentucky Commission in April 2007.

As part of the rate case settlement agreements, and as referred to in the EPAct 2005 administrative order, LG&E made its pilot program filing, which addresses real-time pricing for residential and general service customers, in March 2007.

Hydro Upgrade. In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E intends to spend approximately $76 million to refurbish the facility and add approximately 20 Mw of generating capacity over the next six years.

Note 3 - Financial Instruments

The cost and estimated fair values of LG&E's non-trading financial instruments as of December 31 follow:

(in millions)	2006 Carrying Value	2006 Fair Value	2005 Carrying Value	2005 Fair Value
Preferred stock subject to mandatory redemption (including current portion of $1 million)	$ 20	$ 20	$ 21	$ 21
Long-term debt (including current portion)	$ 574	$ 574	$ 574	$ 574
Long-term debt from affiliate	$ 225	$ 222	$ 225	$ 225
Interest-rate swaps - liability	$ (15)	$ (15)	$ (19)	$ (19)

All of the above valuations reflect prices quoted by exchanges except for the swaps and intercompany loans. The fair values of the swaps and intercompany loans reflect price quotes from dealers or amounts calculated using accepted pricing models. The fair values of cash and cash equivalents, accounts receivable, accounts payable and notes payable are substantially the same as their carrying values.

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. 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. See Note 13, Accumulated Other Comprehensive Income. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of December 31, 2006 and 2005. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on London Interbank Borrowing Offer Rate or the Bond Market Association's municipal swap index averaging 3.75% and 3.15% at December 31, 2006 and 2005, respectively. The swap agreements in effect at December 31, 2006 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. The hedges have been deemed to be fully effective resulting in a pretax gain of $3 million for 2006 and a pre-tax loss of less than $1 million in 2005, recorded in other comprehensive income. Upon expiration of these hedges, the amount recorded in other comprehensive income will be reclassified into 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 $11 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 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. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were primarily physically settled and thus were treated as normal sales under SFAS No. 133, as amended, and were not marked to market.

The table below summarizes LG&E's energy trading and risk management activities:

(in millions)	2006	2005
Fair value of contracts at beginning of period, net asset	$ 1	$ —
Fair value of contracts when entered into during the period	3	1
Contracts realized or otherwise settled during the period	(6)	—
Changes in fair values due to changes in assumptions	3	—
Fair value of contracts at end of period, net asset	$ 1	$ 1

No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2006 and 2005, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

LG&E maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2006, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

LG&E hedges the price volatility of its forecasted electric off-system sales with the sales of market-traded electric forward contracts for periods of less than one year. These electric forward sales have been designated as cash flow hedges and are not speculative in nature. Gains or losses on these instruments, to the extent that the hedging relationship has been effective, are deferred in other comprehensive income. Gains and losses resulting from ineffectiveness are shown in the statements of income in other expense (income)-net. Upon completion of the underlying hedge transaction, the amount recorded in other comprehensive income is recorded in earnings. No material pre-tax gains and losses resulted from these cash flow hedges in 2006, 2005 and 2004. See Note 13, Accumulated Other Comprehensive Income.

Note 4 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

LG&E's customer receivables and natural gas and electric revenues arise from deliveries of natural gas to approximately 324,000 customers and electricity to approximately 398,000 customers in Louisville and adjacent areas in Kentucky. For the year ended December 31, 2006, 70% of total revenue was derived from electric operations and 30% from natural gas operations. For the year ended December 31, 2005, 69% of total revenue was derived from electric operations and 31% from natural gas operations.

In November 2005, LG&E and IBEW Local 2100 employees, that represent approximately 69% of LG&E's workforce at February 28, 2007, entered into a three-year collective bargaining agreement with annual benefits re-openers.

Note 5 - Pension and Other Postretirement Benefit Plans

LG&E has both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover substantially all of its employees. The healthcare plans are contributory with participants' contributions adjusted annually. LG&E uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the three-year period ending December 31, 2006, and a statement of the funded status as of December 31 for LG&E's sponsored defined benefit plans:

	Pension Benefits			Other Postretirement Benefits		
(in millions)	2006	2005	2004	2006	2005	2004
Change in benefit obligation						
Benefit obligation at beginning of year	$427	$402	$379	$106	$ 113	$ 108
Service cost	4	4	3	1	1	1
Interest cost	23	22	23	6	6	7
Plan amendments	4	3	3	—	2	—
Benefits paid	(29)	(30)	(31)	(8)	(8)	(7)
Actuarial (gain) or loss and other	(21)	26	25	—	(8)	4
Benefit obligation at end of year	$408	$427	$402	$105	$ 106	$ 113
Change in plan assets						
Fair value of plan assets at beginning of year	$333	$338	$298	$ 3	$ 1	$ 1
Actual return on plan assets	36	27	39	—	—	(2)
Employer contributions	18	—	35	11	10	9
Benefits paid	(29)	(30)	(31)	(8)	(8)	(7)
Administrative expenses and other	(2)	(2)	(3)	—	—	—
Fair value of plan assets at end of year	$356	$333	$338	$ 6	$ 3	$ 1
Funded status at end of year	$ (52)	$ (94)	$ (64)	$ (99)	$(103)	$(112)

Amounts Recognized in Statement of Financial Position. The following tables provide the amounts recognized in the balance sheet and information for plans with benefit obligations in excess of plan assets as of December 31:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Prior to the application of SFAS No. 158:				
Accrued benefit liability	$ (35)	$ (77)	$ (66)	$ (67)
Intangible asset	27	31	—	—
Accumulated other comprehensive income	49	77	—	—
After the application of SFAS No 158:				
Regulatory assets	93	—	33	—
Accrued benefit liability (current)	—	—	(2)	—
Accrued benefit liability (non-current)	(52)	(77)	(97)	(67)

The following table shows the calculation of the accrued benefit liability at December 31:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Funded status	$ (52)	$ (94)	$ (99)	$ (103)
Unrecognized prior service costs	N/A	—	N/A	10
Unrecognized actuarial loss	N/A	94	N/A	21
Unrecognized transition obligation	N/A	—	N/A	5
Other comprehensive income	N/A	(77)	N/A	—
Accrued benefit liability	$ (52)	$ (77)	$ (99)	$ (67)

Additional year-end information for plans with accumulated benefit obligations in excess of plan assets:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Benefit obligation	$ 408	$ 427	$ 105	$ 106
Accumulated benefit obligation	391	410	—	—
Fair value of plan assets	356	333	6	3

Components of Net Periodic Benefit Cost. The following table provides the components of net periodic benefit cost for the plans:

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Service cost	$ 4	$ 4	$ 3	$ 1	$ 1	$ 1
Interest cost	23	22	23	6	5	6
Expected return on plan assets	(27)	(26)	(27)	—	—	—
Amortization of prior service costs	4	4	4	2	2	2
Amortization of transitional asset	(1)	(1)	(1)	—	1	1
Amortization of actuarial loss	4	2	2	—	—	1
Amortization of transitional obligation	—	—	—	1	—	—
Benefit cost at end of year	$ 7	$ 5	$ 4	$ 10	$9	$ 11

The assumptions used in the measurement of LG&E's pension benefit obligation are shown in the following table:

	2006	2005	2004
Weighted-average assumptions as of December 31:			
Discount rate-Union plan	5.91%	5.50%	5.75%
Discount rate-Non-union plan	5.96%	5.50%	5.75%
Rate of compensation increase	5.25%	5.25%	4.50%

The assumptions used in the measurement of LG&E's net periodic benefit cost are shown in the following table:

	2006	2005	2004
Discount rate	5.50%	5.75%	6.25%
Expected long-term return on plan assets	8.25%	8.25%	8.50%
Rate of compensation increase	5.25%	4.50%	3.50%

To develop the expected long-term rate of return on assets assumption, LG&E considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Assumed Healthcare Cost Trend Rates. For measurement purposes, a 10% annual increase in the per capita cost of covered healthcare benefits was assumed for 2006. The rate was assumed to decrease gradually to 5% by 2015 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1% change in assumed healthcare cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2006 total of service and interest costs components and an increase or decrease of $3 million in year-end 2006 postretirement benefit obligations.

Expected Future Benefit Payments. The following list provides the amount of expected future benefit payments, which reflect expected future service, as appropriate:

(in millions)	Pension Plans	Other Postretirement Benefits
2007	$ 28	$ 8
2008	$ 28	$ 9
2009	$ 27	$ 9
2010	$ 26	$ 9
2011	$ 25	$ 9
2012-16	$ 124	$ 44

Plan Assets. The following table shows LG&E's weighted-average asset allocation by asset category at December 31:

	Target Range	2006	2005	2004
Pension Plans:				
Equity securities	45%- 75%	61%	57%	66%
Debt securities	30% - 50%	39%	42%	33%
Other	0% - 10%	0%	1%	1%
Totals		100%	100%	100%

The investment policy of the pension plans was developed in conjunction with financial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the fund and maximize investment earnings. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, MSCI-EAFE Index, Lehman Aggregate and Lehman Long Duration Gov/Corporate Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon of at least three to five years or a complete market cycle. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of the overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may include a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade securities include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that either are of short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, to modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of $1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government.

Contributions. LG&E made discretionary contributions to the pension plan of $18 million in January 2006 and $35 million in January 2004. There were no contributions during 2005. LG&E made an additional discretionary contribution to the pension plan of $56 million in January 2007, which was slightly more than the $52 million accrued benefit liability as of December 31, 2006. LG&E does not expect to make any further contributions in 2007. See Note 15, Subsequent Events.

In addition, LG&E made contributions to other postretirement benefit plans of approximately $11 million, $10 million and $9 million in 2006, 2005 and 2004, respectively. In 2007, LG&E anticipates making voluntary contributions to fund the Voluntary Employee Beneficiary Association (VEBA) trusts to match the annual postretirement expense and funding the 401(h) plan up to certain maximum applicable amounts under law or regulation.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. The new rules are generally effective for plan years beginning after 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. While LG&E continues to examine the potential impacts of the Pension Protection Act of 2006, its $56 million contribution in January 2007 was slightly more than the accrued benefit liability as of December 31, 2006.

FSP 106-2. FSP 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*, which provided guidance on accounting for subsidies provided under the Medicare Act, was effective for the first interim or annual period beginning after June 15, 2004. The impact of the subsidy in 2004 was a reduction in the accumulated postretirement benefit obligation of $3 million. The effect of the subsidy on the measurement of the net periodic postretirement benefit cost was less than $1 million.

Thrift Savings Plans. LG&E has a thrift savings plan under section 401(k) of the IRC. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. LG&E makes contributions to the plan by matching a portion of the employee contributions. The costs of this matching were approximately $2 million for 2006 and $1 million for 2005 and 2004, respectively.

Note 6 - Income Taxes

Components of income tax expense are shown in the table below:

(in millions)		2006	2005	2004
Current	- federal	$ 60	$ 73	$ 34
	- state	11	10	13
Deferred	- federal — net	(7)	(12)	11
	- state — net	(1)	(2)	(1)
Investment tax credit — deferred		3	—	—
Amortization of investment tax credit		(4)	(4)	(4)
Total income tax expense		$ 62	$ 65	$ 53

Deferred federal income tax expense during 2004 included significant deductions attributable to federal bonus depreciation which ended after December 2004.

In June 2006, LG&E and KU filed a joint application with the DOE requesting certification to be eligible for investment tax credits applicable to the construction of TC2. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. LG&E's and KU's application requested up to a maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying TC2 expenditures.

In November 2006, the DOE and Internal Revenue Service announced that LG&E and KU were selected to receive the tax credit. LG&E's portion of the tax credit will be approximately $24 million over the construction period of TC2. This tax credit will be amortized to income over the life of the related property. In 2006, based on eligible construction expenditures incurred in 2006, LG&E recorded a federal investment tax credit, decreasing current federal income taxes in 2006 by $3 million.

H. R. 4520, known as the "American Jobs Creation Act of 2004" allows electric utilities to take a deduction of up to 3% of their qualified production activities income starting in 2005. This deduction reduced LG&E's effective tax rate by less than 1% for 2006.

Components of net deferred tax liabilities included in the balance sheet are shown below:

(in millions)	2006	2005
Deferred tax liabilities:		
Depreciation and other plant-related items	$ 367	$ 391
Regulatory assets and other	22	23
Pension and related benefits	6	—
Total deferred tax liabilities	395	414
Deferred tax assets:		
Investment tax credit	15	17
Income taxes due to customers	21	17
Pensions and related benefits	—	39
Liabilities and other	26	19
Total deferred tax assets	62	92
Net deferred income tax liability	$ 333	$ 322

A reconciliation of differences between the statutory U.S. federal income tax rate and LG&E's effective income tax rate follows:

	2006	2005	2004
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.8	4.3	5.3
Reduction of income tax accruals	(0.4)	(2.0)	(0.7)
Amortization of investment tax credits	(2.2)	(2.1)	(3.6)
Other differences	(1.6)	(1.7)	(0.4)
Effective income tax rate	34.6%	33.5%	35.6%

State income taxes net of federal benefit in 2006 reflect Kentucky Coal Tax Credits earned.

Other differences primarily relate to excess deferred taxes which reflect the benefits of deferred taxes reversing at tax rates that differ from statutory rates and various other permanent differences.

In September 2005, LG&E received notice from the Congressional Joint Committee on Taxation approving the Internal Revenue Service's audit of LG&E's income tax returns for the periods December 1999 through December 2003. As a result of resolving numerous tax matters during these periods, LG&E reduced income tax accruals by $4 million during 2005.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan", was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including the reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. As a result of the income tax rate change, LG&E's deferred tax reserve amount will exceed its actual deferred tax liability attributable to existing temporary differences, since the new statutory rates are lower than the rates were when the deferred tax liability originated. This excess amount is referred to as excess deferred income taxes. In June 2005 and December 2006, LG&E received approval from the Kentucky Commission to establish and amortize a regulatory liability ($16 million) for its net excess deferred income tax balances. LG&E will amortize its depreciation-related excess deferred income tax balances under the average rate assumption method. The average rate assumption method matches the amortization of the excess deferred

income taxes with the life of the timing differences to which they relate. Excess deferred income tax balances related to non-depreciation timing differences were expensed in 2005 and 2006 due to their immaterial amount.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred tax assets.

Note 7 - Long-Term Debt

As of December 31, 2006 and 2005, long-term debt and the current portion of long-term debt consist primarily of pollution control bonds and long-term loans from affiliated companies as summarized below.

(in millions)	Stated Interest Rates	Maturities		Principal Amounts
Outstanding at December 31, 2006:				
Noncurrent portion	Variable - 5.875 %	2008-2035	$	572
Current portion	Variable	2007-2027		248
Outstanding at December 31, 2005:				
Noncurrent portion	Variable - 5.875 %	2008-2035	$	573
Current portion	Variable	2006-2027		248

Under the provisions for LG&E's variable-rate pollution control bonds, Series S, T, U, BB, CC, DD and EE, the 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, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during 2006 and 2005 was 3.50% and 2.50%, respectively.

Pollution control series bonds are first mortgage bonds that have been issued by LG&E 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. The county's debt is also secured by LG&E's first mortgage bonds of an equal amount (the pollution control series bonds) that are pledged to the trustee for the pollution control revenue bonds, and that matches 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.

Substantially all of LG&E's utility assets are pledged as collateral for its first mortgage bonds. LG&E's first mortgage bond indenture, as supplemented, provides that portions of retained earnings will not be available for the payment of dividends on common stock, under certain specified conditions. No portion of retained earnings was restricted by this provision as of either December 31, 2006 or 2005.

Interest rate swaps are used to hedge LG&E's underlying variable-rate debt obligations. These swaps hedge specific debt issuances and, consistent with management's designation, are accorded hedge accounting treatment. The swaps exchange floating-rate interest payments for fixed rate interest payments to reduce the impact of interest rate changes on LG&E's pollution control bonds. As of December 31, 2006 and 2005, LG&E had swaps with an aggregate notional value of $211 million. See Note 3, Financial Instruments.

Redemptions and maturities of long-term debt for 2006, 2005 and 2004 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2006	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul 2006
2005	Pollution control bonds	$ 40	5.90%	Secured	Apr 2023
2005	Due to Fidelia	$ 50	1.53%	Secured	Jan 2005
2005	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul 2005
2004	Due to Fidelia	$ 50	1.53%	Secured	Jan 2005
2004	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul 2004

LG&E did not issue any new long-term debt in 2006. Issuances of long-term debt for 2005 and 2004 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2005	Pollution control bonds	$ 40	Variable	Secured	Feb 2035
2004	Due to Fidelia	$ 25	4.33%	Secured	Jan 2012
2004	Due to Fidelia	$100	1.53%	Secured	Jan 2005

LG&E has existing $5.875 series mandatorily redeemable preferred stock outstanding having a current redemption price of $100 per share. The preferred stock has a sinking fund requirement sufficient to retire a minimum of 12,500 shares on July 15 of each year commencing with July 15, 2003, and the remaining 187,500 shares on July 15, 2008 at $100 per share. LG&E redeemed 12,500 shares in accordance with these provisions on July 15, 2006, 2005, 2004 and 2003, leaving 200,000 shares currently outstanding.

Long-term debt maturities for LG&E are shown in the following table:

(in millions)	
2007	$ 1
2008	19
2009-11	—
Thereafter	800 (a)
Total	$ 820

(a) Includes long-term debt of $246 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. Maturity dates for these bonds range from 2013 to 2027. LG&E does not expect to pay these amounts in 2007.

Note 8 - Notes Payable and Other Short-Term Obligations

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 an index of highly rated commercial paper issues) up to $400 million.

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2006	$400	$ 68	$332	5.25%
December 31, 2005	$400	$141	$259	4.21%

At December 31, 2006 and 2005, E.ON U.S. maintained a revolving credit facility totaling $200 million 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
December 31, 2006	$200	$102	$98	5.49%
December 31, 2005	$200	$105	$95	4.49%

During June 2006, LG&E renewed five revolving lines of credit with banks totaling $185 million. These credit facilities expire in June 2007, and there was no outstanding balance under any of these facilities at December 31, 2006 and 2005.

The covenants under these revolving lines of credit include:

- The debt/total capitalization ratio must be less than 70%;
- E.ON AG must own at least 66.667% of voting stock of LG&E directly or indirectly;
- The corporate credit rating of the Company must be at or above BBB- and Baa3; and
- A limitation on disposing of assets aggregating more than 15% of total assets as of December 31, 2005.

Note 9 - Commitments and Contingencies

Operating Leases. LG&E leases office space, office equipment and vehicles and accounts for these leases as operating leases. Total lease expense for 2006, 2005 and 2004, less amounts contributed by affiliated companies occupying a portion of the office space leased by LG&E, was $5 million for 2006 and $3 million each for 2005 and 2004. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2006, are shown in the following table:

(in millions)	
2007	$ 2
2008	2
2009	2
2010	2
2011	2
Thereafter	8
Total	$ 18

Sale and Leaseback Transaction. LG&E is a participant in a sale and leaseback transaction involving its 38% interest in two jointly-owned combustion turbines at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, LG&E and KU entered into a tax-efficient, 18-year lease of the combustion turbines. LG&E and KU have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if LG&E had retained its ownership. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, LG&E is obligated to pay to the lessor its share of certain fees or amounts. Primary events of default include loss or destruction of the combustion turbines, failure to insure or maintain the combustion turbines and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the combustion turbines reverts jointly to LG&E and KU.

At December 31, 2006, the maximum aggregate amount of default fees or amounts was $9 million, of which LG&E would be responsible for 38% (approximately $3 million). LG&E has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay LG&E's full portion of any default fees or amounts.

Letters of Credit. LG&E has provided letters of credit totaling $3 million to support certain obligations related to landfill reclamation and a letter of credit totaling less than $1 million to support certain obligations related to workers' compensation.

Purchased Power. LG&E has a contract for purchased power with OVEC for various Mw capacities. LG&E has an investment of 5.63% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity. Future obligations for power purchases are shown in the following table:

(in millions)	
2007	$ 11
2008	13
2009	16
2010	17
2011	17
Thereafter	328
Total	$ 402

Construction Program. LG&E had approximately $180 million of commitments in connection with its construction program at December 31, 2006.

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.

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 national ambient air quality standards ("NAAQS"). Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a State Implementation Plan ("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 percent 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, in 2002, Kentucky amended its SIP 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 percent and NOx emission reductions of 65 percent 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 a number of federal court proceedings. 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.

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 percent from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In addition, in 2005 and 2006, state and local air agencies in Kentucky have proposed or adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants. To the extent those rules are final, they 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 Clean Air Visibility Rule detailing how the Clean Air Act's best available retrofit technology ("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 emissions 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 to 2006 time period at a cost of $187 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, LG&E expects to incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms. 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 under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In addition, litigation is currently pending before various courts to determine whether the EPA and the states have the authority to regulate GHG emissions under existing law. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level. LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted or to determine the reduction

targets and deadlines that would be applicable under such programs. 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 cannot be determined prior to the enactment of such programs.

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 MGP 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 MGP 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. An accrual for this amount had been recorded in the accompanying financial statements at December 31, 2005, which accrual was reversed as of December 31, 2006 upon the evaluation that the likelihood of such occurrence is remote. Based on analysis to date, the resolution of the other matters is also not expected to have a material impact on the operations of LG&E.

Note 10 - Jointly Owned Electric Utility Plant

LG&E owns a 75% undivided interest in TC1 which the Kentucky Commission has allowed to be reflected in customer rates. Of the remaining 25% of the Unit, IMEA owns a 12.12% undivided interest, and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate ownership share of fuel cost, operation and maintenance expenses and incremental assets. The following data represent shares of the jointly owned property:

	TC1			
	LG&E	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	383	66	62	511

(in millions)	
LG&E's 75% ownership:	
Cost	$ 604
Accumulated depreciation	(231)
Net book value	$ 373
Construction work in progress (included in above)	$ 9

LG&E and KU have begun construction of another jointly owned unit at the Trimble County site. LG&E and KU own undivided 14.25% and 60.75% interests, respectively, in TC2. Of the remaining 25% of TC2, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction, and fuel, operation and maintenance cost when TC2 begins operation, which is expected to occur in 2010.

	TC2				
	LG&E	KU	IMPA	IMEA	Total
Ownership interest	14.25%	60.75%	12.88%	12.12%	100%
Mw capacity	107	455	97	91	750

(in millions)	LG&E	KU
Construction work in progress	$ 25	$ 96

LG&E and KU jointly own the following combustion turbines and related equipment:

($ in millions)	LG&E				KU				Total			
Ownership Percentage	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value
LG&E 53%, KU 47% (1)	146	58	(10)	48	129	51	(10)	41	275	109	(20)	89
LG&E 38%, KU 62% (2)	118	46	(8)	38	190	72	(12)	60	308	118	(20)	98
LG&E 29%, KU 71% (3)	92	32	(4)	28	228	80	(12)	68	320	112	(16)	96
LG&E 37%, KU 63% (4)	236	79	(8)	71	404	137	(12)	125	640	216	(20)	196
LG&E 29%, KU 71% (5)	n/a	3	(0)	3	n/a	9	(1)	8	n/a	12	(1)	11

(1) Comprised of Paddy's Run 13 and E.W. Brown 5. In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to Unit 5 and Units 8-11 at the E.W. Brown facility. This inlet air cooling system is not jointly owned, however it is used to increase production on the units to which it relates, resulting in an additional 10Mw of capacity for LG&E.
(2) Comprised of units 6 and 7 at the E.W. Brown facility.
(3) Comprised of units 5 and 6 at the Trimble County facility.
(4) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility.
(5) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility.

Both LG&E's and KU's participating share of direct expenses of the joint fuel plants is included in the corresponding operating expenses on its respective income statement (e.g., fuel, maintenance of plant, other operating expense).

Note 11 - Segments of Business and Related Information

LG&E is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity and the storage, distribution and sale of natural gas. LG&E is regulated by the Kentucky Commission and files electric and natural gas financial information separately with the Kentucky Commission. The Kentucky Commission establishes rates specifically for the electric and natural gas businesses. Therefore, management reports and analyzes financial performance based on the electric and natural gas segments of the business. Financial data for business segments follow:

(in millions)	Electric	Gas	Total
2006			
Operating revenues	$ 943	$395	$1,338
Depreciation and amortization	105	19	124
Income taxes	57	5	62
Interest income	1	—	1
Interest expense	33	8	41
Net income	107	10	117
Total assets	2,520	664	3,184
Construction expenditures	111	35	146
2005			
Operating revenues	$ 987	$437	$1,424
Depreciation and amortization	106	18	124
Income taxes	60	5	65
Interest income	1	—	1
Interest expense	30	7	37
Net income	119	10	129
Total assets	2,475	671	3,146
Construction expenditures	97	42	139
2004			
Operating revenues	$ 816	$357	$1,173
Depreciation and amortization	100	17	117
Income taxes	48	5	53
Interest income	—	—	—
Interest expense	27	6	33
Net income	87	9	96
Total assets	2,417	550	2,967
Construction expenditures	113	35	148

Note 12 - Related Party Transactions

LG&E and other 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 off-system customers. In 2004, LG&E also had sales to LG&E Energy Marketing Inc., another E.ON U.S. subsidiary, of less than $1 million. 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 years ended December 31, 2006, 2005 and 2004 were as follows:

(in millions)	2006	2005	2004
Electric operating revenues from KU	$ 99	$ 92	$ 59
Purchased power from KU	77	96	62

Interest Charges

See Note 8, Notes Payable and Other Short-Term Obligations, 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 income and expense for the years ended December 31, 2006, 2005 and 2004 were as follows:

(in millions)	2006	2005	2004
Interest on money pool loans	$ 2	$ 2	$—
Interest on Fidelia loans	11	11	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 and vouchers paid by E.ON U.S. Services on behalf of LG&E. The cost of these services are 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 relate to information technology-related services provided by LG&E employees, cash received by E.ON U.S. Services on behalf of LG&E and services provided by LG&E to other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from LG&E for the years ended December 31, 2006, 2005 and 2004 were as follows:

(in millions)	2006	2005	2004
E.ON U.S. Services billings to LG&E	$ 230	$ 208	$ 191
LG&E billings to KU	53	101	60
KU billings to LG&E	56	29	7
LG&E billings to E.ON U.S. Services	7	8	13

Note 13 — Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consisted of the following:

(in millions)	Minimum Pension Liability Adjustment	Accumulated Derivative Gain or Loss	Pre-Tax	Income Taxes	Net
Balance at December 31, 2003	$ (48)	$ (16)	$ (64)	$ 27	$ (37)
Minimum pension liability adjustment	(10)	—	(10)	4	(6)
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	—	(2)	(2)	—	(2)
Balance at December 31, 2004	(58)	(18)	(76)	31	(45)
Minimum pension liability adjustment	(19)	—	(19)	6	(13)
Balance at December 31, 2005	(77)	(18)	(95)	37	(58)
Minimum pension liability adjustment	77	—	77	(30)	47
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	—	3	3	(1)	2
Balance at December 31, 2006	$ —	$ (15)	$ (15)	$ 6	$ (9)

Note 14 - Selected Quarterly Data (Unaudited)

Selected financial data for the four quarters of 2006 and 2005 are shown below Because of seasonal fluctuations in temperature and other factors, results for quarters may fluctuate throughout the year.

(in millions)	Quarters Ended			
	March	June	September	December
2006				
Operating revenues	$ 413	$ 277	$ 303	$ 345
Net operating income	50	47	71	55
Net income	26	25	40	26
2005				
Operating revenues	$ 402	$ 281	$ 319	$ 422
Net operating income	62	53	66	49
Net income	34	28	42	25

Note 15 - Subsequent Events

On January 16, 2007, LG&E made a discretionary contribution to the pension plan in the amount of $56 million, which was slightly more than the $52 million accrued benefit liability as of December 31, 2006.

On January 31, 2007, LG&E received an Order from the Kentucky Commission approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and a rate of return on capital.

On January 31, 2007, the Kentucky Commission issued an Order approving LG&E's application for certain financial transactions, including arrangements which provide a source of funds for the possible redemption of LG&E's preferred stock. In March 2007, a committee of LG&E's board authorized the redemption of the preferred stock, effective in April 2007, pursuant to existing redemption provisions applicable to such series. LG&E will redeem on such redemption date all of its outstanding shares of its series of preferred stock at the following redemption prices, respectively, plus an amount equal to accrued and unpaid dividends to the redemption date:

- 860,287 shares of 5% cumulative preferred stock (par value $25 per share) at $28 per share;
- 200,000 shares of $5.875 cumulative preferred stock (without par value) at $100 per share; and
- 500,000 shares of auction rate, series A, cumulative preferred stock (without par value) at $100 per share.

Dividends on the shares of preferred stock shall cease to accumulate on the redemption date and no further dividends will be paid or will accrue on such preferred stock thereafter.

On February 9, 2007, LG&E filed with the Kentucky Commission an application for approval of a "green energy" rider. This application details LG&E's plans to offer its customers a "green energy" program that contributes funds to the maintenance and growth of renewable energy in Kentucky and contiguous states. An Order is expected during the second quarter of 2007.

On March 21, 2007, LG&E filed a real-time pilot program for residential and general service customers with the Kentucky Commission as agreed to in the Rate Case settlement agreement and in response to additional requirements ordered by the Kentucky Commission resulting from not adopting the Smart-Metering and Interconnection standards included in the EPAct 2005. An order from the Kentucky Commission is anticipated before the end of 2007.

Louisville Gas and Electric Company
REPORT OF MANAGEMENT

The management of Louisville Gas and Electric Company ("LG&E") is responsible for the preparation and integrity of the financial statements and related information included in this Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in the United States applied on a consistent basis and, necessarily, include amounts that reflect the best estimates and judgment of management.

LG&E's financial statements for the three years ended December 31, 2006, have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Management made available to PricewaterhouseCoopers LLP all LG&E's financial records and related data as well as the minutes of shareholders' and directors' meetings.

Management has established and maintains a system of internal controls that provides reasonable assurance that transactions are completed in accordance with management's authorization, that assets are safeguarded and that financial statements are prepared in conformity with generally accepted accounting principles. Management believes that an adequate system of internal controls is maintained through the selection and training of personnel, appropriate division of responsibility, establishment and communication of policies and procedures and by regular reviews of internal accounting controls by LG&E's internal auditors. Management reviews and modifies its system of internal controls in light of changes in conditions and operations, as well as in response to recommendations from the internal and external auditors. These recommendations for the year ended December 31, 2006, did not identify any material weaknesses in the design and operation of LG&E's internal control structure.

LG&E is not an accelerated filer under 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.

In carrying out its oversight role for the financial reporting and internal controls of LG&E, the Board of Directors meets regularly with LG&E's independent registered public accounting firm, internal auditors and management. The Board of Directors reviews the results of the independent registered public accounting firm's audit of the financial statements and their audit procedures, and discusses the adequacy of internal accounting controls. The Board of Directors also approves the annual internal auditing program and reviews the activities and results of the internal auditing function. Both the independent registered public accounting firm and the internal auditors have access to the Board of Directors at any time.

LG&E maintains and internally communicates a written code of business conduct and a senior financial officer code of ethics which address, among other items, potential conflicts of interest, compliance with laws, including those relating to financial disclosure, and the confidentiality of proprietary information.

S. Bradford Rives
Chief Financial Officer

Louisville Gas and Electric Company
Louisville, Kentucky

Date: March 21, 2007

Report of Independent Registered Public Accounting Firm

To the Shareholder of Louisville Gas and Electric Company:

In our opinion, the accompanying balance sheet and the related statements of capitalization, income, retained earnings, cash flows and comprehensive income present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2006 and December 31, 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, Louisville Gas and Electric Company changed the manner in which it accounts for defined benefit pension and other postretirement benefit plans as of December 31, 2006 and the manner in which it accounts for conditional asset retirement obligations as of December 31, 2005.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
February 8, 2007

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable

ITEM 9A. Controls and Procedures.

Disclosure Controls

LG&E maintains a system of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports they file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. LG&E conducted an evaluation of such controls and procedures under the supervision and with the participation of the Company's Management, including the Chairman, President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based upon that evaluation, the CEO and CFO are of the conclusion that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report.

In preparation for required reporting under Section 404 of the Sarbanes-Oxley Act of 2002, the Company is conducting a thorough review of its internal control over financial reporting, including disclosure controls and procedures. Based on this review, the Company has made internal control enhancements and will continue to make future enhancements to its internal control over financial reporting. There has been no change in the Company's internal control over financial reporting that occurred during the fiscal year ended December 31, 2006, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

LG&E is not an accelerated filer under 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.

ITEM 9B. Other Information.

Not applicable.

PART III

Certain information for ITEMS 10, 11, 12, 13 and 14 is omitted pursuant to General Instruction G of Form 10-K. The information required by ITEMS 10, 11, 12, 13 and 14 for LG&E is incorporated herein by reference to its definitive proxy statements and/or Form 10-K/A amendments which may be filed during April 2007 with the SEC pursuant to Regulation 14A of the Securities and Exchange Act of 1934. Additionally, in accordance with General Instruction G, certain information required by ITEM 10 relating to executive officers of LG&E has been included in Part I of this Form 10-K.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules.

(a) 1. Financial Statements (included in Item 8):

Statements of Income for the three years ended December 31, 2006 (page 47).
Statements of Retained Earnings for the three years ended December 31, 2006 (page 47).
Statements of Comprehensive Income for the three years ended December 31, 2006 (page 48).
Balance Sheets-December 31, 2006, and 2005 (page 49).
Statements of Cash Flows for the three years ended December 31, 2006 (page 51).
Statements of Capitalization-December 31, 2006, and 2005 (page 52).
Notes to Financial Statements (pages 53-85).
Report of Management (page 86).
Report of Independent Registered Public Accounting Firm (page 87).

2. Financial Statement Schedules (included in Part IV):

All schedules have been omitted as not applicable or not required or because the information required to be shown is included in the Financial Statements or the accompanying Notes to Financial Statements.

3. Exhibits:

Exhibit No.	Description
2.01	Copy of Agreement and Plan of Merger, dated as of February 27, 2000, by and among Powergen plc, LG&E Energy Corp., US Subholdco2 and Merger Sub, including certain exhibits thereto. [Filed as Exhibit 1 to LG&E's Current Report on Form 8-K filed February 29, 2000 and incorporated by reference herein.]
2.02	Amendment No. 1 to Agreement and Plan of Merger, dated as of December 8, 2000, among LG&E Energy Corp., Powergen plc, Powergen US Investments Corp. and Powergen Acquisition Corp. [Filed as Exhibit 2.01 to LG&E's Current Report on Form 8-K filed December 11, 2000 and incorporated by reference herein.]
2.03	Copy of Agreement and Plan of Merger, dated as of May 20, 1997, by and between LG&E Energy and KU Energy, including certain exhibits thereto. [Filed as Exhibit 2 to LG&E's Current Report on Form 8-K filed May 30, 1997 and incorporated by reference herein.]
3.01	Copy of Restated Articles of Incorporation of LG&E, dated November 6, 1996. [Filed as Exhibit 3.06 to LG&E's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated by reference herein.]
3.02	Copy of Amendment to Articles of Incorporation of LG&E, dated February 6, 2004. [Filed as Exhibit 3.02 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

3.03 Copy of By-Laws of LG&E, as amended through December 16, 2003. [Filed as Exhibit 3.03 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

4.01 Copy of Trust Indenture dated November 1, 1949, from LG&E to Harris Trust and Savings Bank, Trustee. [Filed as Exhibit 7.01 to LG&E's Registration Statement 2-8283 and incorporated by reference herein.]

4.02 Copy of Supplemental Indenture dated September 1, 1992, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.32 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein.]

4.03 Copy of Supplemental Indenture dated September 2, 1992, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.33 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein.]

4.04 Copy of Supplemental Indenture dated August 16, 1993, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.35 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein.]

4.05 Copy of Supplemental Indenture dated August 1, 2000, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.38 to LG&E's Annual Report on Form 10-K/A for the year ended December 31, 2000, and incorporated by reference herein.]

4.06 Copy of Supplemental Indenture dated September 1, 2001, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.42 to LG&E's Annual Report on Form 10-K/A for the year ended December 31, 2001, and incorporated by reference herein.]

4.07 Copy of Supplemental Indenture dated March 1, 2002, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.39 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

4.08 Copy of Supplemental Indenture dated March 15, 2002, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.40 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

4.09 Copy of Supplemental Indenture dated October 1, 2002, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.41 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

4.10 Copy of Supplemental Indenture dated October 1, 2003, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.22 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

4.11 Supplemental Indenture dated as of April 1, 2005, from Louisville Gas and Electric Company to BNY Midwest Trust Company, as Trustee, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.1 to LG&E's Form 8-K filed on April 13, 2005, and incorporated by reference herein.]

4.12 Copy of Loan Agreement between LG&E and Fidelia Corporation, dated April 30, 2003. [Filed as Exhibit 4.24 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

4.13 Copy of Loan Agreement between LG&E and Fidelia Corporation, dated January 15, 2004. [Filed as Exhibit 4.27 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

4.14 Copy of Loan and Security Agreement between LG&E and Fidelia Corporation, dated as of August 15, 2003. [Filed as Exhibit 4.27 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.01 Copies of (i) Inter-Company Power Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies (which Agreement includes as Exhibit A the Power Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Indiana-Kentucky Electric Corporation); (ii) First Supplementary Transmission Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies; (iii) Inter-Company Bond Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies; (iv) Inter-Company Bank Credit Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 5.02f to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.02 Copy of Modification No. 1 and No. 2 dated June 3, 1966 and January 7, 1967, respectively, to Inter-Company Power Agreement dated July 10, 1953. [Filed as Exhibits 4(a)(8) and 4(a)(10) to LG&E's Registration Statement 2-26063 and incorporated by reference herein.]

10.03 Copies of Amendments to Agreements (iii) and (iv) referred to under 10.01 above as follows: (i) Amendment to Inter-Company Bond Agreement and (ii) Amendment to Inter-Company Bank Credit Agreement. [Filed as Exhibit 5.02h to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.04 Copy of Modification No. 1, dated August 20, 1958, to First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 5.02i to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.05 Copy of Modification No. 2, dated April 1, 1965, to the First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 5.02j to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.06 Copy of Modification No. 3, dated January 20, 1967, to First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 4(a)(7) to LG&E's Registration Statement 2-26063 and incorporated by reference herein.]

10.07 Copy of Modification No. 3 dated November 15, 1967, to the Inter-Company Power Agreement dated July 10, 1953. [Filed as Exhibit 4.02m to LG&E's Registration Statement 2-37368 and incorporated by reference herein.]

10.08 Copy of Modification No. 4 dated November 5, 1975, to the Inter-Company Power Agreement dated July 10, 1953. [Filed as Exhibit 5.02o to LG&E's Registration Statement 2-56357 and incorporated by reference herein.]

10.09 Copy of Modification No. 4 dated April 30, 1976, to First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 5.02p to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.10 Copy of Modification No. 5 dated September 1, 1979, to Inter-Company Power Agreement dated July 5, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 4 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1979, and incorporated by reference herein.]

10.11 Copy of Modification No. 6 dated August 1, 1981, to Inter-Company Power Agreement dated July 5, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.26 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1981, and incorporated by reference herein.]

10.12 * Copy of Non-Qualified Savings Plan covering officers of the Company, effective January 1, 1992. [Filed as Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein.]

10.13 Copy of Modification No. 7 dated January 15, 1992, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.44 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein.]

10.14 Copy of Modification No. 8 dated January 19, 1994, to Inter-Company Power Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.43 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein.]

10.15 Copy of Modification No. 9, dated August 17, 1995, to the Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.39 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated by reference herein.]

10.16	* Copy of Amendment to the Non-Qualified Savings Plan, effective January 1, 1992. [Filed as Exhibit 10.55 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein.]
10.17	* Copy of Amendment to the Non-Qualified Savings Plan, effective January 1, 1995. [Filed as Exhibit 10.56 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein.]
10.18	* Copy of Amendment to the Non-Qualified Savings Plan, effective January 1, 1995. [Filed as Exhibit 10.57 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein.]
10.19	* Copy of Supplemental Executive Retirement Plan as amended through January 1, 1998, covering officers of LG&E Energy. [Filed as Exhibit 10.74 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein.]
10.20	* Copy of Amendment to LG&E Energy's Supplemental Executive Retirement Plan, effective September 2, 1998. [Filed as Exhibit 10.90 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein.]
10.21	* Copy of Employment and Severance Agreement, dated as of February 25, 2000, by and among LG&E Energy, Powergen plc and an executive officer of the Company. [Filed as Exhibit 10.54 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]
10.22	* Copy of Amendment, effective October 1, 1999, to LG&E Energy's Non-Qualified Savings Plan. [Filed as Exhibit 10.96 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated by reference herein.]
10.23	* Copy of Amendment, effective December 1, 1999, to LG&E Energy's Non-Qualified Savings Plan. [Filed as Exhibit 10.97 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated by reference herein.]
10.24	Copy of Modification No. 10, dated January 1, 1998, to the Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.102 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated by reference herein.]
10.25	Copy of Modification No. 11, dated April 1, 1999, to the Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.103 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated by reference herein.]

10.26 * Copy of Powergen Short-Term Incentive Plan, effective January 1, 2001, applicable to certain employees of LG&E Energy Corp. and its subsidiaries. [Filed as Exhibit 10.109 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference.]

10.27 * Copy of two forms of Change-In-Control Agreement applicable to certain employees of LG&E Energy Corp. and its subsidiaries. [Filed as Exhibit 10.110 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated by reference herein.]

10.28 * Copy of Employment and Severance Agreement, dated as of February 25, 2000, and amendments thereto dated December 8, 2000 and April 30, 2001, by and among LG&E Energy, Powergen plc and Victor A. Staffieri. [Filed as Exhibit 10.74 to LG&E's Annual Report on Form 10-K/A for the year ended December 31, 2001, and incorporated by reference herein.]

10.29 * Copy of Amendment, dated as of December 8, 2000, to Employment and Severance Agreement dated as of February 25, 2000, by and among LG&E Energy, Powergen plc and an executive officer of the Company. [Filed as Exhibit 10.63 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.30 * Copy of Third Amendment, dated July 1, 2002, to Employment and Severance Agreement dated as of February 25, 2000 by and among E.ON AG, LG&E Energy, Powergen and Victor A. Staffieri. [Filed as Exhibit 10.74 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.31 * Copy of form of Retention and Severance Agreement dated April/May, 2002 by and among LG&E Energy, E.ON AG and certain executive officers of the Companies. [Filed as Exhibit 10.75 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.32 * Copy of Second Amendment, dated May 20, 2002, to Employment and Severance Agreement, dated February 25, 2000, by and among E.ON AG, LG&E Energy Corp., Powergen plc and an executive of the Companies. [Filed as Exhibit 10.76 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.33 * Copy of Representative Terms and Conditions for Stock Appreciation Rights Issued as part of E.ON Group's Stock Appreciation Rights Programs, applicable to certain executive officers of the Companies. [Filed as Exhibit 10.79 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.34 * Copy of LG&E Energy Corp. Long-Term Performance Unit Plan, adopted April 25, 2003, effective January 1, 2003. [Filed as Exhibit 10.65 to LG&E Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.35 Copy of Modification No. 12 dated as of November 1, 1999, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.69 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.36 Copy of Modification No. 13 dated as of May 24, 2000, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.70 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.37 Copy of Modification No. 14 dated as of April 1, 2001, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.71 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.38 Copy of Amended and Restated Inter-Company Power Agreement dated as of March 13, 2006, among Ohio Valley Electric Corporation and Sponsoring Companies, including LG&E. [Filed as Exhibit 10.1 to LG&E's Form 10-Q for the period ended June 30, 2004, and incorporated by reference herein.]

10.39 * Copy of Fourth Amendment dated as of February 1, 2004 to Employment and Severance Agreement dated as of February 25, 2000 by and among E.ON AG, LG&E's Energy, Powergen and Victor A. Staffieri. [Filed as Exhibit 10.02 to LG&E's Form 10-Q for the period ended June 30, 2004, and incorporated by reference herein.]

10.40 Copy of Modification No. 15, dated as of April 30, 2004, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.03 to LG&E's Form 10-Q for the period ended June 30, 2004, and incorporated by reference herein.]

10.41 Participation Agreement between LG&E and Illinois Municipal Electric Agency, dated as of September 24, 1990. [Filed as Exhibit 10.42 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.42 Participation Agreement between LG&E and Indiana Municipal Power Agency, dated as of February 1, 1993. [Filed as Exhibit 10.43 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.43 Participation Agreement by and among LG&E and KU and Illinois Municipal Electric Agency and Indiana Municipal Power Agency, dated as of February 9, 2004. [Filed as Exhibit 10.44 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.44 Copy of Barge Transportation Agreement between LG&E, effective January 1, 2002, and KU, effective July 1, 2002, and Crounse Corporation. [Filed as Exhibit 10.45 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.45	Amendment No. 1 to Barge Transportation Agreement between Louisville Gas and Electric Company and Kentucky Utilities Company and Crounse Corporation, dated as of January 1, 2005. [Filed as Exhibit 10.46 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2005, and incorporated by reference herein.]
10.46	* Copy of LG&E Energy LLC Nonqualified Savings Plan, effective January 1, 2005. [Filed as Exhibit 10.47 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2005, and incorporated by reference herein.]
10.47	* Executive Officer Salary Information.
10.48	* Form of Representative Specimen Award under LG&E Energy Long-Term Performance Unit Plan. [Filed as Exhibit 10.47 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]
10.49	* Form of Representative Specimen Award under E.ON Group Stock Appreciation Rights Program. [Filed as Exhibit 10.48 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]
10.50	* Copies of E.ON Share Performance Plan (i) Terms and Conditions for the 1. Tranche (2006-2008) and (ii) Technical Annex, each dated as of June 2006. [Filed as Exhibit 10.01 to LG&E's Form 10-Q for the quarter ended September 30, 2006 and incorporated by reference herein.]
10.51	* Copies of form representative specimen Certificate Award under E.ON Share Performance Plan. [Filed as Exhibit 10.02 to LG&E's Form 10-Q for the quarter ended September 30, 2006 and incorporated by reference herein.]
12	Computation of Ratio of Earnings to Fixed Charges for LG&E.
21	Subsidiaries of the Registrant.
24	Power of Attorney.
31.1	Certification of Chief Executive Officer, Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.01	Cautionary Statement for purposes of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995.

SIGNATURES — LOUISVILLE GAS AND ELECTRIC COMPANY

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOUISVILLE GAS AND ELECTRIC COMPANY
Registrant

March 21, 2007
(Date)

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
Victor A. Staffieri	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	
S. Bradford Rives	Director and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	
John R. McCall	Director and Executive Vice President, General Counsel and Corporate Secretary	
Chris Hermann	Director and Senior Vice President, Energy Delivery	
Paul W. Thompson	Director and Senior Vice President, Energy Services	

By: /s/ S. Bradford Rives
(Attorney-In-Fact)

March 21, 2007

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Exhibit 10.47

Base Salaries for Named Executive Officers

In December 2006, the base salary increases for executive officers for 2007 were approved. The 2007 salaries for LG&E's named executive officers are as follows:

Officer Name	2007 Base Salary
Hermann, Chris	$ 295,400
McCall, John R.	$ 460,200
Rives, S. Bradford	$ 375,400
Thompson, Paul W.	$ 350,400
Staffieri, Victor A.	$ 757,300

The salary increases were effective January 1, 2007.

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Exhibit 12

Louisville Gas and Electric Company
Computation of Ratio of Earnings to Fixed Charges
(Millions of $)

	2006	2005	2004	2003	2002
Earnings:					
Net Income	$117	$129	$ 96	$ 91	$ 89
Add:					
Federal income taxes — current	60	73	34	26	25
State income taxes — current	11	10	13	10	8
Deferred Federal income taxes — net	(7)	(12)	11	17	20
Deferred State income taxes — net	(1)	(2)	(1)	1	4
Investment tax credit — net	(1)	(4)	(4)	(4)	(4)
Fixed charges	43	38	34	31	30
Earnings	$222	$232	$183	$172	$172
Fixed Charges:					
Interest charges per statements of income	$ 41	$ 37	$ 33	$ 31	$ 30
Add:					
One-third of rentals charged to operating expense (1)	2	1	1	—	—
Fixed charges	$ 43	$ 38	$ 34	$ 31	$ 30
Ratio of Earnings to Fixed Charges	5.16	6.11	5.38	5.55	5.73

NOTE: (1) In the Company's opinion, one-third of rentals represents a reasonable approximation of the interest factor

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Exhibit 21

SUBSIDIARIES OF THE REGISTRANTS

At December 31, 2006:

Louisville Gas and Electric Company, a Kentucky corporation, has no applicable subsidiaries.

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Exhibit 24

POWER OF ATTORNEY

WHEREAS, LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation, is to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2006 (the 2006 Form 10-K); and

WHEREAS, each of the undersigned holds the office or offices in LOUISVILLE GAS AND ELECTRIC COMPANY set opposite his name;

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints JOHN R. MCCALL and S. BRADFORD RIVES, and each of them, individually, his attorney, with full power to act for him and in his name, place, and stead, to sign his name in the capacity or capacities set forth below to the 2006 Form 10-K and to any and all amendments to such 2006 Form 10-K and hereby ratifies and confirms all that said attorney may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands and seals as of this 19th day of March, 2007.

/s/ Victor A. Staffieri
VICTOR A. STAFFIERI
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ John R. McCall
JOHN R. McCALL
Executive Vice President, General Counsel and Corporate Secretary
Director

/s/ S. Bradford Rives
S. BRADFORD RIVES
Chief Financial Officer and Director

/s/ Chris Hermann
CHRIS HERMANN
Senior Vice President — Energy Delivery and Director

/s/ Paul W. Thompson
PAUL W. THOMPSON
Senior Vice President — Energy Services and Director

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Exhibit 31.1

CERTIFICATIONS

Louisville Gas and Electric Company

I, Victor A. Staffieri, Chairman of the Board, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 21, 2007

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, President and Chief Executive Officer

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Exhibit 31.2

Louisville Gas and Electric Company

I, S. Bradford Rives, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 21, 2007

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

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Exhibit 32

Certification Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Louisville Gas and Electric Company (the "Company") on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge,

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

March 21, 2007

/s/ Victor A. Staffieri
Chairman of the Board, President
and Chief Executive Officer
Louisville Gas and Electric Company

/s/ S. Bradford Rives
Chief Financial Officer
Louisville Gas and Electric Company

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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Exhibit 99.01

Cautionary Factors for Louisville Gas and Electric Company

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage such disclosures without the threat of litigation providing those statements are identified as forward-looking and are accompanied by meaningful, cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the statement. Forward-looking statements have been and will be made in written documents and oral presentations of E.ON AG ("E.ON"), E.ON U.S. LLC ("E.ON U.S."), Louisville Gas and Electric Company ("LG&E" or the "Company"). Such statements are based on management's beliefs as well as assumptions made by and information currently available to management.

When used in the Company's documents or oral presentations, the words "anticipate," "estimate," "expect," "objective" and similar expressions are intended to identify forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause the Company's actual results to differ materially from those contemplated in any forward-looking statements include, among others, (a) those factors described under caption Item 1A. Risk Factors of the Company's Annual Report of Form 10-K for the year ended December 31, 2006 and (b) the following:

- Increased competition in the utility, natural gas and electric power marketing industries, including effects of: decreasing margins as a result of competitive pressures; industry restructuring initiatives; transmission system operation and/or administration initiatives; recovery of investments made under traditional regulation; nature of competitors entering the industry; retail wheeling; a new pricing structure; and former customers entering the generation market;

- Changing market conditions and a variety of other factors associated with physical energy and financial trading activities including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, currency, interest rate and warranty risks;

- Risks associated with price risk management strategies intended to mitigate exposure to adverse movement in the prices of electricity and natural gas on both a global and regional basis;

- Legal, regulatory, public policy-related and other developments which may result in re-determination, adjustment or cancellation of revenue payment streams paid to, or increased capital expenditures or operating and maintenance costs incurred by, the Companies, in connection with rate, fuel, transmission, environmental, consumer choice, safety and security and other proceedings or rules applicable to the Company;

- Legal, regulatory, economic and other factors which may result in re-determination or cancellation of revenue payment streams under power sales agreements resulting in reduced operating income and potential asset impairment related to the Company's investments in independent power production ventures, as applicable;

- Legal, regulatory, political, public policy, commercial, social and other developments relating to environmental matters, including limits on air and water emissions, disposal of hazardous wastes, remediation of existing environmental situations, restrictions on carbon or other greenhouse gas emissions;

- Economic conditions including interest rates, inflation rates and monetary or currency fluctuations;

- Trade, monetary, fiscal, taxation, and environmental policies of governments, agencies and similar organizations in geographic areas where the Company has a financial interest;

- Customer business conditions including demand for their products or services and supply of labor and materials used in creating their products and services;

- Financial or regulatory accounting principles or policies imposed by the Public Company Accounting Oversight Board, Financial Accounting Standards Board, the Securities and Exchange Commission, the Federal Energy Regulatory Commission, state public utility commissions and siting boards, the Environmental Protection Agency and the state equivalent, state entities which regulate natural gas transmission, gathering and processing and similar entities with regulatory oversight;

- Availability or cost of capital such as changes in: interest rates, market perceptions of the utility and energy-related industries, the Company's or any of its subsidiaries or security ratings;

- Factors affecting utility operations such as unusual weather conditions; catastrophic weather-related damage; unscheduled generation outages, unusual maintenance or repairs; unanticipated changes to fossil fuel, or gas supply costs or availability due to higher demand, shortages, transportation problems or other developments; environmental incidents; or electric transmission or gas pipeline system constraints;

- Factors which may affect the Company's utility operations or the demand for the Company's electric power or gas such as natural disasters, wars, terrorist acts or the effects thereof (including increased security costs), embargoes and other catastrophic events;

- Employee workforce factors including changes in key executives, collective bargaining agreements with union employees, or work stoppages;

- Rate-setting policies or procedures of regulatory entities, including environmental externalities;

- Social attitudes regarding the utility, natural gas and power industries;

- Identification of suitable investment opportunities to enhance shareholder returns and achieve long-term financial objectives through business acquisitions;

- Some future project investments made by the Company, respectively, as applicable, could take the form of minority interests, which would limit the Company's ability to control the development or operation of the project;

- Legal and regulatory delays and other unforeseeable obstacles associated with mergers, acquisitions and investments in joint ventures;

- The resolution, costs and other effects of legal and administrative proceedings, settlements, investigations, claims and matters, including but not limited to those described in Notes 3, 9 and 15 (for LG&E) of the Notes to Financial Statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and items under the caption Item 3, Legal Proceedings; and the resolution, costs and other effects of tax and pension matters, including but not limited to those described in Notes 5 and 6 (for LG&E) of the Notes to Financial Statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2006;

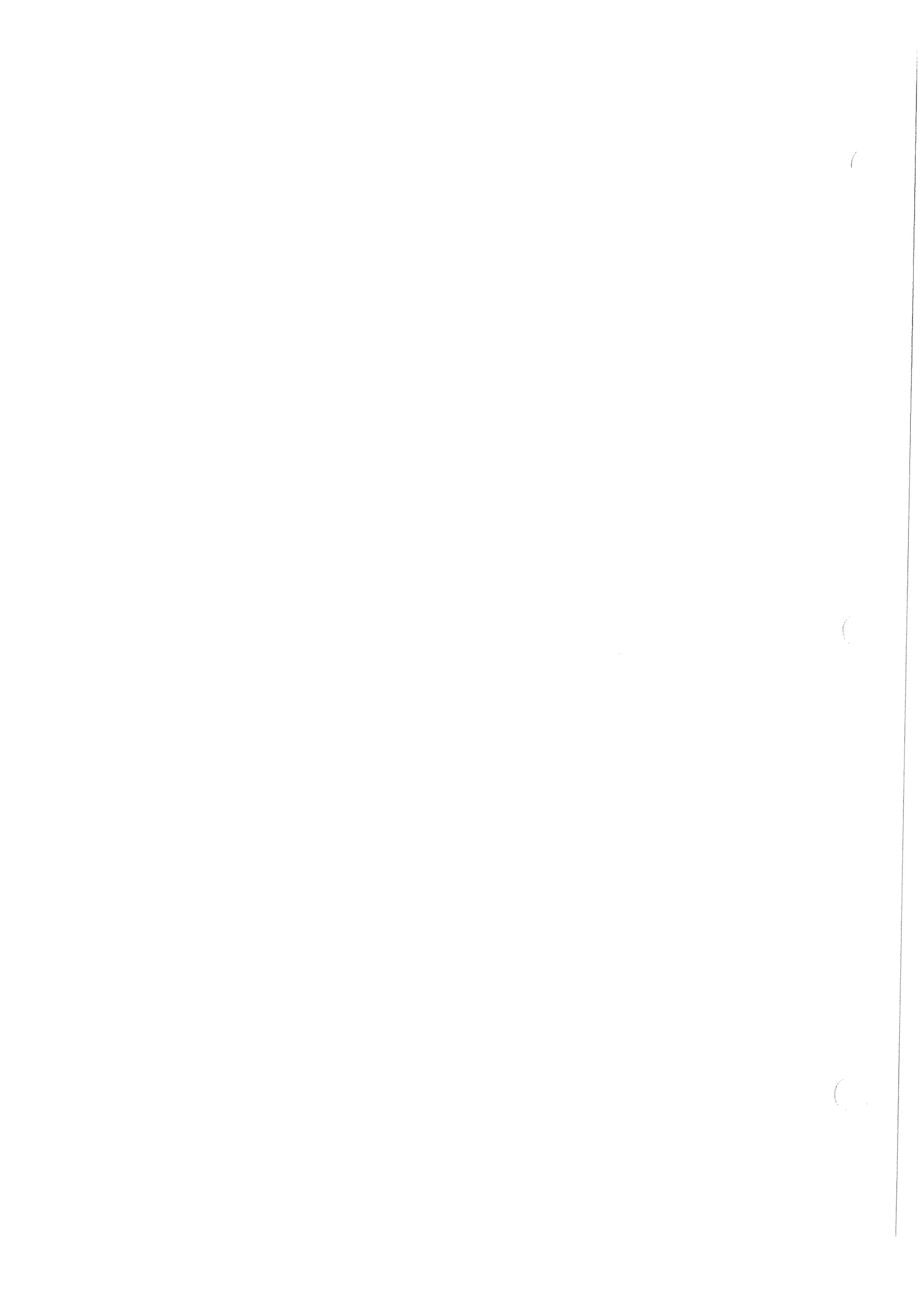
- Technological developments, changing markets and other factors that result in competitive disadvantages and create the potential for impairment of existing assets;

- Other business or investment considerations that may be disclosed from time to time in the Company's Securities and Exchange Commission filings or in other publicly disseminated written documents;

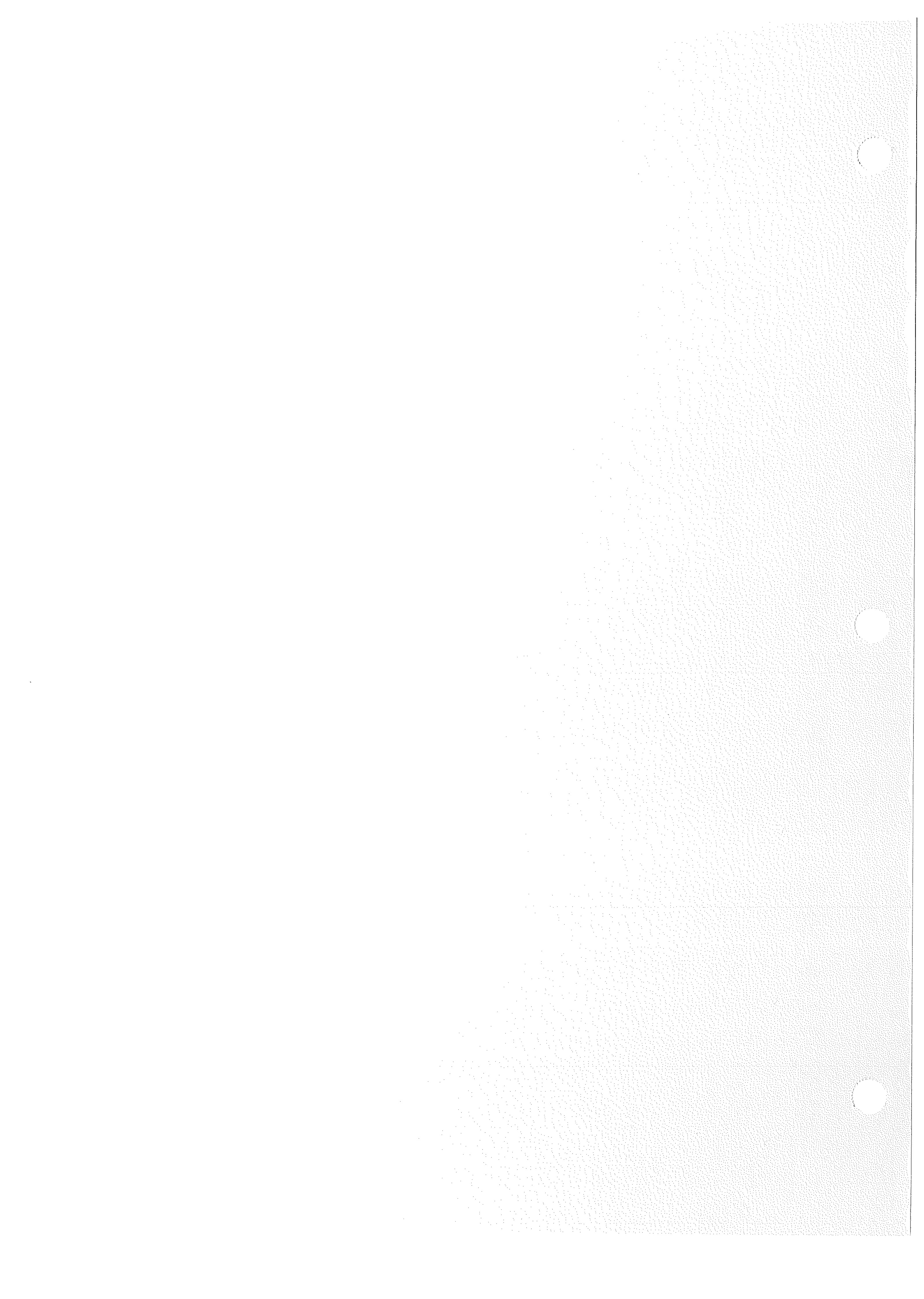
- Factors affecting the realization of anticipated cost savings associated with the merger between E.ON U.S. (formerly LG&E Energy) and KU Energy Corporation including national and regional economic conditions, national and regional competitive conditions, inflation rates, weather conditions, financial market conditions, and synergies resulting from the business combination;

- Factors associated with, resulting from or affecting the acquisitions and operations of E.ON U.S. (formerly LG&E Energy) by E.ON (or, previously, by Powergen plc), including the integration of the existing business and operations of LG&E as part of the E.ON group of companies thereunder, as well as national and international economic, financial market, regulatory and industry conditions or environments applicable to E.ON and its subsidiaries, including LG&E, in the future.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



SEC FORM 10-K – DECEMBER 31, 1999



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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the fiscal year ended **December 31, 1999**

Commission File Number	Registrant, State of Incorporation, Address, and Telephone Number	IRS Employer Identification Number
1-10568	**LG&E Energy Corp.** (A Kentucky Corporation) 220 West Main Street P. O. Box 32030 Louisville, Kentucky 40232 (502) 627-2000	61-1174555
2-26720	**Louisville Gas and Electric Company** (A Kentucky Corporation) 220 West Main Street P. O. Box 32010 Louisville, Kentucky 40232 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (A Kentucky and Virginia Corporation) One Quality Street Lexington, Kentucky 40507-1428 (606) 255-2100	61-0247570

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

LG&E Energy Corp.

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange and Chicago Stock Exchange
Rights to Purchase Series A Preferred Stock, without par value	

Louisville Gas and Electric Company

Title of each class	Name of each exchange on which registered
First Mortgage Bonds, Series due July 1, 2002, 7 1/2%	New York Stock Exchange

Kentucky Utilities Company

Title of each class	Name of each exchange on which registered
Preferred Stock, 4.75% cumulative, stated value $100 per share	Philadelphia Stock Exchange

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

Louisville Gas and Electric Company
5% Cumulative Preferred Stock, $25 Par Value
$5.875 Cumulative Preferred Stock, Without Par Value
Auction Rate Series A Preferred Stock, Without Par Value
(Title of class)

Kentucky Utilities Company
Preferred Stock, cumulative, stated value $100 per share
(Title of class)

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No

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

As of February 29, 2000, the aggregate market value of LG&E Energy Corp.'s voting common stock held by non-affiliates totaled $2,858,467,522, and it had 129,677,030 shares of common stock outstanding. As of February 29, 2000, the aggregate market value of Louisville Gas and Electric Company's voting preferred stock held by non-affiliates totaled $16,775,597, and it had 21,294,223 shares of common stock outstanding, all held by LG&E Energy Corp, and 860,287 shares of voting preferred stock outstanding. As of February 29, 2000, the aggregate market value of Kentucky Utility Company's voting stock held by non-affiliates totaled zero, and it had 37,817,878 shares of common stock outstanding, all held by LG&E Energy Corp.

This combined Form 10-K is separately filed by LG&E Energy Corp., Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein related to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants. In particular, information contained herein related to LG&E Energy Corp. or any of its direct or indirect subsidiaries other than Louisville Gas and Electric Company or Kentucky Utilities Company is provided solely by LG&E Energy Corp., not Louisville Gas and Electric Company or Kentucky Utilities Company, and shall be deemed not included in the Form 10-K of Louisville Gas and Electric Company or the Form 10-K of Kentucky Utilities Company.

DOCUMENTS INCORPORATED BY REFERENCE

LG&E Energy Corp.'s and Louisville Gas and Electric Company's respective proxy statements, to be filed with the Commission during April 2000, are incorporated by reference into Part III of this Form 10-K.

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(a) Incorporated by reference.

INDEX OF ABBREVIATIONS

Act	The Clean Air Act Amendments of 1990
AP&L	Arkansas Power & Light Company
Big Rivers	Big Rivers Electric Corporation
BPA	Bonneville Power Administration
Capital Corp.	LG&E Capital Corp.
Centro	Distribuidora de Gas Del Centro
Company	LG&E Energy Corp.
CRC	CRC-Evans Holdings Corp. and Affiliates
Cuyana	Distribuidora de Gas Cuyana
CWLP	City of Springfield, Illinois, City Water, Light and Power Company
D&P	Duff & Phelps Credit Rating Co.
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
EITF	Emerging Issues Task Force Issue
Energy Systems	LG&E Energy Systems Inc.
EPA	U.S. Environmental Protection Agency
ESM	Earnings Sharing Mechanism
EWG	Exempt Wholesale Generator
FAC	Fuel Adjustment Clause
FERC	Federal Energy Regulatory Commission
FPA	Federal Power Act
FT	Firm Transportation
FUCO	Foreign Utility Company
Gas BAN	Gas Natural Ban, S.A.
Gas Operations	Natural Gas Gathering and Processing Business
Gas Systems	LG&E Gas Systems Inc.
GSC	Gas Supply Clause
Hancock	John Hancock Mutual Life Insurance Company
Henderson	City of Henderson, Kentucky
Holding Company Act	Public Utility Holding Company Act of 1935
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
Inversora	Inversora de Gas Del Centro
IT	Information Technology
Kenetech	Kenetech Windpower, Inc.
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
KU Capital	KU Capital Corporation
KU Energy Common Stock	Each outstanding share of the common stock, without par value, of KU Energy
KU Energy	KU Energy Corporation
Kva	Kilovolt-ampere
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
LG&E Energy	LG&E Energy Corp.
LG&E Energy Common Stock	Common stock of LG&E Energy
LIBOR	London Interbank Offered Rate
LII	LG&E International Inc.
LIU	Laborers International Union of North America
LPI	LG&E Power Inc.
Mcf	Thousand Cubic Feet

INDEX OF ABBREVIATIONS (CONT.)

Merger Agreement	Agreement and Plan of Merger dated May 20, 1997
MGP	Manufactured Gas Plant
Mmbtu	Million British thermal units
Moody's	Moody's Investor Services, Inc.
MRA	Master Restructuring Agreement
Mw	Megawatts
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NGA	Natural Gas Act
NGPA	Natural Gas Policy Act of 1978
NIMO	Niagara Mohawk Power Corporation
NNS	No-Notice Service
Non-Utility Operations	Operations of Capital Corp. and LEM
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
OPC	Oglethorpe Power Corporation
PBR	Performance-Based Ratemaking
Portland General	Portland General Electric Company
PowerGen	PowerGen Plc
Power Operations	Capital Corp.'s Independent Power Operations
PPA	Long-Term Power Purchase Agreement
PUHCA	Public Utility Holding Company Act of 1935
PURPA	Public Utility Regulatory Policy Act of 1978
QF	Qualifying Cogeneration Facility
ROVA I	Roanoke Valley I Facility
ROVA II	Roanoke Valley II Facility
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
SERP	Supplemental Security Plan
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO2	Sulfur Dioxide
SOP	Statement of Position
Southampton	Southampton Cogeneration Facility
Staff	Virginia Commission Staff
Tarifa	K.W. Tarifa, S.A.
Tennessee	Tennessee Gas Pipeline Company
Texas Gas	Texas Gas Transmission Corporation
TLP	Tenaska Limited Partnerships
TRA	Tennessee Regulatory Authority
Trimble County	LG&E's Trimble County Unit 1
UAJ-APPI	United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada
USEPA	U.S. Environmental Protection Agency
USWA	United Steelworkers of America
Utility Operations	Operations of LG&E and KU
VEPCO	Virginia Electric and Power Company
Virginia Commission	Virginia State Corporation Commission
WKE	Western Kentucky Energy Corp. and its Affiliates
WLP	Westmoreland-LG&E Partners
WPP 93	Windpower Partners 1993
WPP 94	Windpower Partners 1994

PART I.

Item 1. Business.

OVERVIEW OF OPERATIONS

LG&E Energy, incorporated November 14, 1989, is a diversified energy-services holding company with four direct operating subsidiaries: LG&E, KU, Capital Corp., and LEM. The Company's domestic regulated operations are conducted by LG&E and KU.

The Company and its subsidiaries currently are exempt from all provisions, except Section 9(a)(2), of the Public Utility Holding Company Act of 1935 (the "Holding Company Act") on the basis that the Company, LG&E and KU are incorporated in the same state and their business is predominately intrastate in character and carried on substantially in the state of incorporation.

The Company is not a public utility under the laws of the Commonwealths of Kentucky or of Virginia and is not subject to regulation as such by the Kentucky Commission or the Virginia Commission. See LG&E - Rates and Regulation and KU - Rates and Regulation for descriptions of the regulation of LG&E and KU by the Kentucky Commission, and of KU by the Virginia Commission and FERC, which includes the ability to regulate certain intercompany transactions between LG&E, KU and the Company, including the Company's non-utility subsidiaries.

POWERGEN TRANSACTION

On February 28, 2000, the Company announced that its Board of Directors accepted an offer to be acquired by PowerGen for cash of approximately $3.2 billion or $24.85 per share and the assumption of $2.2 billion of the Company's debt. Pursuant to the acquisition agreement, among other things, LG&E Energy will become a wholly owned subsidiary of PowerGen and its U.S. headquarters. The Utility Operations of the Company will continue their separate identities and serve customers in Kentucky and Virginia under their present names. The preferred stock and debt securities of the Utility Operations will not be affected by this transaction. The acquisition is expected to close 9 to 12 months from the announcement, shortly after all of the conditions to consummation of the acquisition are met. Those conditions include, without limitation, the approval of the holders of a majority of the outstanding shares of common stock of each of LG&E Energy and PowerGen, the receipt of all necessary governmental approvals and the making of all necessary governmental filings, including approvals of various regulators in Kentucky and Virginia under state utility laws, the approval of the FERC under the FPA, the approval of the SEC under the PUHCA of 1935, and the filing of requisite notifications with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of all applicable waiting periods thereunder. Shareholder meetings to vote upon the approval of the acquisition are expected to be held during the second quarter of 2000 for both LG&E Energy and PowerGen. During the first quarter of 2000, the Company expensed approximately $1.0 million relating to the PowerGen transaction. The foregoing description of the acquisition does not purport to be complete and is qualified in its entirety by reference to LG&E Energy's current reports on Form 8-K, filed February 29, 2000, with the SEC.

MERGER WITH KU ENERGY CORPORATION

Effective May 4, 1998, following the receipt of all required state and federal regulatory approvals, LG&E Energy and KU Energy merged, with LG&E Energy as the surviving corporation. The accompanying consolidated financial statements reflect the accounting for the merger as a pooling of interests and are presented as if the companies were combined as of the earliest period presented. However, the financial

information is not necessarily indicative of the results of operations, financial position or cash flows that would have occurred had the merger been consummated for the periods for which it is given effect, nor is it necessarily indicative of future results of operations, financial position, or cash flows. The financial statements reflect the conversion of each outstanding share of KU Energy common stock into 1.67 shares of LG&E Energy common stock. The outstanding preferred stock of LG&E, a subsidiary of LG&E Energy, and KU, a subsidiary of KU Energy, were not affected by the Merger. See Note 2 of LG&E Energy's Notes to Financial Statements under Item 8.

DISCONTINUANCE OF MERCHANT ENERGY TRADING AND SALES BUSINESS

Effective June 30, 1998, the Company discontinued its merchant energy trading and sales business. This business consisted primarily of a portfolio of energy marketing contracts entered into in 1996 and early 1997, nationwide deal origination and some level of speculative trading activities, which were not directly supported by the Company's physical assets. The Company's decision to discontinue these operations was primarily based on the impact that volatility and rising prices in the power market had on its portfolio of energy marketing contracts. Exiting the merchant energy trading and sales business enabled the Company to focus on optimizing the value of physical assets it owns or controls, and reduced the earnings impact on continuing operations of extreme market volatility in its portfolio of energy marketing contracts. The Company continues to settle commitments that obligate it to buy and sell natural gas and electric power. If the Company is unable to dispose of these commitments or assets it will continue to meet its obligations under the terms of the contracts. The Company, however, has maintained sufficient market knowledge, risk management skills, technical systems and experienced personnel to maximize the value of power sales from physical assets it owns or controls, including LG&E, KU and WKE.

As a result of the Company's decision to discontinue its merchant energy trading and sales activity, and the initial decision to sell the associated gas gathering and processing business, the Company recorded an after-tax oss on disposal of discontinued operations of $225 million in the second quarter of 1998. The loss on disposal of discontinued operations resulted primarily from several fixed-price energy marketing contracts entered into n 1996 and early 1997, including the Company's long-term contract with OPC. Other components of the write-off included costs relating to certain peaking options, goodwill associated with the Company's 1995 purchase of nerchant energy trading and sales operations and exit costs.

At the time the Company decided to discontinue its merchant energy trading and sales business, it also decided o sell its natural gas gathering and processing business. Effective June 30, 1999, the Company decided to etain this business. The accompanying financial statements reflect the reclassification of the natural gas gathering and processing business as continuing operations for all periods presented. Approximately $800,000 f net losses charged to the loss on disposal of discontinued operations was reclassified to continuing operations 1 the accompanying income statement in each of 1999 and 1998 related to the natural gas gathering and rocessing business. See Note 4 of LG&E Energy's Notes to Financial Statements under Item 8 for more nformation.

n the fourth quarter of 1999, the Company received an adverse decision from the arbitration panel considering s contract dispute with OPC, which was commenced by the Company in April 1998. As a result of this dverse decision, higher than anticipated commodity prices, increased load demands, and other factors, the ompany increased its after-tax accrued loss on disposal of discontinued operations by $175 million. The dditional write-off included costs related to the remaining commitments in its portfolio and exit costs expected be incurred to serve those commitments. Although the Company used what it believes to be appropriate stimates for future energy prices, among other factors, to calculate the net realizable value of discontinued perations, there are inherent limitations in models to accurately predict future commodity prices, load demands nd other events that could impact the amounts recorded by the Company. See Notes 3 and 18 of LG&E

Energy's Notes to Financial Statements under Item 8.

The Company reclassified its financial statements for prior periods to present the operating results, financial position and cash flows of the merchant energy trading and sales business as discontinued operations. See Notes 1, 3 and 4 of LG&E Energy's Notes to Financial Statements under Item 8 for more information.

CRC ACQUISITION

In July 1999, the Company purchased 100% of the outstanding common stock of CRC for initial consideration of $45.6 million and retirement of approximately $35.3 million in CRC debt. CRC, based in Houston, Texas, is a provider of specialized equipment and services used in the construction and rehabilitation of gas and oil transmission pipelines. The purchase agreement provides for future annual earn-out payments to the previous owners based on CRC's meeting certain financial targets over the period ending March 31, 2002, and, under certain circumstances, a change in control of LG&E Energy may accelerate the earnout. The acquisition agreement capped the total of these payments at $34.3 million. The Company accounted for the acquisition using the purchase method and recorded goodwill of approximately $42.1 million. Additional goodwill will be recorded contingent upon future earn-out payments. Goodwill is being amortized over a period of twenty years. See Note 2 of LG&E Energy's Notes to Financial Statements under Item 8.

GAS BAN ACQUISITION

In March 1999, the Company acquired an indirect 20% ownership interest in Gas BAN, a natural gas distribution company that serves 1.1 million customers in the northern portion of the province of Buenos Aires, Argentina. The purchase price totaled $74.3 million, including transaction costs, which has been reflected in investments in unconsolidated ventures in the accompanying balance sheet. The Company accounted for the acquisition using the purchase method, and records its share of earnings using the equity method. The purchase price exceeded the underlying equity in Gas BAN by $13.0 million. The Company allocated this difference to the assets and liabilities acquired based on their preliminary estimated fair values. See Note 2 of LG&E Energy's Notes to Financial Statements under Item 8.

LEASE OF BIG RIVERS FACILITIES

In July 1998, the Company closed the transaction to lease the generating assets of Big Rivers. Under the 25-year operating lease, WKE operates Big Rivers' coal-fired facilities, a combustion turbine and operates and maintains the Station Two generating facility of Henderson. The combined generating capacity of these facilities is approximately 1,700 Mw, net of the Henderson's capacity and energy needs from Station Two. In related transactions, power is supplied to Big Rivers at contractual prices over the term of the lease to meet the needs of three member distribution cooperatives and their retail customers, including major western Kentucky aluminum smelters. Excess generating capacity is available to WKE to market throughout the region. In connection with these transactions, WKE has undertaken to bear certain of the future capital requirements of those generating assets, certain defined environmental compliance costs and other obligations. Big Rivers' personnel at the plants became employees of WKE upon the completion of the transactions. See Note 5 of LG&E Energy's Notes to Financial Statements under Item 8.

LOUISVILLE GAS AND ELECTRIC COMPANY

General

Incorporated on July 2, 1913, LG&E is a regulated public utility that supplies natural gas to approximately 295,000 customers and electricity to approximately 366,000 customers in Louisville and adjacent areas in

Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties and has an estimated population of one million. Included in this area is the Fort Knox Military Reservation, to which LG&E transports gas and provides electric service, but which maintains its own distribution systems. LG&E also provides gas service in limited additional areas. LG&E's coal-fired electric generating plants, which are all equipped with systems to reduce sulfur dioxide emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable gas service to customers. See Item 2, Properties.

For the year ended December 31, 1999, 82% of total operating revenues was derived from electric operations and 18% from gas operations. Electric and gas operating revenues and the percentages by classes of service on a combined basis for this period were as follows:

	(Thousands of $)			
	Electric	Gas	Combined	% Combined
Residential	$215,019	$103,655	$318,674	44%
Commercial	176,692	38,627	215,319	30
Industrial	112,038	10,401	122,439	17
Public authorities	56,042	9,013	65,055	9
Total retail	559,791	161,696	721,487	100%
Wholesale sales	221,336	8,118	229,454	
Gas transported - net	-	6,350	6,350	
Provision for rate refunds	(1,735)	-	(1,735)	
Miscellaneous	11,278	1,415	12,693	
Total	$790,670	$177,579	$968,249	

See Note 14 of LG&E's Notes to Financial Statements and Note 20 of LG&E Energy's Notes to Financial Statements under Item 8 for financial information concerning segments of business for the three years ended December 31, 1999.

Electric Operations

The sources of LG&E's electric operating revenues and the volumes of sales for the three years ended December 31, 1999, were as follows:

	1999	1998	1997
ELECTRIC OPERATING REVENUES (Thousands of $):			
Residential	$215,019	$213,476	$205,137
Small commercial and industrial	79,261	76,304	72,769
Large commercial	97,431	94,650	90,131
Large industrial	112,038	113,372	110,652
Public authorities	56,042	55,075	53,412
Total retail	559,791	552,877	532,101
Wholesale sales	221,336	99,340	70,942
Provision for rate refunds	(1,735)	(4,500)	-
Miscellaneous	11,278	10,794	11,489
Total	$790,670	$658,511	$614,532
ELECTRIC SALES (Thousands of Mwh):			
Residential	3,680	3,534	3,302
Small commercial and industrial	1,218	1,156	1,108
Large commercial	2,072	1,977	1,880
Large industrial	3,047	3,097	3,054
Public authorities	1,187	1,140	1,105
Total retail	11,204	10,904	10,449
Wholesale sales	8,428	4,970	3,800
Total	19,632	15,874	14,249

LG&E uses efficient coal-fired boilers, fully equipped with sulfur dioxide removal systems, to generate most of its electricity. LG&E's system wide emission weighted-average rate for sulfur dioxide in 1999 was approximately .9 lbs./Mmbtu of heat input, which is significantly below the Year 2000 Phase II limit of 1.2 lbs./Mmbtu established by the Act.

The 1999 maximum local peak load of 2,612 Mw occurred on Friday, July 30, 1999, when the temperature at the time was 106 degrees F. Prior to 1999, the record local peak load was 2,427 Mw (set on August 25, 1998).

The electric utility business is affected by seasonal weather patterns. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. See LG&E's Results of Operations under Item 7.

LG&E's current reserve margin is 12%. At December 31, 1999, LG&E owned steam and combustion turbine generating facilities with a capacity of 2,637 Mw and an 80 Mw hydroelectric facility on the Ohio River. See Item 2, Properties.

LG&E is a participating owner with 14 other electric utilities of Ohio Valley Electric Corporation whose primary customer is the Portsmouth Area uranium-enrichment complex of the U.S. Department of Energy at Piketon, Ohio. LG&E has direct interconnections with 11 utility companies in the area and has agreements with each interconnected utility for the purchase and sale of capacity and energy. LG&E also has agreements with an increasing number of entities throughout the United States for the purchase and/or sale of capacity and energy and for the utilization of their bulk transmission system.

Gas Operations

The sources of LG&E's gas operating revenues and the volumes of sales for the three years ended December 31, 1999, were as follows:

	1999	1998	1997
GAS OPERATING REVENUES (Thousands of $):			
Residential	$103,655	$113,430	$139,967
Commercial	38,627	40,888	52,440
Industrial	10,401	11,969	17,892
Public authorities	9,013	8,884	12,052
Total retail	161,696	175,171	222,351
Wholesale sales	8,118	8,720	-
Gas transported - net	6,350	6,926	6,997
Miscellaneous	1,415	728	1,663
Total	$177,579	$191,545	$231,011
GAS SALES (Millions of cu. ft.):			
Residential	21,565	20,040	24,038
Commercial	9,033	8,448	10,212
Industrial	2,781	2,860	3,948
Public authorities	2,228	1,967	2,467
Total retail	35,607	33,315	40,665
Wholesale sales	3,881	3,880	-
Gas transported	14,014	13,027	13,452
Total	53,502	50,222	54,117

The gas utility business is affected by seasonal weather patterns. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. See LG&E's Results of Operations under Item 7.

LG&E has underground natural gas storage fields that help provide economical and reliable gas service to ultimate consumers. By using gas storage fields strategically, LG&E can buy gas when prices are low, store it, and retrieve the gas when demand is high. Currently, LG&E buys competitively priced gas from several large producers under contracts of varying duration. By purchasing from multiple suppliers and storing any excess gas, LG&E is able to secure favorably priced gas for its customers. Without storage capacity, LG&E would be forced to buy additional gas when customer demand increases, which is usually when the price is highest.

A number of industrial customers purchase their natural gas requirements directly from alternate suppliers for delivery through LG&E's distribution system. Generally, transportation of natural gas for LG&E's customers does not have an adverse effect on earnings because of the offsetting decrease in gas supply expenses. Transportation rates are designed to make LG&E economically indifferent as to whether gas is sold or merely transported.

The all-time maximum day gas sendout of 545,000 Mcf occurred on Sunday, January 20, 1985, when the average temperature for the day was -11 degrees F. During 1999, the maximum day gas sendout was 511,000 Mcf, occurring on January 4, when the average temperature for the day was 10 degrees F. Supply on that day consisted of 230,000 Mcf from purchases, 222,000 Mcf delivered from underground storage, and 59,000 Mcf transported for industrial customers. For a further discussion, see Gas Supply under Item 1.

Rates and Regulation

The Kentucky Commission has regulatory jurisdiction over the rates and service of LG&E and over the issuance of certain of its securities. The Kentucky Commission has the ability to examine the rates LG&E charges its retail customers at any time. LG&E is a "public utility" as defined in the FPA, and is subject to the jurisdiction of the Department of Energy and the FERC with respect to the matters covered in such Act, including the sale of electric energy at wholesale in interstate commerce. In addition, the FERC has sole jurisdiction over the issuance by LG&E of short-term securities.

For a discussion of current regulatory matters, see Rates and Regulation for LG&E and LG&E Energy Corp. under Item 7 and Note 3 of LG&E's Notes to Financial Statements and Note 6 of LG&E Energy's Notes to Financial Statements under Item 8.

LG&E's electric rates contain a FAC, whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to all electric customers. The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. The Kentucky Commission also requires that electric utilities, including LG&E, file certain documents relating to fuel procurement and the purchase of power and energy from other utilities.

LG&E's gas rates contain a GSC, whereby increases or decreases in the cost of gas supply are reflected in LG&E's rates, subject to approval of the Kentucky Commission. The GSC procedure prescribed by order of the Kentucky Commission provides for quarterly rate adjustments to reflect the expected cost of gas supply in that quarter. In addition, the GSC contains a mechanism whereby any over- or under-recoveries of gas supply cost from prior quarters will be refunded to or recovered from customers through the adjustment factor determined for subsequent quarters.

Integrated resource planning regulations in Kentucky require LG&E and the other major utilities to make triennial filings with the Kentucky Commission of various historical and forecasted information relating to forecasted load, capacity margins and demand-side management techniques.

Pursuant to Kentucky law, the Kentucky Commission has established the boundaries of the service territory or area of each retail electric supplier in Kentucky (including LG&E), other than municipal corporations, within which each such supplier has the exclusive right to render retail electric service.

Construction Program and Financing

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric and gas needs of its service area. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. LG&E's estimates of its construction expenditures can vary substantially due to numerous items beyond LG&E's control, such as changes in rates, economic conditions, construction costs, and new environmental or other governmental laws and regulations.

During the five years ended December 31, 1999, gross property additions amounted to $645 million. Internally generated funds and external financings for the five-year period were sufficient to provide for all of these gross additions. The gross additions during this period amounted to approximately 21% of total utility plant at December 31, 1999, and consisted of $493 million for electric properties and $152 million for gas properties. Gross retirements during the same period were $116 million, consisting of $88 million for electric properties and $28 million for gas properties.

Coal Supply

Over 90% of LG&E's present electric generating capacity is coal-fired, the remainder being made up of a hydroelectric plant and combustion turbine peaking units fueled by natural gas and oil. Coal will be the predominant fuel used by LG&E in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. LG&E has no nuclear generating units and has no plans to build any in the foreseeable future. LG&E has entered into coal supply agreements with various suppliers for coal deliveries for 1999 and beyond. LG&E normally augments its coal supply agreements with spot market purchases which, during 1999, were about 5% of total purchases. LG&E has a coal inventory policy which it believes provides adequate protection under most contingencies. LG&E had on hand at December 31, 1999, a coal inventory of approximately 816,000 tons, or a 43-day supply.

LG&E expects, for the foreseeable future, to continue purchasing most of its coal, which has a sulfur content in the 2%-4.5% range, from western Kentucky, southwest Indiana, West Virginia and Ohio. The abundant supply of this relatively low priced coal, combined with present and future desulfurization technologies, is expected to enable LG&E to continue to provide adequate electric service in a manner acceptable under existing environmental laws and regulations.

Coal is delivered for LG&E's Mill Creek plant by rail and barge; Trimble County plant by barge and Cane Run plant by rail.

The average delivered cost of coal purchased by LG&E, per ton and per Mmbtu, for the periods shown were as follows:

	1999	1998	1997
Per ton	$21.49	$22.38	$21.66
Per Mmbtu	.95	.98	.94

The delivered cost of coal is expected to decrease during 2000.

Gas Supply

LG&E purchases transportation services from Texas Gas and Tennessee. LG&E purchases natural gas supplies from multiple sources under contracts for varying periods of time.

During 2000, Texas Gas filed with FERC for a change in its rates as required under the settlement in its last rate case. LG&E plans to participate in that and other proceedings, as appropriate. The requested increase, the resolution of that case, and the timing and amounts of refunds, if any, are not known at this time.

LG&E transports on the Texas Gas system under NNS and FT rates. During the winter months, LG&E has 184,900 Mmbtu per day in NNS. LG&E's summer NNS levels are 60,000 Mmbtu per day and its summer FT levels are 54,000 Mmbtu per day. Each of these NNS and FT agreements with Texas Gas expire in equal portions in 2001, 2003, and 2005. LG&E also transports on the Tennessee system under Tennessee's Rate FT-A. LG&E's contract levels with Tennessee are 51,000 Mmbtu per day annually. The FT-A agreement with Tennessee expires 2002.

LG&E also has a portfolio of supply arrangements with various suppliers in order to meet its firm sales obligations. These gas supply arrangements include pricing provisions that are market-responsive. These firm supplies, in tandem with pipeline transportation services, provide the reliability and flexibility necessary to serve LG&E's

customers.

LG&E operates five underground gas storage fields with a current working gas capacity of 14.6 million Mcf. Gas is purchased and injected into storage during the summer season and is then withdrawn to supplement pipeline supplies to meet the gas-system load requirements during the winter heating season.

The estimated maximum deliverability from storage during the early part of the 1999-2000 heating season was approximately 373,000 Mcf per day. Deliverability decreases during the latter portion of the heating season as the storage inventory is reduced by seasonal withdrawals.

The average cost per Mcf of natural gas purchased by LG&E was $2.99 in 1999, $3.05 in 1998 and $3.46 in 1997.

Environmental Matters

Protection of the environment is a major priority for LG&E. LG&E engages in a variety of activities within the jurisdiction of federal, state, and local regulatory agencies. Those agencies have issued LG&E permits for various activities subject to air quality, water quality, and waste management laws and regulations. For the five-year period ending with 1999, expenditures for pollution control facilities represented $124 million or 19% of total construction expenditures. For a discussion of environmental matters, see Rates and Regulation for LG&E and LG&E Energy Corp. under Item 7 and Note 12 of LG&E's Notes to Financial Statements and Note 18 of LG&E Energy's Notes to Financial Statements under Item 8.

Competition

In the last several years, LG&E has taken many steps to prepare for the expected increase in competition in its industry, including a reduction in the number of employees; aggressive cost cutting; write-offs of previously deferred expenses; an increase in focus on commercial, industrial and residential customers; an increase in employee involvement and training; a major realignment and formation of new business units, and continuous modifications of its organizational structure. LG&E could take additional steps to better position itself for competition in the future.

KENTUCKY UTILITIES COMPANY

General

KU was incorporated in Kentucky in 1912 and incorporated in Virginia in 1991. KU is a public utility engaged in producing, transmitting and selling electric energy. KU provides electric service to about 458,000 customers in over 600 communities and adjacent suburban and rural areas in 77 counties in central, southeastern and western Kentucky, and to about 29,000 customers in 5 counties in southwestern Virginia. In Virginia, KU operates under the name Old Dominion Power Company. KU operates under appropriate franchises in substantially all of the 160 Kentucky incorporated municipalities served. No franchises are required in unincorporated Kentucky or Virginia communities. The lack of franchises is not expected to have a material adverse effect on KU's operations. KU also sells wholesale electric energy to 12 municipalities.

Electric Operations

The sources of KU's electric operating revenues and the volumes of sales for the three years ended December 31, 1999, were as follows:

	1999	1998	1997
ELECTRIC OPERATING REVENUES (Thousands of $):			
Residential	$242,304	$238,566	$231,824
Commercial	160,895	158,340	150,794
Industrial	154,460	154,475	146,801
Mine Power	28,792	31,620	34,541
Public authorities	58,500	58,740	56,243
Total - ultimate consumers	644,951	641,741	620,203
Wholesale sales	286,595	179,118	87,330
Provision for rate refunds	(5,900)	(21,500)	-
Miscellaneous	11,664	10,755	8,904
Total	$937,310	$810,114	$716,437
ELECTRIC SALES (Thousands of Mwh):			
Residential	5,447	5,247	5,061
Commercial	3,760	3,644	3,422
Industrial	4,911	4,747	4,464
Mine Power	752	838	926
Public authorities	1,437	1,424	1,355
Total - ultimate consumers	16,307	15,900	15,228
Wholesale sales	10,188	7,224	3,397
Total	26,495	23,124	18,625

The electric utility business is affected by seasonal weather patterns. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. See KU's Results of Operations under Item 7.

At December 31, 1999, KU owned steam and combustion turbine generating facilities with a capacity of 3,898 Mw and a 24 Mw hydroelectric facility. See Item 2, Properties. KU obtains power from other utilities under bulk power purchase and interchange contracts. At December 31, 1999, KU's system capability, including purchases from others, was 4,229 Mw. On July 30, 1999, a record local peak load, on a one-hour integrated basis, was set at 3,764 Mw.

Under a contract expiring in 2020 with OMU, KU has agreed to purchase from OMU the surplus output of the 150-Mw and 250-Mw generating units at OMU's Elmer Smith station. Purchases under the contract are made under a contractual formula which has resulted in costs which were and are expected to be comparable to the cost of other power purchased or generated by KU. Such power constituted about 7% of KU's net system output during 1999. See Note 11 of KU's Notes to Financial Statements and Note 18 of LG&E Energy's Notes to Financial Statements under Item 8.

KU owns 20% of the common stock of EEI, which owns and operates a 1,000-Mw generating station in southern Illinois. KU's entitlement is 20% of the available capacity of the station. Purchases from EEI are made under a contractual formula which has resulted in costs which were and are expected to be comparable to the cost of other power purchased or generated by KU. Such power constituted about 6% of KU's net system output in 1999. See Note 11 of KU's Notes to Financial Statements and Note 18 of LG&E Energy's Notes to

Financial Statements under Item 8.

Rates and Regulation

The Kentucky Commission and the Virginia Commission have regulatory jurisdiction over KU's retail rates and service, and over the issuance of certain of its securities. FERC has jurisdiction under the FPA over certain of the electric utility facilities and operations, wholesale sale of power and related transactions and accounting practices of KU, and in certain other respects as provided in the FPA. FERC has classified KU as a "public utility" as defined in the FPA. By reason of owning and operating a small amount of electric utility property in one county in Tennessee (having a gross book value of about $225,000) from which KU serves five customers, KU is subject to the jurisdiction of the TRA. In addition, the FERC has sole jurisdiction over the issuance by KU of short-term securities.

For a discussion of current regulatory matters, see Rates and Regulation for KU and LG&E Energy Corp. under Item 7 and under Note 3 of KU's Notes to the Financial Statements and Note 6 of LG&E Energy's Notes to Financial Statements under Item 8.

KU's electric rates contain a FAC, whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to all electric customers. The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. The Kentucky Commission also requires that electric utilities, including KU, file certain documents relating to fuel procurement and the purchase of power and energy from other utilities. The FAC mechanism for Virginia customers uses an average fuel cost factor based primarily on projected fuel costs. The fuel cost factor may be adjusted annually for over- or under collections of fuel costs from the previous year.

Integrated resource planning regulations in Kentucky require KU and the other major utilities to make triennial filings with the Kentucky Commission of various historical and forecasted information relating to forecasted load, capacity margins and demand-side management techniques.

Pursuant to Kentucky law, the Kentucky Commission has established the boundaries of the service territory or area of each retail electric supplier in Kentucky (including KU), other than municipal corporations, within which each such supplier has the exclusive right to render retail electric service.

The Virginia Commission requires each Virginia utility to make annual filings of either a base rate change or an Annual Informational Filing consisting of a set of standard financial schedules. These filings are subject to review by the Staff. The Staff issues a Staff Report, which includes any findings or recommendations to the Virginia Commission relating to the individual utility's financial performance during the historic 12-month period, including previously accepted adjustments. The Staff Report can lead to an adjustment in rates.

As a result of its ownership in EEI, KU is considered a holding company under the Holding Company Act. KU however is presently exempt from all the provisions of the Holding Company Act, except Section 9(a)(2) thereof (which relates to the acquisition of securities of public utility companies), by virtue of the exemption granted by an order of the SEC.

Construction Program and Financing

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. KU's estimates of its construction expenditures can vary substantially

due to numerous items beyond KU's control, such as changes in rates, economic conditions, construction costs, and new environmental or other governmental laws and regulations.

During the five years ended December 31, 1999, construction expenditures aggregated about $596 million, which included five combustion turbine peaking units. Three 126-Mw units were placed into commercial operation in 1995 and 1996. Two 164-Mw units, which are jointly owned with LG&E, were put into commercial operation in August 1999.

Coal Supply

Coal-fired generating units provided more than 98% of KU's net kilowatt-hour generation for 1999. The remainder of KU's net generation for 1999 was provided by oil and/or natural gas burning units and hydroelectric plants. The average delivered cost of coal purchased per Mmbtu and the percentage of spot coal purchases for the periods indicated were as follows:

	1999	1998	1997
Per ton	$26.65	$26.97	$27.97
Per Mmbtu - all sources	$1.11	$1.12	$1.15
Per Mmbtu - spot purchases only	$1.11	$1.10	$1.12
Spot purchases as % of all sources	53%	42%	34%

[The price of coal is expected to decrease slightly during 2000.

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

KU believes there are adequate reserves available to supply its existing base-load generating units with the quantity and quality of coal required for those units throughout their useful lives. KU intends to meet a portion of its coal requirements with three-year or shorter contracts. As part of this strategy, KU will continue to negotiate replacement contracts as contracts expire. KU does not anticipate any problems negotiating new contracts for future coal needs. The balance of coal requirements will be met through spot purchases. KU had on hand at December 31, 1999, a coal inventory of approximately 1,063,000 tons, or a 48 day supply.

KU expects, for the foreseeable future, to continue purchasing most of its coal, which has a sulfur content in the ?% - 3.5% range, from western and eastern Kentucky, West Virginia, southwest Indiana and Pennsylvania.

Coal for Ghent is delivered by barge. Deliveries to the Tyrone, Green River and Pineville locations are by truck. Delivery to E.W. Brown is by rail.

KU has no long-term contracts in place for the purchase of natural gas for its combustion turbine peaking units. KU has met its gas requirements through spot purchases and does not anticipate encountering any significant problems acquiring an adequate supply of fuel necessary to operate its peaking units.

Environmental Matters

Protection of the environment is a major priority for KU. KU engages in a variety of activities within the jurisdiction of federal, state, and local regulatory agencies. Those agencies have issued KU permits for various activities subject to air quality, water quality, and waste management laws and regulations. For the five year

period ending with 1999, expenditures for pollution control facilities represented $42 million or 7% of total construction expenditures. See Note 11 of KU's Notes to Financial Statements and Note 18 of LG&E Energy's Notes to Financial Statements under Item 8.

Competition

KU has taken many steps to prepare for the expected increase in competition in its industry, including a reduction in the number of employees; aggressive cost cutting; an increase in focus on not only commercial and industrial customers, but residential customers as well; an increase in employee involvement and training; and continuous modifications of its organizational structure. KU could take additional steps like these to better position itself for competition in the future.

LG&E CAPITAL CORP. AND OTHER

Capital Corp., the holding company for all the Company's non-utility investments other than trading operations, was formed on September 5, 1997, when the Company merged two of its former direct subsidiaries, Energy Systems and Gas Systems, and renamed the company LG&E Capital Corp. On July 24, 1998, KU Capital, a former subsidiary of KU Energy, was merged into Capital Corp., with the latter as the survivor corporation.

As previously discussed in item 1 under Discontinuance of Merchant Energy Trading and Sales Business, effective June 30, 1998, the Company decided to discontinue its merchant energy trading and sales business, and it decided to sell its natural gas gathering and processing business. Effective June 30, 1999, the Company decided to retain the natural gas gathering and processing business. For a more detailed discussion of the discontinuance of the Company's merchant energy trading and sales business, and the decision to retain the natural gas gathering and processing business, see Discontinued Operations under this Item, and Notes 3, 4 and 18 of LG&E Energy's Notes to Financial Statements under Item 8.

Capital Corp. conducts its operations through three principal business segments: Power Operations, Western Kentucky Energy and Argentine Gas Distribution. Capital Corp. is also engaged in other non-utility activities including: providing specialized equipment and services used in construction and rehabilitation of gas and oil transmission pipelines; the gathering, processing, storing and transportation of natural gas; commercial and retail initiatives designed to assess the energy and utility needs of large commercial and industrial entities; providing maintenance and repair services for customers' major household appliances; and, the asset optimization of the Company's generation assets. See Notes 2, 5, 9, 10, 18 and 20 of LG&E Energy's Notes to Financial Statements under Item 8. LEM conducts asset-based energy marketing on behalf of the Company's utility and non-utility operations.

POWER OPERATIONS

General

Capital Corp.'s Power Operations develop, operate, maintain and own domestic and international power generation facilities that sell electric and steam energy to utility and industrial customers. Power Operations currently has domestic ownership interests in projects capable of generating nearly 600 Mw of electric power in North Carolina, Virginia, California, Minnesota, Texas and Washington, and international ownership interest in a windpower generating facility in Tarifa, Spain, and ownership interests in three combustion turbines. Ownership interests in each of these projects and the revenues from the sale of electricity and steam are pledged as security to the lenders which provided the financing. See Item 2, Properties, for a listing of the Power Operations' projects.

In March 1999, LG&E Westmoreland - Rensselaer, in which Power Operations owned a 50% interest, sold the assets of the Rensselaer cogeneration facility. This transaction resulted in an after-tax gain for Power Operations of approximately $8.9 million.

In June 1998, Power Operations entered into a partnership with Columbia Electric Corporation for the development of a natural gas-fired cogeneration project in Gregory, Texas, providing electricity and steam equivalent of 550 Mw. Construction commenced in August 1998 and non-recourse financing for a majority of the construction and other costs was obtained in November 1998. The project will sell steam and a portion of its electric output to Reynolds Metals Company. A medium-term fixed-price contract has also been entered into with a third party for a portion of the remaining electric output. The project is expected to begin commercial operation in the summer of 2000. The Company's equity contribution is expected to be approximately $30 to $35 million in connection with its 50% interest in the project.

In February 1998, Power Operations sold its interest in a 114-Mw natural gas-fired power plant in North Central Argentina. The transaction resulted in a $2.8 million pre-tax loss.

Fuel Supply

Power Operations operates five coal fired and three wind plants. See Item 2, Properties. Coal supply needed by Power Operations is generally purchased under long-term contracts expiring at various times from 2008 through 2014. Each contract has two five-year renewal options. All coal is delivered by rail.

Customer Base

Each project has long-term power purchase agreements with a single power purchaser, except one of the Tenaska Limited Partnerships which has two. The power purchasers are VEPCO for Southampton, Altavista, and Hopewell in Virginia and ROVA I and ROVA II in North Carolina; Southern California Edison Co. for WPP 93 in California; Northern States Power Company for WPP 93 in Minnesota; Lower Colorado River Authority for WPP 94, Brazos Electric Power Cooperative for TLP, Texas Utilities Electric Company for TLP and Campbell Soup for TLP in Texas; Puget Sound Power & Light for TLP in Washington; and Compania Sevillana de Electricidad for Tarifa in Spain. WPP 94 also sells excess power to Texas Utilities. See Item 2, Properties, for a listing of Power Operations projects.

In August 1999, four combustion turbines previously leased to Portland General Electric Company in Oregon were sold to that company at a pre-tax gain of $.8 million. Capital Corp. owned 100% of two of these turbines and 49% ownership interest in the others.

In October, 1999, one combustion turbine previously leased to Puget Sound Power & Light Company in Washington was sold to that company at a pre-tax gain of $2.3 million. Capital Corp. held a 49% ownership interest in this turbine.

Throughout 1999, three combustion turbines were leased to AP&L. Capital Corp. holds a 49% interest in these turbines through the CEC-APL, L.P. partnership. Upon expiration of the AP&L leveraged lease, the $9 million residual value of the turbines was reclassified to Investment in Unconsolidated Affiliates. See Note 9 of LG&E Energy's Notes to Financial Statements under Item 8. In February 2000, Power Operations entered into an agreement to sell its interest to its co-partner in the project.

Regulatory Environment

Except for its investments in wind power and ROVA I, each of Power Operations' projects in the United States

is a QF under PURPA. See Item 3 and Note 18 of LG&E Energy's Notes to Financial Statements under Item 8 for a discussion of certain issues regarding past operations at certain of these facilities. Certain partnerships, in which companies in the Power Operations business segment have ownership interests, are operating wind power facilities which are qualifying small power production facilities under PURPA. In addition, Power Operations has obtained EWG status for the entities which own the ROVA I and ROVA II projects in North Carolina and the Southampton, Altavista and Hopewell projects in Virginia.

Generally, QF status exempts projects from the application of the Holding Company Act, many provisions of the FPA, and state laws and regulations respecting rates and financial or organization regulation of electric utilities. EWGs also are exempt from application of the Holding Company Act and many provisions of the FPA, but once such an entity files its electric generation rates with FERC, it becomes a jurisdictional public utility under the FPA. As a "public utility," an EWG's rates and some of its corporate activities are subject to FERC regulation. EWGs also are subject to non-rate regulation under state laws governing electric utilities. While QF or EWG status entitles Power Operations' projects to certain regulatory exceptions and benefits under PURPA and the Holding Company Act, each project must still comply with other federal, state and local laws, including those regarding siting, construction, operation, licensing and pollution abatement.

The foreign power generation facility in which Power Operations has an ownership interest has obtained FUCO status under the Holding Company Act. Generally, FUCO status exempts this facility from application of the Holding Company Act.

Commitments and Contingencies

Power Operations is party to various legal proceedings relating to its joint ventures. See Note 18 of LG&E Energy's Notes to Financial Statements under Item 8 for discussion regarding these legal proceedings.

WESTERN KENTUCKY ENERGY

General

In July 1998 the Company closed the transaction to lease the generating assets of Big Rivers. Under the 25-year operating lease, WKE operates the operating assets of Big Rivers' coal-fired facilities, a combustion turbine and operates and maintains the Station Two generating facility of Henderson. The combined generating capacity of these facilities is approximately 1,700 Mw, net of Henderson's capacity and energy needs from Station Two. Under the terms of the lease agreement, WKE prepaid $55.9 million for its first two years of lease payments and will pay $31.0 million for each of the remaining 23 years. In addition, WKE purchased Big Rivers' inventory, personal property and emission allowances, and made a one-time payment to Big Rivers of $12.1 million.

In related transactions, power is supplied to Big Rivers at contractual prices over the term of the lease to meet the needs of three member distribution cooperatives and their retail customers, including major western Kentucky aluminum smelters. The excess generating capacity is available to WKE to market throughout the region.

Also, as part of the transaction, in July 1998, WKE began advancing Big Rivers $50.0 million over a 24-month period to help it emerge from bankruptcy. The note will be repaid over a three-year period, beginning August 2000, with interest at 7.165%.

WKE's business is affected by seasonal weather patterns. As a result, operating revenues (and associated expenses) are not generated evenly throughout the year.

WKE is considering a merger of its three legal entities, Western Kentucky Energy Corp., WKE Station Two Inc. and WKE Corp. to consolidate these entities into the surviving entity of Western Kentucky Energy Corp. Should WKE complete the merger of these entities, WKE anticipates decertifying as an EWG.

Construction Program and Financing

In connection with these transactions, WKE has undertaken to bear certain of the future capital requirements of these generating assets. WKE's estimates of its construction expenditures can vary substantially due to numerous items beyond WKE's control, such as economic conditions, construction costs, and new environmental or other governmental laws and regulations. In 1999, gross property additions were $12.2 million. During 1998 gross property additions amounted to $11.8 million excluding personal property acquired from Big Rivers. Internally generated funds and intercompany financing from Capital Corp. provided 100% of the construction expenditures.

Coal Supply

Coal-fired generating units provided 90% of the electric generating capacity controlled by WKE, the remainder being made up of a combustion turbine peaking unit fueled by fuel oil. Coal is the predominant fuel used by WKE, with fuel oil being used for peaking capacity. WKE has entered into various multi-year coal supply agreements with suppliers for coal deliveries for 2000 and beyond. WKE normally augments its coal supply agreements with spot market purchases. At December 31, 1999, WKE had on hand coal inventory of approximately 1.5 million tons or a 75-day supply.

WKE expects, for the foreseeable future, to continue purchasing most of its coal, which has a sulfur content in the 2%-4.5% range, from western Kentucky and southwest Indiana. The abundant supply of this relatively low priced coal, combined with present and future desulfurization technologies, is expected to enable WKE to continue to provide adequate electric service in a manner acceptable under existing environmental laws and regulations.

Coal for WKE's operations are delivered by barge and truck.

The average delivered cost per ton of coal purchased by WKE for 1999 and 1998 respectively was $20.86 and $20.85.

Environmental Matters

WKE engages in a variety of activities within the jurisdiction of federal, state and local regulatory agencies. Those agencies have issued WKE permits for various activities subject to air quality, water quality and waste management laws and regulations. During 1999 and 1998, expenditures for pollution control facilities represented approximately $1.4 million and $.5 million of WKE's construction expenditures, respectively. See Note 18 of LG&E Energy's Notes to Financial Statements under Item 8 for a discussion of specific environmental proceedings.

ARGENTINE GAS DISTRIBUTION

General

In February 1997, the Company acquired interests in two Argentine natural gas distribution companies. Capital Corp., through a subsidiary, purchased a controlling interest in Centro and a minority interest in Cuyana. Centro and Cuyana together serve approximately 732,000 customers in six provinces in Argentina. The

investment in these companies totaled approximately $140 million. Each of these companies has obtained FUCO status under the Holding Company Act. Generally, FUCO status exempts these facilities from application of the Holding Company Act.

In April 1999, the Company acquired an interest in another Argentine natural gas distribution company. Capital Corp., through a subsidiary, purchased a minority interest in Gas BAN, the second largest gas distribution company in Argentina. Gas BAN serves approximately 1,188,000 customers in thirty counties in the northern region of Buenos Aires. The Company's investments in Gas BAN totaled $85.4 million through December 31, 1999.

Gas Operations

Centro's and Cuyana's primary source of gas supply is YPF, S.A., and its primary source of gas transmission is TGN, S.A. Centro and Cuyana have no underground storage facilities. Gas BAN's primary source of gas supply is YPF, S.A., and its primary sources of gas transmission are TGS, S.A. and TGN, S.A. Gas BAN has a shaving plant to cover peaking demand.

The Argentine federal regulator of gas transmission and distribution, Energas, has granted Centro, Cuyana and GasBAN 35-year concessions to provide gas distribution services in their service territories. The concessions end in 2028 and each concession contains a 10-year renewal option.

Centro derives approximately 12% of its revenues from electric power plants located in its service territory. Some of these power plants are state-owned. Centro sells gas to these plants under contracts ranging from two to 15 years.

Construction Program and Financing

Capital investments for Centro since 1992 have totaled approximately $284 million. Centro's capital expenditures for 1999 totaled $17 million and were financed through borrowing and internal sources. Centro will spend approximately $4.5 million in 2000 to expand and maintain its gas distribution network, and it will finance the expenditures through borrowings and internal sources.

CAPITAL CORP. OTHER

Gas Operations

As previously discussed in item 1 under Discontinuance of Merchant Energy Trading and Sales Business, effective June 30, 1998, the Company decided to discontinue its merchant energy trading and sales business, and it decided to sell its natural gas gathering and processing business. Effective June 30, 1999, the Company decided to retain the natural gas gathering and processing business. For a more detailed discussion of the discontinuance of the Company's merchant energy trading and sales business, and the decision to retain the natural gas gathering and processing business, see Discontinued Operations under this Item, and Notes 3, 4 and 18 of LG&E Energy's Notes to Financial Statements under Item 8.

Capital Corp.'s Gas Operations, conducted through various subsidiaries, include: gathering and processing operations consisting of 1,200 miles of pipeline concentrated in southeastern New Mexico and the Permian Basin of west Texas; and a 6.0 Bcf working gas storage facility connected to the Llano pipeline. For a more detailed explanation of these assets see Item 2, Properties.

The Llano pipeline has a design capacity of approximately 180,000 Mcf of gas per day and is capable of

delivering gas to three different interstate pipelines. Capital Corp., through its various subsidiaries, purchases gas from over 50 producers connected to the Llano pipeline and sells the gas directly to end-user customers or delivers the gas into one of the interstate pipelines for sale. Also, through its various subsidiaries, Capital Corp. transports natural gas through the Llano pipeline for third parties and is paid a transportation fee for such services. An average of approximately 100,000 Mcf of natural gas per day moved through the Llano pipeline in 1999.

The 11 gathering systems owned (seven 100%, one leased and ownership interests ranging from 11% to 50% in three others) and operated during 1999 gathered approximately 216,500 Mcf of natural gas per day. During 1999, Capital Corp. divested itself of its three partially owned gathering systems.

Connected to the Llano pipeline are two operating natural gas processing facilities capable of processing approximately 75,000 Mmbtu of natural gas per day. These facilities extract natural gas liquids, including propane, ethane, butanes and natural gasoline, from the natural gas stream, at which point the mixed stream of liquids is sold. Approximately 215,000 net gallons per day of natural gas liquids were extracted and sold from these facilities in 1999.

Also connected to the Llano pipeline is a natural gas storage facility. As noted above, this facility has current working capacity of approximately 6.0 Bcf. Capital Corp., through a subsidiary, offers this storage capacity to third parties on a fee basis. As of December 31, 1999, storage capacity of approximately 3.0 Bcf was leased to other parties.

The production, transportation and certain sales of natural gas are subject to federal, state or local regulations which have a significant impact upon Capital Corp.'s energy products and services businesses. Regulation at the federal level of domestically produced or transported natural gas is administered primarily by the FERC ursuant to the NGA and the NGPA. Maximum selling prices of certain categories of gas, whether sold in nterstate or intrastate commerce, previously were regulated pursuant to NGPA. The NGPA established various ategories of gas and provided for graduated deregulation of price controls of several categories of gas and the leregulation of sales of certain categories of gas. All price deregulation contemplated under the NGPA has lready taken place. Subsequently, the Natural Gas Wellhead Decontrol Act of 1989 terminated all NGA and NGPA regulation of "first sales" of domestic natural gas on January 1, 1993. The sale for resale of certain atural gas in interstate commerce is regulated, in part, pursuant to the NGA, which requires certificate and bandonment authority to initiate and terminate such sales. In addition, natural gas marketed by a Capital Corp. ubsidiary is usually transported by interstate pipeline companies that are subject to the jurisdiction of the 'ERC. Similarly, some of the transportation and storage services provided by Llano are subject to FERC egulation under section 311 of the NGPA. These services are frequently sold to gas distribution companies ıat contract with interstate pipeline companies for transportation from the Llano facility to their respective ervice areas. Section 311 permits intrastate pipelines under certain circumstances to sell gas to, transport gas or, or have gas transported by, interstate pipeline companies, and assign contract rights to purchase surplus gas 'om producers to interstate pipeline companies without being regulated as interstate pipelines under the NGA. apital Corp., through a subsidiary, submitted a rate case for transportation and storage rates to the FERC in 998 which was approved without intervention.

RC - Evans

RC provides specialized equipment and services used in the construction and rehabilitation of gas and oil ansmission pipelines. CRC sells and rents automatic pipeline welding systems, pipe bending equipment, line- clamps, pipe coating plants, coating and cleaning equipment, pipeline rehabilitation equipment and lay barge pe handling equipment. CRC also provides specialized services including joint coating, cement weighting, duction and resistance heating and automatic welding systems training and supervision.

CRC sells its products and services through its salespeople and independent international sales representatives and distributors covering 70 countries. The company's sales offices are located in Houston, Texas; Tulsa, Oklahoma; Toms River, New Jersey; Hoevelaken, Netherlands; Edmonton, Alberta; Burnley, England and Didcot, England.

DISCONTINUED OPERATIONS

General

As previously discussed in item 1 under Discontinuance of Merchant Energy Trading and Sales Business, effective June 30, 1998, the Company decided to discontinue its merchant energy trading and sales business, and it decided to sell its natural gas gathering and processing business. Effective June 30, 1999, the Company decided to retain the natural gas gathering and processing business. For a more detailed discussion of the discontinuance of the Company's merchant energy trading and sales business, and the decision to retain the natural gas gathering and processing business, see Discontinued Operations under this Item, and Notes 3, 4 and 18 of LG&E Energy's Notes to Financial Statements under Item 8. In December 1999, LEM, the entity primarily conducting the discontinued operations activities and formerly an indirect subsidiary of Capital Corp., became a direct subsidiary of LG&E Energy.

Product and Services

The merchant energy trading and sales business consisted primarily of a portfolio of energy marketing contracts entered into in 1996 and 1997, nationwide deal origination and some level of speculative trading activities, which were not directly supported by the Company's physical assets.

Commitments and Contingencies

For discussions of commitments and contingencies relating to Discontinued Operations, see Note 18 of LG&E Energy 's Notes to Financial Statements under Item 8.

EMPLOYEES AND LABOR RELATIONS

LG&E Energy and its subsidiaries had 5,836 full-time employees at December 31, 1999, including 2,237 full-time employees of LG&E and 1,747 full-time employees of KU. At December 31, 1999, LG&E had 1,297 operating, maintenance, and construction employees that were members of IBEW Local 2100. The current three year contract with the IBEW will expire in November 2001. At December 31, 1999, KU had 239 operating, maintenance and construction employees who were members of IBEW Local 101 and USWA Local 8686. The current contract will expire August 1, 2000. At December 31, 1999, WKE had 358 operating, maintenance and construction employees that were members of the IBEW Local 1701. The current contract will expire September 14, 2001.

ITEM 2. Properties.

LG&E's power generating system consists of the coal-fired units operated at its three steam generating stations. Combustion turbines supplement the system during peak or emergency periods. LG&E owns and operates the following electric generating stations:

	Capability Rating (Kw)
Steam Stations:	
Mill Creek - Kosmosdale, KY.	
Unit 1	303,000
Unit 2	301,000
Unit 3	386,000
Unit 4	480,000
Total Mill Creek	1,470,000
Cane Run - near Louisville, KY.	
Unit 4	155,000
Unit 5	168,000
Unit 6	240,000
Total Cane Run	563,000
Trimble County - Bedford, KY. (a)	
Unit 1	371,000
Combustion Turbine Generators (Peaking capability):	
Zorn	16,000
Paddy's Run	43,000
Cane Run	16,000
Waterside	33,000
E.W.Brown (b)	125,000
Total combustion turbine generators	233,000
Total capability rating	2,637,000

(a) Amount shown represents LG&E's 75% interest in Trimble County. See Note 13 of LG&E's Notes to Financial Statements and Note 19 of LG&E Energy's Notes to Financial Statements, Jointly Owned Electric Utility Plant, under Item 8 for further discussion on ownership.
(b) Amount shown represents LG&E's 38% interest in Unit 6 and 7 at E.W. Brown. See Notes 12 and 13 of LG&E's Notes to Financial Statements, and Notes 18 and 19 of LG&E Energy's Notes to Financial Statements under Item 8 for further discussion on ownership.

,G&E also owns an 80 Mw hydroelectric generating station located in Louisville, operated under license issued ›y the FERC.

ιt December 31, 1999, LG&E's electric transmission system included 21 substations with a total capacity of pproximately 11,071,700 Kva and approximately 652 structure miles of lines. The electric distribution system ıcluded 84 substations with a total capacity of approximately 3,448,730 Kva, 3,672 structure miles of overhead nes, 342 miles of underground conduit, and 5,562 miles of underground conductors.

G&E's gas transmission system includes 209 miles of transmission mains, and the gas distribution system ıcludes 3,789 miles of distribution mains.

LG&E operates underground gas storage facilities with a current working gas capacity of approximately 14.6 million Mcf. See Gas Supply under Item 1.

In 1990, LG&E entered into an operating lease for its corporate office building located in downtown Louisville, Kentucky. The lease is for a period of 15 years and is scheduled to expire June 2005.

Other properties owned by LG&E include office buildings, service centers, warehouses, garages, and other structures and equipment, the use of which is common to both the electric and gas departments.

The trust indenture securing LG&E's First Mortgage Bonds constitutes a direct first mortgage lien upon much of the property owned by LG&E.

KU's power generating system consists of the coal-fired units operated at its five steam generating stations. Combustion turbines supplement the system during peak or emergency periods. KU owns and operates the following electric generating stations:

	Capability Rating (Kw)
Steam Stations:	
Tyrone - Tyrone, KY.	
Unit 1	30,000
Unit 2	33,000
Unit 3	73,000
Total Tyrone	136,000
Green River – South Carrollton, KY.	
Unit 1	29,000
Unit 2	30,000
Unit 3	73,000
Unit 4	107,000
Total Green River	239,000
E.W. Brown – Burgin, KY.	
Unit 1	106,000
Unit 2	170,000
Unit 3	441,000
Total E.W. Brown	717,000
Pineville – Four Mile, KY.	
Unit 3	34,000
Ghent – Ghent, KY.	
Unit 1	487,000
Unit 2	497,000
Unit 3	513,000
Unit 4	500,000
Total Ghent	1,997,000
Combustion Turbine Generators (Peaking capability):	
E.W. Brown – Burgin, KY.	
Unit 6 (a)	102,000
Unit 7 (a)	102,000
Unit 8	135,000
Unit 9	120,000
Unit 10	135,000
Unit 11	122,000
Haefling – Lexington, KY.	
Unit 1	59,000
Total combustion turbine generators	775,000
Total capability rating	3,898,000

(a) Amount shown represents the KU's 62% interest in Unit 6 and 7 at E.W. Brown. See Notes 11and 12 of KU's Notes to Financial Statements, and Notes 18 and 19 of LG&E Energy's Notes to Financial Statements under Item 8 for further discussion on ownership.

Substantially all properties are subject to the lien of KU's Mortgage Indenture.

KU also owns a 24 Mw hydroelectric generating station located in Burgin, Kentucky, operated under license issued by the FERC.

At December 31, 1999, KU's electric transmission system included 112 substations with a total capacity of approximately 14,755,396 Kva and approximately 4,227 structure miles of lines. The electric distribution system included 438 substations with a total capacity of approximately 5,024,307 Kva, 14,619 structure miles of lines.

At December 31, 1999, Power Operations owned the percentage indicated of the following joint ventures:

Name	Ownership Interest %	Fuel	Net Capability Rating (Mw)
LG&E Westmoreland-Southampton Franklin, Virginia	50	Coal	63
LG&E Westmoreland-Altavista Altavista, Virginia	50	Coal	63
LG&E Westmoreland-Hopewell Hopewell, Virginia	50	Coal	63
Westmoreland-LG&E Partners (Roanoke Valley I) Weldon, North Carolina	50	Coal	165
Windpower Partners 1993 L.P. Palm Springs, California	50	Wind	43
Windpower Partners 1993 L.P. Buffalo Ridge, Minnesota	50	Wind	25
Windpower Partners 1994 L.P. Culberson County, Texas	25	Wind	25-35
Westmoreland-LG&E Partners (Roanoke Valley II) Weldon, North Carolina	50	Coal	44
K.W. Tarifa, S.A. Tarifa, Spain	46	Wind	30
Tenaska Limited Partnerships	5-10	Gas	223-258
Gregory Power Partners Gregory, Texas (under construction)	50	Gas	550

Power Operations' ownership interests in these projects and the revenues from the sale of electricity and steam from the projects are pledged as security to the lenders who provided the financing for the project. See Note 18 of LG&E Energy's Notes to Financial Statements under Item 8 for a discussion Power Operations' commitment and contingencies relating to its joint ventures. Also see Note 9 of LG&E Energy's Notes to Financial

Statements under Item 8 for a discussion on investment in unconsolidated ventures.

In March 1999, LG&E-Westmoreland Rensselaer, a California general partnership in which the Company owns a 50% interest, sold substantially all the assets and major contracts of its 79 Mw gas-fired cogeneration facility in Rensselaer, New York, with net proceeds to the Company of approximately $34 million. The sale resulted in an after-tax gain to the Company of approximately $8.9 million.

Capital Corp., through certain subsidiaries, owns or has an interest in eight gas gathering systems consisting of 1,200 miles of pipeline (of which it owns 100% of four, leases one, and has ownership interests ranging from 11% to 50% in the other three). These systems are located in Texas, New Mexico, Louisiana, Montana and Oklahoma.

The major gas gathering system is the Llano pipeline, a 730-mile intrastate pipeline and processing system in southeastern New Mexico with a throughput capacity of 180,000 MCF of gas per day. Capital Corp., through subsidiaries, owns two gas systems located in Texas. PowerTex Pipeline, a 76-mile pipeline serving the City of Lubbock, Texas, has a design capacity of 90,000 MCF of gas per day. The Sale Ranch system consists of a 16mmcfd processing plant and approximately 350 miles of gathering pipelines. Through a subsidiary, Capital Corp. owns majority interest and operates the Sale Ranch system. It also owns, or has interests in, and operates three natural gas processing plants located in southeastern New Mexico and western Texas with a total design capacity of 92,000 MCF of gas per day (owns a 100% interest in one of these plants, and majority interests in the two remaining plants).

Under a 25-year operating lease, WKE operates Big Rivers' coal-fired facilities, a combustion turbine and operates and maintains the Station Two generating facility of Henderson. The combined generating capacity of these facilities is approximately 1,700 Mw, net of Henderson's capacity and energy needs from Station Two.

Centro's gas transmission and distribution system includes 6,646 miles of transmission mains and distribution mains located in Cordoba, Argentina, and neighboring provinces. Cuyana's gas transmission and distribution system includes approximately 4,899 miles of transmission mains and distribution mains located in Mendoza Province, Argentina, and neighboring provinces. Gas BAN's transmission and distribution system includes 11,580 miles of transmission and distribution mains in the northern region of Buenos Aires.

CRC owns a 29-acre equipment yard/manufacturing/maintenance facility and supply warehouse in Tulsa, Oklahoma and a 9,800 square foot sales office/warehouse/service facility in Edmonton, Canada. The company leases all other facilities used in its operations, including its corporate offices in Houston, Texas and various office facilities and equipment sites in the United States, United Kingdom and the Netherlands.

LG&E Energy has operating leases for its corporate office space that expire between 2000 and 2012.

ITEM 3. Legal Proceedings.

Rates and Regulatory Matters

For a discussion of current regulatory matters, including, among others, a discussion of (a) rate matters related to the Kentucky Commission's proceeding involving the Company's PBR filings and the KIUC's rate filing, (b) proceedings before the Kentucky Supreme Court and the Kentucky Commission regarding environmental cost recovery surcharge refunds, and (c) fuel adjustment clause proceedings before the Kentucky Commission regarding electric line loss refunds, see Rates and Regulation under Item 7 and Notes 2, 6, 18 and 22 of LG&E Energy Corp.'s Notes to Financial Statements, Notes 3, 12 and 16 of LG&E's Notes to Financial Statements and Notes 3, 11 and 14 of KU's Notes to Financial Statements under Item 8.

Performance-Based Ratemaking

In October, 1998, LG&E and KU filed applications with the Kentucky Commission for approval of the PBR proposal for determining electric rates. In January 2000, the Kentucky Commission issued orders requiring LG&E and KU to reduce annual base rates by $27.2 and $36.5, respectively, effective March 1, 2000. The orders also eliminated the temporary effectiveness of the PBR proposal, reinstated the FAC mechanism and offered the utilities a three year ESM program whereby incremental annual earnings above or below a range of 10.5% to 12.5% would be shared 60% with shareholders and 40% with ratepayers. In January and February 2000, LG&E and KU submitted filings seeking adjustments in the rate reductions and tariffs incorporating the ESM. See Rates and Regulations under Item 7 and Notes 6 and 22 to LG&E Energy's Notes to Financial Statements, Notes 3 and 16 to LG&E's Notes to Financial Statements and Notes 3 and 14 to KU's Notes to Financial Statements.

Fuel Adjustment Clause Proceedings

Pursuant to Kentucky statute, aspects of the Company's utility rates are reviewed through semi-annual FAC proceedings at the Kentucky Commission. Although the proceedings are routine, some items are noted herein. Certain intervenors have challenged KU's recovery of certain energy charges for power purchased from Owensboro Municipal Utilities and requested rate refunds for such amounts. Kentucky Commission orders of August 1999 and January 2000 have required aggregate refunds totaling approximately $8.4 million for the periods between November 1996 to October 1999. These orders have been appealed by both KU and the intervenor group. See also Note 6 to LG&E Energy's Notes to Financial Statements, Note 3 to LG&E's Notes to Financial Statements and Note 3 to KU's Notes to Financial Statements. See Rates and Regulatory Matters above regarding further matters arising during LG&E's and KU's FAC proceedings.

Environmental

For a discussion of environmental matters concerning (a) currently proposed reductions in NOx and SO_2 emission limits, (b) issues at LG&E's Mill Creek and Cane Run generating plants and LG&E's and KU's manufactured gas plant sites, and (c) other environmental items affecting LG&E Energy and its subsidiaries, see Environmental Matters under Item 7 and Notes 18 and 22 of LG&E Energy's Notes to Financial Statements, Notes 12 and 16 of LG&E's Notes to Financial Statements and Notes 11 and 14 of KU's Notes to Financial Statements under Item 8, respectively.

Southampton

For a discussion of the settlement of certain FERC proceedings and intra-party matters involving the partnership that owns the Southampton facility, regarding that facility's status as a qualifying facility for 1992, see Note 18 of LG&E Energy Corp.'s Notes to Financial Statements under Item 8.

Roanoke Valley I

WLP is seeking the recovery of capacity payments withheld by VEPCO in respect of the Roanoke Valley I facility. In January 2000, the Virginia Supreme Court issued an opinion remanding this matter for a second trial, setting aside an earlier trial court decision which had awarded WLP approximately $19 million plus interest until paid. See Item 1 and Notes 18 and 22 of LG&E Energy Corp.'s Notes to Financial Statements under Item 8.

Kenetech Bankruptcy

In May 1996, Kenetech filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court in the Northern District of California seeking, among other things, to restructure certain contractual commitments between Kenetech and its subsidiaries, on one hand, and various windpower projects located in the U.S. and abroad, on the other hand. Included in these projects are the WPP 93, WPP 94 and Tarifa projects. In April 1999, the Bankruptcy Court approved a final plan of reorganization. See Note 18 of LG&E Energy Corp.'s Notes to Financial Statements under Item 8 for a further discussion.

Windpower Partners 1994

WPP 94, in which the Company has a 25% interest through indirect subsidiaries, has not made semiannual payments, since September 1997, to Hancock under certain Notes issued by WPP 94 to Hancock. The parties are currently in negotiations regarding a restructuring of these obligations. See Note 18 of LG&E Energy Corp.'s Notes to Financial Statements under Item 8 for a further discussion.

Calgary

In November 1996, LG&E Natural Canada Inc., an indirect subsidiary of the Company, initiated action in the Court of the Queens Bench of Alberta, Calgary against a former employee as a result of the discovery that the former employee had engaged in unauthorized transactions. See Note 18 to LG&E Energy's Notes to Financial Statements, under Item 8 for a further discussion.

Springfield Municipal Contract

In July 1998, LEM, an indirect subsidiary of the Company, filed suit against the CWLP in the United States District Court for the Western District of Kentucky. In January 2000, LEM reached a settlement with CWLP pursuant to which CWLP paid LEM approximately $16.6 million. See Note 18 to LG&E Energy's Notes to Financial Statements under Item 8 for a further discussion.

Oglethorpe Power Contract

In October 1998, LEM initiated an arbitration proceeding against OPC in connection with matters involving LEM's November 1996 power sales agreement with OPC. In December 1999, the arbitration panel issued an adverse decision in this proceeding enforcing the contract without modification. In connection therewith, the Company increased its after-tax loss on disposal of discontinued operations by $175 million. See Note 3 to LG&E Energy's Notes to Financial Statements under Item 8 for a further discussion.

Other

In the normal course of business, other lawsuits, claims, environmental actions, and other governmental proceedings arise against LG&E Energy and its subsidiaries, including LG&E and KU. To the extent that damages are assessed in any of these lawsuits, LG&E Energy, LG&E and KU believe that their 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 Energy's, LG&E's or KU's consolidated financial position or results of operations, respectively.

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

Executive Officers of LG&E Energy Corp.:

Name	Age	Position	Effective Date of Election to Present Position
Roger W. Hale	56	Chairman of the Board and Chief Executive Officer	August 17, 1990
Victor A. Staffieri	44	President and Chief Operating Officer	February 16, 1999
R. Foster Duncan	46	Executive Vice President and Chief Financial Officer	February 16, 1999
Stephen R. Wood	57	Group Executive - Retail Business	January 1, 2000
Robert M. Hewett	53	Group Executive - Regulatory Affairs	January 1, 2000
John R. McCall	56	Executive Vice President, General Counsel and Corporate Secretary	July 1, 1994
Wayne T. Lucas	52	Executive Vice President - Power Generation	May 4, 1998
George W. Basinger	54	Senior Vice President - Independent Power Operations	May 4, 1998
Donald F. Santa, Jr.	41	Senior Vice President - Strategic Planning	January 1, 2000
Frederick J. Newton III	44	Senior Vice President and Chief Administrative Officer	January 2, 1999
S. Bradford Rives	41	Senior Vice President - Finance and Business Development	February 16, 1999
Paul W. Thompson	43	Senior Vice President - Energy Services	August 9, 1999
Rebecca L. Farrar	40	Senior Vice President - Distribution Operations	January 1, 2000
Wendy C. Heck	46	Vice President - Information Technology	February 3, 1998
Chris Hermann	52	Vice President, Supply and Logistics	January 1, 2000

Name	Age	Position	Effective Date of Election to Present Position
Charles A. Markel	52	Vice President - Finance and Treasurer	January 1, 1993
Michael D. Robinson	44	Vice President and Controller	February 16, 1999

The present term of office of each of the above executive officers extends to the meeting of the Board of Directors following the Annual Meeting of Shareholders, scheduled to be held in June 2000.

There are no family relationships between executive officers of the Company or executive officers of its subsidiaries.

Messrs. Hale, Lucas, Duncan, Wood, Hewett, McCall, Newton, Markel and Robinson, and Ms. Farrar and Ms. Heck are also executive officers of LG&E and KU. Mr. Hale is Chairman of the Board and Chief Executive Officer of LG&E and KU; Mr. Lucas is Executive Vice President - Power Generation of LG&E and KU; Mr. Duncan is Chief Financial Officer of LG&E and KU; Mr. Wood is Group Executive - Retail Business of LG&E and KU; Mr. Hewett is Group Executive - Regulatory Affairs of LG&E and KU; Mr. McCall is Executive Vice President, General Counsel and Corporate Secretary of LG&E and KU; Mr. Newton is Senior Vice President and Chief Administrative Officer of LG&E and KU; Mr. Markel is Treasurer of LG&E and KU; Mr. Robinson is Vice President and Controller of LG&E and KU; Ms. Farrar is Senior Vice President - Distribution Operations of LG&E and KU; and Ms. Heck is Vice President - Information Technology of LG&E and KU. Mr. Hermann is also Vice President, Supply and Logistics of LG&E.

Mr. Hale was President of LG&E Energy from December 1992 to May 1998.

Before he was elected to his current position, Mr. Staffieri was President of LG&E from January 1994 to May 1997; President - Distribution Services of LG&E Energy Corp. from December 1995 to May 1997; Chief Financial Officer of LG&E Energy Corp. and LG&E from May 1997 to February 1999; and Chief Financial Officer of KU from May 1998 to February 1999.

Before he was elected to his current position, Mr. Duncan was Vice President and Corporate Treasurer of Freeport-McMoRan, Inc. and Freeport-McMoRan Copper & Gold Inc. and their affiliates from May 1994 to January 1998; and Executive Vice President - Planning and Development of LG&E Energy Corp. from January 1998 to February 1999.

Before he was elected to his current position, Mr. Wood was Executive Vice President and Chief Administrative Officer of LG&E Energy Corp. from January 1994 to May 1997 and President - Distribution Services Division and President - Louisville Gas and Electric Company from May 1997 to December 1999.

Before he was elected to his current position, Mr. Hewett was Vice President - Regulation and Economic Planning of KU from January 1982 to April 1997; Senior Vice President - Customer Service and Marketing of KU from April 1997 to May 1998; and President of KU from May 1998 to December 1999.

Before he was elected to his current position, Mr. Lucas was Vice President, Energy Supply of KU from November 1986 to November 1994; and Senior Vice President, Energy Supply of KU from November 1994 to May 1998.

Before he was elected to his current position, Mr. Basinger was Senior Vice President of Operations of LG&E Power Inc. from November 1994 to August 1996; and Senior Vice President – Power Operations of LG&E Energy Corp. from August 1996 to May 1998.

Before he was elected to his current position, Mr. Santa was a member of the Federal Energy Regulatory Commission from May 1993 to August 1997; and Vice President and Deputy General Counsel of LG&E Energy Corp. from September 1997 to October 1998; and Senior Vice President and Deputy General Counsel of LG&E Energy Corp. from October 1998 to December 1999.

Before he was elected to his current position, Mr. Newton was Director of Human Resources, Manufacturing and Engineering at Unilever from October 1993 to July 1995; Senior Director, Human Resources, Supply Chain, at Unilever from August 1995 to July 1996; Vice President, Human Resources, at Venator Group from August 1996 to July 1997; Senior Vice President, Human Resources, at Venator Group's Champs Sports Division from August 1997 to April 1998; and Senior Vice President - Human Resources and Administration of LG&E Energy Corp., LG&E and KU from May 1998 to January 1999.

Before he was elected to his current position, Mr. Rives was Vice President and Treasurer of LG&E Power Inc. from June 1994 to March 1995; Vice President, Controller and Treasurer of LG&E Power Inc. from March 1995 to December 1995; Vice President - Finance, Non-Utility Business of LG&E Energy Corp. from January 1996 to March 1996; and Vice President - Finance and Controller of LG&E Energy Corp. from March 1996 to February 1999.

Before he was elected to his current position, Mr. Thompson was Vice President-Business Development for LG&E Energy Corp. from July 1994 to September 1996; Vice President, Retail Electric Business for LG&E from September 1996 to June 1998; Group Vice President for LG&E Energy Marketing, Inc., from June 1998 to August 1999; and Vice President, Retail Electric Business for LG&E from December 1998 to August 1999.

Before she was elected to her current position, Ms. Farrar was General Manager, Gas Operations of South Carolina Electric and Gas Company from July 1994 to February 1995 and Vice President - Gas Service Business of LG&E from February 1995 to December 1999.

Before she was elected to her current position, Ms. Heck was Vice President - Information Services of LG&E from January 1994 to May 1997; and Vice President, Administration, of LG&E Energy Corp. from May 1997 to February 1998.

Before he was elected to his current position, Mr. Hermann was Vice President and General Manager, Wholesale Electric Business of LG&E from January 1993 to June 1997; Vice President, Business Integration of LG&E from June 1997 to May 1998; and Vice President, Power Generation and Engineering Services, of LG&E from May 1998 to December 1999.

Before he was elected to his current position, Mr. Robinson was Controller of KU Energy Corporation from June 1990 to May 1998; Controller of KU from August 1990 to May 1998, and Vice President and Controller of LG&E and KU from May 1998 to the present.

Executive Officers of LG&E:

Name	Age	Position	Effective Date of Election to Present Position
Roger W. Hale	56	Chairman of the Board, and Chief Executive Officer	January 1, 1992
Stephen R. Wood	57	Group Executive - Retail Business	January 1, 2000
Robert M. Hewett	53	Group Executive - Regulatory Affairs	January 1, 2000
R. Foster Duncan	46	Executive Vice President and Chief Financial Officer	February 16, 1999
John R. McCall	56	Executive Vice President, General Counsel and Corporate Secretary	July 1, 1994
Wayne T. Lucas	52	Executive Vice President - Power Generation	May 4, 1998
Frederick J. Newton III	44	Senior Vice President and Chief Administrative Officer	January 2, 1999
Rebecca L. Farrar	40	Senior Vice President - Distribution Operations	January 1, 2000
Wendy C. Heck	46	Vice President - Information Technology	February 3, 1998
Chris Hermann	52	Vice President, Supply and Logistics	January 1, 2000
Michael D. Robinson	44	Vice President and Controller	May 4, 1998
Charles A. Markel	52	Treasurer	January 1, 1993

'he present term of office of each of the above executive officers extends to the meeting of the Board of)irectors following the Annual Meeting of Shareholders, scheduled to be held in June 2000.

here are no family relationships between executive officers of LG&E.

lessrs. Hale, Lucas, Duncan, Wood, Hewett, McCall, Newton, Markel and Robinson, and Ms. Farrar and Ms. eck are also executive officers of LG&E Energy Corp. and KU. Mr. Hale is Chairman of the Board and Chief xecutive Officer of LG&E Energy Corp. and KU; Mr. Lucas is Executive Vice President - Power Generation ' LG&E Energy Corp. and KU; Mr. Duncan is Chief Financial Officer of LG&E Energy Corp. and KU; Mr. 'ood is Group Executive - Retail Business of LG&E Energy Corp. and KU; Mr. Hewett is Group Executive -

Regulatory Affairs of LG&E Energy Corp. and KU; Mr. McCall is Executive Vice President, General Counsel and Corporate Secretary of LG&E Energy Corp. and KU; Mr. Newton is Senior Vice President and Chief Administrative Officer of LG&E Energy Corp. and KU; Mr. Markel is Vice President - Finance and Treasurer of LG&E Energy Corp. and Treasurer of KU; Mr. Robinson is Vice President and Controller of LG&E Energy Corp. and KU; Ms. Farrar is Senior Vice President - Distribution Operations of LG&E Energy Corp. and KU; and Ms. Heck is Vice President - Information Technology of LG&E Energy Corp and KU. Mr. Hermann is also Vice President, Supply and Logistics of LG&E Energy Corp.

Before he was elected to his current position, Mr. Wood was Executive Vice President and Chief Administrative Officer of LG&E Energy Corp. from January 1994 to May 1997 and President - Distribution Services Division and President - Louisville Gas and Electric Company from May 1997 to December 1999.

Before he was elected to his current position, Mr. Hewett was Vice President - Regulation and Economic Planning of KU from January 1982 to April 1997; Senior Vice President - Customer Service and Marketing of KU from April 1997 to May 1998; and President of KU from May 1998 to December 1999.

Before he was elected to his current position, Mr. Duncan was Vice President and Corporate Treasurer of Freeport-McMoRan, Inc. and Freeport-McMoRan Copper & Gold Inc. and their affiliates from May 1994 to January 1998; and Executive Vice President - Planning and Development of LG&E Energy Corp. from January 1998 to February 1999.

Before he was elected to his current position, Mr. Lucas was Vice President, Energy Supply of KU from November 1986 to November 1994; and Senior Vice President, Energy Supply of KU from November 1994 to May 1998.

Before he was elected to his current position, Mr. Newton was Director of Human Resources, Manufacturing and Engineering at Unilever from October 1993 to July 1995; Senior Director, Human Resources, Supply Chain, at Unilever from August 1995 to July 1996; Vice President, Human Resources, at Venator Group from August 1996 to July 1997; Senior Vice President, Human Resources, at Venator Group's Champs Sports Division from August 1997 to April 1998; and Senior Vice President - Human Resources and Administration of LG&E Energy Corp., LG&E and KU from May 1998 to January 1999.

Before she was elected to her current position, Ms. Farrar was General Manager, Gas Operations of South Carolina Electric and Gas Company from July 1994 to February 1995 and Vice President - Gas Service Business of LG&E from February 1995 to December 1999.

Before she was elected to her current position, Ms. Heck was Vice President - Information Services of LG&E from January 1994 to May 1997; and Vice President, Administration of LG&E Energy Corp. from May 1997 to February 1998.

Before he was elected to his current position, Mr. Hermann was Vice President and General Manager, Wholesale Electric Business of LG&E from January 1993 to June 1997; Vice President, Business Integration of LG&E from June 1997 to May 1998; and Vice President, Power Generation and Engineering Services, of LG&E from May 1998 to December 1999.

Before he was elected to his current position, Mr. Robinson was Controller of KU Energy Corporation from June 1990 to May 1998; and Controller of KU from August 1990 to May 1998.

Executive Officers of KU:

Name	Age	Position	Effective Date of Election to Present Position
Roger W. Hale	56	Chairman of the Board, and Chief Executive Officer	May 4, 1998
Stephen R. Wood	57	Group Executive - Retail Business	January 1, 2000
Robert M. Hewett	53	Group Executive - Regulatory Affairs	January 1, 2000
Wayne T. Lucas	52	Executive Vice President - Power Generation	May 4, 1998
R. Foster Duncan	46	Executive Vice President and Chief Financial Officer	February 16, 1999
John R. McCall	56	Executive Vice President, General Counsel and Corporate Secretary	May 4, 1998
Frederick J. Newton III	44	Senior Vice President and Chief Administrative Officer	January 2, 1999
Rebecca L. Farrar	40	Senior Vice President - Distribution Operations	January 1, 2000
Wendy C. Heck	46	Vice President - Information Technology	April 21, 1999
Gary E. Blake	46	Vice President - Sales and Service	May 4, 1998
James J. Ellington	54	Vice President - Power Generation	May 4, 1998
Michael D. Robinson	44	Vice President and Controller	May 4, 1998
Charles A. Markel	52	Treasurer	May 4, 1998

The present term of office of each of the above executive officers extends to the meeting of the Board of Directors following the Annual Meeting of Shareholders, scheduled to be held in June 2000.

There are no family relationships between executive officers of KU.

Messrs. Hale, Lucas, Duncan, Wood, Hewett, McCall, Newton, Markel and Robinson, and Ms. Farrar and Ms. Heck are also executive officers of LG&E Energy Corp. and LG&E. Mr. Hale is Chairman of the Board and

Chief Executive Officer of LG&E Energy Corp. and LG&E; Mr. Lucas is Executive Vice President - Power Generation of LG&E Energy Corp. and LG&E; Mr. Duncan is Chief Financial Officer of LG&E Energy Corp. and LG&E; Mr. Wood is Group Executive - Retail Business of LG&E Energy Corp. and LG&E; Mr. Hewett is Group Executive - Regulatory Affairs of LG&E Energy Corp. and LG&E; Mr. McCall is Executive Vice President, General Counsel and Corporate Secretary of LG&E Energy Corp. and LG&E; Mr. Newton is Senior Vice President and Chief Administrative Officer of LG&E Energy Corp. and LG&E; Mr. Markel is Vice President - Finance and Treasurer of LG&E Energy Corp. and Treasurer of LG&E; Mr. Robinson is Vice President and Controller of LG&E Energy Corp. and LG&E; Ms. Farrar is Senior Vice President - Distribution Operations of LG&E Energy Corp. and KU; and Ms. Heck is Vice President - Information Technology of LG&E Energy Corp. and KU.

Before he was elected to his current position, Mr. Hale was Chairman of the Board and Chief Executive Officer of LG&E Energy Corp. from August 1990 to the present and Chairman of the Board and Chief Executive Officer of LG&E from January 1992 to the present.

Before he was elected to his current position, Mr. Wood was Executive Vice President and Chief Administrative Officer of LG&E Energy Corp. from January 1994 to May 1997 and President - Distribution Services Division and President - Louisville Gas and Electric Company from May 1997 to December 1999.

Before he was elected to his current position, Mr. Hewett was Vice President - Regulation and Economic Planning of KU from January 1982 to April 1997; Senior Vice President - Customer Service and Marketing of KU from April 1997 to May 1998; and President of KU from May 1998 to December 1999.

Before he was elected to his current position, Mr. Lucas was Vice President, Energy Supply of KU from November 1986 to November 1994; and Senior Vice President, Energy Supply of KU from November 1994 to May 1998.

Before he was elected to his current position, Mr. Duncan was Vice President and Corporate Treasurer of Freeport-McMoRan, Inc. and Freeport-McMoRan Copper & Gold Inc. and their affiliates from May 1994 to January 1998; and Executive Vice President - Planning and Development of LG&E Energy Corp. from January 1998 to February 1999.

Before he was elected to his current position, Mr. McCall was Executive Vice President, General Counsel and Corporate Secretary of LG&E Energy Corp. and LG&E from July 1994 to the present.

Before he was elected to his current position, Mr. Newton was Director of Human Resources, Manufacturing and Engineering at Unilever from October 1993 to July 1995; Senior Director, Human Resources, Supply Chain, at Unilever from August 1995 to July 1996; Vice President, Human Resources, at Venator Group from August 1996 to July 1997; Senior Vice President, Human Resources, at Venator Group's Champs Sports Division from August 1997 to April 1998; and Senior Vice President - Human Resources and Administration of LG&E Energy Corp., LG&E and KU from May 1998 to January 1999.

Before she was elected to her current position, Ms. Farrar was General Manager, Gas Operations of South Carolina Electric and Gas Company from July 1994 to February 1995 and Vice President - Gas Service Business of LG&E from February 1995 to December 1999.

Before she was elected to her current position, Ms. Heck was Vice President - Information Services of LG&E from January 1994 to May 1997; and Vice President, Administration of LG&E Energy Corp. from May 1997 to February 1998; and Vice President - Information Technology of LG&E Energy Corp. and LG&E from February 1998 to the present.

Before he was elected to his current position, Mr. Blake was Vice President - Retail Marketing of KU from November 1992 to May 1998.

Before he was elected to his current position, Mr. Ellington was Superintendent of KU's Ghent plant from May 1986 to May 1998.

Before he was elected to his current position, Mr. Robinson was Controller of KU Energy Corporation from June 1990 to May 1998 and Controller of KU from August 1990 to May 1998.

Before he was elected to his current position, Mr. Markel was Vice President - Finance and Treasurer of LG&E Energy Corp. and Treasurer of LG&E from January 1993 to the present.

PART II.

ITEM 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

LG&E Energy:
LG&E Energy 's Common Stock is listed on the New York and Chicago Stock Exchanges. The ticker symbol is "LGE." The newspaper stock exchange listings are "LGE Energy" or "LGE EN." The following table gives information with respect to price ranges, as reported via the "GPC" screen by the Bloomberg L.P. Information Service as New York Stock Exchange Composite Transactions, and dividends paid for the periods shown (dividends paid have not been restated to reflect the KU merger).

	1999			1998		
	Dividend Paid	High Price	Low Price	Dividend Paid	High Price	Low Price
First quarter	$.3075	$28.7500	$20.7500	$.2975	$26.4375	$23.0000
Second quarter	.3075	23.0000	20.6875	.2975	27.7500	24.6875
Third quarter	.3075	23.6875	20.6875	.2975	27.8750	22.5000
Fourth quarter	.3175	23.3125	17.3750	.3075	29.3125	26.0625

he number of record holders of Common Stock at December 31, 1999, totaled 48,296. The book value of the ompany's Common Stock at December 31, 1999, was $8.80 per share.

G&E:
ll LG&E common stock, 21,294,223 shares, is held by LG&E Energy. Therefore, there is no public market r LG&E's common stock.

he following table sets forth LG&E's cash distributions on common stock paid to LG&E Energy (in thousands $):

	1999	1998
First quarter	$22,000	$20,000
Second quarter	22,000	19,800
Third quarter	22,000	21,200
Fourth quarter	23,000	22,000

KU:

All KU common stock, 37,817,878 shares, is held by LG&E Energy. Therefore, there is no public market for KU's common stock.

The following table sets forth KU's cash distributions on common stock paid (in thousands of $):

	1999	1998
First quarter	$18,000	$17,018
Second quarter	18,000	5,673
Third quarter	18,000	17,400
Fourth quarter	19,000	18,000

ITEM 6. Selected Financial Data.

	Years Ended December 31 (Thousands of $ Except per Share Data)				
	1999	1998	1997	1996	1995
LG&E Energy:					
Revenues:					
Revenues	$2,714,911	$2,112,246	$1,832,746	$1,645,719	$1,503,330
Provision for rate refunds	(7,635)	(26,000)	-	-	(28,300)
Net revenues	2,707,276	2,086,246	1,832,746	1,645,719	1,475,030
Operating income:					
Before non-recurring items	502,230	472,561	420,971	384,867	349,578
Provision for rate refunds	(7,635)	(26,000)	-	-	(29,800)
Merger costs and non-recurring charges	-	(65,318)	-	(5,493)	-
Operating income	494,595	381,243	420,971	379,374	319,778
Net income (loss):					
Before non-recurring items	241,953	230,617	208,363	195,659	176,674
Provision for rate refunds	(5,690)	(15,556)	-	-	(17,852)
Merger costs and non-recurring charges	-	(56,389)	-	(2,400)	-
Total continuing operations	236,263	158,672	208,363	193,259	158,822
Discontinued operations	-	(22,852)	(25,367)	(7,307)	61
Loss on disposal of discontinued operations	(174,212)	(224,148)	-	-	-
Cumulative effect of accounting change	-	(7,162)	-	-	-
Net income (loss)	$ 62,051	$ (95,490)	$ 182,996	$ 185,952	$ 158,883
Average number of common shares outstanding (000's)	129,677	129,679	129,627	129,450	129,261

Years Ended December 31
(Thousands of $ Except per Share Data)

	1999	1998	1997	1996	1995
LG&E Energy (cont.):					
Basic earnings (loss) per share of common stock:					
Before non-recurring items	$1.87	$1.78	$1.61	$1.51	$1.37
Provision for rate refunds	(.05)	(.12)	-	-	(.14)
Merger costs and non-recurring charges	-	(.43)	-	(.02)	-
Other – rounding	-	(.01)	-	-	-
Total continuing operations	1.82	1.22	1.61	1.49	1.23
Discontinued operations	-	(.17)	(.20)	(.05)	-
Loss on disposal of discontinued operations	(1.34)	(1.73)	-	-	-
Cumulative effect of accounting change	-	(.06)	-	-	-
Basic earnings (loss) per share	$ .48	$(.74)	$1.41	$1.44	$1.23
Diluted earnings (loss) per share of common stock:					
Before non-recurring items	$1.87	$1.77	$1.61	$1.51	$1.37
Provision for rate refunds	(.05)	(.12)	-	-	(.14)
Merger costs and non-recurring charges	-	(.43)	-	(.02)	-
Total continuing operations	1.82	1.22	1.61	1.49	1.23
Discontinued operations	-	(.17)	(.20)	(.05)	-
Loss on disposal of discontinued operations	(1.34)	(1.72)	-	-	-
Cumulative effect of accounting change	-	(.06)	-	-	-
Diluted earnings (loss) per share	$ .48	$(.73)	$1.41	$1.44	$1.23
Cash dividends declared per share of common stock	$1.250	$1.240	$1.113	$1.081	$1.050
Payout ratio (from continuing operations before non-recurring items)	67.0%	69.7%	69.3%	71.5%	76.5%
Total assets	$5,133,757	$4,823,118	$4,620,190	$4,190,249	$4,148,208
Long-term obligations (including amounts due within one year)	1,711,225	1,510,775	1,230,711	1,193,229	1,208,846

LG&E Energy's Management's Discussion and Analysis of Results of Operations and Financial Condition and the Notes to Financial Statements should be read in conjunction with the above information.

	1999	1998	1997	1996	1995
	Years Ended December 31 (Thousands of $)				
LG&E:					
Operating revenues:					
Revenues	$969,984	$854,556	$845,543	$821,115	$751,763
Provision for rate refunds	(1,735)	(4,500)	-	-	(28,300)
Total operating revenues	968,249	850,056	845,543	821,115	723,463
Net operating income:					
Before unusual items	142,263	138,207	148,186	147,263	138,203
Provision for rate refunds	(2,172)	(2,684)	-	-	(16,877)
Total net operating income	140,091	135,523	148,186	147,263	121,326
Net income:					
Before unusual items	108,442	104,381	113,273	107,941	100,061
Provision for rate refunds	(2,172)	(2,684)	-	-	(16,877)
Merger costs	-	(23,577)	-	-	-
Net income	106,270	78,120	113,273	107,941	83,184
Net income available for common stock	101,769	73,552	108,688	103,373	76,873
Total assets	2,171,452	2,104,637	2,055,641	2,006,712	1,979,490
Long-term obligations (including amounts due within one year)	$626,800	$626,800	$646,800	$646,800	$662,800

LG&E's Management's Discussion and Analysis of Results of Operations and Financial Condition and LG&E's Notes to Financial Statements should be read in conjunction with the above information.

	1999	1998	1997	1996	1995
	Years Ended December 31 (Thousands of $)				
KU:					
Operating revenues:					
Revenues	$943,210	$831,614	$716,437	$711,711	$686,430
Provision for rate refund	(5,900)	(21,500)	-	-	-
Operating revenues	937,310	810,114	716,437	711,711	686,430
Net operating income:					
Before unusual items	139,534	138,263	118,408	117,337	108,544
Provision for rate refund	(3,518)	(12,875)	-	-	-
Operating income	136,016	125,388	118,408	117,337	108,544
Net income:					
Before unusual items	110,076	107,303	85,713	86,163	76,842
Provision for rate refund	(3,518)	(12,875)	-	-	-
Merger costs	-	(21,664)	-	-	-
Net income	106,558	72,764	85,713	86,163	76,842

	Years Ended December 31 (Thousands of $)				
	1999	1998	1997	1996	1995
KU (cont.):					
Net income available for common stock	104,302	70,508	83,457	83,907	74,586
Total assets	1,785,090	1,761,201	1,679,880	1,673,055	1,659,988
Long-term obligations (including amounts due within one year)	$546,330	$546,330	$546,351	$546,373	$545,894

KU's Management's Discussion and Analysis of Results of Operations and Financial Condition and KU's Notes to Financial Statements should be read in conjunction with the above information.

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

LG&E Energy:

GENERAL

The following discussion and analysis by management focuses on those factors that had a material effect on the LG&E Energy's financial results of operations and financial condition during 1999, 1998 and 1997 and should be read in connection with the consolidated financial statements and notes thereto. As set forth in the discussion concerning the Discontinuance of the Merchant Energy Trading and Sales Business below, future financial results from the Company's operations will continue to reflect the results from its portfolio of investments in electric generation, gas distribution and other energy-related businesses in addition to the financial results provided by the Company's regulated utilities, LG&E and KU.

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 LG&E Energy's reports to the Securities and Exchange Commission, including Exhibit 99.01 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998.

MERGERS AND ACQUISITIONS

On February 28, 2000, the Company announced that its Board of Directors accepted an offer to be acquired by PowerGen for cash of approximately $3.2 billion or $24.85 per share and the assumption of $2.2 billion of the Company's debt. Pursuant to the acquisition agreement, among other things, LG&E Energy will become a wholly owned subsidiary of PowerGen and its U.S. headquarters. The Utility Operations of the Company will continue their separate identities and serve customers in Kentucky and Virginia under their present names. The preferred stock and debt securities of the Utility Operations will not be affected by this transaction resulting in the Utility Operations' obligation to continue to file SEC reports. The acquisition is expected to close later in 2000, shortly after all of the conditions to consummation of the acquisition are met. Those conditions include,

without limitation, the approval of the holders of a majority of the outstanding shares of common stock of each of LG&E Energy and PowerGen, the receipt of all necessary governmental approvals and the making of all necessary governmental filings, including approvals of various regulators in Kentucky and Virginia under state utility laws, the approval of the FERC under the FPA, the approval of the SEC under the PUHCA of 1935, and the filing of requisite notifications with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of all applicable waiting periods thereunder. Shareholder meetings to vote upon the approval of the Acquisition are expected to be held during the second quarter of 2000 for both LG&E Energy and PowerGen. During the first quarter of 2000, the Company expensed approximately $1.0 million relating to the PowerGen transaction. The foregoing description of the acquisition does not purport to be complete and is qualified in its entirety by reference to LG&E Energy's current reports on Form 8-K, filed February 29, 2000, with the SEC.

In July 1999, the Company purchased 100% of the outstanding common stock of CRC for initial consideration of $45.6 million and retirement of approximately $35.3 million in CRC debt. CRC, based in Houston, Texas, is a provider of specialized equipment and services used in the construction and rehabilitation of gas and oil transmission pipelines. The purchase agreement provides for future annual earn-out payments to the previous owners based on CRC's meeting certain financial targets over the period ending March 31, 2002, or, under certain circumstances, a change in control of LG&E Energy may accelerate the earnout. The agreement capped the total of these payments at $34.3 million. The Company accounted for the acquisition using the purchase method and recorded goodwill of approximately $42.1 million. Additional goodwill will be recorded contingent upon future earn-out payments. Goodwill is being amortized over a period of twenty years.

In March 1999, the Company acquired an indirect 20% ownership interest in Gas BAN, a natural gas distribution company that serves 1.1 million customers in the northern portion of the province of Buenos Aires, Argentina. The purchase price totaled $74.3 million, including transaction costs, which has been reflected in investments in unconsolidated ventures in the accompanying balance sheet. The Company records its share of earnings using the equity method. The purchase price exceeded the underlying equity in Gas BAN by $13.0 million. The Company allocated this difference to the assets and liabilities acquired based on their preliminary estimated fair values.

Effective May 4, 1998, following the receipt of all required state and federal regulatory approvals, LG&E Energy and KU Energy merged, with LG&E Energy as the surviving corporation. The accompanying consolidated financial statements reflect the accounting for the merger as a pooling of interests and are presented as if the companies were combined as of the earliest period presented. However, the financial information is not necessarily indicative of the results of operations, financial position or cash flows that would have occurred had the merger been consummated for the periods for which it is given effect, nor is it necessarily indicative of future results of operations, financial position, or cash flows. The financial statements reflect the conversion of each outstanding share of KU Energy common stock into 1.67 shares of LG&E Energy common stock. The outstanding preferred stock of LG&E and KU was not affected by the merger. See Note 2 of LG&E Energy's Notes to Financial Statements under Item 8.

DISCONTINUANCE OF MERCHANT ENERGY TRADING AND SALES BUSINESS

Effective June 30, 1998, the Company discontinued its merchant energy trading and sales business. This business consisted primarily of a portfolio of energy marketing contracts entered into in 1996 and early 1997, nationwide deal origination and some level of speculative trading activities, which were not directly supported by the Company's physical assets. The Company's decision to discontinue these operations was primarily based on the impact that volatility and rising prices in the power market had on its portfolio of energy marketing

contracts. Exiting the merchant energy trading and sales business enabled the Company to focus on optimizing the value of physical assets it owns or controls, and reduced the earnings impact on continuing operations of extreme market volatility in its portfolio of energy marketing contracts. The Company continues to settle commitments that obligate it to buy and sell natural gas and electric power. If the Company is unable to dispose of these commitments or assets it will continue to meet its obligations under the terms of the contracts. The Company, however, has maintained sufficient market knowledge, risk management skills, technical systems and experienced personnel to maximize the value of power sales from physical assets it owns or controls, including LG&E, KU and WKE.

As a result of the Company's decision to discontinue its merchant energy trading and sales activity, and the initial decision to sell the associated gas gathering and processing business, the Company recorded an after-tax loss on disposal of discontinued operations of $225 million in the second quarter of 1998. The loss on disposal of discontinued operations resulted primarily from several fixed-price energy marketing contracts entered into in 1996 and early 1997, including the Company's long-term contract with OPC. Other components of the write-off included costs relating to certain peaking options, goodwill associated with the Company's 1995 purchase of merchant energy trading and sales operations and exit costs.

At the time the Company decided to discontinue its merchant energy trading and sales business, it also decided to sell its natural gas gathering and processing business. Effective June 30, 1999, the Company decided to retain this business. The accompanying financial statements reflect the reclassification of the natural gas gathering and processing business as continuing operations for all periods presented. Approximately $800,000 of net losses charged to the loss on disposal of discontinued operations was reclassified to continuing operations in the accompanying income statement in each of 1999 and 1998 related to the natural gas gathering and processing business. See Note 4 of LG&E Energy's Notes to Financial Statements under Item 8.

In the fourth quarter of 1999, the Company received an adverse decision from the arbitration panel considering its contract dispute with OPC, which was commenced by the Company in April 1998. As a result of this adverse decision, higher than anticipated commodity prices, increased load demands, and other factors, the Company increased its after-tax accrued loss on disposal of discontinued operations by $175 million. The additional write-off included costs related to the remaining commitments in its portfolio and exit costs expected to be incurred to serve those commitments. Although the Company used what it believes to be appropriate estimates for future energy prices, among other factors, to calculate the net realizable value of discontinued operations, there are inherent limitations in models to accurately predict future commodity prices, load demands and other events that could impact the amounts recorded by the Company.

Total pretax charges against the accrued loss on disposal of discontinued operations through December 31, 1999, include $251.0 million for commitments prior to disposal, $69.6 million for transaction settlements, $11.1 million for goodwill, and $30.5 million for other exit costs. While the Company has been successful in settling portions of its discontinued operations, significant assets, operations and obligations remain. The Company continues to manage the remaining portfolio and believes it has hedged certain of its future obligations through various power purchase commitments and planned construction of physical assets. Management cannot predict the ultimate effectiveness of these hedges.

The pretax net fair value of the remaining commitments as of December 31, 1999, are currently estimated to be approximately $46 million in 2000, $37 million to $54 million each year in 2001 through 2004 and $7 million in the aggregate thereafter.

As of December 31, 1999, the Company's discontinued operations were under various contracts to buy and sell

power and gas with net notional amounts of 22.1 million Mwh's of power and 44.3 million Mmbtu's of natural gas with a volumetric weighted-average period of approximately 37 and 44 months, respectively. These notional amounts are based on estimated loads since various commitments do not include specified firm volumes. The Company is also under contract to buy or sell coal and SO2 allowances in support of its power contracts. Notional amounts reflect the nominal volume of transactions included in the Company's price risk management commitments, but do not reflect actual amounts of cash, financial instruments, or quantities of the underlying commodity which may ultimately be exchanged between the parties.

As of January 26, 2000, the Company estimates that a $1 change in electricity prices and a 10-cent change in natural gas prices across all geographic areas and time periods could change the value of the Company's remaining energy portfolio by approximately $4.9 million. In addition to price risk, the value of the Company's remaining energy portfolio is subject to operational and event risks including, among others, increases in load demand, regulatory changes, and forced outages at units providing supply for the Company. As of January 26, 2000, the Company estimates that a 1% change in the forecasted load demand could change the value of the Company's remaining energy portfolio by $8.2 million. See Notes 3 and 18 of LG&E Energy's Notes to Financial Statements under Item 8.

The Company reclassified its financial statements for prior periods to present the operating results, financial position and cash flows of these businesses as discontinued operations. See Notes 1 and 3 of LG&E Energy's Notes to Financial Statements under Item 8 for more information.

RESULTS OF OPERATIONS

Earnings Per Share

Continuing operations for 1999 produced basic earnings per share of $1.82, an increase of 60 cents from $1.22 earned from continuing operations in 1998, after merger-related costs and environmental cost recovery refunds of approximately 43 cents and 12 cents, respectively. Earnings in both 1999 and 1998 include certain non-recurring items relating to rate refunds and gains. Excluding the effects of rate refunds in 1999 of 5 cents, and gains in 1999 and 1998 related to the Company's investment in the Rensselaer power facility of approximately 7 cents and 16 cents, respectively, earnings for 1999 were $1.80 per share compared with $1.61 in 1998, an increase of 19 cents or 12%. The 19 cents per share increase was primarily driven by the Company's non-utility operations including its 1999 acquisitions of Gas BAN and CRC, strong sales and excellent operating performance at WKE, and improved operating results at the Company's other Argentine gas operations. The Company's utility operations earnings from continuing operations for 1999 and 1998 were approximately the same.

Continuing operations for 1998 produced basic earnings per share of $1.22, before a decrease of 6 cents due to cumulative effect of an accounting change, a decrease of 39 cents per share from $1.61 earned from continuing operations in 1997. Earnings for 1998 include non-recurring charges for merger-related costs and environmental cost recovery refunds of approximately 43 cents and 12 cents, respectively. Excluding these non-recurring charges, earnings per share from continuing operations for 1998 were $1.78, an increase of 17 cents over 1997. The 17 cent per share increase resulted from a 10 cent increase in core domestic utility business and a 14 cent increase in non-utility business, partially offset by an increase in corporate and other expenses of 7 cents. The 1998 non-utility results included 16 cents relating to the Rensselaer power purchase contract settlement, 3 cents for first-year earnings related to the Big Rivers transactions, 1 cent due to a full year of operations and an increase in core business of the Company's Argentine operations, partially offset by an increase in non-utility expenses of 4 cents, primarily related to the loss on disposition of our gas-fired power

plant in San Miguel, Argentina and, the write-off of our WPP 94 investment.

In the fourth quarter of 1999, the Company increased its after-tax accrued loss on disposal of discontinued operations by $175 million ($1.35) per share. This increase was triggered by an adverse decision in the arbitration proceedings with OPC and resulted from higher-than-anticipated commodity prices, increased load demands and other factors. In June 1998, after the Company's decision to exit the merchant energy trading and sales business, the Company recorded an after-tax accrual for disposal of discontinued operations of approximately $224 million ($1.72) and reclassified approximately $23 million ($0.17) of losses due to merchant energy trading and sales to loss from discontinued operations. See Note 3 of LG&E Energy's Notes to Financial Statements under Item 8 for a discussion of the Company's losses related to its discontinued operations in 1999 and 1998.

Electric and Gas Utility Results

Revenues

A comparison of utility revenues for the years 1999 and 1998, excluding provisions recorded for rate refunds in 1999 and 1998, with the immediately preceding year reflects both increases and decreases, which have been segregated by the following principal causes (in thousands of $):

	Increase (Decrease) From Prior Period			
	Electric Revenues		Gas Revenues	
	1999	1998	1999	1998
Retail sales:				
Fuel and gas supply adjustments, etc.	$ (3,758)	$ 4,908	$ (24,791)	$ (4,393)
Merger surcredit	(8,317)	(7,501)	-	-
Demand side management/decoupling	(2,985)	(6,299)	(6,462)	(369)
Environmental cost recovery surcharge	(2,547)	(807)	-	-
Performance based rate reduction	(11,634)	-	-	-
Variation in sales volumes	41,312	52,892	17,779	(42,418)
Total retail sales	12,071	43,193	(13,474)	(47,180)
Wholesale sales	215,374	88,851	(602)	8,720
Gas transportation-net	-	-	(575)	(71)
Other	764	1,211	685	(935)
Total	$ 228,209	$ 133,255	$ (13,966)	$ (39,466)

:lectric revenues increased in 1999 primarily due to wholesale electric sales and increased retail sales volumes, artially offset by the PBR and merger surcredit bill reductions. Wholesale sales increased in 1999 due to ırger amounts of power available for off-system sales, and an increase in the unit price of electricity sold. Gas ›venues decreased primarily as a result of lower gas supply costs billed to customers through the gas supply lause, partially offset by increased gas sales in 1999 due to colder weather.

lectric retail sales increased primarily due to the warmer weather in 1998 as compared to 1997. Wholesale ıles increased due to larger amounts of power available for off-system sales, and an increase in the unit price f the sales. Gas retail sales decreased from 1997 due to the warmer seasonal weather in 1998. Gas wholesale ıles increased to $8.7 million in 1998 from zero in 1997 due to the implementation of LG&E's gas performıce-based ratemaking mechanism.

LG&E Energy (cont.):

Expenses

Fuel for electric generation and gas supply expenses comprise a large component of the Company's total operating costs. LG&E's and KU's electric rates contain an FAC and LG&E's gas rates contain a GSC, whereby increases or decreases in the cost of fuel and gas supply are reflected in LG&E's and KU's rates, subject to approval by the Kentucky Commission, the Virginia Commission and FERC. In July 1999, the Kentucky Commission approved LG&E's and KU's joint filing on PBR resulting in the discontinuance of the FAC. In January 2000, the Kentucky Commission rescinded its approval of LG&E's and KU's joint PBR filing and ordered the reinstatement of the FAC. See Note 6 for a further discussion of the PBR and the FAC.

Fuel for electric generation increased $6.9 million in 1999 primarily due to an increase in generation to support increased electric sales at LG&E ($7.4 million) and KU ($5.1 million) offset partially by a lower cost of coal burned at LG&E ($3.0 million) and at KU ($2.6 million). Fuel for electric generation increased $34.1 million in 1998 primarily due to an increase in generation to support increased electrical sales at KU ($27.3 million) and a higher cost of coal burned at LG&E ($6.6 million). LG&E's average delivered cost per ton of coal purchased was $21.49 in 1999, $22.38 in 1998 and $21.66 in 1997. KU's average delivered cost per ton of coal purchased was $26.65 in 1999, $26.97 in 1998 and $27.97 in 1997.

Power purchased increased $219.9 million (147.3%) in 1999 primarily due to increased purchases to serve native load customers and off-system sales activity. Power purchased increased $59.5 million in 1998 to support the increase in wholesale sales and due to increases in the unit price of purchases.

Gas supply expenses decreased $11.1 million (8.9%) in 1999 primarily due to a decrease in cost of net gas supply ($17.1 million), partially offset by an increase in the volume of gas delivered to the distribution system ($6 million). Gas supply expenses decreased $33 million (21%) in 1998 primarily due to a decrease in the volume of gas delivered to the distribution system. The average unit cost per Mcf of purchased gas was $2.99 in 1999, $3.05 in 1998 and $3.46 in 1997.

Operation and maintenance expenses decreased $14.3 million (3.3%) in 1999 primarily due to decreased costs to operate LG&E's electric generating plants ($5.7 million), lower administrative costs at LG&E and KU ($7.0 million) and lower costs to maintain KU's electric generating plants ($3.3 million). Operation and maintenance expenses increased $14.6 million (3.8%) in 1998 over 1997 because of increased costs to operate and maintain LG&E's electric generating plants ($8.8 million), amortization of deferred merger costs ($3.8 million), and an increase in storm damage expenses ($1.4 million).

Depreciation and amortization increased $7.3 million (4.1%) in 1999 because of additional utility plant in service. Depreciation and amortization increased $2.7 million (1.5%) in 1998 because of additional utility plant in service.

The companies incurred a pre-tax charge in the second quarter of 1998 for costs associated with the merger of LG&E Energy and KU Energy of $53.9 million (of this amount, $32.1 million was for LG&E, and $21.8 million was for KU). The amount charged is in excess of the amount permitted to be deferred as a regulatory asset by the Kentucky Commission.

Interest charges for 1998 decreased $3.9 million (7%) due to the retirement of LG&E's 6.75% Series First Mortgage Bonds and lower interest rates. LG&E's embedded cost of long-term debt was 5.46% at December 31, 1999 and 5.57% at December 31, 1998. KU's embedded cost of long-term debt was 7.00% at December 31, 1999 and 6.99% at December 31, 1998.

Variations in income tax expenses are largely attributable to changes in pre-tax income as well as non-deductible merger expenses.

The rate of inflation may have a significant impact on the Company's utility operations, its ability to control costs and the need to seek timely and adequate rate adjustments. However, relatively low rates of inflation in the past few years have moderated the impact on current operating results.

LG&E Capital Corp. and Other Results

Capital Corp., the holding company for all the Company's non-utility investments other than trading operations, conducts its operations through three principal segments: Power Operations, WKE and Argentine Gas Distribution. Involvement in these and other non-utility businesses represents the Company's commitment to understand, respond to, and capitalize on the opportunities presented by an emerging competitive energy services industry. The Power Operations develop, operate, maintain and own interests in domestic and international power generation facilities that sell electric and steam energy to utility and industrial customers. WKE leases and operates the generating facilities of Big Rivers. Argentine Gas Distribution owns interests in three natural gas distribution companies in Argentina. Capital Corp. and LEM are also engaged in other non-utility activities including: providing specialized equipment and services used in construction and rehabilitation of gas and oil transmission pipelines; the gathering, processing, storing and transportation of natural gas; commercial and retail initiatives designed to assess the energy and utility needs of large commercial and industrial entities; providing maintenance and repair services for customers' major household appliances; and, the asset optimization of the Company's generation assets. See Notes 2, 5, 9, 10, 18 and 20 of LG&E Energy's Notes to Financial Statements under Item 8.

Power Operations

Revenues

Revenues from Power Operations, comprised mainly of contractual revenues from various power plant operations, were approximately the same for the years 1997 to 1999. See Note 9 of LG&E Energy's Notes to Financial Statements under Item 8.

Equity in earnings of unconsolidated ventures includes the Company's share of earnings from the ventures in which it maintains an equity interest, but does not consolidate the results of operations. Equity in earnings for 1999 of $40.9 million was $30.4 million less than 1998, primarily due to transactions recorded by its Rensselaer venture in 1999 and 1998, including a gain on a power purchase contract settlement in 1998, the sale of the Company's ownership interest in March, and a full year of earnings in 1998 versus 2 1/2 months in 1999. Without the Rensselaer transactions in 1999 and 1998, equity in earnings of the Company's other ventures were approximately the same. Equity in earnings for 1998 were $50.8 million higher (247%) than in 1997 due primarily to the Rensselaer power purchase contract settlement and an arbitration award received by the Frederickson, Washington, venture. These increases were partially offset by a write-off of the Company's investment in a wind power venture. See Notes 9 and 20 of LG&E Energy's Notes to Financial Statements under Item 8.

Expenses

Direct costs of revenues are primarily comprised of labor and related expenses associated with the Company 's operation of various power plants. Direct costs increased by $1.7 million in 1999 to $15.1 million, primarily

due to development expenses of the Gregory, Texas, project. These costs were approximately the same in 1998 and 1997.

Operation and maintenance expenses were approximately the same for all periods presented. Depreciation and amortization decreased by $1.7 million in 1999 primarily due to the write-off of certain intangible assets in 1998 after the Rensselaer power purchase contract settlement and the sale of a 114 Mw gas-fired power plant in San Miguel, Argentina, offset by an additional write-off of intangible assets upon the sale of the Rensselaer venture in March 1999. Depreciation and amortization increased $3.3 million in 1998 due to the write-off of certain intangible assets and capitalized interest associated with the sale of the Company's interest in the San Miguel, Argentina, venture and the closure of the Rensselaer power purchase contract settlement. See Note 9 of LG&E Energy's Notes to Financial Statements under Item 8.

Western Kentucky Energy

WKE's 1999 results include twelve-months of operations versus 5 1/2 months in 1998, the primary driver in most year-over-year increases. Total revenues increased by $205.3 million (159%) to $333.8 million due primarily to a full year of operation in 1999 and higher power sales prices in the summer of 1999. Cost of revenues increased by $136.6 million (186%) to $209.7 million due primarily to a full year of operation in 1999 and higher purchase power costs. Operations and maintenance expenses increased by $56.3 million (127%) to $103.1 million primarily due to a full year of operation in 1999 and higher depreciation expenses related to an increase in capital assets. Net interest expense increased by $1.5 million (58%) to $4.1 million related to the cost of carrying its debt for a full year.

During WKE's partial year of operations in 1998 it reported a solid performance with revenues of $128.5 million. WKE's cost of revenues, primarily composed of fuel and purchased power expenses, amounted to $73.1 million for the year. Operation and maintenance expenses of $45.4 million include $12.8 million of rent expense associated with the lease of Big Rivers' operating facilities. WKE incurred interest expense of approximately $2.6 million associated with borrowings to fund the initial purchase of certain materials and supplies from Big Rivers and to prepay the first two years' lease payments totaling $55.9 million. See Note 5 of LG&E Energy's Notes to Financial Statements under Item 8.

Argentine Gas Distribution

The Company has interests in three Argentine natural gas distribution companies: Centro and Cuyana, both acquired in February 1997, and Gas BAN acquired in March 1999. Centro is consolidated within the Company's results while Cuyana's and Gas BAN's results are recorded using the equity method of accounting. The Company's investments in Argentina continue to contribute to non-utility operations, with Centro's revenues increasing by $8 million (5%) in 1999 and $21 million (16%) in 1998. The increase in 1999 was primarily driven by higher per customer consumption as a result of colder than normal weather. 1998's increase was due to a full year of operations versus 10 1/2 months in 1997, higher per customer consumption and an increase in the customer base. Centro's operating expenses increased by $.8 million (3%) in 1999 due to higher consumption. Centro's 1998 operating expenses increased by $2.4 million (8%) due to a full year of operations in 1998. Equity in earnings for 1999 increased by $6.3 million (253%) due to the Gas BAN acquisition completed in March 1999. Equity in earnings of Cuyana were approximately the same in all periods presented. See Notes 2 and 9 of LG&E Energy's Notes to Financial Statements under Item 8.

Other

The Company has entered into various initiatives to position itself for growth in the energy industry, including: providing specialized equipment and services used in construction and rehabilitation of gas and oil transmission pipelines; the gathering, processing, storing and transportation of natural gas; consulting services designed to assess the energy and utility needs of large commercial and industrial entities; providing maintenance and repair services for customers' major household appliances; and, the optimizing of the Company's generation assets. The commercial initiatives represent new businesses and products designed to leverage the Company's existing assets and experience, and to gain access to new markets. Our retail initiatives enhance value for LG&E's and KU's customers and are designed to help ensure that LG&E and KU remain the utility of choice within their respective service areas when a fully competitive industry framework takes shape. These commercial and retail initiatives have not had a significant impact on the Company's financial position or required significant capital investment over the last three years. We remain optimistic that these non-traditional ventures will add to our knowledge base as well as our financial results in the future.

The Company's interest costs increased by $22.7 million (83%) from 1998 to 1999 and $5.0 million (5%) from 1997 to 1998. The 1999 increase was primarily due to the funding of discontinued operations and LG&E Energy's operating expenses, along with funding the Gas BAN and CRC acquisitions. The increase in 1998 was primarily due to the funding of discontinued operations and LG&E Energy's operating expenses. See Notes 2, 3, 7 and 16 of LG&E Energy's Notes to Financial Statements under Item 8.

LIQUIDITY AND CAPITAL RESOURCES

The Company uses net cash generated from its operations and external financing to fund construction of plant and equipment, equity investments in energy-related growth or acquisition opportunities, liquidity needs of its discontinued energy marketing and trading activities and operating its existing businesses. The Company 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 $343.3 million, $209.6 million and $333.7 million in 1999, 1998 and 1997, respectively. The 1999 increase was primarily due to an increase in net income, a net decrease in non-cash income statement items, including the recording of the reserve on loss on disposal of discontinued operations, and a net increase in net current assets, including increases in accounts payable, accrued taxes and interest, and materials and supplies. The 1998 decrease was primarily due to a decrease in net income and an increase in materials and supplies, partially offset by a net increase in non-cash income statement items, including the recording a loss on disposal of discontinued operations and increases in accounts payable and accrued taxes and interest.

Investing Activities

LG&E Energy's primary use of funds continues to be for capital expenditures and investments in subsidiaries/unconsolidated ventures. Capital expenditures were $382.6 million, $343.6 million and $225.7 million in 1999, 1998 and 1997, respectively. The Company expects its capital expenditures for 2000 and 2001 will total approximately $850 million, consisting primarily of construction costs associated with installation of low nitrogen oxide burner systems for LG&E, KU and WKE as described in the section titled "Environmental Matters."

Net cash used for investment activities increased by $115.4 million in 1999 compared to 1998. The increase was primarily due to the acquisition of CRC, the 20% investment in Gas BAN, and an increase in construction expenditures. This increase was partially offset by proceeds received from the sales of the Company's ownership interest in Rensselaer and five combustion turbines.

Net cash used for investment activities decreased by $45.5 million in 1998 compared to 1997 primarily due to a decrease in investment in subsidiaries and unconsolidated ventures partially offset by an increase in construction expenditures.

Financing Activities

Cash inflows from financing activities were $84.9 million, $111.6 million and $42.8 million in 1999, 1998 and 1997, respectively. In 1999, total debt increased by $284.9 million to $2,160.8 at December 31, 1999. The increase was primarily due to funding operating expenses, discontinued operations and business development activities including the acquisitions of CRC and Gas BAN.

As of December 1999, the Company had committed lines of credit aggregating $900.0 million with various banks. Unused capacity under these lines totaled $395.6 million after considering the commercial paper support and approximately $51.7 million in letters of credit securing on- and off-balance sheet commitments. The credit lines will expire at various times from 2000 through 2002. Management expects to renegotiate the lines as they expire.

The lenders under the credit facilities, the commercial paper facility, the medium-term notes for Capital Corp. and the lessors of the operating lease for the Monroe plant are entitled to the benefits of a Support Agreement with LG&E Energy. See Note 18 of LG&E Energy's Notes to Financial Statements under Item 8.

Future Capital Requirements

Future utility capital requirements may be affected in varying degrees by factors such as load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in environmental regulations and other regulatory requirements. Other future capital funding requirements are dependent upon the identification of suitable investment and acquisition opportunities. The Company anticipates funding these investment opportunities through net cash generated from operations, additional debt or an issuance of preferred stock.

LG&E Energy (cont.):

The Company's debt ratings as of February 16, 2000, were:

	Moody's	S&P	D&P
LG&E			
First mortgage bonds	A1	A+	AA-
Unsecured debt	A2	A-	A+
Preferred stock	a2	BBB+	A
Commercial paper	P-1	A-1	D-1
KU			
First mortgage bonds	A1	A+	AA-
Preferred stock	a2	BBB+	A
Commercial paper	P-1	A-1	D-1
Capital Corp.			
Medium-term notes	A3	A-	A-
Commercial paper	P-2	A-1	D-1-

The ratings stated above reflect the downgrades received by the Company following an adverse decision in the OPC arbitration case, which resulted in an additional $175 million after-tax charge to increase the Company's discontinued operations reserve, and the PBR-related order received from the Kentucky Commission to reduce base rates at LG&E and KU by $27.2 million and $36.5 million, respectively. As of March 21, 2000, Moody's, S&P and D&P had LG&E Energy, LG&E, KU and Capital Corp. on Credit Watch with negative implications. Based upon the downgrades received the Company's cost of funds could increase by .05% to .12% on short-term borrowings and .10% on new long-term borrowings. These ratings reflect the views of Moody's, S&P and D&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.

Market Risks

LG&E Energy is exposed to market risks in both its regulated and non-utility operations. Both operations are exposed to market risks from changes in interest rates and commodity prices, while the non-utility operations are also exposed to changes in foreign exchange rates. To mitigate changes in cash flows attributable to these exposures, the Company has entered into various derivative instruments. Derivative positions are monitored using techniques that include market value and sensitivity analysis.

Interest Rate Sensitivity

The Company has short-term and long-term variable rate debt obligations outstanding. At December 31, 1999, the potential change in interest expense associated with a 1% change in base interest rates of the Company's unswapped debt is estimated at $7.0 million. These swaps hedge specific debt issuance and consistent with management's designation are accorded hedge accounting treatment.

As of December 31, 1999, the Company had swaps with a combined notional value of $404 million. LG&E and Capital Corp. have entered into $251 million of swaps to exchange their floating-rate interest payments for fixed interest payments to reduce the impact of interest rate changes on their Pollution Control Bonds and commercial paper program, respectively. LEC and KU have entered into $153 million to convert some of its fixed rate debt to variable rate debt. As of December 31, 1999, 31% of the outstanding variable interest rate

borrowings were converted to fixed interest rates, while 11% of the outstanding fixed interest rate borrowings were converted to floating interest rates through swaps. The potential loss in fair value from these positions resulting from a hypothetical 1% adverse movement in base interest rates is estimated at $13.1 million as of December 31, 1999. Changes in the market value of these swaps if held to maturity, as the Company intends to do, will have no effect on the Company's net income or cash flow. See Note 7 of LG&E Energy's Notes to Financial Statements under Item 8.

Commodity Price Sensitivity

LG&E and KU have limited exposure to market price volatility in prices of fuel and electricity, as long as cost-based regulations exist, including the FAC and GSC. WKE is exposed to changes in fuel prices. To mitigate this risk, WKE has entered into various multi-year fuel supply contracts which expire at various times through 2003 and is also pursuing the use of alternative fuels. Realized gains and losses are recognized in the income statement as incurred. At December 31, 1999, exposure from these activities was not material to the consolidated financial statements of the Company.

Capital Corp., through its subsidiaries, operates and controls the generating capacity of Big Rivers and Henderson. Some of the excess capacity generated by these assets is currently being marketed by WKE. To mitigate residual risks relative to the movements in electricity prices, WKE has entered into primarily fixed-priced contracts for the purchase and sale of electricity through the wholesale electricity market. Realized gains and losses are recognized in the income statement as incurred. At December 31, 1999, exposure from these activities was not material to the consolidated financial statements of the Company.

The Company's discontinued merchant energy trading and sales business has exposure to market volatility in electricity prices and load requirements. See Discontinuance of Merchant Energy Trading and Sales Business under Management's Discussion and Analysis and Note 3 of LG&E Energy's Notes to Financial Statements under Item 8.

Exchange Rate Sensitivity

The Company has investments in Argentina, Canada, Spain and the UK that are not hedged. The Company relies on the Argentine peso's currency peg to the U.S. dollar to mitigate currency risk attributable to its Argentine investments and views its investments in Canada, Spain and the UK as too small to cost-effectively hedge. A 10% decline in the December 31, 1999 exchange rate for the Argentine peso, the Canadian dollar, British pound sterling and the Spanish peseta (versus the U.S. dollar) would not have a material effect on income from continuing operations.

YEAR 2000 COMPUTER SOFTWARE ISSUE

Result of Year 2000 Preparation

The remediation efforts of the Company in preparing for potential Year 2000 computer problems were successful and resulted in the Company incurring no material disruptions in services or operations. To the extent, if any, certain third parties such as interconnected utilities, key customers or suppliers still face potential Year 2000 disruptions due to incomplete remediation, the Company may still retain risk related to Year 2000 issues. The Company is not presently aware of any such situations and does not anticipate such events will have a material effect on the Company's financial condition or results of operations.

Cost of Year 2000 Issues

The Company's system modification costs related to the Year 2000 issue were expensed as incurred, with new system installations being capitalized pursuant to generally accepted accounting principles. See Note 1 of LG&E Energy's Notes to Financial Statements under Item 8. Through December 1999, the Company had incurred approximately $26.7 million in capital and operating costs in connection with the Year 2000 issue.

RATES AND REGULATION

LG&E and KU are subject to the jurisdiction of the Kentucky Commission in virtually all matters related to electric and gas utility regulation, and as such, their accounting is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.* KU is also subject to the jurisdiction of the Virginia Commission and FERC. Given LG&E's and KU's competitive position in the market and the status of regulation in the states of Kentucky and Virginia, neither LG&E nor KU has plans or intentions to discontinue its application of SFAS No. 71. See Note 6 of LG&E Energy's Notes to Financial Statements under Item 8.

Environmental Cost Recovery

In August 1994 and May 1995, respectively, KU and LG&E implemented an ECR surcharge. The Kentucky Commission's order approving the surcharge for KU as well as the constitutionality of the surcharge was challenged by certain intervenors in Franklin Circuit Court. Decisions of the Circuit Court and the Kentucky Court of Appeals in July 1995 and December 1997, respectively, upheld the constitutionality of the ECR statute but differed on a claim of retroactive recovery of certain amounts. Based on these decisions, the Kentucky Commission ordered that certain surcharge revenues collected by LG&E and KU be subject to refund pending final determination of all appeals.

In December 1998, the Kentucky Supreme Court rendered an opinion upholding the constitutionality of the surcharge statute but denied recovery of costs associated with pre-1993 environmental projects through the ECR. The court remanded the case to the Kentucky Commission to determine amounts to be refunded for revenues collected for such pre-1993 environmental projects. Accordingly, the Company recorded a provision for rate refunds of $26 million in December 1998.

The parties to the proceedings reached a settlement agreement that was approved in a Final Order issued by the Kentucky Commission in August 1999. This Final Order resulted in the reversal of approximately $0.9 million of the provision for rate refunds established by KU and LG&E in December 1998. The refund is being applied o customers' bills during the twelve-month period beginning October 1999.

Future Rate Regulation

n October 1998, LG&E and KU filed applications with the Kentucky Commission for approval of a new method of determining electric rates that sought to provide financial incentives for LG&E and KU to further educe customers' rates. The filing was made pursuant to the September 1997 Kentucky Commission order pproving the merger of LG&E Energy and KU Energy, wherein the Kentucky Commission directed LG&E nd KU to indicate whether they desired to remain under traditional rate of return regulation or commence non-raditional regulation. The proposed ratemaking method, known as PBR, included financial incentives for LG&E and KU to reduce fuel costs and increase generating efficiency, and to share any resulting savings with ustomers. Additionally, the PBR proposal provided for financial penalties and rewards to assure continued igh quality service and reliability.

In April 1999, LG&E and KU filed a joint agreement among the companies and the Kentucky Attorney General to adopt the PBR plan subject to certain amendments. The amended filing included requested Kentucky Commission approval of a five-year rate reduction plan which proposed to reduce the electric rates of LG&E and KU by $20 million in the first year (beginning July 1999), and by $8 million annually through June 2004. The proposed amended plan also included establishment of a $6 million program for low-income customer assistance as well as extension for one additional year of both the rate cap proposal and merger savings surcredit established in the original merger plan of LG&E and KU. Under the rate cap proposal, the companies agreed, in the absence of extraordinary circumstances, not to increase base electric rates for five years following the merger and LG&E also agreed to refrain from filing for an increase in natural gas rates through June 2004.

In April 1999, the Kentucky Commission issued initial orders implementing the amended PBR plan, effective July 1999, and subject to modification. The Kentucky Commission also consolidated into the continuing PBR proceedings an earlier March 1999, rate complaint by a group of industrial intervenors, KIUC, in which KIUC requested significant reductions in electric rates. Hearings were conducted before the Kentucky Commission on LG&E's and KU's amended PBR plans and the KIUC rate reduction petitions in August and September 1999. Legal briefs of the parties were filed with the Kentucky Commission in October 1999. KIUC's position called for annual revenue reductions for LG&E and KU of $69.6 million and $61.5 million, respectively.

In January 2000, the Kentucky Commission issued Orders for LG&E and KU in the subject cases. The Kentucky Commission ruled that LG&E and KU should reduce base rates by $27.2 million and $36.5 million, respectively, effective with bills rendered beginning March 1, 2000. The Kentucky Commission eliminated the utilities' proposal to operate under its PBR plan and reinstated the FAC mechanism effective March 1, 2000. The Kentucky Commission offered the utilities the opportunity to operate under an ESM for the next three years. Under this mechanism, incremental annual earnings for each utility resulting in a rate of return either above or below a range of 10.5% to 12.5% would be shared 60% with shareholders and 40% with ratepayers.

Later in January 2000, the utilities filed motions for correction to the January 2000 orders for computational and other errors made in the Kentucky Commission's orders which produced overstatements in the base rate reductions to LG&E and KU of $1.1 million and $7.7 million, respectively. The utilities also filed motions for reconsideration with the Kentucky Commission on a number of items in the case in late January. Certain intervening parties in the proceedings have also filed motions for reconsideration asserting, among other things, that the Kentucky Commission understated the amount of base rate reductions. In February 2000, LG&E and KU accepted the Kentucky Commission's proposed ESM and filed an ESM tariff which contained detailed provisions for operation of the ESM rates. Management cannot predict final outcome of these matters before the Kentucky Commission or the timing in which resolution of these matters will ultimately be reached.

Other Rate Matters

LG&E's rates contain a DSM provision. The provision includes a rate mechanism that provides concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. This program had allowed LG&E to recover revenues from lost sales associated with the DSM program (decoupling), but in 1998, LG&E and customer interest groups requested an end to the decoupling rate mechanism. In September 1998, the Kentucky Commission accepted LG&E's modified tariff discontinuing the decoupling mechanism effective as of June 1, 1998.

Since October 1997, LG&E has implemented an experimental performance-based ratemaking mechanism related to gas procurement activities and off-system gas sales only. During the three-year test period beginning October 1997, rate adjustments related to this mechanism are being determined for each 12-month period

beginning November 1 and ending October 31. During the first two years of the mechanism ended October 31, 1999 and 1998, LG&E recorded $2.2 million and $3.5 million, respectively, for its share of reduced gas costs. These amounts are billed to customers through the gas supply clause.

Prior to implementation of the PBR in July 1999, and following its termination in March 2000, LG&E and KU employed an FAC mechanism, which under Kentucky law allowed the utilities to recover from customers the actual fuel costs associated with retail electric sales. In February 1999, LG&E received orders from the Kentucky Commission requiring a refund to retail electric customers of approximately $3.9 million resulting from reviews of the FAC from November 1994 through April 1998, of which $1.9 million was refunded in April 1999 for the period beginning November 1994 and ending October 1996. The orders changed the utilities' method of computing fuel costs associated with electric line losses on off-system sales appropriate for recovery through the FAC. LG&E requested that the Kentucky Commission grant rehearing on the February orders, and further requested that the Kentucky Commission stay the refund requirement until it could rule on the rehearing request. The Kentucky Commission granted the request for a stay, and in March 1999 granted rehearing on the appropriate line loss factor associated with off-system sales for the 18-month period ended April 1998. The Kentucky Commission also granted rehearing on the KIUC's request for rehearing on the Kentucky Commission's determination that it lacked authority to require the utilities to pay interest on the refund amounts. The Kentucky Commission conducted a hearing on the rehearing issues and issued a final ruling in December 1999. The Kentucky Commission agreed with LG&E 's position on the appropriate loss factor to use in the FAC computation and reduced the refund level for the 18-month period under review to approximately $800,000. LG&E implemented the refund with billings beginning in the month of January 2000. LG&E and KIUC have each filed separate appeals from the Kentucky Commission's February 1999 orders with the Franklin Circuit Court. A decision on the appeals by the Court is expected in 2000.

In July 1999, the Kentucky Commission issued a series of orders requiring KU to refund approximately $10.1 million resulting from reviews of the FAC from November 1994 to October 1998. The orders changed KU's method of computing fuel costs associated with electric line losses on off-system sales appropriate for recovery hrough the FAC, and KU's method for computing system line losses for the purpose of calculating the system ales component of the FAC charge. At KU's request, in July 1999, the Kentucky Commission stayed the efund requirement pending the Kentucky Commission's final determination of any rehearing request that KU nay file. In August 1999, KU filed its request for rehearing of the July orders.

n August 1999, the Kentucky Commission issued a Final Order in the KU proceedings, agreeing, in part, with U's arguments outlined in its Petition for Rehearing. While the Kentucky Commission confirmed that KU hould change its method of computing the fuel costs associated with electric line losses, it agreed with KU that he line loss percentage should be based on KU's actual line losses incurred in making off-system sales rather han the percentage used in its Open Access Transmission Tariff. The Kentucky Commission also upheld its revious ruling concerning the computation of system line losses in the calculation of the FAC. The net effect f the Kentucky Commission's Final Order was to reduce the refund obligation to $5.8 million from the original rder amount of $10.1 million. In August 1999, LG&E and KU each recorded its estimated share of nticipated FAC refunds of $8.7 million. KU began implementing the refund in October and will continue the fund through September 2000. Both KU and the KIUC have appealed the Order to the Franklin Circuit Court. decision is not expected on the appeal until later in 2000.

G&E intends to file before the end of the first quarter an application with the Kentucky Commission for thority to increase its natural gas rates in order to recoup higher costs for providing natural gas distribution rvices. LG&E expects implementation before the end of 2000.

Kentucky PSC Administrative Case for Affiliate Transactions

In December 1997, the Kentucky Commission opened Administrative Case No. 369 to consider Kentucky Commission policy regarding cost allocations, affiliate transactions and codes of conduct governing the relationship between utilities and their non-utility operations and affiliates. The Kentucky Commission intends to address two major areas in the proceedings: the tools and conditions needed to prevent cost shifting and cross-subsidization between regulated and non-utility operations; and whether a code of conduct should be established to assure that non-utility segments of the holding company are not engaged in practices that could result in unfair competition caused by cost shifting from the non-utility affiliate to the utility. In September 1998, the Kentucky Commission issued a draft code of conduct and cost allocation guidelines. In January 1999, the Company, as well as all parties to the proceeding, filed comments on the Kentucky Commission draft proposals. In December 1999, the Kentucky Commission issued guidelines on cost allocation and held a hearing in January 2000, on the draft code of conduct. Management does not expect the ultimate resolution of this matter to have a material adverse effect on the Company's financial position or results of operations.

Environmental Matters

The Act imposed stringent new SO2 and NOx emission limits on electric generating units. LG&E previously had installed scrubbers on all of its generating units, while KU met its Phase I SO2 requirements primarily through installation of a scrubber on Ghent Unit 1. The Company's combined strategy for Phase II, commencing January 1, 2000, is to use accumulated emissions allowances to delay additional capital expenditures and may also include fuel switching or the installation of additional scrubbers. LG&E, KU, and WKE met the NOx emission requirements of the Act through installation of low-NOx burner systems. The Company's compliance plans are subject to many factors including developments in the emission allowance and fuel markets, future regulatory and legislative initiatives, and advances in clean air control technology. The Company will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

In September 1998, the EPA announced its final "NOx SIP call" rule requiring significant additional reductions in NOx emissions by May 2003, in order to mitigate alleged ozone transport to the Northeast. While each of the 22 states covered by the rule is free to allocate its assigned NOx reductions among various emissions sectors as it deems appropriate, the regulation may ultimately require electric generating units to reduce their NOx emissions to 0.15 lb./Mmbtu - an 85% reduction from 1990 levels. In related proceedings in response to petitions filed by various Northeast states, in December 1999, EPA issued a final rule directing similar NOx reductions from a number of specifically named electric generating units including all LG&E and KU stations in the eastern half of Kentucky. Additional petitions currently pending before EPA may potentially result in orders encompassing the remaining KU and WKE stations. Several states, various labor and industry groups, and individual companies have appealed both EPA rulings to the U.S. Court of Appeals for the Washington D.C. Circuit. Management is currently unable to determine the outcome or exact impact of this matter until such time as the courts rule on the pending legal challenges and the states implement the final regulatory mandate. However, if the 0.15 lb. target is ultimately imposed, LG&E, KU, and WKE and the independent power projects in which the Company has an interest will be required to incur significant capital expenditures and increased operation and maintenance costs for additional controls.

Subject to further study, analysis, and the outcome of pending litigation against the EPA, the Company estimates that it may incur approximate capital costs for NOx compliance ranging from $300 million to reduce emissions to the level of .25 lb./Mmbtu (Commonwealth of Kentucky's proposed NOx compliance level) to $550 million to reduce emissions to the level of .15 lb./Mmbtu (current EPA regulations). These costs would

generally be incurred beginning in 2000. The Company believes its costs in this regard to be comparable to those of similarly situated utilities with like generation assets. LG&E and KU anticipate that such capital and operating costs are the type of costs that are eligible for recovery from customers under their environmental surcharge mechanisms and believe that a significant portion of such costs could be recovered. However, Kentucky Commission approval is necessary and there can be no guarantee of recovery.

The Company is also addressing other air quality issues. First, the Company is monitoring the status of EPA's revised NAAQS for ozone and particulate matter. In May 1999, the Washington D.C. Circuit remanded the final rule and directed EPA to undertake additional rulemaking efforts. The Company continues to monitor EPA actions to challenge that ruling. Second, the Company was notified by regulatory agencies that the Cane Run Station may be the source of a potential exceedance of the NAAQS that could require the Company to incur additional capital expenditures or accept certain emissions limitations. After reviewing additional modeling information submitted by the Company, in January 2000, EPA concluded that the Cane Run Station does not contribute to any potential NAAQS exceedance and that no further action is required from the Company. Third, the Company is working with regulatory authorities to review the effectiveness of remedial measures aimed at controlling particulate emissions from its Mill Creek Station. The Company previously settled a number of property damage claims from adjacent residents and completed significant plant modifications as part of its ongoing capital construction program.

The Company owns or formerly owned several properties which contained past MGP operations. Various contaminants are typically found at such former MGP sites and environmental remediation measures are frequently required. The Company has completed the cleanup of a site owned by KU and reached agreements for other parties to assume cleanup responsibility for two other sites formerly owned by LG&E. In addition, the Company recently reached an agreement with the Kentucky Division of Waste Management with respect to a third LG&E-owned site in which the Company committed to impose certain property restrictions and conduct additional monitoring in lieu of a cleanup. Based on currently available information, management estimates that it will incur additional MGP costs of less than $500,000. Accordingly, an accrual of $500,000 has been recorded in the accompanying financial statements. With respect to other former MGP sites no longer owned by the Company, the Company is unable to determine what, if any, additional exposure or liability it may have as it lacks complete information on current site conditions.

In October 1999, approximately 38,000 gallons of diesel fuel leaked from a cracked valve in an underground pipeline at KU's E.W. Brown Station. Under the oversight of EPA and state officials, the Company commenced immediate spill containment and recovery measures which prevented the spill from reaching the Kentucky River. The Company ultimately recovered approximately 34,000 gallons of diesel fuel. In November 1999, the Kentucky Division of Water issued a notice of violation for the incident. The Company is currently negotiating with the state in an effort to reach a complete resolution of this matter. To date the Company has incurred costs of approximately $1 million. The Company does not expect to incur any material additional amounts.

See Note 18 of LG&E Energy's Notes to Financial Statements under Item 8 for an additional discussion of the Company's environmental issues.

Public Utilities Regulatory Policies Act

Proposals have been introduced in Congress to repeal all or portions of the PURPA. PURPA and its implementing regulations require, among other things, that electric utilities purchase electricity generated by qualifying cogeneration facilities at a price based on the purchasing utility's avoided costs. The Company is the partial owner and contractual operator of several qualifying cogeneration facilities. While the Company

supports the repeal of PURPA, the Company intends to oppose any efforts to nullify existing contracts between electric utilities and qualifying cogeneration facilities. The Company has been involved in proceedings before FERC regarding its Southampton cogeneration facility and is in litigation with the purchasing utility of the energy from its Roanoke Valley I cogeneration facility. See Note 18 of LG&E Energy's Notes to Financial Statements under Item 8.

IMPACT OF NON-UTILITY BUSINESSES

The Company expects to continue investing in non-utility projects, including domestic and international power production, gas distribution projects and other energy-related businesses, as described in the sections titled LG&E Capital Corp. and Other Results, and Future Capital Requirements. The non-utility projects in which the Company has invested carry a higher level of risk than LG&E's or KU's traditional utility businesses. Current investments in non-utility projects are subject to competition, operating risks, dependence on certain suppliers and customers, environmental and energy regulations, as well as political and currency risks. In addition, significant expenses may be incurred for projects pursued by the Company that do not materialize. The aggregate effect of these factors creates the potential for more volatility in the non-utility component of the Company's earnings. Also, the Company may seek opportunities to divest certain of its existing non-utility assets under suitable market conditions. Accordingly, the historical operating results of the Company's non-utility businesses may not necessarily be indicative of future operating results.

FUTURE OUTLOOK

Competition and Customer Choice

LG&E Energy has moved aggressively over the past decade to be positioned for, and to help promote the energy industry's shift to customer choice and a competitive market for energy services. Specifically, the Company has taken many steps to prepare for the expected increase in competition in its regulated and non-utility energy services businesses, including support for performance-based ratemaking structures, aggressive cost reduction activities; strategic acquisitions, dispositions and growth initiatives; write-offs of previously deferred expenses; an increase in focus on commercial and industrial customers; an increase in employee training; and necessary corporate and business unit realignments. The Company continues to be active in the national debate surrounding the restructuring of the energy industry and the move toward a competitive, market-based environment. LG&E Energy has urged Congress to set a specific date for a complete transition to a competitive market, one that will quickly and efficiently bring the benefits associated with customer choice. LG&E Energy has previously advocated the implementation of this transition by January 1, 2001, and now recommends adoption of federal legislation specifying a date certain and appropriate transition regulations implementing deregulation.

In December 1997, the Kentucky Commission issued a set of principles which was intended to serve as its guide in consideration of issues relating to industry restructuring. Among the issues addressed by these principles are: consumer protection and benefit, system reliability, universal service, environmental responsibility, cost allocation, stranded costs and codes of conduct. During 1998, the Kentucky Commission and a task force of the Kentucky General Assembly each conducted proceedings, including meetings with representatives of utilities, consumers, state agencies and other groups in Kentucky, to discuss the possible structure and effects of energy industry restructuring in Kentucky.

In November 1999, the task force issued a report to the Governor of Kentucky and a legislative agency recommending no general electric industry restructuring actions during the 2000 legislative session.

LG&E Energy (cont.):

Thus, at the time of this report, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on the Company, which may be significant, cannot currently be predicted.

LG&E:

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 1999, 1998, and 1997 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 Louisville Gas and Electric Company's reports to the Securities and Exchange Commission, and Exhibit No. 99.01 to LG&E Energy's annual report on Form 10-K for the year ended December 31, 1998.

MERGER

Effective May 4, 1998, following the receipt of all required state and federal regulatory approvals, LG&E Energy and KU Energy merged, with LG&E Energy as the surviving corporation. The outstanding preferred stock of LG&E, a subsidiary of LG&E Energy, was not affected by the merger. See Note 2 of LG&E's Notes to Financial Statements under Item 8.

RESULTS OF OPERATIONS

Net Income

LG&E's net income increased $28.2 million for 1999, as compared to 1998, primarily due to non-recurring charges in 1998 for merger-related expenses of $23.6 million, after tax. Excluding these non-recurring charges, net income increased $4.6 million. This increase is mainly due to higher electric revenues, lower administrative costs and operating expenses at the electric generating stations, partially offset by higher maintenance expenses at the electric generating stations.

Net income decreased $35.2 million for 1998, as compared to 1997, primarily due to non-recurring charges for merger-related expenses and the ECR refund of $23.6 million and $2.7 million, after tax, respectively. Excluding these non-recurring charges, net income decreased $8.9 million. This decrease is mainly due to higher operating expenses at the electric generating stations and lower gas sales, partially offset by increased electric sales.

Revenues

A comparison of operating revenues for the years 1999 and 1998, excluding the provisions recorded for refunds

in 1999 and in 1998, with the immediately preceding year reflects both increases and decreases, which have been segregated by the following principal causes (in thousands of $):

	Increase (Decrease) From Prior Period			
	Electric Revenues		Gas Revenues	
Cause	1999	1998	1999	1998
Retail sales:				
Fuel and gas supply adjustments, etc.	$ (2,014)	$ 3,750	$ (24,791)	$ (4,393)
Merger surcredit	(4,194)	(3,466)	-	-
Performance based rate reduction	(6,076)	-	-	-
Demand side management/decoupling	(2,985)	(6,299)	(6,462)	(369)
Environmental cost recovery surcharge	(570)	(260)	-	-
Variation in sales volumes	22,009	27,051	17,779	(42,418)
Total retail sales	6,170	20,776	(13,474)	(47,180)
Wholesale sales	121,996	28,398	(602)	8,720
Gas transportation-net	-	-	(575)	(71)
Other	1,228	(695)	685	(935)
Total	$129,394	$ 48,479	$ (13,966)	$ (39,466)

Electric revenues increased in 1999 primarily due to wholesale electric sales and higher levels of retail sales volumes, partially offset by the PBR and merger surcredit bill reductions. Wholesale sales increased in 1999 due to large amounts of power available. Gas revenues decreased primarily as a result of lower gas supply costs billed to customers through the gas supply clause, partially offset by increased gas sales in 1999 due to colder weather.

Electric retail sales increased primarily due to the warmer weather in 1998 as compared to 1997. Wholesale sales increased due to larger amounts of power available for off-system sales, an increase in the unit price of the sales and sales to KU of $11.6 million due to economic dispatch following the merger in May 1998 of LG&E Energy and KU Energy. Gas retail sales decreased from 1997 due to the warmer weather in 1998. Gas wholesale sales increased to $8.7 million in 1998 from zero in 1997 due to the implementation of LG&E's gas performance-based ratemaking mechanism. See Note 3 of LG&E's Notes to Financial Statements under Item 8.

Expenses

Fuel for electric generation and gas supply expenses comprises a large component of LG&E's total operating costs. LG&E's electric rates contain an FAC and gas rates contain a GSC, whereby increases or decreases in the cost of fuel and gas supply are reflected in base rates, subject to approval by the Kentucky Commission. In July 1999, the Kentucky Commission approved LG&E's filing on PBR resulting in the discontinuance of the FAC. In January 2000, the Kentucky Commission rescinded its approval of LG&E's PBR filing and ordered the reinstatement of the FAC. See Note 3 of LG&E's Notes to Financial Statements under Item 8 for a further discussion of the PBR and the FAC.

Fuel for electric generation increased $4.4 million (2.9%) in 1999 because of an increase in generation to support increased electric sales ($7.4 million), offset partially by a lower cost of coal burned ($3 million). Fuel expenses incurred in 1998 increased $5.2 million (3.5%) because of higher cost of coal burned ($6.6 million), partially offset by a decrease in generation ($1.4 million). The average delivered cost per ton of coal purchased was $21.49 in 1999, $22.38 in 1998, and $21.66 in 1997.

LG&E (cont.):

Power purchased increased $119.4 million (238%) in 1999 primarily due to increased purchases to serve native load customers during the summer months and off-system sales activity. Power purchased increased $32.9 million (191%) in 1998 to support the increase in wholesale sales and increased purchases from KU of $16 million as a result of economic dispatch following the merger of the two companies in May 1998.

Gas supply expenses decreased $11.1 million (8.9%) in 1999 primarily due to a decrease in cost of net gas supply ($17.1 million), partially offset by an increase in the volume of gas delivered to the distribution system ($6 million). Gas supply expenses decreased $33 million (21%) in 1998 primarily due to a decrease in the volume of gas delivered to the distribution system. The average unit cost per Mcf of purchased gas was $2.99 in 1999, $3.05 in 1998 and $3.46 in 1997.

Operation expenses decreased $8.9 million (5.4%) in 1999 primarily due to decreased costs to operate the electric generating plants ($5.7 million) and lower administrative costs ($4.6 million). Operation expenses increased $12.8 million (8.5%) in 1998 over 1997 because of increased costs to operate electric generating plants ($6.6 million), amortization of deferred merger costs ($1.8 million), and an increase in storm damage expenses ($1.4 million).

Maintenance expenses for 1999 increased $5.3 million (10.1%) primarily due to increases in scheduled outages at the Mill Creek generating station units 3 and 4, and the Cane Run generating station units 4 and 6 ($2.4 million) and increased forced outages at Mill Creek units 1 and 4 and Cane Run unit 5 ($3.9 million). In 1998 maintenance expenses increased $5.2 million (10.9%) as compared to 1997 primarily because of an increase in scheduled outages and general repairs at the electric generating plants ($2.2 million) and an increase in storm damage expenses ($1.4 million).

Depreciation and amortization increased $4 million (4.3%) in 1999 over 1998 due to additional utility plant in service. Depreciation and amortization for 1998 were approximately the same as in 1997.

LG&E incurred a pre-tax charge in the second quarter of 1998 for costs associated with the merger of LG&E Energy and KU Energy of $32.1 million. The corresponding tax benefit of $8.5 million is recorded in other income and (deductions). The amount charged is in excess of the amount permitted to be deferred as a regulatory asset by the Kentucky Commission. See Note 2 of LG&E's Notes to Financial Statements under Item 8.

Interest charges for 1999 increased $1.6 million (4.5%) due to short term borrowings and interest on debt to associated companies ($2.5 million), partially offset by lower interest rates on variable rate debt ($.6 million). Interest charges for 1998 decreased $2.9 million (7.3%) due to the retirement of LG&E's 6.75% Series First Mortgage Bonds and lower variable interest rates. The embedded cost of long-term debt was 5.46% at December 31, 1999, and 5.57% at December 31, 1998. See Note 10 of LG&E's Notes to Financial Statements under Item 8.

Variations in income tax expenses are largely attributable to changes in pre-tax income as well as non-deductible merger expenses.

The rate of inflation may have a significant impact on LG&E's operations, its ability to control costs and the need to seek timely and adequate rate adjustments. However, relatively low rates of inflation in the past few years have moderated the impact on current operating results.

LG&E (cont.):

LIQUIDITY AND CAPITAL RESOURCES

LG&E uses net cash generated from its operations and external financing 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 $180.5 million, $225.7 million and $185.0 million in 1999, 1998 and 1997, respectively. The 1999 decrease resulted from a net decrease in non-cash income statement items and a net decrease in net current assets, including decreases in accounts payable and accrued taxes. The 1998 increase was primarily due to an increase in current assets, including increases in accounts payable and accrued taxes.

Investing Activities

LG&E's primary use of funds continues to be for capital expenditures and the payment of dividends. Capital expenditures were $195 million, $138 million and $111 million in 1999, 1998 and 1997, respectively. LG&E expects its capital expenditures for 2000 and 2001 will total approximately $401 million which consists primarily of construction estimates associated with installation of low nitrogen oxide burner systems as described in the section titled "Environmental Matters."

Net cash used for investment activities increased by $47.2 million in 1999 compared to 1998 and increased $10 million in 1998 compared to 1997 primarily due to increased construction expenditures in both periods.

Financing Activities

Cash inflow from financing activities in 1999 was $26.7 million and cash outflows for 1998 and 1997 were $107.6 million and $64.5 million, respectively. In 1999, total debt increased by $120.1 million to $746.9 million at December 31, 1999. The increase was primarily due to funding operating expenses and construction expenditures.

As of December 1999, LG&E had committed credit facility aggregating $200.0 million with various banks. Unused capacity under these lines were approximately $90 million after considering the commercial paper support. The credit facility will expire in 2001 and management expects to renegotiate the credit facility at that time.

Future Capital Requirements

Future utility requirements may be affected in varying degrees by factors such as load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in environmental regulations and other regulatory requirements. LG&E anticipates to fund its requirements through additional operating cash flow, debt or an issuance of preferred cstock.

LG&E's debt ratings as of February 16, 2000, were:

	Moody's	S&P	D&P
First mortgage bonds	A1	A+	AA-
Unsecured debt	A2	A-	A+
Preferred stock	a2	BBB+	A
Commercial paper	P-1	A-1	D-1

The ratings stated above reflect the downgrades received following an order from the Kentucky Commission to reduce base rates at LG&E by $27.2 million. As of March 21, 2000, Moody's, S&P and D&P had LG&E on Credit Watch with negative implications. Based upon the downgrades received LG&E's cost of funds could increase by .05% to .12% on short-term borrowings and .10% on new long-term borrowings. These ratings reflect the views of Moody's, S&P and D&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.

Market Risks

LG&E is exposed to market risks from changes in interest rates and commodity prices. To mitigate changes in cash flows attributable to these exposures, LG&E has entered into various derivative instruments. Derivative positions are monitored using techniques that include market value and sensitivity analysis.

[nterest Rate Sensitivity

LG&E has short-term and long-term variable rate debt obligations outstanding. At December 31, 1999, the ɔotential change in interest expense associated with a 1% change in base interest rates of LG&E's unswapped lebt is estimated at $1.0 million.

nterest rate swaps are used to hedge LG&E's underlying variable rate debt obligations. These swaps hedge ;pecific debt issuance and consistent with management's designation are accorded hedge accounting treatment.

\s of December 31, 1999, LG&E had swaps with a combined notional value of $151 million. The swaps xchange floating-rate interest payments for fixed interest payments to reduce the impact of interest rate hanges on LG&E's Pollution Control Bonds. As of December 31, 1999, 61% of the outstanding variable ıterest rate borrowings were converted to fixed interest rates through swaps. The potential loss in fair value rom these positions resulting from a hypothetical 1% adverse movement in base interest rates is estimated at 2.1 million as of December 31, 1999. Changes in the market value of these swaps if held to maturity, as ,G&E intends to do, will have no effect on LG&E's net income or cash flow. See Note 4 of LG&E's Notes to inancial Statements under Item 8.

'ommodity Price Sensitivity

G&E has limited exposure to market price volatility in prices of fuel and electricity, as long as cost-based ;gulations exist, including the FAC and GSC.

YEAR 2000 COMPUTER SOFTWARE ISSUE

Result of Year 2000 Preparation

The remediation efforts of LG&E in preparing for potential Year 2000 computer problems were successful and resulted in LG&E incurring no material disruptions in services or operations of any sort. To the extent, if any, certain third parties such as interconnected utilities, key customers or suppliers still face Year 2000 disruptions due to incomplete remediation, LG&E may still retain risk related to Year 2000 issues. LG&E is not presently aware of any such situations and does not anticipate such events will have a material effect on LG&E's financial condition or results of operations.

Cost of Year 2000 Issues

LG&E's system modification costs related to the Year 2000 issue were expensed as incurred, while new system installations are being capitalized pursuant to generally accepted accounting principles. See Note 1 of LG&E's Notes to Financial Statements under Item 8. Through December 1999, LG&E incurred approximately $18.6 million in capital and operating costs in connection with the Year 2000 issue.

RATES AND REGULATION

LG&E is subject to the jurisdiction of the Kentucky Commission in virtually all matters related to electric and gas utility regulation, and as such, their accounting is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Given LG&E's competitive position in the market and the status of regulation in the states of Kentucky LG&E has no plans or intentions to discontinue its application of SFAS No. 71. See Note 3 of LG&E's Notes to Financial Statements under Item 8.

Environmental Cost Recovery

In May 1995, LG&E implemented an ECR surcharge. The Kentucky Commission's order approving the surcharge as well as the constitutionality of the surcharge was challenged by certain intervenors in Franklin Circuit Court. Decisions of the Circuit Court and the Kentucky Court of Appeals in July 1995 and December 1997, respectively, upheld the constitutionality of the ECR statute but differed on a claim of retroactive recovery of certain amounts. Based on these decisions, the Kentucky Commission ordered that certain surcharge revenues collected by LG&E be subject to refund pending final determination of all appeals.

In December 1998, the Kentucky Supreme Court rendered an opinion upholding the constitutionality of the surcharge statute but denied recovery of costs associated with pre-1993 environmental projects through the ECR. The court remanded the case to the Kentucky Commission to determine amounts to be refunded for revenues collected for such pre-1993 environmental projects. Accordingly, LG&E recorded a provision for rate refunds of $4.5 million in December 1998.

The parties to the proceedings reached a settlement agreement that was approved in a Final Order issued by the Kentucky Commission in August 1999. This Final Order resulted in the additional accrual of approximately $0.6 million to what had been recorded in December 1998. The refund is being applied to customers' bills during the twelve-month period beginning October 1999.

LG&E (cont.):

Future Rate Regulation

In October 1998, LG&E filed an application with the Kentucky Commission for approval of a new method of determining electric rates that sought to provide financial incentives for LG&E to further reduce customers' rates. The filing was made pursuant to the September 1997 Kentucky Commission order approving the merger of LG&E Energy and KU Energy, wherein the Kentucky Commission directed LG&E to indicate whether they desired to remain under traditional rate of return regulation or commence non-traditional regulation. The proposed ratemaking method, known as PBR, included financial incentives for LG&E to reduce fuel costs and increase generating efficiency, and to share any resulting savings with customers. Additionally, the PBR proposal provided for financial penalties and rewards to assure continued high quality service and reliability.

In April 1999, LG&E filed a joint agreement with KU and the Kentucky Attorney General to adopt the PBR plan subject to certain amendments. The amended filing included requested Kentucky Commission approval of a five-year rate reduction plan which proposed to reduce the electric rates of LG&E by $9.4 million in the first year (beginning July 1999), and by $3.8 million annually through June 2004. The proposed amended plan also included establishment of a $2.8 million program for low-income customer assistance as well as extension for one additional year of both the rate cap proposal and merger savings surcredit established in the original merger plan of LG&E and KU. Under the rate cap proposal, LG&E agreed, in the absence of extraordinary circumstances, not to increase base electric rates for five years following the merger and LG&E also agreed to refrain from filing for an increase in natural gas rates through June 2004.

In April 1999, the Kentucky Commission issued initial orders implementing the amended PBR plan, effective July 1999, and subject to modification. The Kentucky Commission also consolidated into the continuing PBR proceedings an earlier March 1999, rate complaint by a group of industrial intervenors, KIUC, in which KIUC requested significant reductions in electric rates. Hearings were conducted before the Kentucky Commission on LG&E's amended PBR plan and the KIUC rate reduction petitions in August and September 1999. Legal briefs of the parties were filed with the Kentucky Commission in October 1999. KIUC's position called for annual revenue reductions for LG&E of $69.6 million.

In January 2000, the Kentucky Commission issued Orders for LG&E in the subject cases. The Kentucky Commission ruled that LG&E should reduce base rates by $27.2 million effective with bills rendered beginning March 1, 2000. The Kentucky Commission eliminated LG&E's proposal to operate under its PBR plan and reinstated the fuel adjustment clause mechanism effective March 1, 2000. The Kentucky Commission offered LG&E the opportunity to operate under an ESM for the next three years. Under this mechanism, incremental annual earnings resulting in a rate of return either above or below a range of 10.5% to 12.5% would be shared 60% with shareholders and 40% with ratepayers.

Later in January 2000, LG&E filed motions for correction to the January 2000 orders for computational and other errors made in the Kentucky Commission's orders which produced overstatements in the base rate reductions to LG&E of $1.1 million. LG&E also filed motions for reconsideration with the Kentucky Commission on a number of items in the case in late January. Certain intervening parties in the proceedings have also filed motions for reconsideration asserting, among other things, that the Kentucky Commission understated the amount of base rate reductions. In February 2000, LG&E accepted the Kentucky Commission's proposed ESM and filed an ESM tariff which contained detailed provisions for operation of the ESM rates. Management cannot predict final outcome of these matters before the Kentucky Commission or the timing in which resolution of these matters will ultimately be reached.

LG&E (cont.):

Other Rate Matters

LG&E's rates contain a DSM provision. The provision includes a rate mechanism that provides concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. This program had allowed LG&E to recover revenues from lost sales associated with the DSM program (decoupling), but in 1998, LG&E and customer interest groups requested an end to the decoupling rate mechanism. In September 1998, the Kentucky Commission accepted LG&E's modified tariff discontinuing the decoupling mechanism effective as of June 1, 1998.

Since October 1997, LG&E has implemented an experimental performance-based ratemaking mechanism related to gas procurement activities and off-system gas sales only. During the three-year test period beginning October 1997, rate adjustments related to this mechanism will be determined for each 12-month period beginning November 1 and ending October 31. During the first two years of the mechanism ended October 31, 1999 and 1998, LG&E recorded $2.2 million and $3.5 million, respectively, for its share of reduced gas costs. These amounts are billed to customers through the gas supply clause.

Prior to implementation of the PBR in July 1999, and following its termination in March 2000, LG&E employed an FAC mechanism, which under Kentucky law allowed LG&E to recover from customers, the actual fuel costs associated with retail electric sales. In February 1999, LG&E received orders from the Kentucky Commission requiring a refund to retail electric customers of approximately $3.9 million resulting from reviews of the FAC from November 1994 through April 1998, of which $1.9 million was refunded in April 1999 for the period beginning November 1994 and ending October 1996. The orders changed LG&E's method of computing fuel costs associated with electric line losses on off-system sales appropriate for recovery through the FAC. LG&E requested that the Kentucky Commission grant rehearing on the February orders, and further requested that the Kentucky Commission stay the refund requirement until it could rule on the rehearing request. The Kentucky Commission granted the request for a stay, and in March 1999 granted rehearing on the appropriate line loss factor associated with off-system sales for the 18-month period ended April 1998. The Kentucky Commission also granted rehearing on the KIUC's request for rehearing on the Kentucky Commission's determination that it lacked authority to require the utilities to pay interest on the refund amounts. The Kentucky Commission conducted a hearing on the rehearing issues and issued a final ruling in December 1999. The Kentucky Commission agreed with LG&E 's position on the appropriate loss factor to use in the FAC computation and reduced the refund level for the 18-month period under review to approximately $800,000. LG&E enacted the refund with billings in the month of January 2000. LG&E and KIUC have each filed separate appeals from the Kentucky Commission's February 1999 orders with the Franklin Circuit Court. A decision on the appeals by the Court is expected in 2000.

LG&E intends to file before the end of the first quarter an application with the Kentucky Commission for authority to increase its natural gas rates in order to recoup higher costs for providing natural gas distribution services. LG&E expects implementation before the end of 2000.

Kentucky PSC Administrative Case for Affiliate Transactions

In December 1997, the Kentucky Commission opened Administrative Case No. 369 to consider Kentucky Commission policy regarding cost allocations, affiliate transactions and codes of conduct governing the relationship between utilities and their non-utility operations and affiliates. The Kentucky Commission intends to address two major areas in the proceedings: the tools and conditions needed to prevent cost shifting and cross-subsidization between regulated and non-utility operations; and whether a code of conduct should be established to assure that non-utility segments of the holding company are not engaged in practices that could

result in unfair competition caused by cost shifting from the non-utility affiliate to the utility. In September 1998, the Kentucky Commission issued a draft code of conduct and cost allocation guidelines. In January 1999, LG&E, as well as all parties to the proceeding, filed comments on the Kentucky Commission draft proposals. In December 1999, the Kentucky Commission issued guidelines on cost allocation and held a hearing in January 2000, on the draft code of conduct. Management does not expect the ultimate resolution of this matter to have a material adverse effect on LG&E's financial position or results of operations.

Environmental Matters

The Act imposed stringent new SO2 and NOx emission limits on electric generating units. LG&E previously had installed scrubbers on all of its generating units. LG&E's strategy for Phase II, commencing January 1, 2000, is to use accumulated emissions allowances to delay additional capital expenditures and may also include fuel switching or the installation of additional scrubbers. LG&E met the NOx emission requirements of the Act through installation of low-NOx burner systems. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuel markets, future regulatory and legislative initiatives, and advances in clean air control 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.

In September 1998, the EPA announced its final "NOx SIP call" rule requiring significant additional reductions in NOx emissions by May 2003, in order to mitigate alleged ozone transport to the Northeast. While each of the 22 states covered by the rule is free to allocate its assigned NOx reductions among various emissions sectors as it deems appropriate, the regulation may ultimately require electric generating units to reduce their NOx emissions to 0.15 lb./Mmbtu - an 85% reduction from 1990 levels. In related proceedings in response to petitions filed by various Northeast states, in December 1999, EPA issued a final rule directing similar NOx reductions from a number of specifically named electric generating units including all LG&E stations. Several states, various labor and industry groups, and individual companies have appealed both EPA rulings to the U.S. Court of Appeals for the Washington D.C. Circuit. Management is currently unable to determine the outcome or exact impact of this matter until such time as the courts rule on the pending legal challenges and the states implement the final regulatory mandate. However, if the 0.15 lb. target is ultimately imposed, LG&E will be required to incur significant capital expenditures and increased operation and maintenance costs for additional controls.

Subject to further study, analysis, and the outcome of pending litigation against the EPA, LG&E estimates that it may incur approximate capital costs for NOx compliance ranging from $65 million to reduce emissions to the level of .25 lb./Mmbtu (Commonwealth of Kentucky's proposed NOx compliance level) to $165 million to reduce emissions to the level of .15 lb./Mmbtu (current EPA regulations). These costs would generally be incurred beginning in 2000. LG&E believes its costs in this regard to be comparable to those of similarly situated utilities with like generation assets. LG&E anticipates that such capital and operating costs are the type of costs that are eligible for recovery from customers under their environmental surcharge mechanisms and believe that a significant portion of such costs could be recovered. However, Kentucky Commission approval is necessary and there can be no guarantee of recovery.

LG&E is also addressing other air quality issues. First, LG&E is monitoring the status of EPA's revised NAAQS for ozone and particulate matter. In May 1999, the Washington D.C. Circuit remanded the final rule and directed EPA to undertake additional rulemaking efforts. LG&E continues to monitor EPA actions to challenge that ruling. Second, LG&E was notified by regulatory agencies that the Cane Run Station may be the source of a potential exceedance of the NAAQS that could require LG&E to incur additional capital expenditures or accept certain emissions limitations. After reviewing additional modeling information submitted by

LG&E (cont.):

LG&E, in January 2000, EPA concluded that the Cane Run Station does not contribute to any potential NAAQS exceedance and that no further action is required from LG&E. Third, LG&E is working with regulatory authorities to review the effectiveness of remedial measures aimed at controlling particulate emissions from its Mill Creek Station. LG&E previously settled a number of property damage claims from adjacent residents and completed significant plant modifications as part of its ongoing capital construction program.

LG&E owns or formerly owned three properties which contained past MGP operations. Various contaminants are typically found at such former MGP sites and environmental remediation measures are frequently required. LG&E has reached agreements for other parties to assume cleanup responsibility for two other sites it formerly owned. In addition, LG&E recently reached an agreement with the Kentucky Division of Waste Management with respect to a third LG&E-owned site in which LG&E committed to impose certain property restrictions and conduct additional monitoring in lieu of a cleanup. Based on currently available information, management estimates that it will incur additional MGP costs of less than $500,000. Accordingly, an accrual of $500,000 has been recorded in the accompanying financial statements.

See Note 12 of LG&E's Notes to Financial Statements under Item 8 for an additional discussion of environmental issues.

FUTURE OUTLOOK

Competition and Customer Choice

LG&E has moved aggressively over the past decade to be positioned for, and to help promote, the energy industry's shift to customer choice and a competitive market for energy services. Specifically, LG&E has taken many steps to prepare for the expected increase in competition in its business, including support for performance-based ratemaking structures, aggressive cost reduction activities; strategic acquisitions, dispositions and growth initiatives; write-offs of previously deferred expenses; an increase in focus on commercial and industrial customers; an increase in employee training; and necessary corporate and business unit realignments. LG&E continues to be active in the national debate surrounding the restructuring of the energy industry and the move toward a competitive, market-based environment. LG&E has urged Congress to set a specific date for a complete transition to a competitive market, one that will quickly and efficiently bring the benefits associated with customer choice. LG&E has previously advocated the implementation of this transition by January 1, 2001, and now recommends adoption of federal legislation specifying a date certain and appropriate transition regulations implementing deregulation.

In December 1997, the Kentucky Commission issued a set of principles which was intended to serve as its guide in consideration of issues relating to industry restructuring. Among the issues addressed by these principles are: consumer protection and benefit, system reliability, universal service, environmental responsibility, cost allocation, stranded costs and codes of conduct. During 1998, the Kentucky Commission and a task force of the Kentucky General Assembly had each initiated proceedings, including meetings with representatives of utilities, consumers, state agencies and other groups in Kentucky, to discuss the possible structure and effects of energy industry restructuring in Kentucky.

In November 1999, the task force issued a report to the Governor of Kentucky and a legislative agency recommending no general electric industry restructuring actions during the 2000 legislative session.

Thus, at the time of this report, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or

LG&E (cont.):

timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on LG&E, which may be significant, cannot currently be predicted.

KU

GENERAL

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during 1999, 1998, and 1997 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 KU's reports to the Securities and Exchange Commission, and Exhibit No. 99.01 to LG&E Energy's annual report on Form 10-K for the year ended December 31, 1998.

MERGER

Effective May 4, 1998, following the receipt of all required state and federal regulatory approvals, LG&E Energy and KU Energy merged, with LG&E Energy as the surviving corporation. The outstanding preferred stock of KU, a subsidiary of KU Energy before the merger, was not affected by the merger. See Note 2 of KU's Notes to Financial Statements under Item 8.

RESULTS OF OPERATIONS

Net Income

KU's net income increased $33.8 million for 1999, as compared to 1998, primarily due to non-recurring charges in 1998 for merger-related expenses and environmental cost recovery refund of $21.5 million and $12.9 million, after tax, respectively, offset by net rate refunds incurred in 1999 of $3.5 million, after tax. Excluding these non-recurring charges, net income increased $2.9 million. This increase was due to higher retail electric and off-system sales results, and lower operation and maintenance costs, offset by higher purchased power expenses for the year.

KU's net income decreased $12.9 million for 1998 as compared to 1997, primarily due to non-recurring charges for merger-related expenses and environmental cost recovery refund of $21.5 million and $12.9 million, after tax, respectively. Excluding these non-recurring charges, net income increased $21.5 million. The increase is mainly due to higher residential sales, commercial sales, industrial sales and sales for resale caused by the warmer weather and increased marketing efforts.

Revenues

A comparison of operating revenues for the years 1999 and 1998, excluding the provision for rate refunds for the ECR refund and the FAC refund previously recovered from customers, $5.9 million in 1999 and $21.5

million in 1998, with the immediately preceding year reflects both increases and decreases which have been segregated by the following principal causes (in thousands of $):

Cause	Increase (Decrease) From Prior Period 1999	1998
Retail sales:		
Fuel clause adjustments, etc.	$ (1,744)	$ 1,158
Merger surcredit	(4,123)	(4,035)
Environmental cost recovery surcharge	(1,977)	(547)
Performance based rate reduction	(5,558)	-
Variation in sales volumes	19,303	25,841
Total retail sales	5,901	22,417
Wholesale sales	106,160	90,253
Other	(465)	2,507
Total	$111,596	$115,177

The increase in sales for resale in 1999 was primarily due to more aggressive marketing efforts.

Retail sales increased in 1998 due to increases in residential and commercial sales primarily attributable to warmer weather experienced in the second and third quarters. The increase in sales for resale was primarily due to more aggressive marketing efforts, increases in the unit price of the sales, efficiencies achieved from coordinated dispatch of a larger available pool of generation following completion of the merger, and sales to LG&E of $16 million due to economic dispatch following the merger in May 1998 of LG&E Energy and KU Energy.

Provision for rate refund reflects a net charge in revenues during 1999 of $5.9 million for the refund of costs previously recovered from customers under the fuel adjustment clause and the environmental cost recovery mechanism. Provision for rate refund reflects a charge in revenues during 1998 of $21.5 million for the refund of environmental costs previously recovered from customers. See Note 3 of KU's Notes to Financial Statements under Item 8.

Expenses

Fuel for electric generation comprises a large component of KU's total operating expenses. KU's Kentucky jurisdictional electric rates were subject to a FAC whereby increases or decreases would be reflected in retail rates, subject to the approval of the Kentucky Commission. Effective July 2, 1999 the FAC was discontinued and replaced with an amended electric PBR. In January 2000, the Kentucky Commission rescinded its approval of KU's PBR filing and ordered the reinstatement of the FAC. See Note 3 of KU's Notes to Financial Statements under Item 8 for a further discussion of the PBR and the FAC. KU's wholesale and Virginia jurisdictional electric rates contain a fuel adjustment clause whereby increases or decreases in the cost of fuel are reflected in rates, subject to the approval of the Virginia Commission and the FERC.

Fuel for electric generation increased $2.5 million (1%) in 1999 because of an increase in generation ($5.1 million), partially offset by a decrease in the cost of coal burned ($2.6 million). Fuel for electric generation increased $29 million (13%) in 1998 because of an increase in generation ($26.2 million) and an increase in the cost of coal burned ($2.8 million). KU's average delivered cost per ton of coal purchased was $26.65 in 1999, $26.97 in 1998 and $27.97 in 1997.

KU (cont.):

Power purchased increased $115.7 million in 1999 primarily to support the aforementioned sales for resale. Power purchased expense increased $54 million (75%) in 1998 because of a 67% increase in megawatt-hour purchases which was primarily attributable to increased marketing efforts and purchases from LG&E of $11.6 million as a result of economic dispatch following the merger of the two companies in May 1998.

Maintenance expense decreased $6.3 million (10%) in 1999 due to decreases in maintenance at the steam generating plants and the transmission and distribution systems. Maintenance for 1998 was flat as compared to 1997.

Depreciation and amortization increased $3.3 million (3.8%) in 1999 and $2.5 million (1.5%) in 1998 because of additional utility plant in service in both years.

Merger costs to achieve reflects the one-time charge during 1998 of $21.7 million (the corresponding tax benefit of $.2 million is recorded in other income and (deductions) for merger related expenses as discussed in Note 2 of KU's Notes to Financial Statements under Item 8).

KU's embedded cost of long-term debt was 7.00% at December 31, 1999, and 6.99% at December 31, 1998. See Note 10 of KU's Notes to Financial Statements under Item 8.

Variations in income tax expense are largely attributable to changes in pre-tax income as well as non-deductible merger expenses.

The rate of inflation may have a significant impact on KU's utility operations, its ability to control costs and the need to seek timely and adequate rate adjustments. However, relatively low rates of inflation in the past few years have moderated the impact on current operating results.

LIQUIDITY AND CAPITAL RESOURCES

KU uses net cash generated from its operations and external financing to fund construction of plant and equipment and the payment of dividends. KU 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 $204.2 million, $239.4 million and $178.9 million in 1999, 1998 and 1997, respectively. The 1999 decrease of resulted from an increase in net income and a net decrease in net current assets, including decreases in accounts receivable, accounts payable, accrued taxes and provision for rate refunds. The 1998 increase was primarily due to an increase in current assets, including increases in accounts payable, accrued taxes and provision for rate refunds, partially offset by an increase in accounts receivable.

Investing Activities

KU's primary use of funds continues to be for capital expenditures and the payment of dividends. Capital expenditures were $181 million, $92 million and $94 million in 1999, 1998 and 1997, respectively. The $89 million increase in 1999 capital expenditures was primarily due to the purchase of a 62% interest in the two combustion turbines. KU expects its capital expenditures for 2000 and 2001 will total approximately $324 million which consists primarily of construction costs associated with installation of low nitrogen oxide burner systems as described in the section titled "Environmental Matters."

KU (cont.):

Net cash used for investment activities increased by $89.3 million in 1999 compared to 1998 and increased $2.1 million in 1998 compared to 1997 primarily due to increased construction expenditures in both periods.

Future Capital Requirements

Future utility requirements may be affected in varying degrees by factors such as load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in environmental regulations and other regulatory requirements. KU anticipates to fund its requirements through additional operating cash flow, debt or an issuance of preferred stock.

Financing Activities

Cash outflows from financing activities were $75.2 million, $94.0 million and $89.4 million, in 1999, 1998 and 1997, respectively. In 1999, there was no increase in total debt, balance as of December 31, 1999 remained $546.3 million.

KU's debt ratings as of February 16, 2000, were:

	Moody's	S&P	D&P
First mortgage bonds	A1	A+	AA-
Preferred stock	a2	BBB+	A
Commercial paper	P-1	A-1	D-1

The ratings stated above reflect the downgrades received following the PBR-related order from the Kentucky Commission to reduce base rates at KU by $36.5 million. As of March 21, 2000, Moody's, S&P and D&P had KU on Credit Watch with negative implications. Based upon the downgrades received KU's cost of funds could increase by .05% to .12% on short-term borrowings and .10% on new long-term borrowings. These ratings reflect the views of Moody's, S&P and D&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.

Market Risks

KU is exposed to market risks from changes in interest rates and commodity prices. To mitigate changes in cash flows attributable to these exposures, KU has entered into various derivative instruments. Derivative positions are monitored using techniques that include market value and sensitivity analysis.

Interest Rate Sensitivity

KU has long-term variable rate debt obligations outstanding. At December 31, 1999, the potential change in interest expense associated with a 1% change in base interest rates of KU's unswapped debt is estimated at $1.0 million. These swaps hedge specific debt issuance and consistent with management's designation are accorded hedge accounting treatment.

As of December 31, 1999, KU has a swap with a notional value of $53 million. The swaps exchange fixed-rate interest payments for floating interest payments on KU's 7.92% Series P Pollution Control Bond. The potential loss in fair value from these positions resulting from a hypothetical 1% adverse movement in base interest rates

KU (cont.):

is estimated at $3.7 million as of December 31, 1999. Changes in the market value of these swaps if held to maturity, as KU intends to do, will have no effect on KU's net income or cash flow. See Note 4 of KU's Notes to Financial Statements under Item 8.

Commodity Price Sensitivity

KU has limited exposure to market price volatility in prices of fuel and electricity, as long as cost-based regulations exist, including the FAC.

YEAR 2000 COMPUTER SOFTWARE ISSUE

Result of Year 2000 Preparation

The remediation efforts of KU in preparing for potential Year 2000 computer problems were successful and resulted in KU incurring no material disruptions in services or operations of any sort. To the extent, if any, certain third parties such as interconnected utilities, key customers or suppliers still face Year 2000 disruptions due to incomplete remediation, KU may still retain risk related to Year 2000 issues. KU is not presently aware of any such situations and does not anticipate such events will have a material effect on KU's financial condition or results of operations.

Cost of Year 2000 Issues

KU's system modification costs related to the Year 2000 issue were expensed as incurred, while new system installations are being capitalized pursuant to generally accepted accounting principles. See Note 1 of KU's Notes to Financial Statements under Item 8. Through December 1999, KU incurred approximately $5.1 million in capital and operating costs in connection with the Year 2000 issue.

RATES AND REGULATION

KU is subject to the jurisdiction of the Kentucky Commission, the Virginia Commission and FERC in virtually all matters related to electric utility regulation, and as such, its accounting is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.* Given KU's competitive position in the market and the status of regulation in the states of Kentucky and Virginia, KU no plans or intentions to discontinue its application of SFAS No. 71. See Note 6 of LG&E Energy's Notes to Financial Statements under Item 8.

Environmental Cost Recovery

In August 1994, KU implemented an ECR surcharge. The Kentucky Commission's order approving the surcharge as well as the constitutionality of the surcharge was challenged by certain intervenors in Franklin Circuit Court. Decisions of the Circuit Court and the Kentucky Court of Appeals in July 1995 and December 1997, respectively, upheld the constitutionality of the ECR statute but differed on a claim of retroactive recovery of certain amounts. Based on these decisions, the Kentucky Commission ordered that certain surcharge revenues collected by KU be subject to refund pending final determination of all appeals.

In December 1998, the Kentucky Supreme Court rendered an opinion upholding the constitutionality of the surcharge statute but denied recovery of costs associated with pre-1993 environmental projects through the ECR. The court remanded the case to the Kentucky Commission to determine amounts to be refunded for revenues collected for such pre-1993 environmental projects. Accordingly, KU recorded a provision for rate

refund of $21.5 million in December 1998.

The parties to the proceedings reached a settlement agreement that was approved in a Final Order issued by the Kentucky Commission in August 1999. This Final Order resulted in a reduction of approximately $1.5 million to the accrual that had been recorded in December 1998. The refund is being applied to customers' bills during the twelve-month period beginning October 1999.

Future Rate Regulation

In October 1998, KU filed an application with the Kentucky Commission for approval of a new method of determining electric rates that sought to provide financial incentives for KU to further reduce customers' rates. The filing was made pursuant to the September 1997 Kentucky Commission order approving the merger of LG&E Energy and KU Energy, wherein the Kentucky Commission directed KU to indicate whether they desired to remain under traditional rate of return regulation or commence non-traditional regulation. The proposed ratemaking method, known as PBR, included financial incentives for KU to reduce fuel costs and increase generating efficiency, and to share any resulting savings with customers. Additionally, the PBR proposal provided for financial penalties and rewards to assure continued high quality service and reliability.

In April 1999, KU filed a joint agreement with LG&E and the Kentucky Attorney General to adopt the PBR plan subject to certain amendments. The amended filing included requested Kentucky Commission approval of a five-year rate reduction plan which proposed to reduce the electric rates of KU by $10.6 million in the first year (beginning July 1999), and by $4.2 million annually through June 2004. The proposed amended plan also included establishment of a $3.2 million program for low-income customer assistance as well as extension for one additional year of both the rate cap proposal and merger savings surcredit established in the original merger plan of LG&E Energy and KU Energy. Under the rate cap proposal, KU agreed, in the absence of extraordinary circumstances, not to increase base electric rates for five years following the merger through June 2004.

In April 1999, the Kentucky Commission issued initial orders implementing the amended PBR plan, effective July 1999, and subject to modification. The Kentucky Commission also consolidated into the continuing PBR proceedings an earlier March 1999, rate complaint by a group of industrial intervenors, KIUC, in which KIUC requested significant reductions in electric rates. Hearings were conducted before the Kentucky Commission on KU's amended PBR plans and the KIUC rate reduction petitions in August and September 1999. Legal briefs of the parties were filed with the Kentucky Commission in October 1999. KIUC's position called for annual revenue reductions for KU of $61.5 million.

In January 2000, the Kentucky Commission issued Orders for KU in the subject cases. The Kentucky Commission ruled that KU should reduce base rates by $36.5 million effective with bills rendered beginning March 1, 2000. The Kentucky Commission eliminated KU's proposal to operate under its PBR plan and reinstated the FAC mechanism effective March 1, 2000. The Kentucky Commission offered KU the opportunity to operate under an ESM for the next three years. Under this mechanism, incremental annual earnings for KU resulting in a rate of return either above or below a range of 10.5% to 12.5% would be shared 60% with shareholders and 40% with ratepayers.

Later in January 2000, KU filed motions for correction to the January 2000 orders for computational and other errors made in the Kentucky Commission's orders which produced overstatements in the base rate reductions to KU of $7.7 million. KU also filed motions for reconsideration with the Kentucky Commission on a number of items in the case in late January. Certain intervening parties in the proceedings have also filed motions for reconsideration asserting, among other things, that the Kentucky Commission understated the amount of base

rate reductions. In February 2000, KU accepted the Kentucky Commission's opportunity to use an ESM by filing an ESM tariff which contains the provisions operating under such mechanism. Management cannot predict final outcome of these matters before the Kentucky Commission or the timing in which resolution of these matters will ultimately be reached.

Other Rate Matters

Prior to implementation of the PBR in July 1999, and following its termination in March 2000, KU employed an FAC mechanism, which under Kentucky law allowed the utilities to recover from customers the actual fuel costs associated with retail electric sales.

In July 1999, the Kentucky Commission issued a series of orders requiring KU to refund approximately $10.1 million resulting from reviews of the FAC from November 1994 to October 1998. The orders changed KU's method of computing fuel costs associated with electric line losses on off-system sales appropriate for recovery through the FAC, and KU's method for computing system line losses for the purpose of calculating the system sales component of the FAC charge. At KU's request, in July 1999, the Kentucky Commission stayed the refund requirement pending the Kentucky Commission's final determination of any rehearing request that KU may file. In August 1999, KU filed its request for rehearing of the July orders.

In August 1999, the Kentucky Commission issued a Final Order in the KU proceedings, agreeing, in part, with KU's arguments outlined in its Petition for Rehearing. While the Kentucky Commission confirmed that KU should change its method of computing the fuel costs associated with electric line losses, it agreed with KU that the line loss percentage should be based on KU's actual line losses incurred in making off-system sales rather than the percentage used in its Open Access Transmission Tariff. The Kentucky Commission also upheld its previous ruling concerning the computation of system line losses in the calculation of the FAC. The net effect of the Kentucky Commission's Final Order was to reduce the refund obligation to $5.8 million from the original Order amount of $10.1 million. In August 1999, KU recorded its estimated share of anticipated FAC refunds of $7.7 million. KU began implementing the refund in October and will continue the refund through September 2000. Both KU and the KIUC have appealed the Order to the Franklin Circuit Court. A decision is not expected on the appeal until later in 2000.

Kentucky PSC Administrative Case for Affiliate Transactions

n December 1997, the Kentucky Commission opened Administrative Case No. 369 to consider Kentucky Commission policy regarding cost allocations, affiliate transactions and codes of conduct governing the elationship between utilities and their non-utility operations and affiliates. The Kentucky Commission intends o address two major areas in the proceedings: the tools and conditions needed to prevent cost shifting and ross-subsidization between regulated and non-utility operations; and whether a code of conduct should be stablished to assure that non-utility segments of the holding company are not engaged in practices that could esult in unfair competition caused by cost shifting from the non-utility affiliate to the utility. In September 998, the Kentucky Commission issued a draft code of conduct and cost allocation guidelines. In January 1999, KU, as well as all parties to the proceeding, filed comments on the Kentucky Commission draft proposals. In December 1999, the Kentucky Commission issued guidelines on cost allocation and held a hearing in January 000, on the draft code of conduct. Management does not expect the ultimate resolution of this matter to have a aterial adverse effect on KU's financial position or results of operations.

KU (cont.):

Environmental Matters

The Act imposed stringent new SO2 and NOx emission limits on electric generating units. KU met its Phase I SO2 requirements primarily through installation of a scrubber on Ghent Unit 1. KU's strategy for Phase II, commencing January 1, 2000, is to use accumulated emissions allowances to delay additional capital expenditures and may also include fuel switching or the installation of additional scrubbers. KU met the NOx emission requirements of the Act through installation of low-NOx burner systems. KU's compliance plans are subject to many factors including developments in the emission allowance and fuel markets, future regulatory and legislative initiatives, and advances in clean air control technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

In September 1998, the EPA announced its final "NOx SIP call" rule requiring significant additional reductions in NOx emissions by May 2003, in order to mitigate alleged ozone transport to the Northeast. While each of the 22 states covered by the rule is free to allocate its assigned NOx reductions among various emissions sectors as it deems appropriate, the regulation may ultimately require electric generating units to reduce their NOx emissions to 0.15 lb./Mmbtu - an 85% reduction from 1990 levels. In related proceedings in response to petitions filed by various Northeast states, in December 1999, EPA issued a final rule directing similar NOx reductions from a number of specifically named electric generating units including all KU stations in the eastern half of Kentucky. Several states, various labor and industry groups, and individual companies have appealed both EPA rulings to the U.S. Court of Appeals for the Washington D.C. Circuit. Management is currently unable to determine the outcome or exact impact of this matter until such time as the courts rule on the pending legal challenges and the states implement the final regulatory mandate. However, if the 0.15 lb. target is ultimately imposed, KU will be required to incur significant capital expenditures and increased operation and maintenance costs for additional controls.

Subject to further study, analysis, and the outcome of pending litigation against the EPA, KU estimates that it may incur capital costs for NOx compliance ranging from $126 million to reduce emissions to the level of .25 lb./Mmbtu (Commonwealth of Kentucky's proposed NOx compliance level) to $168 million to reduce emissions to the level of .15 lb./Mmbtu (current EPA regulations). These costs would generally be incurred beginning in 2000. KU believes its costs in this regard to be comparable to those of similarly situated utilities with like generation assets. KU anticipates that such capital and operating costs are the type of costs that are eligible for recovery from customers under its environmental surcharge mechanisms and believe that a significant portion of such costs could be recovered. However, Kentucky Commission approval is necessary and there can be no guarantee of recovery.

KU owns or formerly owned several properties which contained past MGP operations. Various contaminants are typically found at such former MGP sites and environmental remediation measures are frequently required. KU has completed the cleanup of a site owned by KU. With respect to other former MGP sites no longer owned by KU, KU is unable to determine what, if any, additional exposure or liability it may have as it lacks complete information on current site conditions.

In October 1999, approximately 38,000 gallons of diesel fuel leaked from a cracked valve in an underground pipeline at KU's E.W. Brown Station. Under the oversight of EPA and state officials, KU commenced immediate spill containment and recovery measures which prevented the spill from reaching the Kentucky River. KU ultimately recovered approximately 34,000 gallons of diesel fuel. In November 1999, the Kentucky Division of Water issued a notice of violation for the incident. KU is currently negotiating with the state in an effort to reach a complete resolution of this matter. To date KU has incurred costs of approximately $1 million.

KU (cont.):

The Company does not expect to incur any material additional amounts.

KU is monitoring the status of EPA's revised NAAQS for ozone and particulate matter. In May 1999, the Washington D.C. Circuit remanded the final rule and directed EPA to undertake additional rulemaking efforts. KU continues to monitor EPA actions to challenge that ruling.

See Note 11 of KU's Notes to Financial Statements under Item 8 for an additional discussion of environmental issues.

FUTURE OUTLOOK

Competition and Customer Choice

LG&E Energy has moved aggressively over the past decade to be positioned for, and to help promote the energy industry's shift to customer choice and a competitive market for energy services. Specifically, LG&E Energy has taken many steps to prepare for the expected increase in competition in its business, including support for PBR structures, aggressive cost reduction activities; strategic acquisitions, dispositions and growth initiatives; write-offs of previously deferred expenses; an increase in focus on commercial and industrial customers; an increase in employee training; and necessary corporate and business unit realignments. LG&E Energy continues to be active in the national debate surrounding the restructuring of the energy industry and the move toward a competitive, market-based environment. LG&E Energy has urged Congress to set a specific date for a complete transition to a competitive market, one that will quickly and efficiently bring the benefits associated with customer choice. LG&E Energy has previously advocated the implementation of this transition by January 1, 2001, and now recommends adoption of federal legislation specifying a date certain and appropriate transition regulations implementing deregulation.

In December 1997, the Kentucky Commission issued a set of principles which was intended to serve as its guide in consideration of issues relating to industry restructuring. Among the issues addressed by these principles are: consumer protection and benefit, system reliability, universal service, environmental responsibility, cost allocation, stranded costs and codes of conduct. During 1998, the Kentucky Commission and a task force of the Kentucky General Assembly each initiated proceedings, including meetings with representatives of utilities, consumers, state agencies and other groups in Kentucky, to discuss the possible structure and effects of energy industry restructuring in Kentucky.

In November 1999, the task force issued a report to the Governor of Kentucky and a legislative agency recommending no general electric industry restructuring actions during the 2000 legislative session.

Thus, at the time of this report, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on KU, which may be significant, cannot currently be predicted.

ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk.

See LG&E Energy's, LG&E's and KU's Management's Discussion and Analysis of Results of Operations and Financial Condition, Market Risks, under Item 7.

ITEM 8. Financial Statements and Supplementary Data.

LG&E Energy Corp. and Subsidiaries
Consolidated Statements of Income
(Thousands of $ Except Per Share Data)

	Years Ended December 31		
	1999	1998	1997
REVENUES:			
Electric utility (Note 1)	$1,693,033	$1,464,824	$1,331,569
Gas utility (Note 1)	177,579	191,545	231,011
International and non-utility	844,299	455,877	270,166
Provision for rate refunds (Note 6)	(7,635)	(26,000)	-
Net revenues	2,707,276	2,086,246	1,832,746
OPERATING EXPENSES:			
Operation and maintenance:			
Fuel and power purchased	1,101,054	640,438	442,949
Gas supply expenses	330,172	294,880	314,425
Utility operation and maintenance	418,510	432,763	415,882
International and non-utility operation and maintenance	193,344	138,952	67,565
Depreciation and amortization	219,318	206,450	193,891
Merger costs (Note 2)	-	65,318	-
Total operating expenses	2,262,398	1,778,801	1,434,712
Equity in earnings of unconsolidated ventures (Note 9)	49,717	73,798	22,937
OPERATING INCOME	494,595	381,243	420,971
Other income and (deductions) (Note 14)	19,305	8,100	21,683
Interest charges and preferred dividends	132,066	109,389	104,427
Minority interest	12,047	10,453	9,035
Income from continuing operations, before income taxes	369,787	269,501	329,192
Income taxes (Note 13)	133,524	110,829	120,829
Income from continuing operations	236,263	158,672	208,363
Loss from discontinued operations, net of income tax benefit of $15,008 and $16,622 (Notes 1, 3 and 4)	-	(22,852)	(25,367)
Loss on disposal of discontinued operations, net of income tax benefit of $104,716 and $123,905 (Notes 3 and 4)	(174,212)	(224,148)	-
Income (loss) before cumulative effect of change in accounting principle	62,051	(88,328)	182,996
Cumulative effect of change in accounting for start-up costs, net of income tax benefit of $5,061 (Note 1)	-	(7,162)	-
NET INCOME (LOSS)	$ 62,051	$ (95,490)	$ 182,996

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

LG&E Energy Corp. and Subsidiaries
Consolidated Statements of Income (cont.)
(Thousands of $ Except Per Share Data)

	Years Ended December 31		
	1999	1998	1997
Average common shares outstanding	129,677	129,679	129,627
Earnings (loss) per share of common stock - basic:			
Continuing operations	$1.82	$1.22	$1.61
Loss from discontinued operations	-	(.17)	(.20)
Loss on disposal of discontinued operations	(1.34)	(1.73)	-
Cumulative effect of accounting change	-	(.06)	-
Total	$ .48	$(.74)	$1.41
Earnings (loss) per share of common stock - diluted:			
Continuing operations	$1.82	$1.22	$1.61
Loss from discontinued operations	-	(.17)	(.20)
Loss on disposal of discontinued operations	(1.34)	(1.72)	-
Cumulative effect of accounting change	-	(.06)	-
Total	$ .48	$ (.73)	$1.41

Consolidated Statements of Comprehensive Income
(Thousands of $)

	Years Ended December 31		
	1999	1998	1997
Net income (loss)	$ 62,051	$(95,490)	$182,996
Unrealized holding losses on available-for-sale securities arising during the period	(403)	(168)	(567)
Reclassification adjustment for realized gains and (losses) on available-for-sale securities included in net income	(294)	123	337
Other comprehensive loss before tax	(697)	(45)	(230)
Income tax (expense) benefit related to items of other comprehensive income	264	(5)	293
Comprehensive income (loss)	$ 61,618	$(95,540)	$183,059

Consolidated Statements of Retained Earnings
(Thousands of $)

	Years Ended December 31		
	1999	1998	1997
Balance January 1	$466,279	$722,584	$683,962
Add net income (loss)	62,051	(95,490)	182,996
Deduct: Cash dividends declared on common stock ($1.250 per share in 1999, $1.240 per share in 1998, and $1.113 per share in 1997)	(162,096)	(160,815)	(144,366)
Other	-	-	(8)
Balance December 31	$366,234	$466,279	$722,584

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

LG&E Energy Corp. and Subsidiaries
Consolidated Balance Sheets
(Thousands of $)

	December 31 1999	1998
ASSETS:		
Current assets:		
Cash and temporary cash investments	$ 91,413	$ 105,604
Marketable securities (Note 11)	10,126	20,862
Accounts receivable - less reserve of $8,285 in 1999 and $10,532 in 1998	318,914	293,340
Materials and supplies - *primarily at average cost:*		
Fuel (predominantly coal)	91,931	78,855
Gas stored underground	49,038	39,249
Other	90,259	72,456
Net assets of discontinued operations (Notes 1 and 3)	-	3,219
Prepayments and other	54,038	33,449
Total current assets	705,719	647,034
Utility plant:		
At original cost (Note 1)	5,916,905	5,581,667
Less: reserve for depreciation	2,503,851	2,352,306
Net utility plant	3,413,054	3,229,361
Other property and investments - less reserve:		
Investments in unconsolidated ventures (Notes 9 and 10)	249,455	167,878
Non-utility property and plant, net (Notes 1 and 2)	477,442	447,372
Other	25,596	117,321
Total other property and investments	752,493	732,571
Deferred debits and other assets:		
Regulatory assets (Note 6)	54,476	65,871
Goodwill, net (Note 2)	74,398	36,906
Other	133,617	111,375
Total deferred debits and other assets	262,491	214,152
Total assets	$5,133,757	$4,823,118
CAPITAL AND LIABILITIES:		
Current liabilities:		
Current portion of long-term debt (Note 16)	$ 411,810	$ -
Notes payable (Note 17)	449,578	365,135
Accounts payable	220,460	254,225
Net liabilities of discontinued operations (Notes 1 and 3)	158,222	-
Taxes and interest accrued	72,674	102,228
Common dividends declared	41,172	39,876
Provision for rate refunds	29,529	34,761
Customer deposits	17,838	17,404
Other	87,628	37,954
Total current liabilities	1,488,911	851,583
Long-term debt (Note 16)	1,299,415	1,510,775
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Notes 1 and 13)	585,880	568,103
Investment tax credit, in process of amortization	85,828	93,844
Accumulated provision for pensions and related benefit (Note 12)	101,090	120,233
Regulatory liability (Note 6)	104,795	110,081
Other	81,267	82,916
Total deferred credits and other liabilities	958,860	975,177
Minority interest (Note 2)	109,952	107,815
Cumulative preferred stock	135,328	136,530
Commitments and contingencies (Note 18)		
Common equity	1,141,291	1,241,238
Total capital and liabilities	$5,133,757	$4,823,118

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

LG&E Energy Corp. and Subsidiaries
Consolidated Statements of Cash Flows
(Thousands of $)

	Years Ended December 31 1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 62,051	$ (95,490)	$ 182,996
Items not requiring cash currently:			
Depreciation and amortization	219,318	206,450	193,891
Deferred income taxes - net	12,041	(30,924)	11,974
Investment tax credit - net	(8,016)	(8,087)	(8,276)
Undistributed earnings of unconsolidated ventures	(21,651)	(18,833)	(2,326)
Loss from discontinued operations (Notes 1 and 3)	-	22,852	25,367
Loss on disposal of discontinued operations (Note 3)	174,212	224,148	-
Cumulative effect of change in accounting principle (Note 1)	-	7,162	-
Other	17,978	21,838	14,213
Change in certain net current assets:			
Accounts receivable	(1,204)	(36,331)	(22,371)
Materials and supplies	(21,009)	(45,894)	(8,704)
Net assets of discontinued operations (Notes 1 and 3)	(13,723)	(156,662)	(7,196)
Provision for rate refunds	(5,232)	21,513	(4,263)
Accounts payable	(41,550)	100,341	(2,400)
Accrued taxes and interest	(28,912)	57,216	5,859
Customer deposits	434	1,609	2,392
Prepayments and other	(4,374)	(25,303)	(960)
Other	2,965	(35,978)	(46,458)
Net cash flows from operating activities	343,328	209,627	333,738
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of securities	(1,645)	(18,421)	(21,526)
Proceeds from sales of securities	11,747	19,995	5,030
Construction expenditures	(382,631)	(343,628)	(225,714)
Investment in subsidiaries net of cash and temporary cash investments acquired (Note 2)	(39,693)	-	(81,719)
Investments in unconsolidated ventures (Notes 2 and 9)	(85,768)	(1,010)	(48,665)
Proceeds from sale of investment in affiliate and sale of leveraged leases (Notes 9 and 10)	55,569	16,000	-
Net cash flows used for investing activities	(442,421)	(327,064)	(372,594)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of medium-term notes (Notes 16 and 17)	200,020	300,000	-
Issuance of long-term debt	-	-	69,776
Retirement of long-term debt (Notes 2 and 16)	(35,288)	(20,042)	(71,714)
Short-term borrowings	4,973,725	6,751,089	3,871,905
Repayment of short-term borrowings	(4,891,553)	(6,776,845)	(3,690,321)
Issuance of preferred stock	-	-	3,025
Redemption of preferred stock	(1,202)	(1,823)	-
Issuance of common stock	-	-	3,781
Payment of common dividends	(160,800)	(140,731)	(143,647)
Net cash flows from financing activities	84,902	111,648	42,805
Change in cash and temporary cash investments	(14,191)	(5,789)	3,949
Beginning cash and temporary cash investments	105,604	111,393	107,444
Ending cash and temporary cash investments	$ 91,413	$ 105,604	$ 111,393
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 29,968	$ 55,513	$ 82,662
Interest on borrowed money	115,446	96,356	93,451

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

LG&E Energy Corp. and Subsidiaries
Consolidated Statements of Capitalization
(Thousands of $)

	Shares Outstanding	Current Redemption Price	December 31 1999	1998
COMMON EQUITY:				
Common stock, without par value -				
Authorized 300,000,000 shares, outstanding 129,677,030 shares (Note 15)			$ 777,013	$ 776,328
Common stock expense			(1,690)	(1,536)
Unrealized gain (loss) on marketable securities, net of income taxes (benefit) of ($170) in 1999 and $94 in 1998 (Note 11)			(266)	167
Retained earnings			366,234	466,279
Total common equity			1,141,291	1,241,238
CUMULATIVE PREFERRED STOCK (Note 15):				
Cumulative and redeemable on 30 days notice by Louisville Gas and Electric Company:				
$25 par value, 1,720,000 shares authorized - 5% series	860,287	$28.00	21,507	21,507
Without par value, 6,750,000 shares authorized -				
Auction rate	500,000	100.00	50,000	50,000
$5.875 series	250,000	104.70	25,000	25,000
Preferred stock expense			(1,179)	(1,179)
Total LG&E cumulative preferred stock			95,328	95,328
Cumulative and redeemable on 30 days notice by Kentucky Utilities Company:				
Without par value, 5,300,000 shares authorized -				
4.75% series, $100 stated value	200,000	$101.00	20,000	20,000
6.53% series, $100 stated value	200,000	Not redeemable	20,000	20,000
Total KU cumulative preferred stock			40,000	40,000
$10 nominal value, 102,089 shares authorized and outstanding, (net of shares owned by affiliates) variable rate and redeemable by Inversora de Gas del Centro (Note 15)			-	1,202
Total cumulative preferred stock			135,328	136,530
LONG-TERM DEBT (Note 16):				
Louisville Gas and Electric Company:				
First mortgage bonds -				
Series due July 1, 2002, 7.5%			20,000	20,000
Series due August 15, 2003, 6%			42,600	42,600
Pollution control series:				
P due June 15, 2015, 7.45%			25,000	25,000
Q due November 1, 2020, 7.625%			83,335	83,335
R due November 1, 2020, 6.55%			41,665	41,665
S due September 1, 2017, variable			31,000	31,000
T due September 1, 2017, variable			60,000	60,000
U due August 15, 2013, variable			35,200	35,200
V due August 15, 2019, 5.625%			102,000	102,000
W due October 15, 2020, 5.45%			26,000	26,000
X due April 15, 2023, 5.90%			40,000	40,000
Total first mortgage bonds			506,800	506,800

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

LG&E Energy Corp. and Subsidiaries
Consolidated Statements of Capitalization (cont.)
(Thousands of $)

	December 31 1999	1998
Pollution control bonds (unsecured) -		
Jefferson County Series due September 1, 2026, variable	22,500	22,500
Trimble County Series due September 1, 2026, variable	27,500	27,500
Jefferson County Series due November 1, 2027, variable	35,000	35,000
Trimble County Series due November 1, 2027, variable	35,000	35,000
Total unsecured pollution control bonds	120,000	120,000
Total LG&E bonds outstanding	626,800	626,800
Kentucky Utilities Company:		
Series Q, due June 15, 2000, 5.95%	61,500	61,500
Series Q, due June 15, 2003, 6.32%	62,000	62,000
Series S, due January 15, 2006, 5.99%	36,000	36,000
Series P, due May 15, 2007, 7.92%	53,000	53,000
Series R, due June 1, 2025, 7.55%	50,000	50,000
Series P, due May 15, 2027, 8.55%	33,000	33,000
Pollution Control Series:		
Series 7, due May 1, 2010, 7.375%	4,000	4,000
Series 8, due September 15, 2016, 7.45%	96,000	96,000
Series 1B, due February 1, 2018, 6.25%	20,930	20,930
Series 2B, due February 1, 2018, 6.25%	2,400	2,400
Series 3B, due February 1, 2018, 6.25%	7,200	7,200
Series 4B, due February 1, 2018, 6.25%	7,400	7,400
Series 7, due May 1, 2020, 7.60%	8,900	8,900
Series 9, due December 1, 2023, 5.75%	50,000	50,000
Series 10, due November 1, 2024, variable	54,000	54,000
Total KU bonds outstanding	546,330	546,330
LG&E Capital Corp.:		
Argentine negotiable obligations, due August 2001, 10.5%	37,782	37,645
Note payable, due May 2003, 6.75%	313	-
Medium term notes, due September 7, 2000, variable	50,000	-
Medium term notes, due May 1, 2004, 6.205%	150,000	-
Medium term notes, due January 15, 2008, 6.46%	150,000	150,000
Medium term notes, due November 1, 2011, 5.75%	150,000	150,000
Total Capital Corp. bonds outstanding	538,095	337,645
Total bonds outstanding	1,711,225	1,510,775
Less current portion of long-term debt	411,810	-
Long-term debt	1,299,415	1,510,775
Total capitalization	$ 2,576,034	$ 2,888,543

'he accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation. Effective May 4, 1998, following the receipt of all required state and federal regulatory approvals, LG&E Energy and KU Energy merged, with LG&E Energy as the surviving corporation. The accompanying consolidated financial statements reflect the accounting for the merger as a pooling of interests and are presented as if the companies were combined as of the earliest period presented. However, the financial information is not necessarily indicative of the results of operations, financial position or cash flows that would have occurred had the merger been consummated for the periods for which it is given effect, nor is it necessarily indicative of future results of operations, financial position, or cash flows. The financial statements reflect the conversion of each outstanding share of KU Energy common stock into 1.67 shares of LG&E Energy common stock. The outstanding preferred stock of LG&E, a subsidiary of LG&E Energy, and KU, a subsidiary of KU Energy, were not affected by the Merger.

Effective June 30, 1998, the Company discontinued its merchant energy trading and sales business and announced its plans to sell its natural gas gathering and processing business. In 1999 the Company chose to retain the natural gas gathering and processing business. Accordingly, the accompanying financial statements reflect the merchant energy trading and sales business as discontinued operations and the natural gas and processing business as continuing operations for all periods presented. See Note 3, Discontinued Operations and Note 4, Gas Facilities Business.

The consolidated financial statements include the accounts of LG&E Energy, LG&E, Capital Corp., KU, LEM and their respective wholly owned subsidiaries, collectively referred to herein as the Company.

LG&E Energy's operations include utility operations and non-utility operations. Capital Corp. has various subsidiaries referred to in these financial statements, including LPI, LII, WKE, and CRC.

All significant intercompany items and transactions have been eliminated from the consolidated financial statements. Certain reclassification entries have been made to the 1998 and 1997 financial statements to conform to the 1999 presentation with no impact on previously reported net income. The Company is exempt from regulation as a registered holding company under PUHCA.

Cash and Temporary Cash Investments. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Temporary cash investments are carried at cost, which approximates fair value.

Gas Stored Underground. The costs of utility natural gas inventories are included in gas stored underground in the balance sheets as of December 31, 1999 and 1998. Utility gas inventories were $38.8 million and $33.5 million at December 31, 1999 and 1998, respectively. LG&E accounts for gas inventories using the average-cost method. Non-utility gas inventories as of December 31, 1999 and 1998 were $10.2 million and $5.8 million, respectively.

Utility Plant. LG&E's and KU's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits, and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. Neither LG&E nor KU has recorded any significant allowance for funds used during construction.

The cost of utility plant retired or disposed of in the normal course of business is deducted from utility plant accounts and such cost, plus removal expense less salvage value, is charged to the reserve for depreciation.

When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation, and gains and losses, if any, are recognized.

Depreciation and Amortization. Utility depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided for LG&E were 3.4% in 1999, 1998 and 1997. The amounts provided for KU were 3.5% in 1999, 1998 and 1997.

Depreciation of non-utility plant and equipment is based on the straight-line method over periods ranging from 3 to 40 years for domestic operations. Intangible assets and goodwill have been allocated to the subsidiaries' lines of business and are being amortized over periods ranging up to 25 years.

Financial Instruments. The Company uses over-the-counter interest-rate swap agreements to hedge its exposure to interest rates. The Company also uses exchange-traded U.S. Treasury note and bond futures to hedge its exposure to fluctuations in the value of its investments in the preferred stocks of other companies. Gains and losses on interest-rate swaps used to hedge interest rate risk are reflected in interest charges monthly. Gains and losses on U.S. Treasury note and bond futures used to hedge investments in preferred stocks are initially deferred and classified as unrealized losses on marketable securities in common equity and then charged or credited to other income and deductions when the securities are sold. See Note 7, Financial Instruments.

In connection with the Company's marketing of power from owned or controlled generation assets, exchange traded futures are used to hedge its exposure to price risk. The Company also uses financial instruments associated with its discontinued merchant energy trading and sales business, the financial impact of which is included in discontinued operations. See Note 3, Discontinued Operations.

Debt Expense. Utility debt expense is amortized over the lives of the related bond issues, consistent with 'egulatory practices.

)eferred Income Taxes. Deferred income taxes have been provided for all material book-tax temporary lifferences.

nvestment Tax Credits. Investment tax credits resulted from provisions of the tax law that permitted a eduction of the Company's tax liability based on credits for certain construction expenditures. Deferred nvestment tax credits are being amortized to income over the estimated lives of the related property that gave ise to the credits.

:ommon Stock. On May 4, 1998, 63,149,394 shares were issued to shareholders of KU Energy to effect the ıerger, and the KU Energy shares were retired. Prior period shares, dividends and earnings per share of ommon stock have been restated to reflect the exchange of KU Energy's shares for shares of LG&E Energy.)iluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue ommon stock under the Company's Omnibus Long-Term Incentive Plan and Stock Option Plan for Non-mployee Directors resulted in the issuance of common stock that then shared in the earnings of the Company. ee Note 15 for more information about these plans.

evenue Recognition. Utility revenues are recorded based on service rendered to customers through month-ıd. LG&E and KU accrue estimates for unbilled revenues from each meter reading date to the end of the :counting period. The unbilled revenue estimates included in accounts receivable for both LG&E and KU at ecember 31, 1999 and 1998, were approximately $60.7 million and $54.7 million, respectively. Under an ;reement approved by the Kentucky Commission in 1994, LG&E implemented a demand-side management ogram, including a "decoupling mechanism" which allowed LG&E to recover a predetermined level of

revenue on electric and gas residential sales. In 1998, the decoupling mechanism was suspended. See Note 6, Utility Rates and Regulatory Matters.

Fuel and Gas Costs. The cost of fuel for electric generation is charged to expense as used, and the cost of gas supply is charged to expense as delivered to the distribution system. LG&E implemented a Kentucky Commission-approved experimental performance-based ratemaking mechanism related to gas procurement and off-system gas sales activity in October 1997. See Note 6, Utility Rates and Regulatory Matters.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. See Note 18, Commitments and Contingencies, for a further discussion.

New Accounting Pronouncements. During 1999 and 1998, the following accounting pronouncements were issued that affect the Company:

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or a liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that the Company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. The Company has not yet quantified all the effects of adopting SFAS No. 133 on the financial statements. However, SFAS No. 133 could increase the volatility in earnings and other comprehensive income. The effect of this statement will be recorded in cumulative effect of change in accounting when adopted. SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of SFAS No. 133*, deferred the effective date of SFAS No. 133 until January 1, 2001.

EITF No. 98-10, *Accounting for Energy Trading and Risk Management Activities* was adopted effective January 1, 1999. The pronouncement requires that energy trading contracts to be marked to market on the balance sheet, with the gains and losses shown net in the income statement. EITF No. 98-10 more broadly defines what represents energy trading to include economic activities related to physical assets which were not previously marked to market by established industry practice. Adoption of EITF No. 98-10 did not have a material impact on the Company's consolidated results of operations or financial position.

SOP 98-5, *Reporting on the Costs of Start-Up Activities* and 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. SOP 98-5, adopted as of January 1, 1998, requires companies to expense the costs of start-up activities as incurred. The statement also requires certain previously capitalized costs to be charged to expense at the time of adoption as a cumulative effect of a change in accounting principle. The Company had previously capitalized start-up costs related to its investments in various unconsolidated ventures and other non-utility businesses. The cumulative effect of adoption resulted in a $7.2 million after-tax charge. The effect of this change on 1998 income before cumulative effect of changes in accounting principles was not significant. SOP 98-1, adopted as of January 1, 1998, clarifies the criteria for capital or expense treatment of costs incurred by an enterprise to develop or obtain computer software to be used in its internal operations. The statement does not change treatment of costs incurred in connection with correcting computer programs to properly process the millennium change to the Year 2000, which were expensed as incurred. Adoption of SOP 98-1 did not have a material effect on the Company's financial statements.

Note 2 - Mergers and Acquisitions

CRC-Evans. In July 1999, the Company purchased 100% of the outstanding common stock of CRC for initial consideration of $45.6 million and retirement of approximately $35.3 million in debt. CRC, based in Houston, Texas, is a provider of specialized equipment and services used in the construction and rehabilitation of gas and oil transmission pipelines. The purchase agreement provides for future annual earn-out payments to the previous owners based on CRC's meeting certain financial targets over the period ending March 31, 2002. The agreement caps the total of these payments at $34.3 million.

The purchase consideration was paid 55% in cash and 45% in LG&E Energy common stock. LG&E Energy will repurchase common stock from time to time in the open market or through privately negotiated transactions in amounts equal to the stock portions of the initial and subsequent earn-out payments. During the third quarter 1999, the Company purchased approximately 935,000 shares in this regard and completed the initial purchase installment.

The Company accounted for the acquisition using the purchase method and recorded goodwill of approximately $42.1 million. Additional goodwill will be recorded contingent upon future earn-out payments. Goodwill is being amortized over a period of twenty years.

The preliminary fair values of the net assets acquired follow (in thousands of $):

Assets	$123,444
Liabilities	78,899
Cash paid, excluding transaction costs	44,545
Cash and cash equivalents acquired	5,943
Net cash paid, excluding transaction costs	38,602
Transaction costs	1,091
Net cash paid	$ 39,693

The Company's pro forma results of operations for 1999 and 1998 follow (in thousands of $, except earnings per share). The results for each period assume the Company acquired CRC at the beginning of the period.

	1999	1998
Revenues	$2,746,477	$2,181,034
Net income (loss)	60,607	(77,934)
Earnings (loss) per share (basic and diluted)	.47	(.60)

These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as additional amortization expense as a result of recorded goodwill and increased interest expense on borrowings used to finance the acquisition. The pro forma amounts presented do not purport to be indicative of the results of operations that would have actually occurred had the combination taken place as of January 1, 1998, nor are such amounts necessarily indicative of results that may occur in future periods.

Argentine Gas Distribution Companies. In March 1999, the Company acquired an indirect 20% ownership interest in Gas BAN, a natural gas distribution company that serves 1.1 million customers in the northern portion of the province of Buenos Aires, Argentina. The purchase price totaled $74.3 million, including transaction costs, which has been reflected in investments in unconsolidated ventures in the accompanying balance sheet. The Company accounted for the acquisition using the purchase method, and it records its share of earnings using the equity method. The purchase price exceeded the underlying equity in Gas BAN by $13.0 million. The Company allocated this difference to the assets and liabilities acquired based on their preliminary

estimated fair values. In the fourth quarter of 1999, the Company made an additional net investment in Gas BAN of approximately $11.1 million. These funds were used by the Company's Argentine holding company to repay its debt.

In February 1997, the Company acquired interests in two Argentine natural gas distribution companies for $140 million, plus transaction-related costs and expenses. The Company acquired a controlling interest in Centro and a combined 14.4% interest in Cuyana. The Company accounted for both acquisitions using the purchase method. The Company allocated substantially all of the excess of the purchase price over the underlying equity of Centro and Cuyana to property and equipment.

The fair values of the Centro and Cuyana net assets acquired follow (in thousands of $):

Assets	$330,215
Liabilities	86,455
Minority interests	103,916
Cash paid, excluding transaction costs	139,844
Cash and cash equivalents acquired	16,453
Net cash paid, excluding transaction costs	123,391
Transaction costs	1,202
Net cash paid	$124,593

Centro's revenues, cost of revenues and operating expenses since the date of acquisition are classified as components of international and non-utility in the income statement. The earnings of Cuyana are included in Equity in earnings of unconsolidated ventures. The Company includes Centro's property and equipment in Non-utility property and plant, net, in its balance sheet, and it includes its investment in Cuyana in Investments in unconsolidated ventures. Portions of Centro not owned directly or indirectly by the Company are reported as minority interests in the financial statements.

Liabilities assumed in the purchase included negotiable obligations issued by Centro with a face amount of $38 million. The obligations mature in August 2001, pay interest at 10.5% of face value and are classified as long-term debt.

KU Energy Corporation. LG&E Energy and KU Energy merged on May 4, 1998, with LG&E Energy as the surviving corporation. As a result of the merger, the Company, which is the parent of LG&E, became the parent company of KU. The operating utility subsidiaries (LG&E and KU) have continued to maintain their separate corporate identities and serve customers in Kentucky and Virginia under their present names. LG&E Energy has estimated approximately $760 million in gross non-fuel savings over a ten-year period following the merger. Costs to achieve these savings of $103.9 million were recorded in the second quarter of 1998, $38.6 million of which were initially deferred and are being amortized over a five-year period pursuant to regulatory orders. Primary components of the merger costs were separation benefits, relocation costs, and transaction fees, the majority of which were paid by December 31, 1998. The Company, LG&E and KU expensed the remaining costs associated with the merger ($65.3 million) in the second quarter of 1998. In regulatory filings associated with approval of the merger, LG&E and KU committed not to seek increases in existing base rates and proposed reductions in their retail customers' bills in amounts based on one-half of the savings, net of the deferred and amortized amount, over a five-year period. The preferred stock and debt securities of the operating utility subsidiaries were not affected by the merger. The non-utility subsidiaries of KU Energy have become subsidiaries of Capital Corp.

Pursuant to the merger, in accordance with the terms of the merger agreement, each outstanding share KU Energy Common Stock together with the associated KU Energy stock purchase rights, was converted into 1.67 shares LG&E Energy Common Stock, together with the associated LG&E Energy stock purchase rights.

Immediately preceding the merger, there were 66,527,636 shares of LG&E Energy common stock outstanding, and 37,817,517 shares of KU Energy common stock outstanding. Based on such capitalization, immediately following the merger, 51.3% of the outstanding LG&E Energy common stock was owned by the shareholders of LG&E Energy prior to the merger and 48.7% was owned by former KU Energy shareholders.

LG&E Energy, as the parent of LG&E and KU, continues to be an exempt holding company under PUHCA. Management has accounted for the merger as a pooling of interests and as a tax-free reorganization under the Internal Revenue Code.

In the application filed with the Kentucky Commission, the utilities proposed that 50% of the net non-fuel cost savings estimated to be achieved from the merger, less $38.6 million or 50% of the originally estimated costs to achieve such savings, be applied to reduce customer rates through a surcredit on customers' bills and the remaining 50% be retained by the companies. The Kentucky Commission approved the surcredit and allocated the customer savings 53% to KU and 47% to LG&E. The surcredit will be about 2% of customer bills over the next five years and will amount to approximately $55 million in net non-fuel savings to LG&E customers and approximately $63 million in net non-fuel savings to KU customers. Any fuel cost savings are passed to Kentucky customers through the companies' fuel adjustment clauses. See Note 6 for more information about LG&E's and KU's rates and regulatory matters.

Note 3 - Discontinued Operations

Effective June 30, 1998, the Company discontinued its merchant energy trading and sales business. This business consisted primarily of a portfolio of energy marketing contracts entered into in 1996 and early 1997, nationwide deal origination and some level of speculative trading activities, which were not directly supported by the Company's physical assets. The Company's decision to discontinue these operations was primarily based on the impact that volatility and rising prices in the power market had on its portfolio of energy marketing contracts. Exiting the merchant energy trading and sales business enabled the Company to focus on optimizing the value of physical assets it owns or controls, and reduced the earnings impact on continuing operations of extreme market volatility in its portfolio of energy marketing contracts. The Company continues to settle commitments that obligate it to buy and sell natural gas and electric power. If the Company is unable to dispose of these commitments or assets it will continue to meet its obligations under the terms of the contracts. The Company, however, has maintained sufficient market knowledge, risk management skills, technical systems and experienced personnel to maximize the value of power sales from physical assets it owns or controls, including LG&E, KU and WKE.

As a result of the Company's decision to discontinue its merchant energy trading and sales activity, and the initial decision to sell the associated gas gathering and processing business, the Company recorded an after-tax loss on disposal of discontinued operations of $225 million in the second quarter of 1998. The loss on disposal of discontinued operations resulted primarily from several fixed-price energy marketing contracts entered into in 1996 and early 1997, including the Company's long-term contract with OPC. Other components of the write-off included costs relating to certain peaking options, goodwill associated with the Company's 1995 purchase of merchant energy trading and sales operations and exit costs.

At the time the Company decided to discontinue its merchant energy trading and sales business, it also decided to sell its natural gas gathering and processing business. Effective June 30, 1999, the Company decided to retain this business. The accompanying financial statements reflect the reclassification of the natural gas gathering and processing business as continuing operations for all periods presented. Approximately $800,000 of net losses charged to the loss on disposal of discontinued operations was reclassified to continuing operations in the accompanying income statement in each of 1999 and 1998 related to the natural gas gathering and processing business. See Note 4 below.

In the fourth quarter of 1999, the Company received an adverse decision from the arbitration panel considering its contract dispute with OPC, which was commenced by the Company in April 1998. As a result of this adverse decision, higher than anticipated commodity prices, increased load demands, and other factors, the Company increased its after-tax accrued loss on disposal of discontinued operations by $175 million. The additional write-off included costs related to the remaining commitments in its portfolio and exit costs expected to be incurred to serve those commitments. Although the Company used what it believes to be appropriate estimates for future energy prices, among other factors, to calculate the net realizable value of discontinued operations, there are inherent limitations in models to accurately predict future commodity prices, load demands and other events that could impact the amounts recorded by the Company.

Actual operating results for each of the last three years ended December 31 for the discontinued merchant energy trading and sales business, follow (in thousands of $).

	1999	1998	1997
Revenues	$ 747,983	$ 3,755,187	$ 3,147,484
Loss before taxes	(175,940)	(167,109)	(41,989)
Net loss	(70,905)	(109,431)	(25,367)

Net (liabilities) assets of the merchant energy trading and sales business at December 31, follow (in thousands of $).

	1999	1998
Cash and temporary cash investments	$ -	$ 4,671
Accounts receivable	36,558	70,775
Price risk management assets, net	29,576	98,885
Non-utility property and plant, net	-	2,037
Accounts payable and accruals	(25,233)	(58,526)
Price risk management liabilities, net	(10,262)	(32,693)
Other assets and liabilities, net	(18,163)	37,451
Net assets before accrued loss on disposal of discontinued operations	12,476	122,600
Accrued loss on disposal of discontinued operations, net of income tax benefit of $109,503 and $74,297	170,698	119,381
Net assets (liabilities) of discontinued operations	$ (158,222)	$ 3,219

Total pretax charges against the accrued loss on disposal of discontinued operations through December 31, 1999, include $251.0 million for commitments prior to disposal, $69.6 million for transaction settlements, $11.1 million for goodwill, and $30.5 million for other exit costs. While the Company has been successful in settling portions of its discontinued operations, significant assets, operations and obligations remain. The Company continues to manage the remaining portfolio and believes it has hedged certain of its future obligations through various power purchase commitments and planned construction of physical assets. Management cannot predict the ultimate effectiveness of these hedges.

The pretax net fair value of the remaining commitments as of December 31, 1999, are currently estimated to be approximately $46 million in 2000, $37 million to $54 million each year in 2001 through 2004 and $7 million in the aggregate thereafter.

As of December 31, 1999, the Company's discontinued operations were under various contracts to buy and sell power and gas with net notional amounts of 22.1 million Mwh's of power and 44.3 million Mmbtu's of natural gas with a volumetric weighted-average period of approximately 37 and 44 months, respectively. These notional amounts are based on estimated loads since various commitments do not include specified firm volumes. The Company is also under contract to buy or sell coal and SO2 allowances in support of its power contracts. Notional amounts reflect the nominal volume of transactions included in the Company's price risk management commitments, but do not reflect actual amounts of cash, financial instruments, or quantities of the underlying commodity which may ultimately be exchanged between the parties.

As of January 26, 2000, the Company estimates that a $1 change in electricity prices and a 10-cent change in natural gas prices across all geographic areas and time periods could change the value of the Company's remaining energy portfolio by approximately $4.9 million. In addition to price risk, the value of the Company's remaining energy portfolio is subject to operational and event risks including, among others, increases in load demand, regulatory changes, and forced outages at units providing supply for the Company. As of January 26, 2000, the Company estimates that a 1% change in the forecasted load demand could change the value of the Company's remaining energy portfolio by $8.2 million.

The Company's discontinued operations maintain policies intended to minimize credit risk and revalue credit exposures daily to monitor compliance with those policies. As of December 31, 1999, over 97% of the Company's price risk management commitments were with counterparties rated BBB equivalent or better. As of December 31, 1999, six counterparties represented 90% of the Company's price risk management commitments.

Note 4 – Gas Facilities Business

In June 1999, the Company reclassified its natural gas gathering and processing business to continuing operations from discontinued operations. The Company chose to retain rather than dispose of this business at the end of the one-year period established by accounting standards because of management's expectation of more favorable future natural gas and natural gas liquids prices and the related impact on this business. The Company has reflected the operating results and net assets of the natural gas gathering and processing business as continuing operations in the accompanying financial statements for all periods presented.

Operating results for the natural gas gathering and processing business follow (in thousands of $):

	Three Months Ended Mar. 31, 1999	Six Months Ended Dec. 31, 1998
Revenues	$ 33,302	$ 48,942
Net loss	(788)	(852)

Net assets at December 31 follow (in thousands of $):

	1999	1998
Cash and temporary cash investments	$ 12,073	$ -
Accounts receivable	24,622	7,425
Non-utility property and plant, net	146,958	161,473
Accounts payable and accruals	(6,274)	(6,148)
Goodwill and other assets and liabilities, net	(29,018)	(22,318)
Net assets	$ 148,361	$ 140,432

No loss on disposal of the net assets of the natural gas gathering and processing business was included because the Company assumed it would sell these assets for an amount at least equal to book value. It also included an after-tax reserve of approximately $1.6 million for estimated losses from operations of the natural gas gathering and processing business through the date of disposal. Since this amount equaled the estimated losses from operations included in the original accrued loss on disposal of discontinued operations, no reversal of the accrued loss was included in income for 1999. The Company has recorded no impairment losses related to the net assets of its natural gas gathering and processing business.

Note 5 - Big Rivers Electric Corporation Lease

In July 1998, the Company closed the transaction to lease the generating assets of Big Rivers. Under the 25-year operating lease, WKE operates Big Rivers' coal-fired facilities, a combustion turbine and operates and maintains the Station Two generating facility of Henderson. The combined generating capacity of these facilities is approximately 1,700 Mw, net of Henderson's capacity and energy needs from Station Two. WKE prepaid $55.9 million for its first two years of lease payments. Lease expense for 1999 and 1998 was $27.9 million and $12.8 million, respectively. See Note 18, Commitments and Contingencies, for further discussion.

In related transactions, power is supplied to Big Rivers at contractual prices over the term of the lease to meet the needs of three-member distribution cooperatives and their retail customers, including major western Kentucky aluminum smelters. Excess generating capacity is available to WKE to market throughout the region. In connection with these transactions, WKE has undertaken to bear certain of the future capital requirements of those generating assets, certain defined environmental compliance costs and other obligations.

In July 1998, as part of the deal structure with Big Rivers, WKE began advancing Big Rivers $50 million over a 24-month period to help it emerge from bankruptcy. The note will be repaid over a three-year period, beginning August 2000, with interest at 7.165%.

Note 6 - Utility Rates and Regulatory Matters

Accounting for the regulated utility business conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by FERC, the Kentucky Commission and the Virginia Commission. LG&E and KU are subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.* Under SFAS No. 71, certain costs that would otherwise be charged to expense are deferred as regulatory assets based on expected recovery from customers in future rates. Likewise, certain credits that would otherwise be reflected as income are deferred as regulatory liabilities based on expected flowback to customers in future rates. LG&E's and KU's current or expected recovery of deferred costs and expected flowback of deferred credits is generally based on specific ratemaking decisions or precedent for each item. The following regulatory assets and liabilities were included in the consolidated balance sheets as of December 31 (in thousands of $):

	1999	1998
Unamortized loss on bonds	$ 24,150	$ 26,302
Merger costs	27,026	34,749
Manufactured gas sites	2,185	3,684
Other	1,115	1,136
Total regulatory assets	54,476	65,871
Deferred income taxes – net	(99,759)	(109,411)
Other	(5,036)	(670)
Total regulatory liabilities	(104,795)	(110,081)
Regulatory liabilities - net	$ (50,319)	$ (44,210)

Environmental Cost Recovery. In August 1994 and May 1995, respectively, KU and LG&E implemented an ECR surcharge. The Kentucky Commission's order approving the surcharge for KU as well as the constitutionality of the surcharge was challenged by certain intervenors in Franklin Circuit Court. Decisions of the Circuit Court and the Kentucky Court of Appeals in July 1995 and December 1997, respectively, upheld the constitutionality of the ECR statute but differed on a claim of retroactive recovery of certain amounts. Based on these decisions, the Kentucky Commission ordered that certain surcharge revenues collected by LG&E and KU be subject to refund pending final determination of all appeals.

n December 1998, the Kentucky Supreme Court rendered an opinion upholding the constitutionality of the surcharge statute but denied recovery of costs associated with pre-1993 environmental projects through the ECR. The court remanded the case to the Kentucky Commission to determine amounts to be refunded for revenues collected for such pre-1993 environmental projects. Accordingly, the Company recorded a provision for rate refunds of $26 million in December 1998.

The parties to the proceedings reached a settlement agreement that was approved in a Final Order issued by the Kentucky Commission in August 1999. This Final Order resulted in the reversal of approximately $0.9 million of the provision for rate refunds established by KU and LG&E in December 1998. The refund is being applied to customers' bills during the twelve-month period beginning October 1999.

uture Rate Regulation. In October 1998, LG&E and KU filed applications with the Kentucky Commission or approval of a new method of determining electric rates that sought to provide financial incentives for LG&E and KU to further reduce customers' rates. The filing was made pursuant to the September 1997 Kentucky Commission order approving the merger of LG&E Energy and KU Energy, wherein the Kentucky Commission directed LG&E and KU to indicate whether they desired to remain under traditional rate of return regulation or commence non-traditional regulation. The proposed ratemaking method, known as PBR, included financial

incentives for LG&E and KU to reduce fuel costs and increase generating efficiency, and to share any resulting savings with customers. Additionally, the PBR proposal provided for financial penalties and rewards to assure continued high quality service and reliability.

In April 1999, LG&E and KU filed a joint agreement among the companies and the Kentucky Attorney General to adopt the PBR plan subject to certain amendments. The amended filing included requested Kentucky Commission approval of a five-year rate reduction plan which proposed to reduce the electric rates of LG&E and KU by $20 million in the first year (beginning July 1999), and by $8 million annually through June 2004. The proposed amended plan also included establishment of a $6 million program for low-income customer assistance as well as extension for one additional year of both the rate cap proposal and merger savings surcredit established in the original merger plan of LG&E and KU. Under the rate cap proposal, the companies agreed, in the absence of extraordinary circumstances, not to increase base electric rates for five years following the merger and LG&E also agreed to refrain from filing for an increase in natural gas rates through June 2004.

In April 1999, the Kentucky Commission issued initial orders implementing the amended PBR plan, effective July 1999, and subject to modification. The Kentucky Commission also consolidated into the continuing PBR proceedings an earlier March 1999, rate complaint by a group of industrial intervenors, KIUC, in which KIUC requested significant reductions in electric rates. Hearings were conducted before the Kentucky Commission on LG&E's and KU's amended PBR plans and the KIUC rate reduction petitions in August and September 1999. Legal briefs of the parties were filed with the Kentucky Commission in October 1999. KIUC's position called for annual revenue reductions for LG&E and KU of $69.6 million and $61.5 million, respectively.

In January 2000, the Kentucky Commission issued Orders for LG&E and KU in the subject cases. The Kentucky Commission ruled that LG&E and KU should reduce base rates by $27.2 million and $36.5 million, respectively, effective with bills rendered beginning March 1, 2000. The Kentucky Commission eliminated the utilities' proposal to operate under its PBR plan and reinstated the FAC mechanism effective March 1, 2000. The Kentucky Commission offered the utilities the opportunity to operate under an ESM for the next three years. Under this mechanism, incremental annual earnings for each utility resulting in a rate of return either above or below a range of 10.5% to 12.5% would be shared 60% with shareholders and 40% with ratepayers.

Later in January 2000, the utilities filed motions for correction to the January 2000 orders for computational and other errors made in the Kentucky Commission's orders which produced overstatements in the base rate reductions to LG&E and KU of $1.1 million and $7.7 million, respectively. The utilities also filed motions for reconsideration with the Kentucky Commission on a number of items in the case in late January. Certain intervening parties in the proceedings have also filed motions for reconsideration asserting, among other things, that the Kentucky Commission understated the amount of base rate reductions.

Other Rate Matters. LG&E's rates contain a DSM provision. The provision includes a rate mechanism that provides concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. This program had allowed LG&E to recover revenues from lost sales associated with the DSM program (decoupling), but in 1998, LG&E and customer interest groups requested an end to the decoupling rate mechanism. In September 1998, the Kentucky Commission accepted LG&E's modified tariff discontinuing the decoupling mechanism effective as of June 1, 1998.

Since October 1997, LG&E has implemented an experimental performance-based ratemaking mechanism related to gas procurement activities and off-system gas sales only. During the three-year test period beginning October 1997, rate adjustments related to this mechanism are being determined for each 12-month period beginning November 1 and ending October 31. During the first two years of the mechanism ended October 31, 1999 and 1998, LG&E recorded $2.2 million and $3.5 million, respectively, for its share of reduced gas costs. These amounts are billed to customers through the gas supply clause.

Prior to implementation of the PBR in July 1999, and following its termination in March 2000, LG&E and KU employed an FAC mechanism, which under Kentucky law allowed the utilities to recover from customers the actual fuel costs associated with retail electric sales. In February 1999, LG&E received orders from the Kentucky Commission requiring a refund to retail electric customers of approximately $3.9 million resulting from reviews of the FAC from November 1994 through April 1998, of which $1.9 million was refunded in April 1999 for the period beginning November 1994 and ending October 1996. The orders changed the utilities' method of computing fuel costs associated with electric line losses on off-system sales appropriate for recovery through the FAC. LG&E requested that the Kentucky Commission grant rehearing on the February orders, and further requested that the Kentucky Commission stay the refund requirement until it could rule on the rehearing request. The Kentucky Commission granted the request for a stay, and in March 1999 granted rehearing on the appropriate line loss factor associated with off-system sales for the 18-month period ended April 1998. The Kentucky Commission also granted rehearing on the KIUC's request for rehearing on the Kentucky Commission's determination that it lacked authority to require the utilities to pay interest on the refund amounts. The Kentucky Commission conducted a hearing on the rehearing issues and issued a final ruling in December 1999. The Kentucky Commission agreed with LG&E 's position on the appropriate loss factor to use in the FAC computation and reduced the refund level for the 18-month period under review to approximately $800,000. LG&E implemented the refund with billings beginning in the month of January 2000. LG&E and KIUC have each filed separate appeals from the Kentucky Commission's February 1999 orders with the Franklin Circuit Court. A decision on the appeals by the Court is expected in 2000.

In July 1999, the Kentucky Commission issued a series of orders requiring KU to refund approximately $10.1 million resulting from reviews of the FAC from November 1994 to October 1998. The orders changed KU's method of computing fuel costs associated with electric line losses on off-system sales appropriate for recovery through the FAC, and KU's method for computing system line losses for the purpose of calculating the system sales component of the FAC charge. At KU's request, in July 1999, the Kentucky Commission stayed the refund requirement pending the Kentucky Commission's final determination of any rehearing request that KU may file. In August 1999, KU filed its request for rehearing of the July orders.

In August 1999, the Kentucky Commission issued a Final Order in the KU proceedings, agreeing, in part, with KU's arguments outlined in its Petition for Rehearing. While the Kentucky Commission confirmed that KU should change its method of computing the fuel costs associated with electric line losses, it agreed with KU that the line loss percentage should be based on KU's actual line losses incurred in making off-system sales rather than the percentage used in its Open Access Transmission Tariff. The Kentucky Commission also upheld its previous ruling concerning the computation of system line losses in the calculation of the FAC. The net effect of the Kentucky Commission's Final Order was to reduce the refund obligation to $5.8 million from the original Order amount of $10.1 million. In August 1999, LG&E and KU each recorded its estimated share of anticipated FAC refunds of $8.7 million. KU began implementing the refund in October and will continue the refund through September 2000. Both KU and the KIUC have appealed the Order to the Franklin Circuit Court. A decision is not expected on the appeal until later in 2000.

LG&E intends to file before the end of the first quarter an application with the Kentucky Commission for authority to increase its natural gas rates in order to recoup higher costs for providing natural gas distribution services. LG&E expects implementation before the end of 2000.

Kentucky PSC Administrative Case for Affiliate Transactions. In December 1997, the Kentucky Commission opened Administrative Case No. 369 to consider Kentucky Commission policy regarding cost allocations, affiliate transactions and codes of conduct governing the relationship between utilities and their non-utility operations and affiliates. The Kentucky Commission intends to address two major areas in the proceedings: the tools and conditions needed to prevent cost shifting and cross-subsidization between regulated and non-utility operations; and whether a code of conduct should be established to assure that non-utility

segments of the holding company are not engaged in practices that could result in unfair competition caused by cost shifting from the non-utility affiliate to the utility. In September 1998, the Kentucky Commission issued a draft code of conduct and cost allocation guidelines. In January 1999, the Company, as well as all parties to the proceeding, filed comments on the Kentucky Commission draft proposals. In December 1999, the Kentucky Commission issued guidelines on cost allocation and held a hearing in January 2000, on the draft code of conduct. Management does not expect the ultimate resolution of this matter to have a material adverse effect on the Company's financial position or results of operations.

Note 7 - Financial Instruments

The cost and estimated fair values of the Company's non-trading financial instruments (excluding the fair values of the Company's price risk management assets and liabilities) as of December 31, 1999 and 1998 follow (in thousands of $):

	1999		1998	
	Cost	Fair Value	Cost	Fair Value
Marketable securities	$ 10,562	$ 10,126	$ 20,601	$ 20,862
Long-term investments - Not practicable to estimate fair value	2,269	2,269	2,527	2,527
Preferred stock subject to mandatory redemption	25,000	24,861	25,000	26,413
Long-term debt (including current portion)	1,711,225	1,690,752	1,510,775	1,576,502
U.S. Treasury note and bond futures	-	142	-	(87)
Interest rate swaps	-	(2,138)	-	(9,527)

All of the above valuations reflect prices quoted by exchanges except for the swaps and the long-term investments. The fair values of the swaps reflect price quotes from dealers or amounts calculated using accepted pricing models. The fair values of the long-term investments reflect cost, since the Company cannot reasonably estimate fair value.

Interest Rate Swaps. The Company enters into interest rate swap agreements to exchange fixed and variable interest rate payment obligations without the exchange of underlying principal amounts. As of December 31, 1999 and 1998, the Company was party to various interest rate swaps with aggregate notional amounts of $487.3 million and $349.3 million, respectively. Under swap agreements the Company paid fixed rates averaging 4.53% and 4.55% and received variable rates of averaging 5.61% and 4.42% at December 31, 1999 and 1998, respectively. The Company also paid variable rates averaging 6.46% and received fixed rates averaging 7.13% at December 31, 1999. The swaps mature on dates ranging from 2000 to 2025.

At December 31, 1999, the Company held U.S. Treasury note and bond futures contracts with notional amounts totaling $6.1 million. These contracts are used to hedge price risk associated with certain marketable securities and mature in March 2000.

Note 8 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of

customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

LG&E's customer receivables and gas and electric revenues arise from deliveries of natural gas to approximately 295,000 customers and electricity to approximately 366,000 customers in Louisville and adjacent areas in Kentucky. KU's customer receivables and revenues arise from deliveries of electricity to about 458,000 customers in over 600 communities and adjacent suburban and rural areas in 77 counties in central, southeastern and western Kentucky and to about 29,000 customers in five counties in southwestern Virginia. For the year ended December 31, 1999, 91% of total utility revenue was derived from electric operations and 9% from gas operations.

The financial position and results of operations of the domestic unconsolidated ventures are substantially dependent upon the continuation of long-term power sales contracts with purchasing utilities. The Argentine natural gas distribution companies serve approximately 1.9 million customers in seven provinces in Argentina. WKE's receivables and revenues arise from the deliveries of electricity and generating capacity to Big Rivers for distribution to its three member distribution cooperatives and other major wholesale customers. CRC has a concentration of customers in the oil and gas pipeline construction industry, which experiences cyclical fluctuations, and its receivables are collateralized on a limited basis with negotiable letters of credit. Ten of CRC's customers were responsible for 50% of its revenues for the period July 1, 1999, through December 31, 1999.

In August 1999, KU and their employees represented by IBEW Local 101 and USWA Local 8686, which represents approximately 14% of KU's workforce, entered into a one-year collective bargaining agreement. In December 1998, LG&E and IBEW Local 2100 employees, which represent approximately 60% of LG&E's workforce, entered into a three-year collective bargaining agreement. In September 1998, WKE and IBEW Local 1701 employees entered into a three-year collective bargaining agreement. CRC contracts with employees represented by applicable locals of the LIU and the UAJ-APPI on a project basis.

Note 9 - Investments in Unconsolidated Ventures

The Company's investments in unconsolidated ventures reflect interests in domestic and foreign electric power and steam producing plants and two of the Argentine gas distribution companies. These investments are accounted for using the equity method.

The fuel type, ownership percentages and carrying amounts of the unconsolidated ventures as of December 31, 1999, are summarized as follows (in thousands of $):

	Fuel Type	% Owned	Carrying Amount
LG&E Westmoreland - Southampton	Coal	50	$ 15,466
LG&E Westmoreland - Altavista	Coal	50	14,345
LG&E Westmoreland - Hopewell	Coal	50	12,737
Westmoreland - LG&E Partners - Roanoke Valley	Coal	50	25,196
Electric Energy, Inc. (Note 18)	Coal	20	2,123
LG&E Power Gregory (under construction)	Gas	50	(450)
Distribuidora de Gas Cuyana (Note 2)	Gas	14	42,675
Gas Natural BAN, S.A. (Note 2)	Gas	20	92,231
Tenaska Limited Partnerships	Gas	5-10	5,842
CEC-APL L.P.	Gas	49	9,138
Windpower Partners 1994	Wind	25	-
Windpower Partners 1993	Wind	50	22,158
KW Tarifa, S.A.	Wind	46	7,994
Total			$249,455

The Company's carrying amount exceeded the underlying equity in unconsolidated ventures by $39.8 million and $33.3 million at December 31, 1999 and 1998, respectively. This difference, which is being amortized, represents adjustments to reflect the fair value of the underlying net assets acquired and related goodwill.

In March 1999, LG&E-Westmoreland Rensselaer, a California general partnership in which the Company owns a 50% interest, sold substantially all the assets and major contracts of its 79 Mw gas-fired cogeneration facility in Rensselaer, New York, with net proceeds to the Company of approximately $34 million. The sale resulted in an after-tax gain to the Company of approximately $8.9 million.

In January 1999, a final order was entered in the bankruptcy proceedings involving Westmoreland Coal Company and certain of its subsidiaries, including Westmoreland Energy, Inc., the parent of various entities that are partners with company subsidiaries in five of the independent generating facilities. However, none of the partnerships and no partner of the current partnerships has been under bankruptcy court protection, nor were these partnerships in a default occasioned under the project loan documents.

With respect to the Wind projects listed above, certain of the Company's partners (or affiliates of such partners) are in bankruptcy proceedings. During the third quarter of 1998, the Company wrote off its aggregate remaining investment in Windpower Partners 1994 of $3.8 million. During 1999, the Wind projects received certain amounts in connection with such bankruptcy proceedings. See Note 18, Commitments and Contingencies.

In November 1998, the Company received approximately $8.5 million in connection with an arbitration proceeding concerning a former PPA between Tenaska Washington Partners II, L.P. and the BPA. The Company has a 10% interest in this partnership, which owned a partially constructed facility in Frederickson, Washington. This facility was transferred to the BPA following payment of the award.

In June 1998, the partnership that owns the Rensselaer facility, along with 14 other independent power producers, participated in the consummation of a MRA with NIMO. As part of the MRA, the partnership restructured its power purchase agreement with NIMO and entered into a new multi-year agreement with the utility. Concurrent with the MRA, the Company reached a settlement with other parties to retain a 50%

ownership in the Rensselaer facility. As a result of these transactions, the Company recorded a $21 million, net after-tax gain in 1998.

In June 1998, the Company sold half of its interest in the Gregory, Texas, project and became a 50% partner in the 550 Mw gas-fired project. The project is currently under construction and anticipated to become operational in mid-2000. See Note 18, Commitments and Contingencies.

In February 1998, the Company sold its indirect, one-third interest in the company which owned and operated the San Miguel, Argentina generating facility for a price of $16 million. The sale resulted in a $2.8 million pre-tax charge to 1998 earnings.

Note 10 - Leveraged Leases

During 1999, all of the Company's leveraged leases in which Capital Corp. owned an equity interest expired. The lessees who leased five of the turbines exercised their options to purchase resulting in pre-tax gains totaling $3.1 million. The lessee who leased the remaining three turbines allowed its leases to terminate and Capital Corp. is investigating options on the future use of these turbines. The carrying value of Capital Corp.'s investment in the three remaining turbines totals $9.1 million, and the Company has reclassified this amount to Investment in Unconsolidated Ventures at December 31, 1999. See Note 9, Investment in Unconsolidated Ventures and Note 18, Commitments and Contingencies.

The following is a summary of the components of Capital Corp.'s net investment in leveraged leases at December 31, 1998 (in thousands of $):

Rents receivable (net of nonrecourse debt)	$ 1,556
Estimated residual value of leased property	32,707
Less: unearned and deferred income	3,319
Investment in leveraged leases	30,944
Less: accumulated deferred income taxes	7,301
Net investment in leveraged leases	$23,643

See Note 14, Other Income and Deductions for income from leveraged leases.

Note 11 - Marketable Securities

The Company's marketable securities have been determined to be "available-for-sale" under the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Proceeds from sales of available-for-sale securities in 1999 were approximately $11.7 million, which resulted in realized gains of approximately $.7 million and losses of approximately $.2 million, calculated using the specific identification method. Proceeds from sales of available-for-sale securities in 1998 were $20 million, which resulted in realized gains of approximately $.2 million and losses of approximately $.7 million.

Approximate cost, fair value and other required information pertaining to the Company's available-for-sale securities by major security type, as of December 31, 1999 and 1998, follow (in thousands of $):

	Equity	Fixed Income	Total
1999:			
Cost	$7,529	$3,033	$10,562
Unrealized gains	170	3	173
Unrealized losses	(498)	(111)	(609)
Fair values	$7,201	$2,925	$10,126
Fair values:			
No maturity	$7,201	$ -	$ 7,201
Contractual maturities:			
Less than one year	-	2,134	2,134
One to five years	-	631	631
Five to ten years	-	160	160
Total fair values	$7,201	$2,925	$10,126
1998:			
Cost	$6,467	$14,134	$20,601
Unrealized gains	545	40	585
Unrealized losses	(196)	(128)	(324)
Fair values	$6,816	$14,046	$20,862
Fair values:			
No maturity	$6,816	$ 178	$ 6,994
Contractual maturities:			
Less than one year	-	8,301	8,301
One to five years	-	3,861	3,861
Over ten years	-	1,706	1,706
Total fair values	$6,816	$14,046	$20,862

Note 12 - Pension Plans and Retirement Benefits

Pension Plans and Retirement Benefits. LG&E Energy Corp. sponsors several qualified and non-qualified pension plans and other postretirement benefit plans for its employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the three-year period ending December 31, 1999, and a statement of the funded status as of December 31 for each of the last three years (in thousands of $):

	1999	1998	1997
Pension Plans:			
Change in benefit obligation			
Benefit obligation at beginning of year	$ 558,641	$499,143	$432,551
Service cost	13,761	14,242	12,675
Interest cost	37,749	35,715	32,927
Plan amendments	(2,311)	6,377	3,143
Acquisitions/divestitures	-	(2,243)	-
Curtailment (gain) or loss	-	(364)	-
Special termination benefits	-	23,965	-
Benefits paid	(28,475)	(23,823)	(22,114)
Actuarial (gain) or loss	(57,951)	5,629	39,961
Benefit obligation at end of year	$ 521,414	$558,641	$499,143
Change in plan assets			
Fair value of plan assets at beginning of year	$ 550,711	$501,361	$432,612
Actual return on plan assets	102,824	70,631	81,645
Employer contributions	19,484	2,638	10,101
Benefits paid	(28,475)	(23,823)	(22,114)
Administrative expenses	(2,329)	(96)	(883)
Fair value of plan assets at end of year	$ 642,215	$550,711	$501,361
Reconciliation of funded status			
Funded status	$ 120,801	$ (7,930)	$ 2,218
Unrecognized actuarial (gain) or loss	(200,620)	(96,368)	(79,891)
Unrecognized transition (asset) or obligation	(7,839)	(9,059)	(10,358)
Unrecognized prior service cost	40,916	47,286	48,064
Net amount recognized at year-end	$ (46,742)	$ (66,071)	$ (39,967)

	1999	1998	1997
Other Benefits:			
Change in benefit obligation			
Benefit obligation at beginning of year	$127,593	$115,894	$106,743
Service cost	3,040	2,870	2,633
Interest cost	7,248	8,255	7,860
Plan amendments	(22,236)	613	-
Acquisitions/divestitures	-	2,283	-
Curtailment (gain) or loss	-	3,584	-
Special termination benefits	-	2,855	-
Benefits paid	(7,709)	(5,260)	(6,648)
Actuarial (gain) or loss	(6,599)	(3,501)	5,306
Benefit obligation at end of year	$101,337	$127,593	$115,894
Change in plan assets			
Fair value of plan assets at beginning of year	$30,484	$22,192	$15,568
Actual return on plan assets	7,221	5,313	3,649
Employer contributions	8,650	7,056	7,577
Benefits paid	(6,458)	(4,077)	(4,602)
Fair value of plan assets at end of year	$39,897	$30,484	$22,192
Reconciliation of funded status			
Funded status	$ (61,441)	$ (97,109)	$ (93,702)
Unrecognized actuarial (gain) or loss	(31,838)	(20,115)	(16,730)
Unrecognized transition (asset) or obligation	38,183	63,834	70,230
Unrecognized prior service cost	4,291	3,572	3,456
Net amount recognized at year-end	$ (50,805)	$ (49,818)	$ (36,746)

There are no plan assets in the nonqualified plan due to the nature of the plan.

The following tables provide the amounts recognized in the balance sheet and information for plans with benefit obligations in excess of plan assets as of December 31, 1999, 1998 and 1997 (in thousands of $):

	1999	1998	1997
Pension Plans:			
Amounts recognized in the consolidated balance sheet consisted of:			
Accrued benefit liability	$ (56,757)	$ (67,126)	$ (40,296)
Intangible asset	301	426	281
Prepaid benefit cost	6,471	-	-
Other	(300)	706	710
Net amount recognized at year-end	$ (50,285)	$ (65,994)	$ (39,305)
Additional year-end information for plans with benefit obligations in excess of plan assets:			
Projected benefit obligation (1)	$159,131	$163,722	$138,492
Accumulated benefit obligation (2)	11,249	142,941	11,879
Fair value of plan assets (1)	141,346	111,914	102,775

(1) All years include LG&E's non-union plan, LG&E Energy's plan and the Company's unfunded SERPs. 1999 and 1998 also include WKE's union plan.

(2) All years include the Company's SERPs plus in 1999 WKE's union plan and in 1998 LG&E's non-union plan, LG&E Energy's plan and WKE's union plan.

	1999	1998	1997
Other Benefits:			
Amounts recognized in the consolidated balance sheet consisted of:			
Accrued benefit liability	$ (50,805)	$ (49,818)	$ (36,746)
Other	-	(4,421)	(4,166)
Net amount recognized at year-end	$ (50,805)	$ (54,239)	$ (40,912)
Additional year-end information for plans with benefit obligations in excess of plan assets:			
Projected benefit obligation	$101,337	$127,593	$115,894
Fair value of plan assets	44,499	30,484	22,192

The following table provides the components of net periodic benefit cost for the plans for 1999, 1998 and 1997 (in thousands of $):

	1999	1998	1997
Pension Plans:			
Components of net periodic benefit cost			
Service cost	$ 13,761	$ 14,242	$ 12,675
Interest cost	37,749	35,715	32,927
Expected return on plan assets	(51,435)	(42,278)	(35,511)
Amortization of prior service cost	4,059	4,421	4,133
Amortization of transition (asset) or obligation	(1,220)	(1,224)	(1,229)
Recognized actuarial (gain) or loss	(2,759)	(2,248)	(2,854)
Net periodic benefit cost	$ 155	$ 8,628	$ 10,141
Special charges			
Curtailment gain	$ -	$ (2,204)	$ -
Prior service cost recognized	-	2,015	-
Special termination benefits	-	23,965	-
Total charges	$ -	$ 23,776	$ -
Other Benefits:			
Components of net periodic benefit cost			
Service cost	$ 3,040	$ 2,870	$ 2,633
Interest cost	7,248	8,255	7,860
Expected return on plan assets	(2,302)	(1,722)	(1,204)
Amortization of prior service cost	473	373	332
Amortization of transition (asset) or obligation	2,937	4,621	4,682
Recognized actuarial (gain) or loss	(700)	(467)	(810)
Net periodic benefit cost	$ 10,696	$ 13,930	$ 13,493
Special charges			
Curtailment loss	$ -	$ 2,243	$ -
Special termination benefits	-	2,855	-
Total charges	$ -	$ 5,098	$ -

)n May 4, 1998, LG&E Energy and KU Energy merged, with LG&E Energy as the surviving corporation. At he time of the merger KU Energy had both qualified and nonqualified pension plans. During 1998, the Company invested approximately $24.0 million in special termination benefits as a result of its early retirement rogram offered to eligible employees post-merger. In May 1997, $4.7 million in lump sum payments were

made to retired employees of KU Energy due to a change-in-control provision in the Supplemental Security Plan of the Merger Agreement.

The assumptions used in the measurement of the Company's pension benefit obligation are shown in the following table:

	1999	1998	1997
Weighted-average assumptions as of December 31			
Discount rate	8.00%	7.00%	7.00%
Expected long-term rate of return on plan assets (1)	9.50%	8.25%-8.50%	8.25%-8.50%
Rate of compensation increase (2)	5.00%	3.50%-4.00%	2.00%-4.00%

(1) All plans used 8.50% for 1998 and 1997 except KU's.
(2) All plans used 4.00% for 1998 and 1997 except LG&E's union plan which used 3.50% for 1998 and 2.00% for 1997.

For measurement purposes, a 7.00% annual increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 4.75% for 2005 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects (in thousands of $):

	1% Decrease	1% Increase
Effect on total of service and interest cost components for 1999	$ (535)	$ 621
Effect on year-end 1999 postretirement benefit obligations	(5,319)	6,123

Thrift Savings Plans. The Company has thrift savings plans under section 401(k) of the Internal Revenue Code. Under these plans, eligible employees may defer and contribute to the plans a portion of current compensation in order to provide future retirement benefits. The Company makes contributions to the plans by matching a portion of the employee's contributions. The costs of this matching were approximately $6.4 million, $6.0 million and $4.7 million for 1999, 1998 and 1997, respectively.

Note 13 - Income Taxes

Components of income tax expense are shown in the table below (in thousands of $):

		1999	1998	1997
Included in Income Taxes:				
Current	- federal	$ 91,825	$113,990	$ 88,531
	- foreign	15,160	12,208	9,055
	- state	22,514	23,642	19,545
Deferred	- federal - net	7,173	(25,657)	10,435
	- state - net	4,868	(5,267)	1,539
Deferred investment tax credit		-	-	102
Amortization of investment tax credit		(8,016)	(8,087)	(8,378)
Total		$133,524	$110,829	$120,829

Net deferred tax liabilities resulting from book-tax temporary differences are shown below (in thousands of $):

	1999	1998
Deferred tax liabilities:		
Depreciation and other plant-related items	$716,064	$683,023
Other liabilities	44,117	39,550
	760,181	722,573
Deferred tax assets:		
Investment tax credit	34,642	37,878
Income taxes due to customers	39,300	43,021
Deferred income	11,294	11,626
Accrued liabilities not currently deductible and other	89,065	61,945
	174,301	154,470
Net deferred income tax liability	$585,880	$568,103

At December 31, 1999, there were $89.9 million of net operating loss carryforwards related to discontinued operations. These carryforwards, which expire in 2000 through 2009, are subject to an annual limitation of approximately $6 million under provisions of the Internal Revenue Code, and realization is dependent upon generating sufficient taxable income prior to their expiration. At December 31, 1999 and 1998, the Company recorded valuation allowances related to these deferred tax assets of $22.8 million and $25.6 million, respectively. Unamortized goodwill will be reduced if unrecorded net operating loss carryforwards are realized.

A reconciliation of differences between the statutory U.S. federal income tax rate and the Company's effective income tax rate as a percentage of income from continuing operations before income taxes and preferred dividends follows:

	1999	1998	1997
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes net of federal benefit	4.9	4.4	3.9
Effect of foreign operations including foreign tax credit	.9	1.8	1.1
Investment and other tax credits	(3.9)	(3.6)	(3.1)
Nondeductible merger expenses	-	4.7	-
Other differences - net	(1.4)	(2.2)	(0.9)
Effective income tax rate	35.5%	40.1%	36.0%

Note 14 - Other Income and Deductions

Other income and deductions consisted of the following at December 31 (in thousands of $):

	1999	1998	1997
Income from leveraged leases	$ 3,205	$ 4,273	$ 3,974
Interest and dividend income	9,803	10,552	10,159
Gains (losses) on disposals - net	3,801	(4,942)	7,083
Other	2,496	(1,783)	467
Total other income and (deductions)	$ 19,305	$ 8,100	$ 21,683

Note 15 - Capital Stock

Changes in shares of common stock outstanding are shown in the table below (in thousands). The amounts in the table have been restated to reflect the merger-related exchange of 1.67 shares of LG&E Energy common stock for each share of KU Energy common stock.

	1999	1998	1997
Outstanding January 1	129,677	129,683	129,497
Issues under the Employee Common Stock Purchase Plan ($1,613)	-	-	77
Issues under the Omnibus Long-Term Incentive Plan ($2,195)	-	-	109
Merger-related buy-back of fractional shares	-	(6)	-
Outstanding December 31	129,677	129,677	129,683

The Company's shareholders approved an increase in the Company's authorized shares of common stock from 125.0 million to 300.0 million in October 1997 in conjunction with the proposed merger with KU Energy. This increase was effective at the consummation of the merger on May 4, 1998.

The Company has an Omnibus Long-Term Incentive Plan, under which nonqualified stock options, performance units and stock appreciation rights have been granted to key personnel. Pursuant to an amendment approved by the Company's shareholders in April 1999, a total of approximately 6.5 million shares, including prior issuances, of common stock may be issued under the plan. Performance units are paid out on a three-year rolling basis in 50% stock and 50% cash based on Company performance. Directors of the Company receive stock options pursuant to the Stock Option Plan for Non-Employee Directors. A total of 500,000 shares of common stock may be issued under this plan. Each option entitles the holder to acquire one share of the Company's stock no earlier than one year from the date granted. The options are granted at market value and generally expire 10 years from the date granted. In October 1997, the Company announced a repurchase program authorizing the repurchase of up to 1.0 million shares of its common stock to be used for, among other things, benefit and compensation plans, including the Long-Term Plan, and has funded the plans via open market purchases since that date. The Company also repurchased approximately 935,000 shares during 1999 in connection with the funding of its acquisition of CRC.

A summary of the status of the Company's nonqualified stock options follows:

	Outstanding		Exercisable	
	Options	Weighted-Average Price	Options	Weighted-Average Price
As of December 31, 1996	864,344	19.57	443,074	18.09
Options granted and exercisable	394,945	24.15	352,966	21.22
Options exercised	(87,568)	18.97	(87,568)	18.97
Options cancelled	(77,100)	23.04	-	-
As of December 31, 1997	1,094,621	21.01	708,472	19.54
Options granted and exercisable	901,588	24.19	437,373	24.19
Options exercised	(153,456)	20.42	(153,456)	20.42
Options cancelled	(100,284)	23.05	-	-
As of December 31, 1998	1,742,469	22.60	992,389	21.46
Options granted and exercisable	660,641	25.75	732,080	24.11
Options exercised	(20,341)	20.89	(20,341)	20.89
Options cancelled	(56,481)	24.36	(28,628)	23.58
As of December 31, 1999	2,326,288	$23.46	1,675,500	$22.59

Common stock equivalents resulting from the options granted under both the Long-Term Plan and the Directors' Plan would not have a material dilutive effect on reported earnings per share.

The Company has a Shareholders' Rights Plan designed to protect shareholders' interests in the event the Company is ever confronted with an unfair or inadequate acquisition proposal. Pursuant to the plan, each share of common stock has one-third of a "right" entitling the holder to purchase from the Company one one-hundredth of a share of new preferred stock of the Company under certain circumstances. The holders of the rights will, under certain conditions, also be entitled to purchase either shares of common stock of LG&E Energy or common stock of the acquirer at a reduced percentage of market value. The rights will expire on December 19, 2000.

In December 1997, Inversora, a subsidiary of the Company that holds part of the Company's interest in Centro, issued 302,364 shares of preferred stock to unaffiliated parties. The stock has a nominal value of $10 per share and a variable dividend consisting of 5% of Inversora's annual net income. Inversora can redeem the shares at the nominal value upon shareholder approval. During 1998, Inversora redeemed 200,275 shares of preferred stock. During 1999, Inversora redeemed the remaining 102,089 shares.

Note 16 - Long-Term Debt

Long-term debt and the current portion of long-term debt, summarized below (in thousands of $), consists primarily of first mortgage bonds and pollution control bonds issued by LG&E and KU, and medium-term notes issued by Capital Corp. Interest rates and maturities in the table below are for the amounts outstanding at December 31, 1999.

	Stated Interest Rates	Weighted Average Interest Rate	Maturities	Principal Amounts
LG&E	5.45% - 7.63%	6.44%	2002 - 2023	$ 380,600
KU	5.75% - 8.55%	7.02%	2003 - 2027	430,830
Capital Corp.	5.75% - 10.5%	6.48%	2001 - 2011	487,985
Total long-term debt		6.65%		$1,299,415
LG&E (pollution control bonds)	Variable	3.67%	2013 - 2027	$ 246,200
KU (pollution control bonds)	Variable	5.40%	2024	54,000
KU (first mortgage bond)	5.95%	5.95%	2000	61,500
Capital Corp. (medium-term notes)	Variable	6.48%	2000	50,110
Total current portion of long-term debt		6.15%		$ 411,810

Under the provisions for LG&E's and KU's variable-rate pollution control bonds, the 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, causing the bonds to be classified as current portion of long-term debt. The average annualized interest rate for these bonds were 3.98% and 3.35% for LG&E's and KU's bonds, respectively.

Maturities of long-term debt outstanding (principal amounts stated in thousands of $) at December 31, 1999, are summarized below.

2001	$ 37,873
2002	20,091
2003	104,623
2004	150,000
2005	-
Thereafter	986,828
Total	$1,299,415

In December 1999, LG&E notified bondholders of its intent to exercise its call option on its $20.0 million 7.50% First Mortgage Bonds due July 1, 2002. The bonds were redeemed in January 2000 utilizing proceeds from the issuance of commercial paper.

In May 1999, Capital Corp. issued $150 million of medium-term notes due May 2004 with an effective rate of 6.13%.

In September 1999, Capital Corp. issued $50.0 million of floating-rate notes under its medium-note program that mature in September 2000. The notes bear interest at a rate of one-month LIBOR plus 10 basis points.

In November 1998, Capital Corp. issued $150 million of Reset Put Securities due 2011 with an effective rate of 5.4% through October 2001. As of November 1, 2001, the securities will be subject to automatic purchase by a

remarketing agent and either the interest rate will be reset or the bonds will be repurchased by Capital Corp.

In June 1998, $20 million of LG&E's First Mortgage Bonds matured and were retired.

In February 1998, Capital Corp. issued $150 million of medium-term notes due in January 2008, with an effective rate of 6.82%.

Annual requirements for the sinking funds of LG&E's First Mortgage Bonds (other than the First Mortgage Bonds issued in connection with certain Pollution Control Bonds) are the amounts necessary to redeem 1% of the highest principal amount of each series of bonds at any time outstanding. Property additions (166 2/3% of principal amounts of bonds otherwise required to be so redeemed) have been applied in lieu of cash.

Substantially all of LG&E's and KU's utility plants are pledged as security for its First Mortgage Bonds. LG&E's indenture, as supplemented, provides in substance that, under certain specified conditions, portions of retained earnings will not be available for the payment of dividends on common stock. No portion of retained earnings is presently restricted by this provision.

Note 17 - Notes Payable

Capital Corp. had outstanding commercial paper of $329.5 million at December 31, 1999, at a weighted-average interest rate of 5.97%. Capital Corp. had notes payable of $365.1 million at December 31, 1998, at a weighted-average interest rate of 5.19%.

LG&E's short-term financing requirements are satisfied through the sale of commercial paper. LG&E had outstanding commercial paper of $120.1 million at December 31, 1999, at a weighted-average interest rate of 6.02%. LG&E had no short-term borrowings at December 31, 1998.

KU's short-term financing requirements are satisfied through the sale of commercial paper. KU had no short-term borrowings at December 31, 1999, and 1998.

At December 31, 1999, the Companies had lines of credit in place totaling $900 million ($200 million for LG&E and $700 million for Capital Corp.) for which they pay commitment or facility fees. The LG&E credit facility provides support of commercial paper borrowings. The Capital Corp. facility provides for short-term borrowing, letter of credit issuance, and support of commercial-paper borrowings. Unused capacity under these lines totaled $395.6 million after considering the commercial paper support and approximately $51.7 million in letters of credit securing on- and off-balance sheet commitments. The Capital Corp. and LG&E credit lines will expire at various times from 2000 through 2002. Management expects to renegotiate these lines when they expire. The KU credit facilities that provided for short-term borrowing and support of commercial paper borrowing expired on December 31, 1999.

The lenders under the credit facilities, commercial paper program, and medium-term notes for Capital Corp. are entitled to the benefits of a Support Agreement with LG&E Energy. The Support Agreement states, in substance, that LG&E Energy will provide Capital Corp. with the necessary funds and financial support to meet their obligations under the credit facilities, commercial paper program, and medium-term notes.

Note 18 - Commitments and Contingencies

Construction Program

The Company had commitments, primarily in connection with the construction program of LG&E and KU,

aggregating approximately $28 million at December 31, 1999. LG&E's construction expenditures for 2000 and 2001 are estimated to total approximately $401 million. KU's construction expenditures for the same period are estimated to total approximately $324 million. Non-utility construction expenditures for the same two-year period are estimated to be $123 million.

Letters of Credit

Capital Corp. has provided letters of credit issued to third parties to secure certain off-balance sheet obligations (including contingent obligations) of its subsidiaries. The letters of credit securing such obligations totaled approximately $27.9 million and $30.7 million at December 31, 1999 and 1998, respectively. These letters of credit are subject to Support Agreements as more fully described in Note 17, Notes Payable.

Capital Corp. has provided a guarantee of a lease obligation to a third party. The obligation totaled $4.9 million and $7.6 million at December 31, 1999 and 1998, respectively.

Projects

Springfield Municipal Contract. In January 2000, LEM reached a settlement with CWLP regarding a suit previously pending before the United States District Court for the Western District of Kentucky. Pursuant to the settlement, CWLP paid LEM approximately $16.6 million, $4.0 million less than expected. The dispute involved CWLP's 1998 failure to sell electric energy to LEM pursuant to an existing contract between the parties.

Monroe Project. In 1999, a subsidiary of the Company entered into an operating lease wherein it agreed to lease three combustion turbines and related facilities to be installed and constructed at a 450 Mw natural gas-fired merchant power generation plant being developed by the Company in Monroe, Georgia. The lease has a five year term, but no rent is payable until the turbines have been completed and installed, currently anticipated in June 2001. At the end of the lease term, the Company may purchase the leased assets or assist the lessor in selling them. If the assets are sold, the Company is obligated to make up any deficiency between the lease balance and the proceeds subject to a cap. The total value of assets under the lease is expected to be approximately $175 million.

Texas Project. In October 1999, a subsidiary of the Company entered into an initial agreement to purchase six natural gas combustion turbines and is negotiating terms of a definitive agreement. In connection therewith, the Company is pursuing initial development of a possible 1,600 Mw generation facility in Anderson County, Texas. Should the plant be developed as presently planned, the aggregate cost is estimated to be approximately $790 million, portions of which may be independently financed or shared with eventual outside partners.

Roanoke Valley I. The Company owns a 50% interest in WLP, the owner of the Roanoke Valley I facility which sells electric power to VEPCO pursuant to a PPA. From May 1994 through December 1999, VEPCO withheld approximately $19.8 million of capacity payments during periods of forced outages. In October 1994, WLP filed a complaint against VEPCO seeking damages related to the withholding of such payments. In June 1997, the Virginia Supreme Court reversed a lower court ruling granting summary judgment in favor of VEPCO and remanded the case for a trial which occurred in October 1998. In November 1998, the Circuit Court for the City of Richmond, Virginia issued a decision awarding WLP approximately $19 million, plus interest until paid, and ruled WLP was entitled to receive future capacity payments for eligible forced outages during the remainder of the PPA term. In January 1999, VEPCO filed a notice of appeal to the Supreme Court of Virginia regarding the Circuit Court decision. Appellate briefs were filed by the parties during1999 and a hearing was held in January 2000. A decision is anticipated in the first half of 2000. Pending resolution of all appeals by VEPCO, the Company has not recognized any income on its 50% portion of the capacity payments

being withheld by VEPCO. In the Company's opinion, WLP is entitled to recover the withheld capacity payments, as well as the future capacity payments during forced outages. The Company does not expect the ultimate resolution of this matter to have a material adverse effect on its results of operations or financial condition.

Southampton. In October 1998, LG&E-Westmoreland Southampton and VEPCO entered into a settlement agreement which resolved issues pending before the FERC regarding the status of the Southampton as a QF under PURPA for the year 1992, including the possible payment of FERC-ordered refunds by Southampton of capacity payments previously received from VEPCO for such year. The settlement, which has been approved by the FERC, provides for, among other items, payments by Southampton to VEPCO of $1 million annually for the years 1999-2001, followed by a reduction in capacity payments from VEPCO to Southampton by $500,000 annually for the years 2002-2008. Following 2008, VEPCO may elect to terminate its power purchases from Southampton or continue to receive the annual reduction in capacity payments for the remainder of the power purchase agreement. The Company has also been notified that its partners in the Southampton partnership are disputing their responsibilities for their share of the refunds and are asserting that the Company should bear full responsibility for such amounts. In December 1999, the Company settled with one of its partners regarding its claims and is currently negotiating these matters with the remaining partner. The Company does not believe that the disputes with its partners, including the settlement already achieved with the one partner, will have a material adverse effect on its results of operations or financial condition.

Gregory Project. In June 1998, LPI entered into a partnership with Columbia Electric Corporation for the development of a natural gas-fired cogeneration project in Gregory, Texas, providing electricity and steam equivalent of 550 Mw. Initial construction commenced in August 1998 and non-recourse financing for a majority of the construction and other costs was obtained in November 1998. The project will sell steam and a portion of its electric output to Reynolds Metals Company. A medium-term fixed-price contract has also been entered into with a third party for a portion of the remaining electric output. The project is expected to begin commercial operation in the summer of 2000 at an anticipated total project cost of approximately $240 million. The Company's equity contribution is expected to be approximately $30 to $35 million in connection with its 50% interest in the project.

Windpower Partners 1994. WPP 94 is a windpower generation facility in Texas, in which the Company has a 25% interest. Since September 1997 WPP 94 has not made its semiannual payments, due in March and September each year, to Hancock under certain Notes issued by WPP 94 to Hancock. WPP 94 and Hancock have entered into cash sweep and standstill agreements, with the standstill term currently extended through March 2001, regarding the Notes and are presently engaged in discussions concerning a possible restructuring of WPP 94's debt obligations. Because of the continuing nature of the negotiations, the Company is not able to predict the outcome of this event. The Company wrote off its aggregate investment in WPP94 in 1998 and does not expect the ultimate resolution of this matter to have a material effect on its results of operations or financial condition.

Kenetech Bankruptcy. In May 1996, Kenetech filed in the United States Bankruptcy Court in the Northern District of California for protection under Chapter 11 of the United States Bankruptcy Code seeking, among other things, to restructure certain contractual commitments between Kenetech and its subsidiaries, and various windpower projects located in the U.S. and abroad. Included in these projects are the WPP 93, WPP 94 and Tarifa wind projects in which the Company has invested, collectively, approximately $31 million. As part of the bankruptcy proceeding, Kenetech is also seeking to void certain warranty commitments made to the owners of those projects with respect to the operation and output of the facilities, and the repair and replacement of the windpower generation equipment located there. In January 1997, the projects filed their respective breach of contract and other claims against Kenetech in the bankruptcy proceeding. In April 1999, the Bankruptcy Court approved a final plan of reorganization. Three initial distributions pursuant to the Plan were made during 1999

of which the Company's share was approximately $7.45 million, which funds were primarily used directly by the projects to pay unpaid interest and principal on debt of the projects and legal fees. The WPP93 and WPP94 projects are discussing a restructuring of their debt with their creditors, including certain revisions to ownership structure and operating arrangements. Final bankruptcy plan distributions and completion of the project restructurings are currently anticipated during the second quarter of 2000. While the Company is unable to predict the outcome of these events, it does not expect the ultimate resolution of the bankruptcy or the restructurings to have a material adverse effect on its results of operations or financial condition.

Calgary. In November 1996, LG&E Natural Canada Inc., a subsidiary of LEM, initiated action in the Court of the Queens Bench of Alberta, Calgary against a former employee. An amended statement of claim was filed in the Calgary action in December 1996, naming additional parties. These lawsuits were filed as a result of LEM's discovery in the fourth quarter of 1996 that the former employee had engaged in unauthorized transactions. Counterclaims have been filed seeking damages of approximately $40 million for, among other things, defamation and breach of contract. In the second quarter of 1997, the Company received an insurance settlement of $7.6 million (net of expenses) related to the losses. Discovery proceedings in this action have continued during 1999. The Company does not expect the ultimate resolution of this matter to have a material adverse effect on its results of operations or financial condition.

Operating Leases

The Company leases office space, office equipment and vehicles and accounts for these leases as operating leases. See also Note 5 for discussion of the Big Rivers Electric Corporation operating lease. Total lease expense for 1999, 1998 and 1997, was $37.1 million, $21.7 million and $6.7 million, respectively. The future minimum annual lease payments under lease agreements for years subsequent to December 31, 1999, are as follows (in thousands of $):

2000	$ 19,574
2001	42,735
2002	47,605
2003	46,896
2004	216,448
Thereafter	593,028
Total	$966,286

Future minimum annual lease payments have been reduced by rental payments to be received from noncancelable subleases of approximately $1.9 million in 2000, and $1.3 million in 2001.

In December 1999, LG&E and KU entered into an 18-year cross-border lease of its two combustion turbines recently installed at KU's Brown facility. The utilities' obligations were defeased upon consummation of the cross-border lease. The transaction produced a pre-tax gain of approximately $3.1 million which has been deferred pending resolution of rate treatment by the Kentucky Commission.

LG&E Power Monroe LLC, a subsidiary of Capital Corp., entered into a five-year operating lease expiring on December 31, 2004, to finance the purchase and construction of a 450-Mw gas-fired peaking facility in Monroe, Georgia. No lease payments are due during construction and payments will be based on commercial paper rates upon completion of the plant. Currently, the plant is expected to be completed by mid-2001. The cost of the leased assets is expected to total approximately $175 million.

Environmental

The Act imposed stringent new SO2 and NOx emission limits on electric generating units. LG&E previously had installed scrubbers on all of its generating units, while KU met its Phase I SO2 requirements primarily through installation of a scrubber on Ghent Unit 1. The Company's combined strategy for Phase II, commencing January 1, 2000, is to use accumulated emissions allowances to delay additional capital expenditures and may also include fuel switching or the installation of additional scrubbers. LG&E, KU, and WKE met the NOx emission requirements of the Act through installation of low-NOx burner systems. The Company's compliance plans are subject to many factors including developments in the emission allowance and fuel markets, future regulatory and legislative initiatives, and advances in clean air control technology. The Company will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

In September 1998, the EPA announced its final "NOx SIP call" rule requiring significant additional reductions in NOx emissions by May 2003, in order to mitigate alleged ozone transport to the Northeast. While each of the 22 states covered by the rule is free to allocate its assigned NOx reductions among various emissions sectors as it deems appropriate, the regulation may ultimately require electric generating units to reduce their NOx emissions to 0.15 lb./Mmbtu - an 85% reduction from 1990 levels. In related proceedings in response to petitions filed by various Northeast states, in December 1999, EPA issued a final rule directing similar NOx reductions from a number of specifically named electric generating units including all LG&E and KU stations in the eastern half of Kentucky. Additional petitions currently pending before EPA may potentially result in orders encompassing the remaining KU and WKE stations. Several states, various labor and industry groups, and individual companies have appealed both EPA rulings to the U.S. Court of Appeals for the Washington D.C. Circuit. Management is currently unable to determine the outcome or exact impact of this matter until such time as the courts rule on the pending legal challenges and the states implement the final regulatory mandate. However, if the 0.15 lb. target is ultimately imposed, LG&E, KU, and WKE and the independent power projects in which the Company has an interest will be required to incur significant capital expenditures and increased operation and maintenance costs for additional controls.

Subject to further study, analysis, and the outcome of pending litigation against the EPA, the Company estimates that it may incur approximate capital costs for NOx compliance ranging from $300 million to reduce emissions to the level of 0.25 lb./Mmbtu (Commonwealth of Kentucky's proposed NOx compliance level) to $550 million to reduce emissions to the level of 0.15 lb./Mmbtu (current EPA regulations). These costs would generally be incurred beginning in 2000. The Company believes its costs in this regard to be comparable to those of similarly situated utilities with like generation assets. LG&E and KU anticipate that such capital and operating costs are the type of costs that are eligible for recovery from customers under their environmental surcharge mechanisms and believe that a significant portion of such costs could be recovered. However, Kentucky Commission approval is necessary and there can be no guarantee of recovery.

The Company is also addressing other air quality issues. First, the Company is monitoring the status of EPA's revised NAAQS for ozone and particulate matter. In May 1999, the Washington D.C. Circuit remanded the final rule and directed EPA to undertake additional rulemaking efforts. The Company continues to monitor EPA actions to challenge that ruling. Second, the Company was notified by regulatory agencies that the Cane Run Station may be the source of a potential exceedance of the NAAQS that could require the Company to incur additional capital expenditures or accept certain emissions limitations. After reviewing additional modeling information submitted by the Company, in January 2000, EPA concluded that the Cane Run Station does not contribute to any potential NAAQS exceedance and that no further action is required from the Company. Third, the Company is working with regulatory authorities to review the effectiveness of remedial measures aimed at controlling particulate emissions from its Mill Creek Station. The Company previously settled a number of property damage claims from adjacent residents and completed significant plant modifica-

tions as part of its ongoing capital construction program.

The Company owns or formerly owned several properties which contained past MGP operations. Various contaminants are typically found at such former MGP sites and environmental remediation measures are frequently required. The Company has completed the cleanup of a site owned by KU and reached agreements for other parties to assume cleanup responsibility for two other sites formerly owned by LG&E. In addition, the Company recently reached an agreement with the Kentucky Division of Waste Management with respect to a third LG&E-owned site in which the Company committed to impose certain property restrictions and conduct additional monitoring in lieu of a cleanup. Based on currently available information, management estimates that it will incur additional MGP costs of less than $500,000. Accordingly, an accrual of $500,000 has been recorded in the accompanying financial statements. With respect to other former MGP sites no longer owned by the Company, the Company is unable to determine what, if any, additional exposure or liability it may have as it lacks complete information on current site conditions.

In October 1999, approximately 38,000 gallons of diesel fuel leaked from a cracked valve in an underground pipeline at KU's E.W. Brown Station. Under the oversight of EPA and state officials, the Company commenced immediate spill containment and recovery measures which prevented the spill from reaching the Kentucky River. The Company ultimately recovered approximately 34,000 gallons of diesel fuel. In November 1999, the Kentucky Division of Water issued a notice of violation for the incident. The Company is currently negotiating with the state in an effort to reach a complete resolution of this matter. To date the Company has incurred costs of approximately $1 million. The Company does not expect to incur any material additional amounts.

Purchased Power

KU has purchase power arrangements with OMU, EEI and other parties. Under the OMU agreement, which expires on January 1, 2020, KU purchases all of the output of a 400-Mw generating station not required by OMU. The amount of purchased power available to KU during 2000-2004, which is expected to be approximately 7% of KU's total kWh requirements, is dependent upon a number of factors including the units' availability, maintenance schedules, fuel costs and OMU requirements. Payments are based on the total costs of the station allocated per terms of the OMU agreement, which generally follows delivered kWh. Included in the total costs is KU's proportionate share of debt service requirements on $172 million of OMU bonds outstanding at December 31, 1999. The debt service is allocated to KU based on its annual allocated share of capacity, which averaged approximately 46% in 1999.

KU has a 20% equity ownership in EEI, which is accounted for on the equity method of accounting. KU's entitlement is 20% of the available capacity of a 1,000 Mw station. Payments are based on the total costs of the station allocated per terms of an agreement among the owners, which generally follows delivered kWh. See Note 9.

KU has several other contracts for purchased power during 2000 - 2004 of various Mw capacities and for varying periods with a maximum entitlement at any time of 62 Mw.

The estimated future minimum annual payments under purchased power agreements for the five years ended December 31, 2004, are as follows (in thousands of $):

2000	$ 28,765
2001	31,495
2002	30,683
2003	30,947
2004	31,155
Total	$153,045

Note 19 - Jointly Owned Electric Utility Plant

LG&E owns a 75% undivided interest in Trimble County Unit 1. Accounting for the 75% portion of the Unit, which the Kentucky Commission has allowed to be reflected in customer rates, is similar to LG&E's accounting for other wholly owned utility plants.

Of the remaining 25% of the Unit, IMEA owns a 12.12% undivided interest, and IMPA owns a 12.88% undivided interest. Each is responsible for its proportionate ownership share of fuel cost, operation and maintenance expenses, and incremental assets.

The following data represents shares of the jointly owned property:

	Trimble County			
	LG&E	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	371.25	63.75	60.00	495.00
(in thousands of $):				
Cost	$546,497			
Accumulated depreciation	140,972			
Net book value	$405,525			
Construction work in progress (included above)	$673			

Note 20 - Segments of Business and Related Information

Effective December 31, 1998, the Company adopted SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information.* The Company's principal business segments consist of LG&E's regulated electric and gas utility operations, KU's regulated electric utility operations and its non-utility operations, including its Power Operations, WKE, Argentine gas distribution and other.

The All Other category consists of elimination entries, adjustments and other corporate. The Company does not allocate all expenses from corporate to reportable segments. International long-lived assets consist of the long-lived assets of the Argentine gas distribution companies, the Company's investment in the San Miguel project in Argentina (sold in February 1999), and its investment in the Tarifa project in Spain. The Company acquired its interest in Gas BAN in March 1999, and it acquired its interests in Centro and Cuyana in February 1997. Financial data for business segments, revenues by product, and long-lived assets by geographic area follow (in thousands of $):

	Utility Operations			Non-Utility Operations					
Year	LG&E Electric	LG&E Gas	KU Electric	Independent Power Operations	Western Kentucky Energy	Argentine Gas Distribution	Other	Elim. Adj. and Corp.	Consolidated
1999									
Revenues	$ 790,670	$177,579	$ 937,310	$ 24,713	$ 333,785	$ 156,249	$ 329,552	$ (42,582)	$2,707,276
Depreciation and amortization	83,619	13,602	89,922	2,893	3,850	9,964	14,081	1,387	219,318
Interest income	2,898	536	5,001	10,297	1,326	-	10,746	(21,001)	9,803
Interest expense	35,384	6,427	41,860	-	5,429	16,315	44,399	(17,748)	132,066
Equity in unconsolidated ventures	-	-	-	40,897	-	8,820	-	-	49,717
Income taxes	57,389	891	58,019	21,388	4,041	10,943	(9,281)	(9,866)	133,524
Income (loss) from continuing operations	100,598	1,171	104,302	20,475	13,385	12,173	(2,266)	(13,575)	236,263
Total assets	1,821,849	349,604	1,785,090	98,327	188,421	437,764	403,851	48,851	5,133,757
Construction expenditures	160,844	33,800	181,341	669	12,227	28,343	86,756	(121,349)	382,631

	Utility Operations			Non-Utility Operations					
Year	LG&E Electric	LG&E Gas	KU Electric	Independent Power Operations	Western Kentucky Energy	Argentine Gas Distribution	Other	Elim. Adj. and Corp.	Consolidated
1998									
Revenues	$ 658,510	$191,545	$ 810,114	$ 24,157	$ 128,519	$ 148,162	$ 155,039	$ (29,800)	$2,086,246
Depreciation and amortization	79,867	13,312	86,657	4,633	1,345	8,973	10,792	871	206,450
Interest income	3,672	679	1,811	5,025	18	2,313	14,734	(17,700)	10,552
Interest expense	34,221	6,668	40,896	6	2,631	12,581	27,694	(15,308)	109,389
Equity in unconsolidated ventures	-	-	-	71,297	-	2,501	-	-	73,798
Merger costs	32,073	-	21,830	-	-	-	-	11,415	65,318
Income taxes	48,415	(152)	49,444	24,432	2,442	10,030	(6,315)	(17,467)	110,829
Income (loss) from continuing operations	71,536	2,016	70,508	41,608	3,592	5,752	(9,802)	(26,538)	158,672
Total assets	1,734,221	332,789	1,746,209	163,663	176,166	346,305	175,661	148,104	4,823,118
Construction expenditures	105,837	32,509	91,992	4,242	17,549	14,977	70,892	5,630	343,628

Year	Utility Operations			Non-Utility Operations					
	LG&E Electric	LG&E Gas	KU Electric	Independent Power Operations	Western Kentucky Energy	Argentine Gas Distribution	Other	Elim. Adj. and Corp.	Consolidated
1997									
Revenues	$ 615,159	$231,011	$ 716,410	$ 19,622	$ -	$ 127,182	$ 123,362	$ -	$1,832,746
Depreciation and amortization	79,958	13,062	84,111	1,287	-	7,569	7,426	478	193,891
Interest income	5,400	953	1,673	2,321	-	1,697	7,836	(9,721)	10,159
Interest expense	37,236	6,539	41,955	-	-	10,472	16,819	(8,594)	104,427
Equity in unconsolidated ventures	-	-	-	20,526	-	2,411	-	-	22,937
Income taxes	61,426	4,667	47,789	10,154	-	7,264	613	(11,084)	120,829
Income (loss) from continuing operations	104,349	4,339	83,457	17,795	-	4,860	(138)	(6,299)	208,363
Total assets	1,728,761	325,864	1,676,436	214,952	-	340,144	76,287	257,746	4,620,190
Construction expenditures	81,713	29,180	94,006	45	-	4,369	15,730	671	225,714

Revenue By Product:

Year	Retail Electric	Retail Gas	Asset-Based Energy Marketing	Other	Totals
1999	$1,220,048	$333,828	$826,446	$326,954	$2,707,276
1998	1,189,185	339,707	390,567	166,787	2,086,246
1997	1,173,275	358,193	158,294	142,984	1,832,746

Long-Lived Assets By Geographic Area:

Year	Domestic	International	Totals
1999	$4,011,839	$416,199	$4,428,038
1998	3,876,640	299,444	4,176,084
1997	3,647,358	360,106	4,007,464

Note 21 - Selected Quarterly Data (Unaudited)

Selected financial data for the four quarters of 1999 and 1998 are shown below. Because of seasonal fluctuations in temperature and other factors, results for quarters may fluctuate throughout the year.

(Thousands of $ except per share data)	Quarters Ended			
	March	June	September	December
1999				
Revenues	$ 599,265	$ 623,657	$ 865,390	$ 618,964
Operating income	117,364	111,689	172,163	93,379
Net income (loss):				
Continuing operations	56,779	49,965	87,166	42,353
Gain (loss) on disposal of discontinued operations	788	-	-	(175,000)
Total	57,567	49,965	87,166	(132,647)
Earnings per share of common stock (basic and diluted):				
Continuing operations	.44	.39	.67	.33
Gain on disposal of discontinued operations	-	-	-	(1.35)
Total	.44	.39	.67	(1.02)
1998				
Revenues	$ 480,564	$ 472,188	$ 629,176	$ 504,318
Operating income	94,669	73,534	157,361	55,679
Net income (loss):				
Continuing operations	46,218	13,003	78,854	20,597
Discontinued operations	(3,050)	(19,802)	-	-
Gain (loss) on disposal of discontinued operations	-	(225,000)	658	194
Cumulative effect of accounting change	(7,162)	-	-	-
Total	36,006	(231,799)	79,512	20,791
Earnings per share of common stock (basic and diluted):				
Continuing operations	.36	.10	.61	.16
Discontinued operations	(.02)	(.16)	-	-
Loss on disposal of discontinued operations	-	(1.73)	-	-
Cumulative effect of accounting change	(.06)	-	-	-
Total	.28	(1.79)	.61	.16

Note 22 – Subsequent Events

On February 28, 2000, the Company announced that its Board of Directors accepted an offer to be acquired by PowerGen for cash of approximately $3.2 billion or $24.85 per share and the assumption of $2.2 billion of the Company's debt. Pursuant to the acquisition agreement, among other things, LG&E Energy will become a wholly owned subsidiary of PowerGen and its U.S. headquarters. The Utility Operations of the Company will continue their separate identities and serve customers in Kentucky and Virginia under their present names. The preferred stock and debt securities of the Utility Operations will not be affected by this transaction resulting in the Utility Operations' obligation to continue to file SEC reports. The acquisition is expected to close 9 to 12 months from the announcement, shortly after all of the conditions to consummation of the acquisition are met. Those conditions include, without limitation, the approval of the holders of a majority of the outstanding shares of common stock of each of LG&E Energy and PowerGen, the receipt of all necessary governmental approvals and the making of all necessary governmental filings, including approvals of various regulators in Kentucky and Virginia under state utility laws, the approval of the FERC under the FPA, the approval of the SEC under the PUHCA of 1935, and the filing of requisite notifications with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of all applicable waiting periods thereunder. Shareholder meetings to vote upon the approval of the acquisition are expected to be held during the second quarter of 2000 for both LG&E Energy and PowerGen. During the first quarter of 2000, the Company expensed approximately $1.0 million relating to the PowerGen transaction. The foregoing description of the acquisition does not purport to be complete and is qualified in its entirety by reference to LG&E Energy's current reports on Form 8-K, filed February 29, 2000, with the SEC.

On March 3, 2000, the U.S. Court of Appeals for the Washington D.C. Circuit issued a final opinion upholding the NOx SIP call rule requiring electric generating units to reduce their NOx emissions to 0.15 lb./Mmbtu by May 2003. Some of the litigants will likely seek further judicial review of the ruling.

In March 2000, the Virginia Supreme Court, remanded the Company's case against VEPCO, pertaining to capacity payments withheld from its Roanoke Valley I joint venture, for a new trial. Since the Company has not recognized any revenue in its financial statements the remand to the trial court will have no adverse effect on the Company's financial results.

In the first quarter of 2000, the Company will take a restructuring charge of approximately $15 million pre-tax relating to the reduction of approximately 250 positions and the integration of LG&E's and KU's operations, including combining retail gas and electric operations, consolidation of customer service centers and the redesigning various other processes.

The Kentucky Commission responded to the motions filed by the utilities for computational and other errors made in Orders received on base rate reductions in February 2000 by reducing KU's annual revenue reductions by $2.5 million and granting rehearings for LG&E and KU on other issues.

LG&E Energy Corp.
REPORT OF MANAGEMENT

The management of LG&E Energy Corp. and subsidiaries is responsible for the preparation and integrity of the consolidated financial statements and related information included in this Annual Report. These statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and, necessarily, include amounts that reflect the best estimates and judgment of management.

The Company's financial statements have been audited by Arthur Andersen LLP, independent public accountants. Management has made available to Arthur Andersen LLP all the Company's financial records and related data as well as the minutes of shareholders' and directors' meetings. Management has established and maintains a system of internal controls that provides reasonable assurance that transactions are completed in accordance with management's authorization, that assets are safeguarded and that financial statements are prepared in conformity with generally accepted accounting principles. Management believes that an adequate system of internal controls is maintained through the selection and training of personnel, appropriate division of responsibility, establishment and communication of policies and procedures and by regular reviews of internal accounting controls by the Company's internal auditors. Management reviews and modifies its system of internal controls in light of changes in conditions and operations, as well as in response to recommendations from the internal auditors. These recommendations for the year ended December 31, 1999, did not identify any material weaknesses in the design and operation of the Company's internal control structure.

The Audit Committee of the Board of Directors is composed entirely of outside directors. In carrying out its oversight role for the financial reporting and internal controls of the Company, the Audit Committee meets regularly with the Company's independent public accountants, internal auditors and management. The Audit Committee reviews the results of the independent accountants' audit of the consolidated financial statements and their audit procedures, and discusses the adequacy of internal accounting controls. The Audit Committee also approves the annual internal auditing program and reviews the activities and results of the internal auditing function. Both the independent public accountants and the internal auditors have access to the Audit Committee at any time.

LG&E Energy Corp. and subsidiaries maintain and internally communicate a written code of business conduct that addresses, among other items, potential conflicts of interest, compliance with laws, including those relating to financial disclosure and the confidentiality of proprietary information.

LG&E Energy Corp. and Subsidiaries

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of LG&E Energy Corp.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of LG&E Energy Corp. (a Kentucky corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, retained earnings, cash flows and comprehensive income for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG&E Energy Corp. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed under Item 14(a)2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Louisville, Kentucky
January 26, 2000 (Except with respect
to the matters discussed in Note 22, as
to which the date is March 3, 2000.)

Arthur Andersen LLP

Louisville Gas and Electric Company
Statements of Income
(Thousands of $)

	Years Ended December 31		
	1999	1998	1997
OPERATING REVENUES:			
Electric	$ 792,405	$ 663,011	$ 614,532
Gas	177,579	191,545	231,011
Provision for rate refunds (Note 3)	(1,735)	(4,500)	-
Net operating revenues (Note 1)	968,249	850,056	845,543
OPERATING EXPENSES:			
Fuel for electric generation	159,129	154,683	149,463
Power purchased	169,573	50,176	17,229
Gas supply expenses	114,745	125,894	158,929
Other operation expenses	154,667	163,584	150,750
Maintenance	58,119	52,786	47,586
Depreciation and amortization	97,221	93,178	93,020
Federal and state income taxes (Note 8)	57,774	56,307	64,081
Property and other taxes	16,930	17,925	16,299
Total operating expenses	828,158	714,533	697,357
Net operating income	140,091	135,523	148,186
Merger costs (Note 2)	-	32,072	-
Other income and (deductions) (Note 9)	4,141	10,991	4,277
Interest charges	37,962	36,322	39,190
Net income	106,270	78,120	113,273
Preferred stock dividends	4,501	4,568	4,585
Net income available for common stock	$ 101,769	$ 73,552	$ 108,688

Statements of Retained Earnings
(Thousands of $)

	Years Ended December 31		
	1999	1998	1997
Balance January 1	$247,462	$258,910	$209,222
Add net income	106,270	78,120	113,273
	353,732	337,030	322,495
Deduct: Cash dividends declared on stock:			
5% cumulative preferred	1,075	1,075	1,075
Auction rate cumulative preferred	1,957	2,024	2,041
$5.875 cumulative preferred	1,469	1,469	1,469
Common	90,000	85,000	59,000
	94,501	89,568	63,585
Balance December 31	$259,231	$247,462	$258,910

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

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

	Years Ended December 31		
	1999	1998	1997
Net income available for common stock	$ 101,769	$ 73,552	$108,688
Unrealized holding losses on available-for-sale securities arising during the period	(402)	(14)	(426)
Reclassification adjustment for realized gains on available-for-sale securities included in net income	-	-	188
Other comprehensive income (loss) before tax	(402)	(14)	(238)
Income tax (expense) benefit related to items of other comprehensive income	163	(18)	119
Comprehensive income	$ 101,530	$ 73,520	$108,569

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

Louisville Gas and Electric Company
Balance Sheets
(Thousands of $)

	December 31 1999	1998
ASSETS:		
Utility plant, at original cost:		
Electric	$2,396,707	$2,268,860
Gas	365,128	339,647
Common	141,009	131,271
	2,902,844	2,739,778
Less: reserve for depreciation	1,215,032	1,144,123
	1,687,812	1,595,655
Construction work in progress	162,995	156,361
	1,850,807	1,752,016
Other property and investments - less reserve	1,224	1,154
Current assets:		
Cash and temporary cash investments	54,761	31,730
Marketable securities (Note 6)	6,936	17,851
Accounts receivable - less reserve of $1,233 in 1999 and $1,399 in 1998	113,859	142,580
Materials and supplies - at average cost:		
Fuel (predominantly coal)	17,350	23,993
Gas stored underground	38,780	33,485
Other	35,010	33,103
Prepayments and other	2,775	2,285
	269,471	285,027
Deferred debits and other assets:		
Unamortized debt expense	5,607	5,919
Regulatory assets (Note 3)	31,443	37,643
Other	12,900	22,878
	49,950	66,440
	$2,171,452	$2,104,637
CAPITAL AND LIABILITIES:		
Capitalization (see statements of capitalization):		
Common equity	$ 683,376	$ 671,846
Cumulative preferred stock	95,328	95,328
Long-term debt (Note 10)	380,600	626,800
	1,159,304	1,393,974
Current liabilities:		
Current portion of long-term debt	246,200	-
Notes payable	120,097	-
Accounts payable	113,008	133,673
Provision for rate refunds	8,962	13,261
Dividends declared	24,236	23,168
Accrued taxes	23,759	31,929
Accrued interest	9,265	8,038
Other	15,725	15,242
	561,252	225,311
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Notes 1 and 8)	255,910	254,589
Investment tax credit, in process of amortization	67,253	71,542
Accumulated provision for pensions and related benefits (Note 7)	38,431	59,529
Customers' advances for construction	11,104	10,848
Regulatory liability (Note 3)	58,726	63,529
Other	19,472	25,315
	450,896	485,352
Commitments and contingencies (Note 12)		
	$2,171,452	$2,104,637

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

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

	Years Ended December 31		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 106,270	$ 78,120	$ 113,273
Items not requiring cash currently:			
Depreciation and amortization	97,221	93,178	93,020
Deferred income taxes - net	(5,279)	2,747	(3,495)
Investment tax credit - net	(4,289)	(4,258)	(4,240)
Other	6,924	5,534	4,640
Change in certain net current assets:			
Accounts receivable	28,721	(17,708)	(9,728)
Materials and supplies	(559)	423	(8,492)
Accounts payable	(20,665)	34,779	1,416
Provision for rate refunds	(4,299)	13	(4,263)
Accrued taxes	(8,170)	13,206	6,741
Accrued interest	1,227	22	(1,978)
Prepayments and other	(7)	976	1,333
Other	(16,602)	18,679	(3,188)
Net cash flows from operating activities	180,493	225,711	185,039
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of securities	(1,144)	(17,397)	(18,529)
Proceeds from sales of securities	11,662	18,841	2,544
Construction expenditures	(194,644)	(138,345)	(110,893)
Net cash flows from investing activities	(184,126)	(136,901)	(126,878)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Short-term borrowing	120,097	-	-
Issuance of first mortgage bonds and pollution control bonds	-	-	69,776
Retirement of first mortgage bonds and pollution control bonds	-	(20,000)	(71,693)
Payment of dividends	(93,433)	(87,552)	(62,564)
Net cash flows from financing activities	26,664	(107,552)	(64,481)
Change in cash and temporary cash investments	23,031	(18,742)	(6,320)
Cash and temporary cash investments at beginning of year	31,730	50,472	56,792
Cash and temporary cash investments at end of year	$ 54,761	$ 31,730	$ 50,472
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 76,761	$ 40,334	$ 63,421
Interest on borrowed money	33,507	34,245	39,582

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

Louisville Gas and Electric Company
Statements of Capitalization
(Thousands of $)

	Shares Outstanding	Current Redemption Price	December 31 1999	1998
COMMON EQUITY:				
Common stock, without par value -				
Authorized 75,000,000 shares, outstanding 21,294,223 shares			$ 425,170	$ 425,170
Common stock expense			(836)	(836)
Unrealized gain (loss) on marketable securities, net of income taxes ($128) in 1999 and $34 in 1998 (Note 6)			(189)	50
Retained earnings			259,231	247,462
			683,376	671,846
CUMULATIVE PREFERRED STOCK:				
Redeemable on 30 days notice by LG&E				
$25 par value, 1,720,000 shares authorized -				
5% series	860,287	$28.00	21,507	21,507
Without par value, 6,750,000 shares authorized -				
Auction rate	500,000	100.00	50,000	50,000
$5.875 series	250,000	104.70	25,000	25,000
Preferred stock expense			(1,179)	(1,179)
			95,328	95,328
LONG-TERM DEBT (Note 10):				
First mortgage bonds -				
Series due July 1, 2002, 7 1/2%			20,000	20,000
Series due August 15, 2003, 6%			42,600	42,600
Pollution control series:				
P due June 15, 2015, 7.45%			25,000	25,000
Q due November 1, 2020, 7 5/8%			83,335	83,335
R due November 1, 2020, 6.55%			41,665	41,665
S due September 1, 2017, variable			31,000	31,000
T due September 1, 2017, variable			60,000	60,000
U due August 15, 2013, variable			35,200	35,200
V due August 15, 2019, 5 5/8%			102,000	102,000
W due October 15, 2020, 5.45%			26,000	26,000
X due April 15, 2023, 5.90%			40,000	40,000
Total first mortgage bonds			506,800	506,800
Pollution control bonds (unsecured) -				
Jefferson County Series due September 1, 2026, variable			22,500	22,500
Trimble County Series due September 1, 2026, variable			27,500	27,500
Jefferson County Series due November 1, 2027, variable			35,000	35,000
Trimble County Series due November 1, 2027, variable			35,000	35,000
Total unsecured pollution control bonds			120,000	120,000
Total bonds outstanding			626,800	626,800
Less current portion of long-term debt			246,200	-
Long-term debt			380,600	626,800
Total capitalization			$1,159,304	$1,393,974

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

Louisville Gas and Electric Company
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

LG&E is a subsidiary of LG&E Energy. LG&E is a regulated public utility that is engaged in the generation, transmission, distribution, and sale of electric energy and the storage, distribution, and sale of natural gas in Louisville and adjacent areas in Kentucky. LG&E Energy is an exempt energy services holding company with wholly-owned subsidiaries consisting of LG&E, KU, Capital Corp., and LEM. All of the LG&E's Common Stock is held by LG&E Energy.

Utility Plant. LG&E's plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits, and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. LG&E has not recorded any allowance for funds used during construction.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost, plus removal expense less salvage value, is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Depreciation. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided for 1999 were 3.4% (3.2% electric, 3.2% gas, and 7.1% common); for 1998 were 3.4% (3.2% electric, 3.4% gas, and 7.4% common); and for 1997 were 3.4% (3.2% electric, 3.3% gas, and 6% common) of average depreciable plant.

Cash and Temporary Cash Investments. LG&E considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Temporary cash investments are carried at cost, which approximates fair value.

Gas Stored Underground. Gas inventories of $38.8 million and $33.5 million at December 31, 1999 and 1998, respectively, are included in gas stored underground in the balance sheet. The inventory is accounted for using the average-cost method.

Financial Instruments. LG&E uses over-the-counter interest-rate swap agreements to hedge its exposure to fluctuations in the interest rates it pays on variable-rate debt. LG&E also uses exchange-traded U.S. Treasury note and bond futures to hedge its exposure to fluctuations in the value of its investments in the preferred stocks of other companies. Gains and losses on interest-rate swaps used to hedge interest rate risk are reflected in interest charges monthly. Gains and losses on U.S. Treasury note and bond futures used to hedge investments in preferred stocks are initially deferred and classified as unrealized losses on marketable securities in common equity and then charged or credited to other income and deductions when the securities are sold. See Note 4, Financial Instruments.

In connection with LG&E's marketing of power from owned generation assets, exchange traded futures are used to hedge its exposure to price risk. Gains and losses on these futures contracts are reflected in other income and deductions, but are immaterial to LG&E's results of operations. At December 31, 1999, the value of these futures contracts was not material to LG&E's financial position.

Debt Expense. Debt expense is amortized over the lives of the related bond issues, consistent with regulatory practices.

Deferred Income Taxes. Deferred income taxes have been provided for all material book-tax temporary differences.

Investment Tax Credits. Investment tax credits resulted from provisions of the tax law that permitted a reduction of LG&E's tax liability based on credits for certain construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. LG&E accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period. The unbilled revenue estimates included in accounts receivable for LG&E at December 31, 1999 and 1998, were approximately $31.1 million and $25.1 million, respectively. Under an agreement approved by the Kentucky Commission in 1994, LG&E implemented a demand side management program, including a "decoupling mechanism" which allowed LG&E to recover a predetermined level of revenue on electric and gas residential sales. In 1998, the decoupling mechanism was suspended. See Note 3, Rates and Regulatory Matters.

Fuel and Gas Costs. The cost of fuel for electric generation is charged to expense as used, and the cost of gas supply is charged to expense as delivered to the distribution system. LG&E implemented a Kentucky Commission-approved experimental performance-based ratemaking mechanism related to gas procurement and off-system gas sales activity in October 1997. See Note 3, Rates and Regulatory Matters.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. See Note 12, Commitments and Contingencies, for a further discussion.

New Accounting Pronouncements. During 1999 and 1998, the following accounting pronouncements were issued that affect LG&E:

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or a liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that LG&E must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. LG&E has not yet quantified all the effects of adopting SFAS No. 133 on the financial statements. However, SFAS No. 133 could increase the volatility in earnings and other comprehensive income. The effect of this statement will be recorded in cumulative effect of change in accounting when adopted. SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of SFAS No. 133*, deferred the effective date of SFAS No. 133 until January 1, 2001.

EITF No. 98-10, *Accounting for Energy Trading and Risk Management Activities* was adopted effective January 1, 1999. The pronouncement requires that energy trading contracts to be marked to market on the balance sheet, with the gains and losses shown net in the income statement. EITF No. 98-10 more broadly defines what represents energy trading to include economic activities related to physical assets which were not previously marked to market by established industry practice. Adoption of EITF No. 98-10 did not have a material impact on LG&E's consolidated results of operations or financial position.

SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Adopted

as of January 1, 1998, SOP 98-1 clarifies the criteria for capital or expense treatment of costs incurred by an enterprise to develop or obtain computer software to be used in its internal operations. The statement does not change treatment of costs incurred in connection with correcting computer programs to properly process the millennium change to the Year 2000, which were expensed as incurred. Adoption of SOP 98-1 did not have a material effect on LG&E's financial statements.

Note 2 - Merger

LG&E Energy and KU Energy merged on May 4, 1998, with LG&E Energy as the surviving corporation. As a result of the merger, the LG&E Energy, which is the parent of LG&E, became the parent company of KU. The operating utility subsidiaries (LG&E and KU) have continued to maintain their separate corporate identities and serve customers in Kentucky and Virginia under their present names. LG&E Energy has estimated approximately $760 million in gross non-fuel savings over a ten-year period following the merger. Costs to achieve these savings for LG&E of $50.2 million were recorded in the second quarter of 1998, $18.1 million of which were initially deferred and are being amortized over a five-year period pursuant to regulatory orders. Primary components of the merger costs were separation benefits, relocation costs, and transaction fees, the majority of which were paid by December 31, 1998. LG&E expensed the remaining costs associated with the merger ($32.1 million) in the second quarter of 1998. In regulatory filings associated with approval of the merger, LG&E committed not to seek increases in existing base rates and proposed reductions in their retail customers' bills in amounts based on one-half of the savings, net of the deferred and amortized amount, over a five-year period. The preferred stock and debt securities of LG&E were not affected by the merger.

LG&E Energy, as the parent of LG&E and KU, continues to be an exempt holding company under PUHCA. Management has accounted for the merger as a pooling of interests and as a tax-free reorganization under the Internal Revenue Code.

In the application filed with the Kentucky Commission, the utilities proposed that 50% of the net non-fuel cost savings estimated to be achieved from the merger, less $18.1 million or 50% of the originally estimated costs to achieve such savings, be applied to reduce customer rates through a surcredit on customers' bills and the remaining 50% be retained by the companies. The Kentucky Commission approved the surcredit and allocated the customer savings 53% to KU and 47% to LG&E. The surcredit will be about 2% of customer bills over the next five years and will amount to approximately $55 million in net non-fuel savings to LG&E. Any fuel cost savings are passed to Kentucky customers through the companies' fuel adjustment clauses. See Note 3 for more information about LG&E's rates and regulatory matters.

Note 3 - Rates and Regulatory Matters

Accounting for the regulated utility business conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by FERC and the Kentucky Commission. LG&E is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Under SFAS No. 71, certain costs that would otherwise be charged to expense are deferred as regulatory assets based on expected recovery from customers in future rates. Likewise, certain credits that would otherwise be reflected as income are deferred as regulatory liabilities based on expected flowback to customers in future rates. LG&E's current or expected recovery of deferred costs and expected flowback of deferred credits is generally based on specific ratemaking decisions or precedent for each item. The following regulatory assets and liabilities were included in LG&E's balance sheets as of December 31 (in thousands of $):

	1999	1998
Unamortized loss on bonds	$ 16,556	$ 17,627
Merger costs	12,702	16,332
Manufactured gas sites	2,185	3,684
Total regulatory assets	31,443	37,643
Deferred income taxes - net	(56,767)	(63,529)
Deferred net gain	(1,959)	-
Total regulatory liabilities	(58,726)	(63,529)
Regulatory liabilities - net	$(27,283)	$(25,886)

Environmental Cost Recovery. In May 1995, LG&E implemented an ECR surcharge. The Kentucky Commission's order approving the surcharge for KU as well as the constitutionality of the surcharge was challenged by certain intervenors in Franklin Circuit Court. Decisions of the Circuit Court and the Kentucky Court of Appeals in July 1995 and December 1997, respectively, upheld the constitutionality of the ECR statute but differed on a claim of retroactive recovery of certain amounts. Based on these decisions, the Kentucky Commission ordered that certain surcharge revenues collected by LG&E be subject to refund pending final determination of all appeals.

In December 1998, the Kentucky Supreme Court rendered an opinion upholding the constitutionality of the surcharge statute but denied recovery of costs associated with pre-1993 environmental projects through the ECR. The court remanded the case to the Kentucky Commission to determine amounts to be refunded for revenues collected for such pre-1993 environmental projects. Accordingly, LG&E recorded a provision for rate refunds of $4.5 million in December 1998.

The parties to the proceedings reached a settlement agreement that was approved in a Final Order issued by the Kentucky Commission in August 1999. This Final Order resulted in the additional accrual of approximately $.6 million to what had been recorded in December 1998. The refund is being applied to customers' bills during the twelve-month period beginning October 1999.

Future Rate Regulation. In October 1998, LG&E filed an application with the Kentucky Commission for approval of a new method of determining electric rates that sought to provide continued financial incentives for LG&E to further reduce customers' rates. The filing was made pursuant to the September 1997 Kentucky Commission order approving the merger of LG&E Energy and KU Energy, wherein the Kentucky Commission directed LG&E to indicate whether they desired to remain under traditional rate of return regulation or commence non-traditional regulation. The proposed ratemaking method, known as PBR, included financial incentives for LG&E to reduce fuel costs and increase generating efficiency, and to share any resulting savings

with customers. Additionally, the PBR proposal provided for financial penalties and rewards to assure continued high quality service and reliability.

In April 1999, LG&E filed a joint agreement with KU and the Kentucky Attorney General to adopt the PBR plan subject to certain amendments. The amended filing included requested Kentucky Commission approval of a five-year rate reduction plan which proposed to reduce the electric rates of LG&E by $9.4 million in the first year (beginning July 1999), and by $3.8 million annually through June 2004. The proposed amended plan also included establishment by LG&E of a $2.8 million program for low-income customer assistance as well as extension for one additional year of both the rate cap proposal and merger savings surcredit established in the original merger plan of LG&E and KU. Under the rate cap proposal LG&E agreed, in the absence of extraordinary circumstances, not to increase base electric rates for five years following the merger and LG&E also agreed to refrain from filing for an increase in natural gas rates through June 2004.

In April 1999, the Kentucky Commission issued initial orders implementing the amended PBR plan, effective July 1999, and subject to modification. The Kentucky Commission also consolidated into the continuing PBR proceedings an earlier March 1999, rate complaint by a group of industrial intervenors, KIUC, in which KIUC requested significant reductions in electric rates. Hearings were conducted before the Kentucky Commission on LG&E's amended PBR plan and the KIUC rate reduction petitions in August and September 1999. Legal briefs of the parties were filed with the Kentucky Commission in October 1999. KIUC's position called for annual revenue reductions for LG&E of $69.6 million.

In January 2000, the Kentucky Commission issued an Order for LG&E in the subject cases. The Kentucky Commission ruled that LG&E should reduce base rates by $27.2 million effective with bills rendered beginning March 1, 2000. The Kentucky Commission eliminated the proposal to operate under its PBR plan and reinstated the fuel adjustment clause mechanism effective March 1, 2000. The Kentucky Commission offered LG&E the opportunity to operate under an ESM for the next three years. Under this mechanism, incremental annual earnings resulting in a rate of return either above or below a range of 10.5% to 12.5% would be shared 60% with shareholders and 40% with ratepayers.

Later in January 2000, LG&E filed motions for correction to the January 2000 orders for computational and other errors made in the Kentucky Commission's orders which produced overstatements in the base rate reductions to LG&E of $1.1 million. LG&E also filed motions for reconsideration with the Kentucky Commission on a number of items in the case in late January. Certain intervening parties in the proceedings have also filed motions for reconsideration asserting, among other things, that the Kentucky Commission understated the amount of base rate reductions.

Other Rate Matters. LG&E's rates contain a DSM provision. The provision includes a rate mechanism that provides concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. This program had allowed LG&E to recover revenues from lost sales associated with the DSM program (decoupling), but in 1998, LG&E and customer interest groups requested an end to the decoupling rate mechanism. In September 1998, the Kentucky Commission accepted LG&E's modified tariff discontinuing the decoupling mechanism effective as of June 1, 1998.

Since October 1997, LG&E has implemented an experimental performance-based ratemaking mechanism related to gas procurement activities and off-system gas sales only. During the three-year test period beginning October 1997, rate adjustments related to this mechanism will be determined for each 12-month period beginning November 1 and ending October 31. During the first two years of the mechanism ended October 31, 1999 and 1998, LG&E recorded $2.2 million and $3.5 million, respectively, for its share of reduced gas costs. These amounts are billed to customers through the gas supply clause.

Prior to implementation of the PBR in July 1999, and following its termination in March 2000, LG&E employed a FAC mechanism, which under Kentucky law allowed LG&E to recover from customers, the actual fuel costs associated with retail electric sales. In February 1999, LG&E received orders from the Kentucky Commission requiring a refund to retail electric customers of approximately $3.9 million resulting from reviews of the FAC from November 1994 through April 1998, of which $1.9 million was refunded in April 1999 for the period beginning November 1994 and ending October 1996. The orders changed LG&E's method of computing fuel costs associated with electric line losses on off-system sales appropriate for recovery through the FAC. LG&E requested that the Kentucky Commission grant rehearing on the February orders, and further requested that the Kentucky Commission stay the refund requirement until it could rule on the rehearing request. The Kentucky Commission granted the request for a stay, and in March 1999 granted rehearing on the appropriate line loss factor associated with off-system sales for the 18-month period ended April 1998. The Kentucky Commission also granted rehearing on the KIUC's request for rehearing on the Kentucky Commission's determination that it lacked authority to require LG&E to pay interest on the refund amounts. The Kentucky Commission conducted a hearing on the rehearing issues and issued a final ruling in December 1999. The Kentucky Commission agreed with LG&E 's position on the appropriate loss factor to use in the FAC computation and reduced the refund level for the 18-month period under review to approximately $800,000. LG&E implemented the refund with billings in the month of January 2000. LG&E has filed an appeal from the Kentucky Commission's February 1999 orders with the Franklin Circuit Court. A decision on the appeals by the Court is expected in 2000.

LG&E intends to file before the end of the first quarter an application with the Kentucky Commission for authority to increase its natural gas rates in order to recoup higher costs for providing natural gas distribution services. LG&E expects implementation before the end of 2000.

Kentucky PSC Administrative Case for Affiliate Transactions. In December 1997, the Kentucky Commission opened Administrative Case No. 369 to consider Kentucky Commission policy regarding cost allocations, affiliate transactions and codes of conduct governing the relationship between utilities and their non-utility operations and affiliates. The Kentucky Commission intends to address two major areas in the proceedings: the tools and conditions needed to prevent cost shifting and cross-subsidization between regulated and non-utility operations; and whether a code of conduct should be established to assure that non-utility segments of the holding company are not engaged in practices that could result in unfair competition caused by cost shifting from the non-utility affiliate to the utility. In September 1998, the Kentucky Commission issued a draft code of conduct and cost allocation guidelines. In January 1999, LG&E, as well as all parties to the proceeding, filed comments on the Kentucky Commission draft proposals. In December 1999, the Kentucky Commission issued guidelines on cost allocation and held a hearing in January 2000, on the draft code of conduct. Management does not expect the ultimate resolution of this matter to have a material adverse effect on LG&E's financial position or results of operations.

Note 4 - Financial Instruments

The cost and estimated fair values of LG&E's non-trading financial instruments as of December 31, 1999 and 1998 follow (in thousands of $):

	1999		1998	
	Cost	Fair Value	Cost	Fair Value
Marketable securities	$ 7,253	$ 6,936	$ 17,767	$ 17,851
Long-term investments - Not practicable to estimate fair value	746	746	748	748
Preferred stock subject to mandatory redemption	25,000	24,861	25,000	26,413
Long-term debt (including current portion)	626,800	623,498	626,800	648,603
U.S. Treasury note and bond futures	-	81	-	(50)
Interest-rate swaps	-	1,666	-	(7,378)

All of the above valuations reflect prices quoted by exchanges except for the swaps and the long-term investments. The fair values of the swaps reflect price quotes from dealers or amounts calculated using accepted pricing models. The fair values of the long-term investments reflect cost, since LG&E cannot reasonably estimate fair value.

Interest Rate Swaps. LG&E enters into interest rate swap agreements to exchange variable interest rate payments obligations without the exchange of underlying principal amounts. As of December 31, 1999 and 1998, LG&E was party to various interest rate swaps with aggregate notional amounts of $234.3 million and $249.3 million, respectively. Under swap agreements LG&E paid fixed rates averaging 3.80% and 3.89% and received variable rates of averaging 5.46% and 4.00% at December 31, 1999 and 1998, respectively. The swaps mature on dates ranging from 2001 to 2020.

At December 31, 1999, LG&E held U.S. Treasury note and bond futures contracts with notional amounts totaling $3.5 million. These contracts are used to hedge price risk associated with certain marketable securities and mature in March 2000.

Note 5 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

LG&E's customer receivables and gas and electric revenues arise from deliveries of natural gas to approximately 295,000 customers and electricity to approximately 366,000 customers in Louisville and adjacent areas in Kentucky. For the year ended December 31, 1999, 82% of total revenue was derived from electric operations and 18% from gas operations.

In December 1998, LG&E and IBEW Local 2100 employees, which represent approximately 60% of LG&E's workforce, entered into a three-year collective bargaining agreement.

Note 6 - Marketable Securities

LG&E's marketable securities have been determined to be "available-for-sale" under the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Proceeds from sales of available-for-sale securities in 1999 were approximately $11.7 million, which resulted in an immaterial net realized gain, calculated using the specific identification method. Proceeds from sales of available-for-sale securities in 1998 were approximately $18.8 million, which resulted in immaterial realized gains and losses.

Approximate cost, fair value, and other required information pertaining to LG&E's available-for-sale securities by major security type, as of December 31, 1999 and 1998, follow (in thousands of $):

	Equity	Fixed Income	Total
1999:			
Cost	$4,385	$2,868	$7,253
Unrealized gains	90	3	93
Unrealized losses	(304)	(106)	(410)
Fair values	$4,171	$2,765	$6,936
Fair values:			
No maturity	$4,171	$ -	$4,171
Contractual maturities:			
Less than one year	-	2,134	2,134
One to five years	-	631	631
Total fair values	$4,171	$2,765	$6,936
1998:			
Cost	$3,798	$13,969	$17,767
Unrealized gains	276	31	307
Unrealized losses	(95)	(128)	(223)
Fair values	$3,979	$13,872	$17,851
Fair values:			
No maturity	$3,979	$ 178	$ 4,157
Contractual maturities:			
Less than one year	-	8,301	8,301
One to five years	-	3,861	3,861
Over ten years	-	1,532	1,532
Total fair values	$3,979	$13,872	$17,851

Note 7 - Pension Plans and Retirement Benefits

Pension Plans. LG&E sponsors several qualified and non-qualified pension plans and other postretirement benefit plans for its employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the three-year period ending December 31, 1999, and a statement of the funded status as of December 31 for each of the last three years (in thousands of $):

	1999	1998	1997
Pension Plans:			
Change in benefit obligation			
Benefit obligation at beginning of year	$311,935	$274,095	$229,349
Service cost	5,005	6,333	5,214
Interest cost	21,014	19,873	17,629
Plan amendments	(2,397)	3,724	3,085
Curtailment (gain) or loss	-	(2,218)	-
Special termination benefits	-	18,295	-
Benefits paid	(15,471)	(10,866)	(8,735)
Actuarial (gain) or loss	(36,819)	2,699	27,553
Benefit obligation at end of year	$283,267	$311,935	$274,095
Change in plan assets			
Fair value of plan assets at beginning of year	$308,660	$280,238	$238,026
Actual return on plan assets	51,995	38,913	46,078
Employer contributions	14,911	375	4,869
Benefits paid	(15,471)	(10,866)	(8,735)
Fair value of plan assets at end of year	$360,095	$308,660	$280,238
Reconciliation of funded status			
Funded status	$ 76,828	$ (3,275)	$ 6,143
Unrecognized actuarial (gain) or loss	(126,554)	(72,037)	(61,720)
Unrecognized transition (asset) or obligation	(6,965)	(8,076)	(9,188)
Unrecognized prior service cost	35,588	41,447	43,518
Net amount recognized at end of year	$ (21,103)	$ (41,941)	$ (21,247)
Other Benefits:			
Change in benefit obligation			
Benefit obligation at beginning of year	$44,964	$43,373	$39,951
Service cost	1,205	761	746
Interest cost	3,270	2,946	2,942
Plan amendments	2,377	599	-
Curtailment (gain) or loss	-	344	-
Special termination benefits	-	2,855	-
Benefits paid	(3,050)	(2,634)	(2,604)
Actuarial (gain) or loss	(3,769)	(3,280)	2,338
Benefit obligation at end of year	$44,997	$44,964	$43,373
Change in plan assets			
Fair value of plan assets at beginning of year	$ 6,062	$ 4,384	$ 2,284
Actual return on plan assets	1,776	199	80
Employer contributions	4,681	3,207	3,696
Benefits paid	(1,993)	(1,728)	(1,676)
Fair value of plan assets at end of year	$10,526	$ 6,062	$ 4,384

	1999	1998	1997
Reconciliation of funded status			
Funded status	$(34,471)	$(38,902)	$(38,989)
Unrecognized actuarial (gain) or loss	(1,638)	(285)	2,901
Unrecognized transition (asset) or obligation	14,489	18,080	20,053
Unrecognized prior service cost	4,292	3,519	3,410
Net amount recognized at end of year	$(17,328)	$(17,588)	$(12,625)

There are no plan assets in the nonqualified plan due to the nature of the plan.

The following tables provide the amounts recognized in the balance sheet and information for plans with benefit obligations in excess of plan assets as of December 31, 1999, 1998 and 1997 (in thousands of $):

	1999	1998	1997
Pension Plans:			
Amounts recognized in the balance sheet consisted of:			
Prepaid benefits cost	$ 6,466	$ -	$ -
Accrued benefit liability	(27,569)	(41,977)	(21,317)
Intangible asset	-	36	70
Net amount recognized at year-end	$ (21,103)	$ (41,941)	$ (21,247)
Additional year-end information for plans with benefit obligations in excess of plan assets:			
Projected benefit obligation (1)	$139,491	$148,005	$121,902
Accumulated benefit obligation (2)	4,327	131,430	4,179
Fair value of plan assets (1)	133,336	107,988	99,151

(1) All years include non-union plan and unfunded SERPs.
(2) 1998 includes non-union plan and SERPs. 1999 and 1997 include SERPs only.

	1999	1998	1997
Other Benefits:			
Amounts recognized in the balance sheet consisted of:			
Accrued benefit liability	$ (17,328)	$ (17,588)	$ (12,625)
Additional year-end information for plans with benefit obligations in excess of plan assets:			
Projected benefit obligation	$44,997	$44,964	$43,373
Fair value of plan assets	13,074	6,062	4,384

The following table provides the components of net periodic benefit cost for the plans for 1999, 1998 and 1997 (in thousands of $):

	1999	1998	1997
Pension Plans:			
Components of net periodic benefit cost			
Service cost	$ 5,005	$ 6,333	$ 5,214
Interest cost	21,014	19,873	17,629
Expected return on plan assets	(28,946)	(23,701)	(19,849)
Amortization of prior service cost	3,462	3,882	3,708
Amortization of transition (asset) or obligation	(1,112)	(1,112)	(1,112)
Recognized actuarial (gain) or loss	(2,621)	(2,248)	(2,866)
Net periodic benefit cost	$ (3,198)	$ 3,027	$ 2,724
Special charges			
Curtailment gain	$ -	$ (2,168)	$ -
Prior service cost recognized	-	1,914	-
Special termination benefits	-	18,295	-
Total charges	$ -	$ 18,041	$ -
Other Benefits:			
Components of net periodic benefit cost			
Service cost	$ 1,205	$ 761	$ 746
Interest cost	3,270	2,946	2,942
Expected return on plan assets	(401)	(296)	(151)
Amortization of prior service cost	473	367	328
Amortization of transition (asset) or obligation	1,114	1,315	1,337
Recognized actuarial gain	(183)	-	-
Net periodic benefit cost	$ 5,478	$ 5,093	$ 5,202
Special charges			
Curtailment loss	$ -	$ 1,005	$ -
Prior service cost recognized	-	124	-
Special termination benefits	-	2,855	-
Total charges	$ -	$ 3,984	$ -

On May 4, 1998, LG&E Energy and KU Energy merged, with LG&E Energy as the surviving corporation. During 1998, LG&E invested approximately $18 million in special termination benefits as a result of its early etirement program offered to eligible employees post-merger.

The assumptions used in the measurement of LG&E's pension benefit obligation are shown in the following able:

	1999	1998	1997
Weighted-average assumptions as of December 31:			
Discount rate	8.00%	7.00%	7.00%
Expected long-term rate of return on plan assets	9.50%	8.50%	8.50%
Rate of compensation increase	5.00%	3.50%-4.00%	2.00%-4.00%

or measurement purposes, a 7.00% annual increase in the per capita cost of covered health care benefits was ssumed for 2000. The rate was assumed to decrease gradually to 4.75% for 2005 and remain at that level ereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects (in thousands of $):

	1% Decrease	1% Increase
Effect on total of service and interest cost components for 1999	$ (150)	$ 176
Effect on year-end 1999 postretirement benefit obligations	(1,189)	1,358

Thrift Savings Plans. LG&E has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. LG&E makes contributions to the plan by matching a portion of the employee contributions. The costs were approximately $2.7 million, $2.4 million, and $1.8 million for 1999, 1998, and 1997, respectively.

Note 8 - Income Taxes

Components of income tax expense are shown in the table below (in thousands of $):

		1999	1998	1997
Included in operating expenses:				
Current	- federal	$53,981	$45,716	$57,590
	- state	13,680	11,895	14,593
Deferred	- federal - net	(4,818)	2,276	(4,565)
	- state - net	(780)	678	703
Deferred investment tax credit		-	55	102
Amortization of investment tax credit		(4,289)	(4,313)	(4,342)
Total		57,774	56,307	64,081
Included in other income and (deductions):				
Current	- federal	217	660	1,484
	- federal - merger costs	-	(6,758)	-
	- state	(30)	6	161
	- state - merger costs	-	(1,737)	-
Deferred	- federal - net	254	(165)	292
	- state - net	65	(42)	75
Total		506	(8,036)	2,012
Total income tax expense		$58,280	$48,271	$66,093

Net deferred tax liabilities resulting from book-tax temporary differences are shown below (in thousands of $):

	1999	1998
Deferred tax liabilities:		
Depreciation and other plant-related items	$321,889	$323,869
Other liabilities	5,324	9,644
	327,213	333,513
Deferred tax assets:		
Investment tax credit	27,145	28,876
Income taxes due to customers	22,588	25,447
Pension overfunding	2,193	2,099
Accrued liabilities not currently deductible and other	19,377	22,502
	71,303	78,924
Net deferred income tax liability	$255,910	$254,589

A reconciliation of differences between the statutory U.S. federal income tax rate and LG&E's effective income tax rate follows:

	1999	1998	1997
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes net of federal benefit	5.1	5.5	5.7
Amortization of investment tax credit	(2.8)	(3.4)	(2.4)
Nondeductible merger expenses	-	2.4	-
Other differences - net	(1.9)	(1.3)	(1.5)
Effective income tax rate	35.4%	38.2%	36.8%

Note 9 - Other Income and Deductions

Other income and deductions consisted of the following at December 31 (in thousands of $):

	1999	1998	1997
Interest and dividend income	$ 4,086	$ 4,245	$ 4,786
Interest on income tax settlement	-	-	1,446
Gain on sale of stock options	-	-	1,794
Gains (losses) on fixed asset disposal	2,394	530	77
Donations	(102)	(168)	(147)
Income taxes and other	(2,237)	(2,111)	(3,679)
Income tax benefit on merger costs	-	8,495	-
Total other income and deductions	$ 4,141	$10,991	$ 4,277

Note 10 - First Mortgage Bonds and Pollution Control Bonds

Long-term debt and the current portion of long-term debt, summarized below (in thousands of $), consists primarily of first mortgage bonds and pollution control bonds. Interest rates and maturities in the table below are for the amounts outstanding at December 31, 1999.

	Stated Interest Rates	Weighted Average Interest Rate	Maturities	Principal Amounts
Noncurrent portion	5.45% - 7.63%	6.44%	2002 - 2023	$380,600
Current portion (pollution control bonds)	Variable	3.67%	2013 - 2027	246,200

Under the provisions for LG&E's variable-rate pollution control bonds, the 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, causing the bonds to be classified as current portion of long-term debt. The average annualized interest rate for these bonds were 3.98%.

Maturities of LG&E's first mortgage bonds and pollution control bonds (principal amounts stated in thousands of $) at December 31, 1999, are summarized below.

2001	$ -
2002	20,000
2003	42,600
2004	-
2005	-
Thereafter	318,000
Total	$380,600

In December 1999, LG&E notified bondholders of its intent to exercise its call option on its $20.0 million 7.50% First Mortgage Bonds due July 1, 2002. The bonds were redeemed in January 2000 utilizing proceeds from issuance of commercial paper.

In June 1998, $20 million of LG&E's First Mortgage Bonds matured and were retired.

Annual requirements for the sinking funds of LG&E's First Mortgage Bonds (other than the First Mortgage Bonds issued in connection with certain Pollution Control Bonds) are the amounts necessary to redeem 1% of the highest principal amount of each series of bonds at any time outstanding. Property additions (166 2/3% of principal amounts of bonds otherwise required to be so redeemed) have been applied in lieu of cash.

Substantially all of LG&E's utility plants are pledged as security for its first mortgage bonds. LG&E's indenture, as supplemented, provides in substance that, under certain specified conditions, portions of retained earnings will not be available for the payment of dividends on common stock. No portion of retained earnings is presently restricted by this provision.

Note 11 - Notes Payable

LG&E's short-term financing requirements are satisfied through the sale of commercial paper. LG&E had outstanding commercial paper of $120.1 million at December 31, 1999, at a weighted-average interest rate of

6.02%. LG&E had no short-term borrowings at December 31, 1998.

At December 31, 1999, LG&E had unused lines of credit of $200 million, for which it pays commitment fees. The credit facility provides support of commercial paper borrowings. The credit lines are scheduled to expire in 2001. Management expects to renegotiate these lines when they expire.

Note 12 - Commitments and Contingencies

Construction Program. LG&E had commitments in connection with its construction program aggregating approximately $14.5 million at December 31, 1999. Construction expenditures for the years 2000 and 2001 are estimated to total approximately $401 million.

Operating Lease. LG&E leases office space and accounts for all of its office space leases as operating leases. Total lease expense for 1999, 1998, and 1997, less amounts contributed by the parent company, was $1.5 million, $1.6 million, and $1.8 million, respectively. The future minimum annual lease payments under lease agreements for years subsequent to December 31, 1999, are as follows (in thousands of $):

2000	$ 3,321
2001	3,654
2002	3,594
2003	3,507
2004	3,507
Thereafter	1,754
Total	$19,337

In December 1999, LG&E and KU entered into an 18-year cross-border lease of its two jointly owned combustion turbines recently installed at KU's Brown facility. LG&E's obligation was defeased upon consummation of the cross-border lease. The transaction produced a pre-tax gain of approximately $1.2 million which has been deferred pending resolution of rate treatment by the Kentucky Commission.

Environmental. The Act imposed stringent new SO2 and NOx emission limits on electric generating units. LG&E previously had installed scrubbers on all of its generating units. LG&E's strategy for Phase II, commencing January 1, 2000, is to use accumulated emissions allowances to delay additional capital expenditures and may also include fuel switching or the installation of additional scrubbers. LG&E met the NOx emission requirements of the Act through installation of low-NOx burner systems. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuel markets, future regulatory and legislative initiatives, and advances in clean air control 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.

In September 1998, the EPA announced its final "NOx SIP call" rule requiring significant additional reductions in NOx emissions by May 2003, in order to mitigate alleged ozone transport to the Northeast. While each of the 22 states covered by the rule is free to allocate its assigned NOx reductions among various emissions sectors as it deems appropriate, the regulation may ultimately require electric generating units to reduce their NOx emissions to 0.15 lb./Mmbtu - an 85% reduction from 1990 levels. In related proceedings in response to petitions filed by various Northeast states, in December 1999, EPA issued a final rule directing similar NOx reductions from a number of specifically named electric generating units including all LG&E stations. Several states, various labor and industry groups, and individual companies have appealed both EPA rulings to the U.S. Court of Appeals for the Washington D.C. Circuit. Management is currently unable to determine the outcome or exact impact of this matter until such time as the courts rule on the pending legal challenges and the states

implement the final regulatory mandate. However, if the 0.15 lb. target is ultimately imposed, LG&E will be required to incur significant capital expenditures and increased operation and maintenance costs for additional controls.

Subject to further study, analysis, and the outcome of pending litigation against the EPA, LG&E estimates that it may incur capital costs for NOx compliance ranging from $65 million to reduce emissions to the level of 0.25 lb./Mmbtu (Commonwealth of Kentucky's proposed NOx compliance level) to $165 million to reduce emissions to the level of 0.15 lb./Mmbtu (current EPA regulations). These costs would generally be incurred beginning in 2000. LG&E believes its costs in this regard to be comparable to those of similarly situated utilities with like generation assets. LG&E anticipates that such capital and operating costs are the type of costs that are eligible for recovery from customers under their environmental surcharge mechanisms and believe that a significant portion of such costs could be recovered. However, Kentucky Commission approval is necessary and there can be no guarantee of recovery.

LG&E is also addressing other air quality issues. First, LG&E is monitoring the status of EPA's revised NAAQS for ozone and particulate matter. In May 1999, the Washington D.C. Circuit remanded the final rule and directed EPA to undertake additional rulemaking efforts. LG&E continues to monitor EPA actions to challenge that ruling. Second, LG&E was notified by regulatory agencies that the Cane Run Station may be the source of a potential exceedance of the NAAQS that could require LG&E to incur additional capital expenditures or accept certain emissions limitations. After reviewing additional modeling information submitted by LG&E, in January 2000, EPA concluded that the Cane Run Station does not contribute to any potential NAAQS exceedance and that no further action is required from LG&E. Third, LG&E is working with regulatory authorities to review the effectiveness of remedial measures aimed at controlling particulate emissions from its Mill Creek Station. LG&E previously settled a number of property damage claims from adjacent residents and completed significant plant modifications as part of its ongoing capital construction program.

LG&E owns or formerly owned three properties which contained past MGP operations. Various contaminants are typically found at such former MGP sites and environmental remediation measures are frequently required. LG&E has reached agreements for other parties to assume cleanup responsibility for two sites it formerly owned. In addition, LG&E recently reached an agreement with the Kentucky Division of Waste Management with respect to a third LG&E-owned site in which LG&E committed to impose certain property restrictions and conduct additional monitoring in lieu of a cleanup. Based on currently available information, management estimates that it will incur additional MGP costs of less than $500,000. Accordingly, an accrual of $500,000 has been recorded in the accompanying financial statements.

Note 13 - Jointly Owned Electric Utility Plant

LG&E owns a 75% undivided interest in Trimble County Unit 1. Accounting for the 75% portion of the Unit, which the Kentucky Commission has allowed to be reflected in customer rates, is similar to LG&E's accounting for other wholly owned utility plants.

Of the remaining 25% of the Unit, IMEA owns a 12.12% undivided interest, and IMPA owns a 12.88% undivided interest. Each is responsible for its proportionate ownership share of fuel cost, operation and maintenance expenses, and incremental assets.

The following data represent shares of the jointly owned property:

	Trimble County			
	LG&E	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	371.25	63.75	60.00	495.00
(in thousands of $):				
Cost	$546,497			
Accumulated depreciation	140,972			
Net book value	$405,525			
Construction work in progress (included above)	$673			

In July 1999, following approval from the Kentucky Commission, LG&E purchased for $45.7 million a 38% interest in two 164.5 Mw natural gas turbines installed at KU's E.W. Brown facility (Units 6 and 7) from Capital Corp.

Note 14 - Segments of Business and Related Information

Effective December 31, 1998, LG&E adopted SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information.* LG&E is a regulated public utility engaged in the generation, transmission, distribution, and sale of electricity and the storage, distribution, and sale of natural gas. Financial data for business segments, follow (in thousands of $):

	Electric	Gas	Total
1999			
Operating revenues	$ 790,670(a)	$177,579	$ 968,249
Depreciation and amortization	83,619	13,602	97,221
Interest income	3,435	651	4,086
Interest expense	31,558	6,404	37,962
Operating income taxes	56,883	891	57,774
Net income	104,853	1,417	106,270
Total assets	1,775,498	395,954	2,171,452
Construction expenditures	160,844	33,800	194,644
1998			
Operating revenues	$ 658,511(b)	$191,545	$ 850,056
Depreciation and amortization	79,866	13,312	93,178
Interest income	3,566	679	4,245
Interest expense	30,389	5,933	36,322
Merger costs	32,072	-	32,072
Operating income taxes	56,401	(94)	56,307
Net income	75,368	2,752	78,120
Total assets	1,727,463	377,174	2,104,637
Construction expenditures	105,836	32,509	138,345

	Electric	Gas	Total
1997			
Operating revenues	$ 614,532	$231,011	$ 845,543
Depreciation and amortization	79,958	13,062	93,020
Interest income	5,279	953	6,232
Interest expense	33,349	5,841	39,190
Operating income taxes	59,415	4,666	64,081
Net income	108,236	5,037	113,273
Total assets	1,677,278	378,363	2,055,641
Construction expenditures	81,713	29,180	110,893

(a) Net of provision for rate refund of $1.7 million.
(b) Net of provision for rate refund of $4.5 million.

Note 15 - Selected Quarterly Data (Unaudited)

Selected financial data for the four quarters of 1999 and 1998 are shown below. Because of seasonal fluctuations in temperature and other factors, results for quarters may fluctuate throughout the year.

	Quarters Ended			
	March	June	September	December
	(Thousands of $)			
1999				
Operating revenues	$226,620	$214,097	$296,395	$231,137
Net operating income	27,016	30,596	51,036	31,443
Net income	18,916	22,040	41,704	23,610
Net income available for common stock	17,826	20,954 (a)	40,614	22,375 (b)
1998				
Operating revenues	$233,344	$201,389	$229,885	$185,438
Net operating income	32,326	33,629	53,420	16,148
Net income	23,399	21	44,861	9,839
Net income (loss) available for common stock	22,276	(1,122)	43,726	8,672

(a) The increase of $22.1 million compared to June 1998 was due to a non-recurring after-tax charge of $23.6 million from merger-related expenses.

(b) The increase of $13.7 million compared to December 1998 was primarily due to a non-recurring charge to refund certain amounts collected under the ECR and colder weather in 1999.

Note 16 – Subsequent Events

On February 28, 2000, LG&E Energy announced that its Board of Directors accepted an offer to be acquired by PowerGen for cash of approximately $3.2 billion or $24.85 per share and the assumption of $2.2 billion of LG&E Energy's debt. Pursuant to the acquisition agreement, among other things, LG&E Energy will become a wholly owned subsidiary of PowerGen and its U.S. headquarters. The Utility Operations of the Company will continue their separate identities and serve customers in Kentucky and Virginia under their present names. The preferred stock and debt securities of the Utility Operations will not be affected by this transaction resulting in the Utility Operations' obligation to continue to file SEC reports. The acquisition is expected to close 9 to 12

months from the announcement, shortly after all of the conditions to consummation of the acquisition are met. Those conditions include, without limitation, the approval of the holders of a majority of the outstanding shares of common stock of each of LG&E Energy and PowerGen, the receipt of all necessary governmental approvals and the making of all necessary governmental filings, including approvals of various regulators in Kentucky and Virginia under state utility laws, the approval of the FERC under the Federal Power Act, the approval of the SEC under the Public Utility Holding Company Act of 1935, and the filing of requisite notifications with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of all applicable waiting periods thereunder. Shareholder meetings to vote upon the approval of the acquisition are expected to be held during the second quarter of 2000 for both LG&E Energy and PowerGen. During the first quarter of 2000, the Company expensed approximately $1.0 million relating to the PowerGen transaction. The foregoing description of the acquisition does not purport to be complete and is qualified in its entirety by reference to LG&E Energy's current reports on Form 8-K, filed February 29, 2000, with the SEC.

On March 3, 2000, the U.S. Court of Appeals for the Washington D.C. Circuit issued a final opinion upholding the NOx SIP call rule requiring electric generating units to reduce their NOx emissions to 0.15 lb./Mmbtu by May 2003. Some of the litigants will likely seek further judicial review of the ruling.

In the first quarter of 2000, LG&E will take a restructuring charge relating to the reduction of positions and the integration of LG&E's and KU's operations, including combining retail gas and electric operations, consolidation of customer service centers and the redesigning various other processes.

The Kentucky Commission responded to the motions filed by LG&E for computational and other errors made in Orders received on base rate reductions in February 2000 by granting rehearings for LG&E on various issues.

Louisville Gas and Electric Company
REPORT OF MANAGEMENT

The management of Louisville Gas and Electric Company is responsible for the preparation and integrity of the financial statements and related information included in this Annual Report. These statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and, necessarily, include amounts that reflect the best estimates and judgment of management.

LG&E's financial statements have been audited by Arthur Andersen LLP, independent public accountants. Management has made available to Arthur Andersen LLP all LG&E's financial records and related data as well as the minutes of shareholders' and directors' meetings. Management has established and maintains a system of internal controls that provides reasonable assurance that transactions are completed in accordance with management's authorization, that assets are safeguarded and that financial statements are prepared in conformity with generally accepted accounting principles. Management believes that an adequate system of internal controls is maintained through the selection and training of personnel, appropriate division of responsibility, establishment and communication of policies and procedures and by regular reviews of internal accounting controls by LG&E's internal auditors. Management reviews and modifies its system of internal controls in light of changes in conditions and operations, as well as in response to recommendations from the internal auditors. These recommendations for the year ended December 31, 1999, did not identify any material weaknesses in the design and operation of LG&E's internal control structure.

The Audit Committee of the Board of Directors is composed entirely of outside directors. In carrying out its oversight role for the financial reporting and internal controls of LG&E, the Audit Committee meets regularly with LG&E's independent public accountants, internal auditors and management. The Audit Committee reviews the results of the independent accountants' audit of the financial statements and their audit procedures, and discusses the adequacy of internal accounting controls. The Audit Committee also approves the annual internal auditing program and reviews the activities and results of the internal auditing function. Both the independent public accountants and the internal auditors have access to the Audit Committee at any time.

Louisville Gas and Electric Company maintains and internally communicates a written code of business conduct that addresses, among other items, potential conflicts of interest, compliance with laws, including those relating to financial disclosure and the confidentiality of proprietary information.

Louisville Gas and Electric Company
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Louisville Gas and Electric Company:

We have audited the accompanying balance sheets and statements of capitalization of Louisville Gas and Electric Company (a Kentucky corporation and a wholly-owned subsidiary of LG&E Energy Corp.) as of December 31, 1999 and 1998, and the related statements of income, retained earnings, cash flows and comprehensive income for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of LG&E's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Gas and Electric Company as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed under Item 14(a)2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Louisville, Kentucky
January 26, 2000 (Except with respect
to the matters discussed in Note 16, as
to which the date is March 3, 2000.)

Arthur Andersen LLP

Kentucky Utilities Company
Statements of Income
(Thousands of $)

	Years Ended December 31		
	1999	1998	1997
OPERATING REVENUES:			
Electric (Note 1)	$ 943,210	$ 831,614	$ 716,437
Provision for rate refunds (Note 3)	(5,900)	(21,500)	-
Total operating revenues	937,310	810,114	716,437
OPERATING EXPENSES:			
Fuel, principally coal, used in generation	219,883	217,401	188,439
Power purchased	242,315	126,584	72,542
Other operation expenses	116,521	121,275	120,951
Maintenance	57,318	63,608	64,990
Depreciation and amortization	89,922	86,657	84,111
Federal and state income taxes (Note 7)	60,380	53,256	51,690
Property and other taxes	14,955	15,945	15,306
Total operating expenses	801,294	684,726	598,029
Net operating income	136,016	125,388	118,408
Merger costs (Note 2)	-	21,830	-
Interest and dividend income (Note 8)	4,293	1,811	1,673
Other income and (deductions) (Note 8)	5,144	6,035	5,330
Interest charges	38,895	38,640	39,698
Net income	106,558	72,764	85,713
Preferred stock dividends	2,256	2,256	2,256
Net income available for common stock	$ 104,302	$ 70,508	$ 83,457

Statements of Retained Earnings
(Thousands of $)

	Years Ended December 31		
	1999	1998	1997
Balance January 1	$299,167	$304,750	$287,852
Add net income	106,558	72,764	85,713
	405,725	377,514	373,565
Deduct: Cash dividends declared on stock:			
4.75% cumulative preferred	950	950	950
6.53% cumulative preferred	1,306	1,306	1,306
Common	73,999	76,091	66,559
	76,255	78,347	68,815
Balance December 31	$329,470	$299,167	$304,750

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

Kentucky Utilities Company
Balance Sheets
(Thousands of $)

	December 31 1999	December 31 1998
ASSETS:		
Utility plant, at original cost (Note 1)	$2,744,380	$2,602,167
Less: reserve for depreciation	1,288,819	1,208,183
	1,455,561	1,393,984
Construction work in progress	106,686	83,361
	1,562,247	1,477,345
Other property and investments - less reserve	14,349	14,238
Current assets:		
Cash and temporary cash investments	6,793	58,949
Accounts receivable - less reserve of $800 in 1999 and $520 in 1998	88,549	106,125
Materials and supplies - at average cost:		
Fuel (predominantly coal)	30,225	23,927
Other	26,213	24,248
Prepayments and other	3,743	3,055
	155,523	216,304
Deferred debits and other assets:		
Unamortized debt expense	4,827	5,227
Regulatory assets (Note 3)	23,033	28,228
Other	25,111	19,859
	52,971	53,314
	$1,785,090	$1,761,201
CAPITAL AND LIABILITIES:		
Capitalization (see statements of capitalization):		
Common equity	$ 637,015	$ 606,713
Cumulative preferred stock	40,000	40,000
Long-term debt (Note 9)	430,830	546,330
	1,107,845	1,193,043
Current liabilities:		
Current portion of long-term debt (Note 9)	115,500	-
Accounts payable	116,546	110,268
Provision for rate refunds	20,567	21,500
Dividends declared	19,150	18,188
Accrued taxes	10,502	16,733
Accrued interest	7,329	8,110
Other	18,617	20,971
	308,211	195,770
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Notes 1 and 7)	243,620	244,493
Investment tax credit, in process of amortization	18,575	22,302
Accumulated provision for pensions and related benefits (Note 6)	48,285	52,287
Customers' advances for construction	1,174	1,264
Regulatory liability (Note 3)	46,069	46,552
Other	11,311	5,490
	369,034	372,388
Commitments and contingencies (Note 11)		
	$1,785,090	$1,761,201

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

Kentucky Utilities Company
Statements of Cash Flows
(Thousands of $)

	Years Ended December 31		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 106,558	$ 72,764	$ 85,713
Items not requiring cash currently:			
Depreciation and amortization	89,922	86,657	84,111
Deferred income taxes - net	(3,763)	(2,437)	4,606
Investment tax credit - net	(3,727)	(3,829)	(4,036)
Change in certain net current assets:			
Accounts receivable	17,576	(31,482)	280
Materials and supplies	(8,263)	3,272	1,104
Accounts payable	6,514	71,162	4,807
Provision for rate refunds	(933)	21,500	-
Accrued taxes	(6,231)	9,260	2,090
Accrued interest	(781)	(173)	235
Prepayments and other	(3,042)	(53)	1,922
Other	10,346	12,776	(1,943)
Net cash flows from operating activities	204,176	239,417	178,889
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from insurance reimbursement	206	179	4,270
Construction expenditures	(181,341)	(91,992)	(94,006)
Net cash flows used for investing activities	(181,135)	(91,813)	(89,736)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Short-term borrowings	-	381,500	2,645,500
Repayments of short-term borrowings	-	(415,100)	(2,666,100)
Repayment of long-term debt	-	(42)	(21)
Payment of dividends	(75,197)	(60,347)	(68,815)
Net cash flows from financing activities	(75,197)	(93,989)	(89,436)
Change in cash and temporary cash investments	(52,156)	53,615	(283)
Beginning cash and temporary cash investments	58,949	5,334	5,617
Ending cash and temporary cash investments	$ 6,793	$ 58,949	$ 5,334
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 71,258	$ 46,490	$ 44,857
Interest on borrowed money	35,508	36,008	37,053

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

Kentucky Utilities Company
Statements of Capitalization
(Thousands of $)

	Shares Outstanding	Current Redemption Price	December 31 1999	1998
COMMON EQUITY:				
Common stock, without par value - outstanding 37,817,878 shares			$ 308,140	$ 308,140
Retained earnings			329,470	299,168
Other..			(595)	(595)
			637,015	606,713
CUMULATIVE PREFERRED STOCK:				
Cumulative and redeemable on 30 days notice by KU:				
Without par value, 5,300,000 shares authorized -				
4.75% series, $100 stated value	200,000	$101.00	20,000	20,000
6.53% series, $100 stated value	200,000	Not redeemable	20,000	20,000
			40,000	40,000
LONG-TERM DEBT – first mortgage bonds (Note 9):				
Q due June 15, 2000, 5.95%			61,500	61,500
Q due June 15, 2003, 6.32%			62,000	62,000
S due January 15, 2006, 5.99%			36,000	36,000
P due May 15, 2007, 7.92%			53,000	53,000
R due June 1, 2025, 7.55%			50,000	50,000
P due May 15, 2027, 8.55%			33,000	33,000
Pollution control series:				
1B due February 1, 2018, 6.25%			20,930	20,930
2B due February 1, 2018, 6.25%			2,400	2,400
3B due February 1, 2018, 6.25%			7,200	7,200
4B due February 1, 2018, 6.25%			7,400	7,400
7, due May 1, 2010, 7.375%			4,000	4,000
7, due May 1, 2020, 7.60%			8,900	8,900
8, due September 15, 2016, 7.45%			96,000	96,000
9, due December 1, 2023, 5.75%			50,000	50,000
10, due November 1, 2024, variable			54,000	54,000
Total bonds outstanding			546,330	546,330
Less current portion of long-term debt			115,500	-
Long-term debt			430,830	546,330
Total capitalization			$1,107,845	$1,193,043

'he accompanying notes are an integral part of these financial statements.

Note 1 - Summary of Significant Accounting Policies

KU is a subsidiary of LG&E Energy. KU is a regulated public utility that is engaged in the generation, transmission, distribution, and sale of electric energy. LG&E Energy is an exempt energy services holding company with wholly-owned subsidiaries consisting of LG&E, KU, Capital Corp., and LEM. All of the KU's Common Stock is held by LG&E Energy.

Certain reclassification entries have been made to the 1998 and 1997 financial statements to conform to the 1999 presentation with no impact on previously reported net income.

Cash and Temporary Cash Investments. KU considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Temporary cash investments are carried at cost, which approximates fair value.

Utility Plant. KU's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits, and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. KU has not recorded any allowance for funds used during construction.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost, plus removal expense less salvage value, is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Depreciation and amortization. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided for KU approximated 3.5% in 1999, 1998 and 1997.

Financial Instruments. KU uses over-the-counter interest-rate swap agreements to hedge its exposure to interest rates. Gains and losses on interest-rate swaps used to hedge interest rate risk are reflected in interest charges monthly. See Note 4, Financial Instruments.

Debt Expense. Debt expense is amortized over the lives of the related bond issues, consistent with regulatory practices.

Deferred Income Taxes. Deferred income taxes have been provided for all material book-tax temporary differences.

Investment Tax Credits. Investment tax credits resulted from provisions of the tax law that permitted a reduction of KU's tax liability based on credits for certain construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. KU accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period. The unbilled revenue estimates included in accounts receivable for KU equaled approximately $29.6 million at December 31, 1999 and 1998.

Fuel Costs. The cost of fuel for electric generation is charged to expense as used.

five-year period. The preferred stock and debt securities of KU were not affected by the merger.

LG&E Energy, as the parent of LG&E and KU, continues to be an exempt holding company under PUHCA. Management has accounted for the merger as a pooling of interests and as a tax-free reorganization under the Internal Revenue Code.

In the application filed with the Kentucky Commission, the utilities proposed that 50% of the net non-fuel cost savings estimated to be achieved from the merger, less $38.6 million or 50% of the originally estimated costs to achieve such savings, be applied to reduce customer rates through a surcredit on customers' bills and the remaining 50% be retained by the companies. The Kentucky Commission approved the surcredit and allocated the customer savings 53% to KU and 47% to LG&E. The surcredit will be about 2% of customer bills over the next five years and will amount to approximately $63 million in net non-fuel savings to KU. Any fuel cost savings are passed to Kentucky customers through the companies' fuel adjustment clauses. See Note 3 for more information about KU's rates and regulatory matters.

Note 3 - Utility Rates and Regulatory Matters

Accounting for the regulated utility business conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by FERC, the Kentucky Commission and the Virginia Commission. KU is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.* Under SFAS No. 71, certain costs that would otherwise be charged to expense are deferred as regulatory assets based on expected recovery from customers in future rates. Likewise, certain credits that would otherwise be reflected as income are deferred as regulatory liabilities based on expected flowback to customers in future rates. KU's current or expected recovery of deferred costs and expected flowback of deferred credits is generally based on specific ratemaking decisions or precedent for each item. The following regulatory assets and liabilities were included in KU's balance sheets as of December 31 (in thousands of $):

	1999	1998
Unamortized loss on bonds	$ 7,594	$ 8,675
Merger costs	14,324	18,417
Other	1,115	1,136
Total regulatory assets	23,033	28,228
Deferred income taxes - net	(42,992)	(45,882)
Other	(3,077)	(670)
Total regulatory liabilities	(46,069)	(46,552)
Regulatory liabilities - net	$(23,036)	$(18,324)

Environmental Cost Recovery. In August 1994 KU implemented an ECR surcharge. The Kentucky Commission's order approving the surcharge for KU as well as the constitutionality of the surcharge was challenged by certain intervenors in Franklin Circuit Court. Decisions of the Circuit Court and the Kentucky Court of Appeals in July 1995 and December 1997, respectively, upheld the constitutionality of the ECR statute but differed on a claim of retroactive recovery of certain amounts. Based on these decisions, the Kentucky Commission ordered that certain surcharge revenues collected by KU be subject to refund pending final determination of all appeals.

In December 1998, the Kentucky Supreme Court rendered an opinion upholding the constitutionality of the surcharge statute but denied recovery of costs associated with pre-1993 environmental projects through the ECR. The court remanded the case to the Kentucky Commission to determine amounts to be refunded for

revenues collected for such pre-1993 environmental projects. Accordingly, KU recorded a provision for rate refund of $21.5 million in December 1998.

The parties to the proceedings reached a settlement agreement that was approved in a Final Order issued by the Kentucky Commission in August 1999. This Final Order resulted in the reversal of approximately $1.5 million of the provision for rate refunds established by KU in December 1998. The refund is being applied to customers' bills during the twelve-month period beginning October 1999.

Future Rate Regulation. In October 1998, KU filed an application with the Kentucky Commission for approval of a new method of determining electric rates that sought to provide financial incentives for KU to further reduce customers' rates. The filing was made pursuant to the September 1997 Kentucky Commission order approving the merger of LG&E Energy and KU Energy, wherein the Kentucky Commission directed LG&E and KU to indicate whether they desired to remain under traditional rate of return regulation or commence non-traditional regulation. The proposed ratemaking method, known as PBR, included financial incentives for KU to reduce fuel costs and increase generating efficiency, and to share any resulting savings with customers. Additionally, the PBR proposal provided for financial penalties and rewards to assure continued high quality service and reliability.

In April 1999, KU filed a joint agreement with LG&E and the Kentucky Attorney General to adopt the PBR plan subject to certain amendments. The amended filing included requested Kentucky Commission approval of a five-year rate reduction plan which proposed to reduce the electric rates of KU by $10.6 million in the first year (beginning July 1999), and by $4.2 million annually through June 2004. The proposed amended plan also included establishment by KU of a $3.2 million program for low-income customer assistance as well as extension for one additional year of both the rate cap proposal and merger savings surcredit established in the original merger plan of LG&E and KU. Under the rate cap proposal KU agreed, in the absence of extraordinary circumstances, not to increase base electric rates for five years following the merger and LG&E also agreed to refrain from filing for an increase in natural gas rates through June 2004.

In April 1999, the Kentucky Commission issued initial orders implementing the amended PBR plan, effective July 1999, and subject to modification. The Kentucky Commission also consolidated into the continuing PBR proceedings an earlier March 1999, rate complaint by a group of industrial intervenors, KIUC, in which KIUC requested significant reductions in electric rates. Hearings were conducted before the Kentucky Commission on LG&E's and KU's amended PBR plans and the KIUC rate reduction petitions in August and September 1999. Legal briefs of the parties were filed with the Kentucky Commission in October 1999. KIUC's position called for annual revenue reductions for KU of $61.5 million.

In January 2000, the Kentucky Commission issued Orders for KU in the subject cases. The Kentucky Commission ruled that KU should reduce base rates by $36.5 million effective with bills rendered beginning March 1, 2000. The Kentucky Commission eliminated proposal to operate under its PBR plan and reinstated the FAC mechanism effective March 1, 2000. The Kentucky Commission offered KU the opportunity to operate under an ESM for the next three years. Under this mechanism, incremental annual earnings for each utility resulting in a rate of return either above or below a range of 10.5% to 12.5% would be shared 60% with shareholders and 40% with ratepayers.

Later in January 2000, KU filed motions for correction to the January 2000 orders for computational and other errors made in the Kentucky Commission's orders which produced overstatements in the base rate reductions to KU of $7.7 million. KU also filed motions for reconsideration with the Kentucky Commission on a number of items in the case in late January. Certain intervening parties in the proceedings have also filed motions for reconsideration asserting, among other things, that the Kentucky Commission understated the amount of base rate reductions.

Other Rate Matters. Prior to implementation of the PBR in July 1999, and following its termination in March 2000, KU employed an FAC mechanism, which under Kentucky law allowed the utilities to recover from customers the actual fuel costs associated with retail electric sales.

In July 1999, the Kentucky Commission issued a series of orders requiring KU to refund approximately $10.1 million resulting from reviews of the FAC from November 1994 to October 1998. The orders changed KU's method of computing fuel costs associated with electric line losses on off-system sales appropriate for recovery through the FAC, and KU's method for computing system line losses for the purpose of calculating the system sales component of the FAC charge. At KU's request, in July 1999, the Kentucky Commission stayed the refund requirement pending the Kentucky Commission's final determination of any rehearing request that KU may file. In August 1999, KU filed its request for rehearing of the July orders.

In August 1999, the Kentucky Commission issued a Final Order in the KU proceedings, agreeing, in part, with KU's arguments outlined in its Petition for Rehearing. While the Kentucky Commission confirmed that KU should change its method of computing the fuel costs associated with electric line losses, it agreed with KU that the line loss percentage should be based on KU's actual line losses incurred in making off-system sales rather than the percentage used in its Open Access Transmission Tariff. The Kentucky Commission also upheld its previous ruling concerning the computation of system line losses in the calculation of the FAC. The net effect of the Kentucky Commission's Final Order was to reduce the refund obligation to $5.8 million from the original Order amount of $10.1 million. In August 1999, KU recorded its estimated share of anticipated FAC refunds of $7.7 million. KU began implementing the refund in October and will continue the refund through September 2000. Both KU and the KIUC have appealed the Order to the Franklin Circuit Court. A decision is not expected on the appeal until later in 2000.

Kentucky PSC Administrative Case for Affiliate Transactions. In December 1997, the Kentucky Commission opened Administrative Case No. 369 to consider Kentucky Commission policy regarding cost allocations, affiliate transactions and codes of conduct governing the relationship between utilities and their non-utility operations and affiliates. The Kentucky Commission intends to address two major areas in the proceedings: the tools and conditions needed to prevent cost shifting and cross-subsidization between regulated and non-utility operations; and whether a code of conduct should be established to assure that non-utility segments of the holding company are not engaged in practices that could result in unfair competition caused by cost shifting from the non-utility affiliate to the utility. In September 1998, the Kentucky Commission issued a draft code of conduct and cost allocation guidelines. In January 1999, KU, as well as all parties to the proceeding, filed comments on the Kentucky Commission draft proposals. In December 1999, the Kentucky Commission issued guidelines on cost allocation and held a hearing in January 2000, on the draft code of conduct. Management does not expect the ultimate resolution of this matter to have a material adverse effect on the Company's financial position or results of operations.

Note 4 - Financial Instruments

The cost and estimated fair values of the KU's non-trading financial instruments as of December 31, 1999 and 1998 follow (in thousands of $):

	1999		1998	
	Cost	Fair Value	Cost	Fair Value
Long-term debt (including current portion)	$546,330	$542,242	$546,330	$587,245
Interest-rate swaps	-	(1,951)	-	-

All of the above valuations reflect prices quoted by exchanges except for the swaps. The fair values of the swaps reflect price quotes from dealers or amounts calculated using accepted pricing models.

Interest Rate Swap. KU entered into an interest rate swap agreement to exchange fixed interest rate payment obligations for variable interest rate payments without the exchange of underlying principal amounts. As of December 31, 1999, KU was party to an interest rate swap with a notional amount of $53.0 million. Under the swap agreement KU received a fixed rate of 7.92% and paid a variable rate of 7.90% at December 31, 1999. The swap matures in 2004.

Note 5 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

KU's customer receivables and revenues arise from deliveries of electricity to about 458,000 customers in over 600 communities and adjacent suburban and rural areas in 77 counties in central, southeastern and western Kentucky and to about 29,000 customers in five counties in southwestern Virginia. For the year ended December 31, 1999, 100% of total utility revenue was derived from electric operations.

In August 1999, KU and their employees represented by IBEW Local 101 and USWA Local 8686, which represents approximately 14% of KU's workforce, entered into a one-year collective bargaining agreement.

Note 6 - Pension Plans and Retirement Benefits

Pension Plans. KU sponsors qualified and non-qualified pension plans and other postretirement benefit plans for its employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the three-year period ending December 31, 1999, and a statement of the funded status as of December 31 for each of the last three years (in thousands of $):

	1999	1998	1997
Pension Plans:			
Change in benefit obligation			
Benefit obligation at beginning of year	$233,288	$214,657	$194,874
Service cost	6,210	6,672	6,728
Interest cost	15,564	15,043	14,680
Plan amendment	-	2,226	-
Acquisitions/divestitures	-	(2,243)	-
Curtailment (gain) or loss	-	1,901	-
Special termination benefits	-	5,427	-
Benefits paid	(12,822)	(12,762)	(13,313)
Actuarial (gain) or loss	(22,612)	2,367	11,688
Benefit obligation at end of year	$219,628	$233,288	$214,657
Change in plan assets			
Fair value of plan assets at beginning of year	$238,124	$217,500	$191,879
Actual return on plan assets	49,883	31,209	35,066
Employer contributions	-	2,273	4,750
Benefits paid	(12,822)	(12,762)	(13,314)
Administrative expenses	(1,076)	(96)	(882)
Fair value of plan assets at end of year	$274,109	$238,124	$217,499
Reconciliation of funded status			
Funded status	$ 54,481	$ 4,835	$ 2,843
Unrecognized actuarial (gain) or loss	(74,579)	(26,487)	(19,552)
Unrecognized transition (asset) or obligation	(988)	(1,128)	(1,350)
Unrecognized prior service cost	3,564	4,943	3,635
Net amount recognized at year-end	$(17,522)	$(17,837)	$(14,424)
Other Benefits:			
Change in benefit obligation			
Benefit obligation at beginning of year	$ 79,650	$72,139	$66,519
Service cost	1,596	2,012	1,853
Interest cost	3,837	5,207	4,895
Plan amendments	(24,488)	-	-
Curtailment (gain) or loss	-	3,240	-
Special termination benefits	-	-	(4,038)
Benefits paid	(4,646)	(2,617)	-
Actuarial (gain) or loss	(1,748)	(331)	2,910
Benefit obligation at end of year	$ 54,201	$ 79,650	$72,139
Change in plan assets			
Fair value of plan assets at beginning of year	$ 24,337	$ 17,763	$ 13,270
Actual return on plan assets	7,612	5,117	3,569
Employer contributions	3,520	3,805	3,848
Benefits paid	(4,459)	(2,348)	(2,924)
Fair value of plan assets at end of year	$ 31,010	$ 24,337	$ 17,763

	1999	1998	1997
Reconciliation of funded status			
Funded status	$(23,191)	$(55,313)	$ (54,376)
Unrecognized actuarial (gain) or loss	(31,266)	(19,944)	(19,697)
Unrecognized transition (asset) or obligation	23,694	45,701	50,118
Net amount recognized at year-end	$(30,763)	$(29,556)	$ (23,955)

There are no plan assets in the non-qualified plan due to the nature of the plan.

The following tables provide the amounts recognized in the balance sheet and information for plans with benefit obligations in excess of plan assets as of December 31, 1999, 1998 and 1997 (in thousands of $):

	1999	1998	1997
Pension Plans:			
Amounts recognized in the balance sheet consisted of:			
Accrued benefit liability	$ (17,522)	$ (17,837)	$ (14,424)
Other	-	(22)	-
Net amount recognized at year-end	$ (17,522)	$ (17,859)	$ (14,424)
Additional year-end information for plans with benefit obligations in excess of plan assets:			
Projected benefit obligation	$ 1,132	$ 2,300	$ 6,199
Accumulated benefit obligation	40	99	3,975
Other Benefits:			
Amounts recognized in the balance sheet consisted of:			
Accrued benefit liability	$ (30,763)	$ (29,556)	$ (23,955)
Other	-	(2,817)	(2,955)
Net amount recognized at year-end	$ (30,763)	$ (32,373)	$ (26,910)
Additional year-end information for plans with benefit obligations in excess of plan assets:			
Projected benefit obligation	$ 54,201	$ 79,650	$ 72,139
Fair value of plan assets	31,010	24,337	17,763

The following table provides the components of net periodic benefit cost for the plans for 1999, 1998 and 1997 (in thousands of $):

	1999	1998	1997
Pension Plans:			
Components of net periodic benefit cost			
Service cost	$ 6,211	$ 6,673	$ 6,728
Interest cost	15,564	15,043	14,680
Expected return on plan assets	(21,957)	(18,264)	(15,427)
Amortization of transition (asset) or obligation	(141)	435	354
Amortization of prior service cost	410	(146)	(150)
Amortization of net (gain) loss	(319)	(151)	(26)
Net periodic benefit cost	$ (232)	$ 3,590	$ 6,159
Special charges			
Prior service cost recognized	$ -	$ 67	$ -
Special termination benefits	-	5,427	-
Total charges	$ -	$ 5,494	$ -
Other Benefits:			
Components of net periodic benefit cost			
Service cost	$ 1,596	$ 2,012	$ 1,853
Interest cost	3,837	5,207	4,895
Expected return on plan assets	(1,897)	(1,424)	(1,051)
Amortization of transition (asset) or obligation	1,823	3,303	3,341
Amortization of net (gain) loss	(445)	(536)	(812)
Net periodic benefit cost	$ 4,914	$ 8,562	$ 8,226
Special charges			
Curtailment loss	$ -	$ 1,114	$ -

On May 4, 1998 LG&E Energy and KU Energy merged, with LG&E Energy as the surviving corporation. At the time of the merger KU had both qualified and nonqualified pension plans. Under the provisions of the Supplemental Security Plan (SERP), the Merger Agreement constituted a change-in-control which required that a lump sum present value payment be made out of KU's SERP to retired employees entitled to retirement benefits on the date of the Merger Agreement. In May 1997, $4.7 million in lump sum payments were made to these retired employees.

Effective May 4, 1998, due to the change in control, the present value balance of KU's SERP of $4.9 million was transferred and allocated between LG&E Energy's Nonqualified Savings Plan and KU's Nonqualified Savings plan of $2.2 million and $2.7 million, respectively. The plan is an unfunded, pretax deferred compensation program which provides officers and senior managers of KU the opportunity to defer earnings above the qualified savings plan limits. As an "Unfunded" plan the money is not specifically invested or secured and future distributions will be made from the general assets of KU. Currently interest is credited at a rate equal to the average yield on five-year Treasury notes.

During 1998, KU invested approximately $6.6 million in special termination benefits as a result of its early retirement program offered to eligible employees post-merger.

KU provides nonpension postretirement benefits for eligible retired employees.

The assumptions used in the measurement of the KU's benefit obligation are shown in the following table:

	1999	1998	1997
Weighted-average assumptions as of December 31:			
Discount rate	8.00%	7.00%	7.75%
Expected long-term rate of return on plan assets	9.50%	8.25%	8.25%
Rate of compensation increase	5.00%	4.00%	4.75%

For measurement purposes, a 7.00% annual increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 4.75% for 2005 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects (in thousands of $):

	1% Decrease	1% Increase
Effect on total of service and interest cost components for 1999	$ (366)	$ 423
Effect on year-end 1999 postretirement benefit obligations	(4,029)	4,650

Thrift Savings Plans. KU has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. KU makes contributions to the plan by matching a portion of the employee contributions. The costs of this matching were approximately $2.3 million for 1999 and $2.2 million for each of 1998 and 1997.

Note 7 - Income Taxes

Components of income tax expense are shown in the table below (in thousands of $):

		1999	1998	1997
Included in operating expenses:				
Current	- federal	$50,969	$46,321	$39,353
	- state	13,459	10,245	8,964
Deferred	- federal - net	(4,833)	(3,186)	1,996
	- state - net	785	(124)	1,377
Total		60,380	53,256	51,690
Included in other income and (deductions):				
Current	- federal	1,028	(617)	(853)
	- state	54	(237)	(246)
Deferred	- federal - net	182	694	975
	- state - net	102	178	258
Amortization of investment tax credit		(3,727)	(3,829)	(4,036)
Total		(2,361)	(3,811)	(3,902)
Total income tax expense		$58,019	$49,445	$47,788

Net deferred tax liabilities resulting from book-tax temporary differences are shown below (in thousands of $):

	1999	1998
Deferred tax liabilities:		
Depreciation and other plant-related items	$313,202	$289,147
Other liabilities	11,286	5,598
	324,488	294,745
Deferred tax assets:		
Investment tax credit	7,497	9,001
Income taxes due to customers	16,712	17,574
Accrued liabilities not currently deductible and other	5,797	6,162
Less: amounts included in current assets	50,862	17,515
	80,868	50,252
Net deferred income tax liability	$243,620	$244,493

A reconciliation of differences between the statutory U.S. federal income tax rate and KU's effective income tax rate follows:

	1999	1998	1997
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes net of federal benefit	5.7	5.4	5.0
Amortization of investment tax credit	(2.9)	(3.1)	(3.0)
Nondeductible merger expenses	-	6.4	-
Other differences - net	(2.5)	(2.2)	(1.2)
Effective income tax rate	35.3%	41.5%	35.8%

Note 8 - Other Income and Deductions

Other income and deductions consisted of the following at December 31 (in thousands of $):

	1999	1998	1997
Equity in earnings - subsidiary company	$ 2,334	$ 2,167	$ 2,480
Interest and dividend income	4,293	1,811	1,673
Gains (losses) on fixed asset disposal	759	272	412
Donations	(107)	(453)	(388)
Income taxes and other	2,158	4,049	2,826
Net other income	$ 9,437	$ 7,846	$ 7,003

Note 9 - First Mortgage Bonds and Pollution Control Bonds

Long-term debt and the current portion of long-term debt, summarized below in thousands, consists primarily of first mortgage bonds and pollution control bonds. Interest rates and maturities in the table below are for the amounts outstanding at December 31, 1999.

Stated interest rates	5.75% - 8.55%
Weighted-average interest rate	7.02%
Maturities	2003 - 2027
Noncurrent portion at December 31, 1999	$430,830
Current portion at December 31, 1999	$115,500

Under the provisions for KU's variable-rate pollution control bonds, the 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, causing the bonds to be classified as current portion of long-term debt. The average annualized interest rate for these bonds were 3.35% for KU's bonds.

Maturities of KU's first mortgage bonds and pollution control bonds (principal amounts stated in thousands of $) at December 31, 1999, are summarized below.

2001	$ -
2002	
2003	62,000
2004	-
2005	-
Thereafter	368,830
Total	$430,830

Substantially all of KU's utility plant is pledged as security for its First Mortgage Bonds.

Note 10 - Notes Payable

KU's short-term financing requirements are satisfied through the sale of commercial paper. KU had no short-term borrowings at December 31, 1999, and 1998.

The KU credit facilities that provided for short-term borrowing and support of commercial paper borrowing expired on December 31, 1999.

Note 11 - Commitments and Contingencies

Construction Program. KU had $13.8 million of commitments in connection with its construction program at December 31, 1999. Construction expenditures for the years 2000 and 2001 are estimated to total approximately $324 million.

Operating Leases. KU leases office space, office equipment, and vehicles. KU accounts for these leases as operating leases. Total lease expense for 1999, 1998, and 1997, was $1.7 million, $1.9 million, and $1.8 million, respectively.

In December 1999, LG&E and KU entered into an 18-year cross-border lease of its two jointly owned combustion turbines recently installed at KU's Brown facility. KU's obligation was defeased upon consummation of the cross-border lease. The transaction produced a pre-tax gain of approximately $1.9 million which has

been deferred pending resolution of rate treatment by the Kentucky Commission.

Environmental. The Act imposed stringent new SO2 and NOx emission limits on electric generating units. KU met its Phase I SO2 requirements primarily through installation of a scrubber on Ghent Unit 1. KU's strategy for Phase II, commencing January 1, 2000, is to use accumulated emissions allowances to delay additional capital expenditures and may also include fuel switching or the installation of additional scrubbers. KU met the NOx emission requirements of the Act through installation of low-NOx burner systems. KU's compliance plans are subject to many factors including developments in the emission allowance and fuel markets, future regulatory and legislative initiatives, and advances in clean air control technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

In September 1998, the EPA announced its final "NOx SIP call" rule requiring significant additional reductions in NOx emissions by May 2003, in order to mitigate alleged ozone transport to the Northeast. While each of the 22 states covered by the rule is free to allocate its assigned NOx reductions among various emissions sectors as it deems appropriate, the regulation may ultimately require electric generating units to reduce their NOx emissions to 0.15 lb./Mmbtu - an 85% reduction from 1990 levels. In related proceedings in response to petitions filed by various Northeast states, in December 1999, EPA issued a final rule directing similar NOx reductions from a number of specifically named electric generating units including all KU stations in the eastern half of Kentucky. Additional petitions currently pending before EPA may potentially result in orders encompassing the remaining KU stations. Several states, various labor and industry groups, and individual companies have appealed both EPA rulings to the U.S. Court of Appeals for the Washington D.C. Circuit. Management is currently unable to determine the outcome or exact impact of this matter until such time as the courts rule on the pending legal challenges and the states implement the final regulatory mandate. However, if the 0.15 lb. target is ultimately imposed, KU will be required to incur significant capital expenditures and increased operation and maintenance costs for additional controls.

Subject to further study, analysis, and the outcome of pending litigation against the EPA, KU estimates that it may incur approximate capital costs for NOx compliance ranging from $126 million to reduce emissions to the level of .25 lb./Mmbtu (Commonwealth of Kentucky's proposed NOx compliance level) to $168 million to reduce emissions to the level of .15 lb./Mmbtu (current EPA regulations). These costs would generally be incurred beginning in 2000. KU believes its costs in this regard to be comparable to those of similarly situated utilities with like generation assets. KU anticipates that such capital and operating costs are the type of costs that are eligible for recovery from customers under its environmental surcharge mechanisms and believe that a significant portion of such costs could be recovered. However, Kentucky Commission approval is necessary and there can be no guarantee of recovery.

KU is also addressing other air quality issues. First, KU is monitoring the status of EPA's revised NAAQS for ozone and particulate matter. In May 1999, the Washington D.C. Circuit remanded the final rule and directed EPA to undertake additional rulemaking efforts. KU continues to monitor EPA actions to challenge that ruling.

KU owns or formerly owned several properties which contained past MGP operations. Various contaminants are typically found at such former MGP sites and environmental remediation measures are frequently required. KU has completed the cleanup of a site owned by KU. With respect to other former MGP sites no longer owned by KU, KU is unable to determine what, if any, additional exposure or liability it may have as it lacks complete information on current site conditions.

In October 1999, approximately 38,000 gallons of diesel fuel leaked from a cracked valve in an underground pipeline at KU's E.W. Brown Station. Under the oversight of EPA and state officials, KU commenced immediate spill containment and recovery measures which prevented the spill from reaching the Kentucky

River. KU ultimately recovered approximately 34,000 gallons of diesel fuel. In November 1999, the Kentucky Division of Water issued a notice of violation for the incident. KU is currently negotiating with the state in an effort to reach a complete resolution of this matter. To date KU has incurred costs of approximately $1 million. The Company does not expect to incur any material additional amounts.

Purchased Power. KU has purchase power arrangements with OMU, EEI and other parties. Under the OMU agreement, which expires on January 1, 2020, KU purchases all of the output of a 400-Mw generating station not required by OMU. The amount of purchased power available to KU during 2000-2004, which is expected to be approximately 7% of KU's total kWh requirements, is dependent upon a number of factors including the units' availability, maintenance schedules, fuel costs and OMU requirements. Payments are based on the total costs of the station allocated per terms of the OMU agreement, which generally follows delivered kWh. Included in the total costs is KU's proportionate share of debt service requirements on $172 million of OMU bonds outstanding at December 31, 1999. The debt service is allocated to KU based on its annual allocated share of capacity, which averaged approximately 46% in 1999.

KU has a 20% equity ownership in EEI, which is accounted for on the equity method of accounting. KU's entitlement is 20% of the available capacity of a 1,000 Mw station. Payments are based on the total costs of the station allocated per terms of an agreement among the owners, which generally follows delivered kWh.

KU has several other contracts for purchased power during 2000 - 2004 of various Mw capacities and for varying periods with a maximum entitlement at any time of 62 Mw.

The estimated future minimum annual payments under purchased power agreements for the five years ended December 31, 2004, are as follows (in thousands of $):

2000	$ 28,765
2001	31,495
2002	30,683
2003	30,947
2004	31,155
Total	$153,045

Note 12 – Jointly Owned Electric Utility Plant

In July 1999, following approval from the Kentucky Commission, KU purchased for $76.7 million a 62% interest in two 164.5 Mw natural gas turbines installed at the E.W. Brown facility (Units 6 and 7) from Capital Corp.

Note 13 - Selected Quarterly Data (Unaudited)

Selected financial data for the four quarters of 1999 and 1998 are shown below. Because of seasonal fluctuations in temperature and other factors, results for quarters may fluctuate throughout the year.

	Quarters Ended			
	March	June	September	December
	(Thousands of $)			
1999				
Revenues	$217,349	$225,794	$281,503	$212,664
Operating income	36,966	34,997	32,529	31,524
Net income	29,628	27,757	24,426	24,747
Net income available for common stock	29,064	27,193 (a)	23,862 (b)	24,183 (c)
1998				
Revenues	$183,219	$193,079	$246,117	$187,699
Operating income	33,035	28,144	44,677	19,532
Net income (loss)	25,049	(1,119)	36,980	11,854
Net income (loss) available for common stock	24,485	(1,683)	36,416	11,290

(a) The increase of $28.9 million compared to June 1998 was primarily due to a non-recurring after-tax charge of $21.5 million from merger-related expenses.

(b) The decrease of $12.6 million compared to September 1998 was primarily due to a charge to record a net provision for the refund of certain revenues under the FAC and ECR.

(c) The increase of $12.9 million compared to December 1998 was primarily due to a charge to refund certain amounts collected under the ECR.

Note 14 – Subsequent Events

On February 28, 2000, LG&E Energy announced that its Board of Directors accepted an offer to be acquired by PowerGen for cash of approximately $3.2 billion or $24.85 per share and the assumption of $2.2 billion of LG&E Energy's debt. Pursuant to the acquisition agreement, among other things, LG&E Energy will become a wholly owned subsidiary of PowerGen and its U.S. headquarters. The Utility Operations of the Company will continue their separate identities and serve customers in Kentucky and Virginia under their present names. The preferred stock and debt securities of the Utility Operations will not be affected by this transaction resulting in the Utility Operations' obligation to continue to file SEC reports. The acquisition is expected to close 9 to 12 months from the announcement, shortly after all of the conditions to consummation of the acquisition are met. Those conditions include, without limitation, the approval of the holders of a majority of the outstanding shares of common stock of each of LG&E Energy and PowerGen, the receipt of all necessary governmental approvals and the making of all necessary governmental filings, including approvals of various regulators in Kentucky and Virginia under state utility laws, the approval of the Federal Energy Regulatory Commission under the Federal Power Act, the approval of the SEC under the Public Utility Holding Company Act of 1935, and the filing of requisite notifications with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of all applicable waiting periods thereunder. Shareholder meetings to vote upon the approval of the acquisition are expected to be held during the second quarter of 2000 for both LG&E Energy and PowerGen. During the first quarter of 2000, the Company expensed approximately $1.0 million relating to the PowerGen transaction. The foregoing

description of the acquisition does not purport to be complete and is qualified in its entirety by reference to LG&E Energy's current reports on Form 8-K, filed February 29, 2000, with the SEC.

On March 3, 2000, the U.S. Court of Appeals for the Washington D.C. Circuit issued a final opinion upholding the NOx SIP call rule requiring electric generating units to reduce their NOx emissions to 0.15 lb./Mmbtu by May 2003. Some of the litigants will likely seek further judicial review of the ruling.

In the first quarter of 2000, KU will take a restructuring charge relating to the reduction of positions and the integration of LG&E's and KU's operations, including combining retail gas and electric operations, consolidation of customer service centers and the redesigning various other processes.

The Kentucky Commission responded to the motions filed by KU for computational and other errors made in Orders received on base rate reductions in February 2000 by reducing KU's annual revenue reductions by $2.5 million and granting rehearings on other issues.

Kentucky Utilities Company
REPORT OF MANAGEMENT

The management of Kentucky Utilities Company is responsible for the preparation and integrity of the financial statements and related information included in this Annual Report. These statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and, necessarily, include amounts that reflect the best estimates and judgment of management.

KU's financial statements have been audited by Arthur Andersen LLP, independent public accountants. Management has made available to Arthur Andersen LLP all KU's financial records and related data as well as the minutes of shareholders' and directors' meetings.

Management has established and maintains a system of internal controls that provide reasonable assurance that transactions are completed in accordance with management's authorization, that assets are safeguarded and that financial statements are prepared in conformity with generally accepted accounting principles. Management believes that an adequate system of internal controls is maintained through the selection and training of personnel, appropriate division of responsibility, establishment and communication of policies and procedures and by regular reviews of internal accounting controls by KU's internal auditors. Management reviews and modifies its system of internal controls in light of changes in conditions and operations, as well as in response to recommendations from the internal auditors. These recommendations for the year ended December 31, 1998, did not identify any material weaknesses in the design and operation of KU's internal control structure.

The Audit Committee of the Board of Directors is composed entirely of outside directors. In carrying out its oversight role for the financial reporting and internal controls of KU, the Audit Committee meets regularly with KU's independent public accountants, internal auditors and management. The Audit Committee reviews the results of the independent accountants' audit of the financial statements and their audit procedures, and discusses the adequacy of internal accounting controls. The Audit Committee also approves the annual internal auditing program, and reviews the activities and results of the internal auditing function. Both the independent public accountants and the internal auditors have access to the Audit Committee at any time.

Kentucky Utilities Company maintains and internally communicates a written code of business conduct that addresses, among other items, potential conflicts of interest, compliance with laws, including those relating to financial disclosure, and the confidentiality of proprietary information.

Kentucky Utilities Company
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Kentucky Utilities Company:

We have audited the accompanying balance sheets and statements of capitalization of Kentucky Utilities Company (a Kentucky and Virginia corporation and a wholly-owned subsidiary of LG&E Energy Corp.) as of December 31, 1999 and 1998, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of KU's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Utilities Company as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed under Item 14(a)2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Louisville, Kentucky
January 26, 2000 (Except with respect
to the matters discussed in Note 14, as
to which the date is March 3, 2000.)

Arthur Andersen LLP

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

ITEMS 10, 11, 12 and 13 are omitted pursuant to General Instruction G of Form 10-K. The information required by ITEMS 10, 11, 12 and 13 for LG&E Energy and LG&E is incorporated herein by reference to their respective definitive proxy statements to be filed during April 2000 with the Commission pursuant to Regulation 14A of the Securities and Exchange Act of 1934. The information required by ITEMS 10, 11, 12 and 13 for KU is incorporated herein by reference to the material appearing in Exhibit 99.03, which is filed herewith. Additionally, in accordance with General Instruction G, the information required by ITEM 10 relating to executive officers of LG&E Energy, LG&E and KU has been included in Part I of this Form 10-K.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) 1. Financial Statements (included in Item 8):

<u>LG&E Energy:</u>
Consolidated statements of income for the three years ended December 31, 1999 (page 75).
Consolidated statements of retained earnings for the three years ended December 31, 1999 (page 76).
Consolidated statements of comprehensive income for the three years ended December 31, 1999 (page 76)
Consolidated balance sheets - December 31, 1999, and 1998 (page 77).
Consolidated statements of cash flows for the three years ended December 31, 1999 (page 78).
Consolidated statements of capitalization - December 31, 1999, and 1998 (page 79).
Notes to consolidated financial statements (pages 81-116).
Report of management (page 117).
Report of independent public accountants (page 118).

<u>LG&E:</u>
Statements of income for the three years ended December 31, 1999 (page 119).
Statements of retained earnings for the three years ended December 31, 1999 (page 119).
Statements of comprehensive income for the three years ended December 31, 1999 (page 120).
Balance sheets - December 31, 1999, and 1998 (page 121).
Statements of cash flows for the three years ended December 31, 1999 (page 122).
Statements of capitalization - December 31, 1999, and 1998 (page 123).
Notes to financial statements (pages 124-142).
Report of management (page 143).
Report of independent public accountants (page 144).

KU:

Statements of income for the three years ended December 31, 1999 (page 145).
Statements of retained earnings for the three years ended December 31, 1999 (page 145).
Balance sheets - December 31, 1999, and 1998 (page 146).
Statements of cash flows for the three years ended December 31, 1999 (page 147).
Statements of capitalization - December 31, 1999, and 1998 (page 148).
Notes to financial statements (pages 149-164).
Report of management (page 165).
Report of independent public accountants (page 166).

2. Financial Statement Schedules (included in Part IV):

Schedule II — Valuation and Qualifying Accounts for the three years ended December 31, 1999, for LG&E Energy (page 191), LG&E (page 192), and KU (page 193).

All other schedules have been omitted as not applicable or not required or because the information required to be shown is included in the Financial Statements or the accompanying Notes to Financial Statements.

3. Exhibits:

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
2.01	x	x	x	Copy of Agreement and Plan of Merger, dated as of February 27, 2000, by and among PowerGen plc, LG&E Energy Corp., US Subholdco2 and Merger Sub, including certain exhibits thereto. [Filed as Exhibit 1 to LG&E Energy's Current Report on Form 8-K filed February 29, 2000 and incorporated by reference herein]
2.02	x	x	x	Copy of Agreement and Plan of Merger, dated as of May 20, 1997, by and between LG&E Energy and KU Energy, including certain exhibits thereto. [Filed as Exhibit 2 to LG&E Energy's Current Report on Form 8-K filed May 30, 1997 and incorporated by reference herein]
3.01	x			Copy of LG&E Energy's Amended and Restated Articles of Incorporation dated May 4, 1998. [Filed as Exhibit 4.1 to LG&E Energy's Current Report on Form 8-K dated May 4, 1998, and incorporated by reference herein]
3.02		x		Copy of Restated Articles of Incorporation of LG&E, dated November 6, 1996. [Filed as Exhibit 3.06 to LG&E's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated by reference herein]
3.03	x			Copy of Bylaws of LG&E Energy, as amended through June 2, 1999.

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
3.04		x		Copy of By-Laws of LG&E, as amended through June 2, 1999.
3.05			x	Copy of Amended and Restated Articles of Incorporation of KU [Filed as Exhibits 4.03 and 4.04 to Form 8-K Current Report of KU, dated December 10, 1993, and incorporated by reference herein]
3.06			x	Copy of By-laws of KU, as amended through June 2, 1999.
4.01	x	x		Copy of Trust Indenture dated November 1, 1949, from LG&E to Harris Trust and Savings Bank, Trustee. [Filed as Exhibit 7.01 to LG&E's Registration Statement 2-8283 and incorporated by reference herein]
4.02	x	x		Copy of Supplemental Indenture dated February 1, 1952, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.05 to LG&E's Registration Statement 2-9371 and incorporated by reference herein]
4.03	x	x		Copy of Supplemental Indenture dated February 1, 1954, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.03 to LG&E's Registration Statement 2-11923 and incorporated by reference herein]
4.04	x	x		Copy of Supplemental Indenture dated September 1, 1957, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.04 to LG&E's Registration Statement 2-17047 and incorporated by reference herein]
4.05	x	x		Copy of Supplemental Indenture dated October 1, 1960, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.05 to LG&E's Registration Statement 2-24920 and incorporated by reference herein]
4.06	x	x		Copy of Supplemental Indenture dated June 1, 1966, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.06 to LG&E's Registration Statement 2-28865 and incorporated by reference herein]
4.07	x	x		Copy of Supplemental Indenture dated June 1, 1968, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.07 to LG&E's Registration Statement 2-37368 and incorporated by reference herein]
4.08	x	x		Copy of Supplemental Indenture dated June 1, 1970, which is a

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.08 to LG&E's Registration Statement 2-37368 and incorporated by reference herein]
4.09	x	x		Copy of Supplemental Indenture dated August 1, 1971, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.09 to LG&E's Registration Statement 2-44295 and incorporated by reference herein]
4.10	x	x		Copy of Supplemental Indenture dated June 1, 1972, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.10 to LG&E's Registration Statement 2-52643 and incorporated by reference herein]
4.11	x	x		Copy of Supplemental Indenture dated February 1, 1975, which is a supplemental instrument to exhibit 4.01 hereto. [Filed as Exhibit 2.11 to LG&E's Registration Statement 2-57252 and incorporated by reference herein]
4.12	x	x		Copy of Supplemental Indenture dated September 1, 1975, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.12 to LG&E's Registration Statement 2-57252 and incorporated by reference herein]
4.13	x	x		Copy of Supplemental Indenture dated September 1, 1976, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.13 to LG&E's Registration Statement 2-57252 and incorporated by reference herein]
4.14	x	x		Copy of Supplemental Indenture dated October 1, 1976, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.14 to LG&E's Registration Statement 2-65271 and incorporated by reference herein]
4.15	x	x		Copy of Supplemental Indenture dated June 1, 1978, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.15 to LG&E's Registration Statement 2-65271 and incorporated by reference herein]
4.16	x	x		Copy of Supplemental Indenture dated February 15, 1979, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 2.16 to LG&E's Registration Statement 2-65271 and incorporated by reference herein]
4.17	x	x		Copy of Supplemental Indenture dated September 1, 1979, which

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.17 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1980, and incorporated by reference herein]
4.18	x	x		Copy of Supplemental Indenture dated September 15, 1979, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.18 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1980, and incorporated by reference herein]
4.19	x	x		Copy of Supplemental Indenture dated September 15, 1981, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.19 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1981, and incorporated by reference herein]
4.20	x	x		Copy of Supplemental Indenture dated March 1, 1982, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.20 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1982, and incorporated by reference herein]
4.21	x	x		Copy of Supplemental Indenture dated March 15, 1982, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.21 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1982, and incorporated by reference herein]
4.22	x	x		Copy of Supplemental Indenture dated September 15, 1982, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.22 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1982, and incorporated by reference herein]
4.23	x	x		Copy of Supplemental Indenture dated February 15, 1984, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.23 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1984, and incorporated by reference herein]
4.24	x	x		Copy of Supplemental Indenture dated July 1, 1985, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.24 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1985, and incorporated by reference herein]
.25	x	x		Copy of Supplemental Indenture dated November 15, 1986,

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.25 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1986, and incorporated by reference herein]
4.26	x	x		Copy of Supplemental Indenture dated November 16, 1986, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.26 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1986, and incorporated by reference herein]
4.27	x	x		Copy of Supplemental Indenture dated August 1, 1987, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.27 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1987, and incorporated by reference herein]
4.28	x	x		Copy of Supplemental Indenture dated February 1, 1989, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.28 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1988, and incorporated by reference herein]
4.29	x	x		Copy of Supplemental Indenture dated February 2, 1989, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.29 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1988, and incorporated by reference herein]
4.30	x	x		Copy of Supplemental Indenture dated June 15, 1990, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.30 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1990, and incorporated by reference herein]
4.31	x	x		Copy of Supplemental Indenture dated November 1, 1990, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.31 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1990, and incorporated by reference herein]
4.32	x	x		Copy of Supplemental Indenture dated September 1, 1992, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.32 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein]

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
4.33	x	x		Copy of Supplemental Indenture dated September 2, 1992, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.33 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein]
4.34	x	x		Copy of Supplemental Indenture dated August 15, 1993, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.34 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein]
4.35	x	x		Copy of Supplemental Indenture dated August 16, 1993, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.35 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein]
4.36	x	x		Copy of Supplemental Indenture dated October 15, 1993, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.36 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein]
4.37	x		x	Indenture of Mortgage or Deed of Trust dated May 1, 1947, between KU and First Trust National Association (successor Trustee) and a successor individual co-trustee, as Trustees (the Trustees) (Amended Exhibit 7(a) in File No. 2-7061), and Supplemental Indentures thereto dated, respectively, January 1, 1949 (Second Amended Exhibit 7.02 in File No. 2-7802), July 1, 1950 (Amended Exhibit 7.02 in File No. 2-8499), June 15, 1951 (Exhibit 7.02(a) in File No. 2-8499), June 1, 1952 (Amended Exhibit 4.02 in File No. 2-9658), April 1, 1953 (Amended Exhibit 4.02 in File No. 2-10120), April 1, 1955 (Amended Exhibit 4.02 in File No. 2-11476), April 1, 1956 (Amended Exhibit 2.02 in File No. 2-12322), May 1, 1969 (Amended Exhibit 2.02 in File No. 2-32602), April 1, 1970 (Amended Exhibit 2.02 in File No. 2-36410), September 1, 1971 (Amended Exhibit 2.02 in File No. 2-41467), December 1, 1972 (Amended Exhibit 2.02 in File No. 2-46161), April 1, 1974 (Amended Exhibit 2.02 in File No. 2-50344), September 1, 1974 (Exhibit 2.04 in File No. 2-59328), July 1, 1975 (Exhibit 2.05 in File No. 2-59328), May 15, 1976 (Amended Exhibit 2.02 in File No. 2-56126), April 15, 1977 (Exhibit 2.06 in File No. 2-59328), August 1, 1979 (Exhibit 2.04 in File No. 2-64969), May 1, 1980 (Exhibit 2 to Form 10-Q

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				Quarterly Report of KU for the quarter ended June 30, 1980), September 15, 1982 (Exhibit 4.04 in File No. 2-79891), August 1, 1984 (Exhibit 4B to Form 10-K Annual Report of KU for the year ended December 31, 1984), June 1, 1985 (Exhibit 4 to Form 10-Q Quarterly Report of KU for the quarter ended June 30, 1985), May 1, 1990 (Exhibit 4 to Form 10-Q Quarterly Report of KU for the quarter ended June 30, 1990), May 1, 1991 (Exhibit 4 to Form 10-Q Quarterly Report of KU for the quarter ended June 30, 1991), May 15, 1992 (Exhibit 4.02 to Form 8-K of KU dated May 14, 1992), August 1, 1992 (Exhibit 4 to Form 10-Q Quarterly Report of KU for the quarter ended September 30, 1992), June 15, 1993 (Exhibit 4.02 to Form 8-K of KU dated June 15, 1993) and December 1, 1993 (Exhibit 4.01 to Form 8-K of KU dated December 10, 1993), November 1, 1994 (Exhibit 4.C to Form 10-K Annual Report of KU for the year ended December 31, 1994), June 1, 1995 (Exhibit 4 to Form 10-Q Quarterly Report of KU for the quarter ended June 30, 1995) and January 15, 1996 (Exhibit 4.E to Form 10-K Annual Report of KU for the year ended December 31, 1995). Incorporated by reference.
4.38	x		x	Supplemental Indenture dated March 1, 1992 between KU and the Trustees, providing for the conveyance of properties formerly held by Old Dominion Power Company [Filed as Exhibit 4B to Form 10-K Annual Report of KU for the year ended December 31, 1992, and incorporated by reference herein]
10.01	x	x		Copies of Agreement between Sponsoring Companies re: Project D of Atomic Energy Commission, dated May 12, 1952, Memorandums of Understanding between Sponsoring Companies re: Project D of Atomic Energy Commission, dated September 19, 1952 and October 28, 1952, and Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission, dated October 15, 1952. [Filed as Exhibit 13(y) to LG&E's Registration Statement 2-9975 and incorporated by reference herein]
10.02	x	x		Copy of Modification No. 1 dated July 23, 1953, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 4.03(b) to LG&E's Registration Statement 2-24920 and incorporated by reference herein]
10.03	x	x		Copy of Modification No. 2 dated March 15, 1964, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 5.02c to LG&E's

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				Registration Statement 2-61607 and incorporated by reference herein]
10.04	x	x		Copy of Modification No. 3 and No. 4 dated May 12, 1966 and January 7, 1967, respectively, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibits 4(a)(13) and 4(a)(14) to LG&E's Registration Statement 2-26063 and incorporated by reference herein]
10.05	x	x		Copy of Modification No. 5 dated August 15, 1967, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 13(c) to LG&E's Registration Statement 2-27316 and incorporated by reference herein]
10.06	x	x	x	Copies of (i) Inter-Company Power Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies (which Agreement includes as Exhibit A the Power Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Indiana-Kentucky Electric Corporation); (ii) First Supplementary Transmission Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies; (iii) Inter-Company Bond Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies; (iv) Inter-Company Bank Credit Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 5.02f to LG&E's Registration Statement 2-61607 and incorporated by reference herein]
10.07	x	x	x	Copy of Modification No. 1 and No. 2 dated June 3, 1966 and January 7, 1967, respectively, to Inter-Company Power Agreement dated July 10, 1953. [Filed as Exhibits 4(a)(8) and 4(a)(10) to LG&E's Registration Statement 2-26063 and incorporated by reference herein]
10.08	x	x		Copies of Amendments to Agreements (iii) and (iv) referred to under 10.06 above as follows: (i) Amendment to Inter-Company Bond Agreement and (ii) Amendment to Inter-Company Bank Credit Agreement. [Filed as Exhibit 5.02h to LG&E's Registration Statement 2-61607 and incorporated by reference herein]
0.09	x	x		Copy of Modification No. 1, dated August 20, 1958, to First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				Companies. [Filed as Exhibit 5.02i to LG&E's Registration Statement 2-61607 and incorporated by reference herein]
10.10	x	x		Copy of Modification No. 2, dated April 1, 1965, to the First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 5.02j to LG&E's Registration Statement 2-61607 and incorporated by reference herein]
10.11	x	x		Copy of Modification No. 3, dated January 20, 1967, to First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 4(a)(7) to LG&E's Registration Statement 2-26063 and incorporated by reference herein]
10.12	x	x		Copy of Modification No. 6 dated November 15, 1967, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 4(g) to LG&E's Registration Statement 2-28524 and incorporated by reference herein]
10.13	x	x	x	Copy of Modification No. 3 dated November 15, 1967, to the Inter-Company Power Agreement dated July 10, 1953. [Filed as Exhibit 4.02m to LG&E's Registration Statement 2-37368 and incorporated by reference herein]
10.14	x	x		Copy of Modification No. 7 dated November 5, 1975, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 5.02n to LG&E's Registration Statement 2-56357 and incorporated by reference herein]
10.15	x	x	x	Copy of Modification No. 4 dated November 5, 1975, to the Inter-Company Power Agreement dated July 10, 1953. [Filed as Exhibit 5.02o to LG&E's Registration Statement 2-56357 and incorporated by reference herein]
10.16	x	x		Copy of Modification No. 4 dated April 30, 1976, to First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 5.02p to LG&E's Registration Statement 2-61607 and incorporated by reference herein]
10.17	x	x		Copy of Modification No. 8 dated June 23, 1977, to the Power Agreement between Ohio Valley Electric Corporation and

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				Atomic Energy Commission. [Filed as Exhibit 5.02q to LG&E's Registration Statement 2-61607 and incorporated by reference herein]
10.18	x	x		Copy of Modification No. 9 dated July 1, 1978, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 5.02r to LG&E's Registration Statement 2-63149 and incorporated by reference herein]
10.19	x	x		Copy of Modification No. 10 dated August 1, 1979, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 2 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1979, and incorporated by reference herein]
10.20	x	x		Copy of Modification No. 11 dated September 1, 1979, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 3 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1979, and incorporated by reference herein]
10.21	x	x	x	Copy of Modification No. 5 dated September 1, 1979, to Inter-Company Power Agreement dated July 5, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 4 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1979, and incorporated by reference herein]
10.22	x	x		Copy of Modification No. 12 dated August 1, 1981, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 10.25 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1981, and incorporated by reference herein]
0.23	x	x	x	Copy of Modification No. 6 dated August 1, 1981, to Inter-Company Power Agreement dated July 5, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.26 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1981, and incorporated by reference herein]
0.24	x	x		* Copy of LG&E Energy Corp. Deferred Stock Compensation Plan effective January 1, 1992, covering non-employee directors of the Company and its subsidiaries. [Filed as Exhibit 10.34 to

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				the Company's Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated by reference herein]
10.25	x	x		* Copy of Supplemental Executive Retirement Plan for R. W. Hale, effective June 1, 1989. [Filed as Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein]
10.26	x	x		* Copy of Nonqualified Savings Plan covering officers of the Company, effective January 1, 1992. [Filed as Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein]
10.27	x	x		Copy of Modification No. 13 dated September 1, 1989, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 10.42 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein]
10.28	x	x		Copy of Modification No. 14 dated January 15, 1992, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 10.43 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein]
10.29	x	x	x	Copy of Modification No. 7 dated January 15, 1992, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.44 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein]
10.30	x	x		Copy of Modification No. 15 dated February 15, 1993, to the Power Agreement between Ohio Valley Electric Corporation and Atomic Energy Commission. [Filed as Exhibit 10.45 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein]
10.31	x	x		Copy of Firm No Notice Transportation Agreement effective November 1, 1993, between Texas Gas Transmission Corporation and LG&E (expires October 31, 2001) covering the transmission of natural gas. Copy of Firm No Notice Transportation Agreement effective November 1, 1993, between Texas Gas Transmission Corpora-

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				tion and LG&E (expires October 31, 2000) covering the transmission of natural gas. Copy of Firm No Notice Transportation Agreement effective November 1, 1993, between Texas Gas Transmission Corporation and LG&E (expires October 31, 2003) covering the transmission of natural gas. [Filed as Exhibit 10.47 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein]
10.32	x	x	x	* Copy of LG&E Energy Corp. Stock Option Plan for Non-Employee Directors. [Filed as Exhibit 10.51 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein]
10.33	x	x	x	Copy of Modification No. 8 dated January 19, 1994, to Intercompany Power Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.43 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein]
10.34	x	x		Copy of Amendment dated March 1 1995, to Firm No-Notice Transportation Agreements dated November 1, 1993 (2-Year, 5-Year and 8-Year), between Texas Gas Transmission Corporation and LG&E covering the transmission of natural gas. [Filed as Exhibit 10.44 of LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein]
10.35	x	x	x	Copy of Modification No. 9, dated August 17, 1995, to the Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.39 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated by reference herein]
.0.36	x	x		Copy of Agreement and Plan of Merger, dated February 10, 1995, between LG&E Natural Inc., formerly known as Hadson Corporation, Carousel Acquisition Corporation and the Company. [Filed as Exhibit 2 of Schedule 13D by the Company on February 21, 1995, and incorporated by reference herein]

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
10.37	x	x		Copy of Firm Transportation Agreement, dated March 1, 1995, between Texas Gas Transmission Corporation and LG&E (expires October 31, 2003) covering the transportation of natural gas. Copy of Firm Transportation Agreement, dated March 1, 1995, between Texas Gas Transmission Corporation and LG&E (expires October 31, 2001) covering the transportation of natural gas. [Filed as Exhibit 10.45 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein]
10.38	x	x		Copy of Firm Transportation Agreement, dated March 1, 1995, between Texas Gas Transmission Corporation and LG&E (expires October 31, 2000) covering the transportation of natural gas [Filed as Exhibit 10.41 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated by reference herein]
10.39	x	x	x	* Copy of Amended and Restated Omnibus Long-Term Incentive Plan effective January 1, 1996, covering officers and key employees of the Company. [Filed as Exhibit 10.52 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein]
10.40	x	x	x	* Copy of Short-Term Incentive Plan effective January 1, 1996, covering officers and key employees of the Company. [Filed as Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein]
10.41	x	x		* Copy of Amendment to the Non-Qualified Savings Plan, effective January 1, 1992. [Filed as Exhibit 10.55 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein]
10.42	x	x		* Copy of Amendment to the Non-Qualified Savings Plan, effective January 1, 1995. [Filed as Exhibit 10.56 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein]
10.43	x	x		* Copy of Amendment to the Non-Qualified Savings Plan, effective January 1, 1995. [Filed as Exhibit 10.57 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein]

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
10.44	x	x		Copy of Form of Master Gas Purchase Agreement, dated December 14, 1993, among Santa Fe, SFEOP and AGPC. [Filed as Exhibit 10.23 to LG&E Natural Inc.'s, formerly known as Hadson Corporation, Registration Statement on Form S-4, File No. 33-68224, and incorporated by reference herein]
10.45	x	x		Copy of Credit Agreement, dated as of December 18, 1995, among LG&E, as Borrower, the Banks named therein, PNC Bank, Kentucky, Inc. as Agent and Bank of Montreal as Co-Agent. [Filed as Exhibit 10.01 to the LG&E's Quarterly Report on Form 10-Q/A for the quarter ended March 31, 1996, and incorporated by reference herein]
10.46	x	x		Copy of Firm Transportation Agreement, dated November 1, 1996, between LG&E and Tennessee Gas Pipeline Company for 30,000 Mmbtu per day in Firm Transportation Service under Tennessee's Rate FT-A (expires October 31, 2001). [Filed as Exhibit 10.42 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated by reference herein]
10.47	x	x		Copy of Amendment No. 1, dated as of November 5, 1996, to Credit Agreement dated as of December 18, 1995, by and among Louisville Gas and Electric Company, the Banks party thereto, and PNC Bank, Kentucky, Inc. as Agent and Bank of Montreal as Co-Agent. [Filed as Exhibit 10.59 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated by reference herein]
10.48	x	x		Copy of Power Purchase and Sale Agreement, dated as of November 19, 1996, among the Company, LG&E Power Marketing Inc., and Oglethorpe Power Corporation. [Filed as Exhibit 10.66 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated by reference herein] [Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission]
10.49	x	x		Copy of Power Purchase and Sale Agreement, dated as of January 1, 1997, among LG&E Power Marketing Inc., LG&E Power Inc., and Oglethorpe Power Corporation. [Filed as Exhibit 10.67 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated by reference herein] [Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securi-

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				ties and Exchange Commission]
10.50	x			Copy of U.S. $500,000,000 Credit Agreement, dated as of September 5, 1997, among LG&E Capital Corp., as Borrower, and the Banks named therein, as Lenders, and Chase Securities Inc., as Syndication Agent, Bank of Montreal, as Administrative Agent, and Morgan Guaranty Trust Company of New York, PNC Bank, Kentucky, Inc., The Bank of New York, The First National Bank of Chicago and Wachovia Bank, N.A., as Co-Agents. [Filed as Exhibit 10.01 to LG&E Energy's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated by reference herein]
10.51	x			Copy of U.S. $ 200,000,000 Credit Agreement, dated as of September 5, 1997, among LG&E Capital Corp., as Borrower, and the Banks named therein, as Lenders, and Chase Securities Inc., as Syndication Agent, Bank of Montreal, as Administrative Agent, and Morgan Guaranty Trust Company of New York, PNC Bank, Kentucky, Inc., The Bank of New York, The First National Bank of Chicago and Wachovia Bank, N.A., as Co-Agents. [Filed as Exhibit 10.02 to LG&E Energy's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated by reference herein]
10.52	x			Copy of Support Agreement, dated as of September 5, 1997, between LG&E Energy Corp. and LG&E Capital Corp. [Filed as Exhibit 10.03 to LG&E Energy's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated by reference herein]
10.53	x			KU Energy Stock Option Agreement, dated as of May 20, 1997, by and between KU Energy and LG&E Energy. [Filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed May 30, 1997 and incorporated by reference herein]
10.54	x			Copy of LG&E Energy Stock Option Agreement, dated as of May 20, 1997, by and between KU Energy and LG&E Energy. [Filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed May 30, 1997 and incorporated by reference herein]
10.55	x	x	x	* Copy of Employment Agreement between LG&E Energy and Roger W. Hale dated May 20, 1997, effective May 4, 1998. [Filed as Annex D to Exhibit 2.01 of LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein]

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
10.56	x	x		* Copy of LG&E Energy Corp. and Louisville Gas and Electric Company Non-Officer Senior Management Pension Restoration Plan, effective May 1, 1996. [Filed as Exhibit 10.69 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated by reference herein]
10.57	x			Copy of Indenture between LG&E Capital Corp. and the Bank of New York as Trustee dated as of January 15, 1998. [Filed as Exhibit 10.72 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein]
10.58	x			Copy of First Supplemental Indenture between LG&E Capital Corp. and The Bank of New York as Trustee dated as of January 15, 1998. [Filed as Exhibit 10.73 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein]
10.59	x	x	x	* Copy of Supplemental Executive Retirement Plan as amended through January 1, 1998, covering officers of LG&E Energy. [Filed as Exhibit 10.74 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein]
10.60	x	x	x	* Copy of form of Change in Control Agreement for officers of LG&E Energy Corp. [Filed as Exhibit 10.75 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein]
10.61	x	x		Copy of Coal Supply Agreement between LG&E and Kindill Mining, Inc., dated July 1, 1997. [Filed as Exhibit 10.76 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein]
10.62	x	x		Copy of Coal Supply Agreement between LG&E and Warrior Coal Corp. dated January 1, 1997, and Amendments #1 and #2 dated May 1, 1997, and December 1, 1997, thereto. [Filed as Exhibit 10.79 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein]
10.63	x	x		Copies of Amendments dated September 23, 1997, to Firm No-Notice Transportation Agreements dated November 1, 1993, between Texas Gas Transmission Corporation and LG&E, as amended. [Filed as Exhibit 10.81 to LG&E Energy's Annual

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein]
10.64	x	x		Copies of Amendments dated September 23, 1997, to Firm Transportation Agreements dated March 1, 1995, between Texas Gas Transmission Corporation and LG&E, as amended. [Filed as Exhibit 10.82 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein]
10.65	x	x		Copy of Gas Transportation Agreement dated November 1, 1996, between Tennessee Gas Pipeline Company and LG&E and amendments dated February 4, 1997, thereto. [Filed as Exhibit 10.83 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein] [Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission]
10.66				[Not used.]
10.67				[Not used.]
10.68				[Not used.]
10.69				[Not used.]
10.70				[Not used.]
10.71				[Not used.]
10.72				[Not used.]
10.73				[Not used.]
10.74	x		x	* KU Energy's Long-Term Incentive Plan [Filed as Exhibit 10.27 to Form 10-K Annual Report of KU Energy for the year ended December 31, 1996, and incorporated by reference herein]
10.75	x			* Employment Agreement by and between KU Energy Corporation and Michael R. Whitley [Filed as Exhibit (2)-5 to S-4 Registration Statement File No. 333-34219; Annex E to Form DEFM14A Joint Proxy Statement of LG&E Energy Corp. and KU Energy Corporation dated August 22, 1997, and incorporated by reference herein]

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
10.76	x	x		Copy of Amended and Restated Coal Supply Agreement dated April 1, 1998 between LG&E and Hopkins County Coal LLC. [Filed as Exhibit 10.76 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.77	x	x		Copy of Coal Supply Agreement dated January 1, 1999 between LG&E and Peabody COALSALES Company. [Filed as Exhibit 10.77 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.78				[Not used.]
10.79				[Not used.]
10.80	x		x	Copy of Assignment and Assumption Agreement dated November 16, 1998 between KU, Leslie Resources, Inc. and AEI Coal Sales Company, Inc. regarding Coal Supply Agreement dated December 31, 1997. [Filed as Exhibit 10.80 to KU's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.81	x		x	Copy of Coal Supply Agreement dated April 1, 1995 between KU and Consolidation Coal Company, Quarto Mining Company, McElroy Coal Company, Consol Pennsylvania Coal Company, Greenon Coal Company and Nineveh Coal Company. [Filed as Exhibit 10.81 to KU's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.82	x		x	Copy of Amendment to Coal Supply Agreement dated October 1, 1996 between KU and Consolidation Coal Company, Quarto Mining Company, McElroy Coal Company, Consol Pennsylvania Coal Company, Greenon Coal Company and Nineveh Coal Company regarding Coal Supply Agreement dated April 1, 1995. [Filed as Exhibit 10.82 to KU's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.83	x			Copy of New Participation Agreement dated April 6, 1998, among Big Rivers Electric Corporation. LG&E Energy Marketing Inc., Western Kentucky Leasing Corp., WKE Station Two Inc. and Western Kentucky Energy Corp. [Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.] [Filed as Exhibit 10.83 to LG&E Energy's Annual Report

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.84	x			Copy of Letter Agreement from WKE Station Two Inc. to Big Rivers Electric Corporation dated April 6, 1998 amending New Participation Agreement dated April 6, 1998 among Big Rivers Electric Corporation. LG&E Energy Marketing Inc., Western Kentucky Leasing Corp., WKE Station Two Inc. and Western Kentucky Energy Corp. [Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.] [Filed as Exhibit 10.84 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.85	x			Copy of Second Amendment dated June 15, 1998 to New Participation Agreement dated April 6, 1998 among Big Rivers Electric Corporation. LG&E Energy Marketing Inc., Western Kentucky Leasing Corp., WKE Station Two Inc. and Western Kentucky Energy Corp. [Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.] [Filed as Exhibit 10.85 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.86	x			Copy of Third Amendment dated July 15, 1998 to New Participation Agreement dated April 6, 1998 among Big Rivers Electric Corporation. LG&E Energy Marketing Inc., Western Kentucky Leasing Corp., WKE Station Two Inc. and Western Kentucky Energy Corp. [Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.] [Filed as Exhibit 10.86 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.87	x			Copy of Form of Lease and Operating Agreement Between Western Kentucky Energy Corp. and Big Rivers Electric Corporation dated July 15, 1998. [Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.] [Filed as Exhibit 10.87 to LG&E Energy's Annual Report on Form 10-K for the

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				year ended December 31, 1998 and incorporated by reference herein]
10.88	x			Copy of Power Purchase Agreement Between Big Rivers Electric Corporation and LG&E Energy Marketing Inc. dated July 15, 1998. [Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.] [Filed as Exhibit 10.88 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.89	x			Copy of Agreement and Amendments to Agreements By and Among City of Henderson, Kentucky, City of Henderson Utility Commission, Big Rivers Electric Corporation, WKE Station Two Inc., LG&E Energy Marketing Inc., and Western Kentucky Energy Corp. dated July 15, 1998. [Filed as Exhibit 10.89 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.90	x	x	x	* Copy of Amendment to LG&E Energy's Supplemental Executive Retirement Plan, effective September 2, 1998. [Filed as Exhibit 10.90 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.91	x	x	x	* Copy of Amendment effective September 2, 1998 to Supplemental Executive Retirement Plan for R. W. Hale effective June 1, 1989. [Filed as Exhibit 10.91 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.92	x			Copy of Terms Agreement among LG&E Capital Corp., LG&E Energy Corp., Morgan Stanley & Co. Incorporated, Chase Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc. dated October 29, 1998. [Filed as Exhibit 10.92 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein]
10.93	x	x	x	* Copy of Employment Agreement, dated as of February 25, 2000, by and among LG&E Energy, PowerGen plc and Roger W. Hale. [Filed as Exhibit 1 to Appendix A of LG&E Energy's Preliminary Proxy Statement on Schedule 14A on March 13,

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				2000 and incorporated by reference herein]
10.94	x	x	x	* Copy of form of Employment and Severance Agreement, dated as of February 25, 2000, by and among LG&E Energy, Power-Gen plc and certain executive officers of the Company.
10.95	x	x	x	* Copy of Amendment dated as of April 21, 1999, to Amended and Restated Omnibus Long-Term Incentive Plan, covering officers and key employees of LG&E Energy.
10.96	x	x	x	* Copy of Amendment, effective October 1, 1999, to LG&E Energy's Non-Qualified Savings Plan.
10.97	x	x	x	* Copy of Amendment, effective December 1, 1999, to LG&E Energy's Non-Qualified Savings Plan.
10.98				[Not used.]
10.99	x			* Copy of Agency Agreement, dated September 1, 1999, between LG&E Capital Corp. and Wachovia Securities Inc.
10.100	x	x	x	* Copy of Terms Agreement, dated May 4, 1999, among LG&E Capital Corp., J.P. Morgan Securities Inc., Chase Securities Inc. and Merrill Lynch & Co.
10.101	x			Copy of Second Supplemental Indenture, dated as of September 1, 1999 between LG&E Capital Corp. and The Bank of New York as Trustee.
10.102	x	x	x	Copy of Modification No. 10., dated January 1, 1998, to the Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies.
10.103	x	x	x	Copy of Modification No. 11, dated April 1, 1999, to the Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies.
10.104	x	x		Copy of Amendment No. 1, dated January 1, 2000, to Amended and Restated Coal Supply Agreement, dated April 1, 1998, among LG&E, Hopkins County Coal, LLC and Webster County Coal, LLC.
10.105	x	x		Copy of Amendment No. 1, dated January 1, 2000, to Coal Supply Contract, dated January 1, 1999, between LG&E and

Exhibit No.	Applicable to Form 10-K of LG&E Energy	LG&E	KU	Description
				Peabody CoalSales Company.
10.106	x	x		Copy of Letter Amendment, dated September 15, 1999, to Transportation Agreement, dated November 1, 1993, between LG&E and Texas Gas Transmission Corporation.
12		x	x	Computation of Ratio of Earnings to Fixed Charges for LG&E and KU.
21	x	x	x	Subsidiaries of the Registrant.
23.01	x			Consent of Independent Public Accountants for LG&E Energy Corp.
23.02		x		Consent of Independent Public Accountants for LG&E.
23.03			x	Consent of Independent Public Accountants for KU.
24	x	x	x	Power of Attorney.
27	x	x	x	Financial Data Schedules for LG&E Energy Corp., LG&E and KU.
99.01	x	x	x	Cautionary Statement for purposes of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995.
99.02	x			Description of Common Stock.
99.03			x	Director and Officer Information.

(b) Executive Compensation Plans and Arrangements:

Exhibits preceded by an asterisk ("*") above are management contracts, compensation plans or arrangements required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

(c) Reports on Form 8-K:

On December 21, 1999, the Company filed a report on Form 8-K announcing that LG&E Energy, LG&E and KU realigned their management structures to support their efforts to prepare for the changing energy marketplace.

On January 6, 2000, the Company filed a report on Form 8-K announcing that on December 21, 1999, it received an adverse order from the arbitration panel considering its contract dispute with OPC.

On January 25, 2000, the Company filed a report on Form 8-K announcing that on January 7, 2000, it issued a statement regarding the Kentucky Commission's decision in the PBR case involving its two utility subsidiaries, LG&E and KU.

On February 29, 2000, the Company filed a report on Form 8-K announcing that on February 27, 2000, it and PowerGen entered into an Agreement and Plan of Merger.

(d) The following instruments defining the rights of holders of certain long- term debt of KU have not been filed with the Securities and Exchange Commission but will be furnished to the Commission upon request.

1. Loan Agreement dated as of May 1, 1990 between KU and the County of Mercer, Kentucky, in connection with $12,900,000 County of Mercer, Kentucky, Collateralized Solid Waste Disposal Facility Revenue Bonds (KU Project) 1990 Series A, due May 1, 2010 and May 1, 2020.

2. Loan Agreement dated as of May 1, 1991 between KU and the County of Carroll, Kentucky, in connection with $96,000,000 County of Carroll, Kentucky, Collateralized Pollution Control Revenue Bonds (KU Project) 1992 Series A, due September 15, 2016.

3. Loan Agreement dated as of August 1, 1992 between KU and the County of Carroll, Kentucky, in connection with $2,400,000 County of Carroll, Kentucky, Collateralized Pollution Control Revenue Bonds (KU Project) 1992 Series C, due February 1, 2018.

4. Loan Agreement dated as of August 1, 1992 between KU and the County of Muhlenberg, Kentucky, in connection with $7,200,000 County of Muhlenberg, Kentucky, Collateralized Pollution Control Revenue Bonds (KU Project) 1992 Series A, due February 1, 2018.

5. Loan Agreement dated as of August 1, 1992 between KU and the County of Mercer, Kentucky, in connection with $7,400,000 County of Mercer, Kentucky, Collateralized Pollution Control Revenue Bonds (KU Project) 1992 Series A, due February 1, 2018.

6. Loan Agreement dated as of August 1, 1992 between KU and the County of Carroll, Kentucky, in connection with $20,930,000 County of Carroll, Kentucky, Collateralized Pollution Control Revenue Bonds (KU Project) 1992 Series B, due February 1, 2018.

7. Loan Agreement dated as of December 1, 1993, between KU and the County of Carroll, Kentucky, in connection with $50,000,000 County of Carroll, Kentucky, Collateralized Solid Waste Disposal Facilities Revenue Bonds (KU Project) 1993 Series A, due December 1, 2023.

8. Loan Agreement dated as of November 1, 1994, between KU and the County of Carroll, Kentucky, in connection with $54,000,000 County of Carroll, Kentucky, Collateralized Solid Waste Disposal Facilities Revenue Bonds (KU Project) 1994 Series A, due November 1, 2024.

LG&E Energy Corp. and Subsidiaries
Schedule II - Valuation and Qualifying Accounts
For the Three Years Ended December 31, 1999
(Thousands of $)

Schedule II

	Other Property and Investments	Accounts Receivable (Uncollectible Accounts)	(a) Discontinued Operations Reserve	(b) Accumulated Deferred Income Taxes (NOL Carryforwards)
Balance December 31, 1996	$18,966	$ 7,121	$ -	$25,601
Additions:				
Charged to costs and expenses	11,875	5,356	-	-
Other additions	7,570	1,997	-	-
Deductions:				
Net charges of nature for which reserves were created	354	4,212	-	-
Other deductions	-	75	-	-
Balance December 31, 1997	38,057	10,187	-	25,601
Additions:				
Charged to costs and expenses	23,791	4,770	224,148	-
Other additions	1,750	248	-	-
Deductions:				
Net charges of nature for which reserves were created	11,399	4,648	104,767	-
Other deductions	108	25		
-				
Balance December 31, 1998	52,091	10,532	119,381	25,601
Additions:				
Charged to costs and expenses	26,956	4,746	174,212	-
Other additions	-	1,030	-	-
Deductions:				
Net charges of nature for which reserves were created	6,890	8,023	122,895	2,815
Balance December 31, 1999	$72,157	$ 8,285	$170,698	$22,786

(a) Amounts presented are after tax.
(b) Partially offsets a deferred tax debit included in net assets of discontinued operations. The debit represents net operating loss carryforwards available from a previous acquisition.

Louisville Gas and Electric Company
Schedule II - Valuation and Qualifying Accounts
For the Three Years Ended December 31, 1999
(Thousands of $)

	Other Property and Investments	Accounts Receivable (Uncollectible Accounts)
Balance December 31, 1996	$ 63	$ 1,470
Additions:		
Charged to costs and expenses	-	2,300
Deductions:		
Net charges of nature for which reserves were created	-	2,475
Balance December 31, 1997	63	1,295
Additions:		
Charged to costs and expenses	-	2,300
Deductions:		
Net charges of nature for which reserves were created	-	2,196
Balance December 31, 1998	63	1,399
Additions:		
Charged to costs and expenses	-	1,925
Deductions:		
Net charges of nature for which reserves were created	-	2,091
Balance December 31, 1999	$ 63	$ 1,233

Schedule II

Kentucky Utilities Company
Schedule II - Valuation and Qualifying Accounts
For the Three Years Ended December 31, 1999
(Thousands of $)

	Other Property and Investments	Accounts Receivable (Uncollectible Accounts)
Balance December 31, 1996	$ 263	$ 520
Additions:		
Charged to costs and expenses	82	1,374
Deductions:		
Net charges of nature for which reserves were created	-	1,374
Balance December 31, 1997	345	520
Additions:		
Charged to costs and expenses	231	1,308
Deductions:		
Net charges of nature for which reserves were created	-	1,308
Balance December 31, 1998	576	520
Additions:		
Charged to costs and expenses	111	1,707
Deductions:		
Net charges of nature for which reserves were created	-	1,427
Balance December 31, 1999	$ 687	$ 800

SIGNATURES – LG&E ENERGY CORP.
(First of Two Pages)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LG&E ENERGY CORP.
Registrant

March 24, 2000
(Date)

/s/ R. Foster Duncan
R. Foster Duncan
Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
Roger W. Hale	Chairman of the Board, and Chief Executive Officer (Principal Executive Officer);	
R. Foster Duncan	Executive Vice President and Chief Financial Officer (Principal Financial Officer);	
Michael D. Robinson	Vice President and Controller (Principal Accounting Officer);	
Mira S. Ball	Director;	
William C. Ballard, Jr.	Director;	
Owsley Brown, II	Director;	
Carol M. Gatton	Director;	
J. David Grissom	Director;	
David B. Lewis	Director;	
Anne H. McNamara	Director;	
By /s/ R. Foster Duncan R. Foster Duncan (Attorney-In-Fact)		March 24, 2000

SIGNATURES – LG&E ENERGY CORP.
(Second of Two Pages)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
T. Ballard Morton, Jr.	Director;	
Frank V. Ramsey, Jr.	Director;	
William L. Rouse, Jr.	Director;	
Charles L. Shearer, Ph.D.	Director; and	
Lee T. Todd, Jr., Ph.D.	Director.	
By /s/ R. Foster Duncan R. Foster Duncan (Attorney-In-Fact)		March 24, 2000

SIGNATURES – LOUISVILLE GAS AND ELECTRIC COMPANY
(First of Two Pages)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOUISVILLE GAS AND ELECTRIC COMPANY
Registrant

March 24, 2000
(Date)

/s/ R. Foster Duncan
R. Foster Duncan
Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
Roger W. Hale	Chairman of the Board and Chief Executive Officer (Principal Executive Officer);	
R. Foster Duncan	Executive Vice President and Chief Financial Officer (Principal Financial Officer);	
Michael D. Robinson	Vice President and Controller (Principal Accounting Officer);	
Mira S. Ball	Director;	
William C. Ballard, Jr.	Director;	
Owsley Brown, II	Director;	
Carol M. Gatton	Director;	
J. David Grissom	Director;	
David B. Lewis	Director;	

By /s/ R. Foster Duncan
R. Foster Duncan
(Attorney-In-Fact)

March 24, 2000

SIGNATURES – LOUISVILLE GAS AND ELECTRIC COMPANY
(Second of Two Pages)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
Anne H. McNamara	Director;	
T. Ballard Morton, Jr.	Director;	
Frank V. Ramsey, Jr.	Director;	
William L. Rouse, Jr.	Director;	
Charles L. Shearer, Ph.D.	Director;	
Lee T. Todd, Jr., Ph.D.	Director.	
By /s/ R. Foster Duncan R. Foster Duncan (Attorney-In-Fact)		March 24, 2000

SIGNATURES – KENTUCKY UTILITIES COMPANY
(First of Two Pages)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KENTUCKY UTILITIES COMPANY
Registrant

March 24, 2000 (Date)	/s/ R. Foster Duncan R. Foster Duncan Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
Roger W. Hale	Chairman of the Board and Chief Executive Officer (Principal Executive Officer);	
R. Foster Duncan	Executive Vice President and Chief Financial Officer (Principal Financial Officer);	
Michael D. Robinson	Vice President and Controller (Principal Accounting Officer);	
Mira S. Ball	Director;	
William C. Ballard, Jr.	Director;	
Owsley Brown, II	Director;	
Carol M. Gatton	Director;	
J. David Grissom	Director;	
David B. Lewis	Director;	
Anne H. McNamara	Director;	
By /s/ R. Foster Duncan R. Foster Duncan (Attorney-In-Fact)		March 24, 2000

SIGNATURES – KENTUCKY UTILITIES COMPANY
(Second of Two Pages)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
T. Ballard Morton, Jr.	Director;	
Frank V. Ramsey, Jr.	Director;	
William L. Rouse, Jr.	Director;	
Charles L. Shearer, Ph.D.	Director; and	
Lee T. Todd, Jr., Ph.D.	Director.	
By /s/ R. Foster Duncan R. Foster Duncan (Attorney-In-Fact)		March 24, 2000