

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - MARCH 31, 2016 AND 2015-UNAUDITED

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS  
YEAR TO DATE - MARCH 31, 2016 AND 2015-UNAUDITED

CONSOLIDATING STATEMENTS OF CASH FLOWS  
YEAR TO DATE - MARCH 31, 2016 AND 2015-UNAUDITED

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OFFICER'S CERTIFICATION

A review of the affairs and activities of Ohio Valley Electric Corporation and its wholly-owned subsidiary, Indiana-Kentucky Electric Corporation (the Companies), during the quarters ended March 31, 2016 and 2015 has been made under my supervision, and in my opinion, the unaudited financial statements for these periods present fairly the financial conditions of the Companies as of March 31, 2016 and 2015, and the results of the operations, thereof, in accordance with generally accepted accounting principles consistently applied throughout the period. To the best of my knowledge and belief, there has been no Potential Default, Default, or Event of Default by the Companies and the Companies are in compliance with the covenants of the current debt agreements.

  
Secretary and Treasurer  
OHIO VALLEY ELECTRIC CORPORATION and  
INDIANA-KENTUCKY ELECTRIC CORPORATION

CONSOLIDATED NET WORTH

The consolidated net worth of Ohio Valley Electric Corporation and its wholly-owned subsidiary, Indiana-Kentucky Electric Corporation for the quarter ending March 31, 2016 was \$18,221,218

  
Secretary and Treasurer  
OHIO VALLEY ELECTRIC CORPORATION and  
INDIANA-KENTUCKY ELECTRIC CORPORATION

# OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

## CONSOLIDATING BALANCE SHEETS AS OF MARCH 31, 2016 AND 2015-UNAUDITED

	2016				2015			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
<b>ASSETS</b>								
<b>ELECTRIC PLANT:</b>								
At original cost	\$ 2,714,096,767	\$ -	\$ 1,343,306,660	\$ 1,370,790,107	\$ 2,706,451,375	\$ -	\$ 1,339,929,856	\$ 1,366,521,519
Less - Accumulated provisions for depreciation	(1,304,248,170)	-	(641,285,839)	(662,962,331)	(1,256,294,661)	-	(615,879,352)	(640,415,309)
	1,409,848,597	-	702,020,821	707,827,776	1,450,156,714	-	724,050,504	726,106,210
Construction in progress	32,500,067	-	22,834,869	9,665,198	18,675,114	-	10,969,195	7,705,919
Total electric plant	1,442,348,664	-	724,855,690	717,492,974	1,468,831,828	-	735,019,699	733,812,129
<b>INVESTMENTS AND OTHER:</b>								
Investment in subsidiary company	-	(3,400,000)	3,400,000	-	-	(3,400,000)	3,400,000	-
Advances to subsidiary-construction	-	(733,138,648)	733,138,648	-	-	(726,397,928)	726,397,928	-
Total investments and other	-	(736,538,648)	736,538,648	-	-	(729,797,928)	729,797,928	-
<b>CURRENT ASSETS:</b>								
Cash and cash equivalents	17,769,227	-	17,763,027	6,200	24,346,839	-	24,340,639	6,200
Accounts receivable	21,306,427	-	21,279,985	26,442	27,654,986	-	27,375,627	279,359
Fuel in storage-at average cost	94,204,327	-	41,399,280	52,805,047	52,272,432	-	13,076,693	39,195,739
Materials and supplies-at average cost	35,021,062	-	20,048,570	14,972,492	34,387,387	-	21,010,155	13,377,232
Property taxes applicable to future years	2,137,500	-	2,137,500	-	2,085,000	-	2,085,000	-
Deferred tax assets	-	-	-	-	3,235,692	-	2,819,693	415,999
Prepaid expenses and other	7,987,286	-	7,562,118	425,168	1,191,770	-	632,131	559,639
Total current assets	178,425,829	-	110,190,480	68,235,349	145,174,106	-	91,339,938	53,834,168
<b>REGULATORY ASSETS:</b>								
Unrecognized postemployment benefits	2,526,541	-	903,443	1,623,098	1,437,151	-	383,615	1,053,536
Pension benefits	27,889,880	-	15,266,921	12,622,959	32,475,646	-	18,186,362	14,289,284
Income taxes billable to customers	719,633	-	719,633	-	1,036,268	-	1,036,268	-
Total regulatory assets	31,136,054	-	16,889,997	14,246,057	34,949,065	-	19,606,245	15,342,820
<b>DEFERRED CHARGES AND OTHER:</b>								
Unamortized debt expense	10,656,329	-	10,656,329	-	11,407,957	-	11,407,957	-
Long-term investments	121,596,816	-	96,723,638	24,873,178	123,903,752	-	98,223,012	25,680,740
Other	8,704	-	7,720	984	16,334	-	16,334	-
Total deferred charges and other	132,261,849	-	107,387,687	24,874,162	135,328,043	-	109,647,303	25,680,740
<b>TOTAL</b>	<b>\$ 1,784,172,396</b>	<b>\$ (736,538,648)</b>	<b>\$ 1,695,862,502</b>	<b>\$ 824,848,542</b>	<b>\$ 1,784,283,042</b>	<b>\$ (729,797,928)</b>	<b>\$ 1,685,411,113</b>	<b>\$ 828,669,857</b>

# OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS  
AS OF MARCH 31, 2016 AND 2015-UNAUDITED

	2016				2015			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
<b>CAPITALIZATION AND LIABILITIES</b>								
<b>CAPITALIZATION:</b>								
Common stock, \$100 par value- Authorized, 300,000 shares; outstanding, 100,000 shares	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -
Common stock, without par value, stated at \$200 per share- Authorized, 100,000 shares; outstanding, 17,000 shares	-	(3,400,000)	-	3,400,000	-	(3,400,000)	-	3,400,000
Long-term debt	1,219,587,672	-	1,219,587,672	-	1,265,765,205	-	1,265,765,205	-
Line of credit borrowings-long term	60,000,000	-	60,000,000	-	10,000,000	-	10,000,000	-
Retained earnings	8,221,218	-	8,221,218	-	7,334,080	-	7,334,080	-
Total capitalization	1,297,808,890	(3,400,000)	1,297,808,890	3,400,000	1,293,099,285	(3,400,000)	1,293,099,285	3,400,000
<b>CURRENT LIABILITIES:</b>								
Current portion of long-term debt	246,200,133	-	246,200,133	-	243,510,633	-	243,510,633	-
Accounts payable	34,046,563	-	18,711,568	15,334,995	35,178,270	-	14,492,312	20,685,958
Accrued taxes	8,862,534	-	4,875,512	3,987,022	8,854,488	-	4,706,243	4,148,245
Regulatory liabilities	19,596,355	-	16,964,631	2,631,724	15,471,464	-	10,106,611	5,364,853
Accrued interest and other	25,827,669	-	21,997,524	3,830,145	26,687,347	-	22,731,853	3,955,494
Total current liabilities	334,533,254	-	308,749,368	25,783,886	329,702,202	-	295,547,652	34,154,550
<b>COMMITMENTS AND CONTINGENCIES</b>								
<b>REGULATORY LIABILITIES:</b>								
Postretirement benefits	45,240,424	-	36,611,012	8,629,412	33,838,575	-	30,620,510	3,218,065
Decommissioning and demolition	11,776,619	-	5,268,028	6,508,591	14,872,327	-	6,562,864	8,309,463
Total regulatory liabilities	57,017,043	-	41,879,040	15,138,003	48,710,902	-	37,183,374	11,527,528
<b>OTHER LIABILITIES:</b>								
Pension liability	27,889,880	-	15,266,921	12,622,959	32,475,646	-	18,186,362	14,289,284
Deferred income tax liability	-	-	-	-	3,235,692	-	2,819,693	415,999
Asset retirement obligations	31,249,839	-	13,054,376	18,195,463	29,547,185	-	12,345,032	17,202,153
Postretirement benefits obligation	32,235,745	-	17,418,498	14,817,247	44,875,752	-	24,880,858	19,994,894
Postemployment benefits obligation	2,526,541	-	903,443	1,623,098	1,437,151	-	383,615	1,053,536
Parent advances for construction	-	(733,138,648)	-	733,138,648	-	(726,397,928)	-	726,397,928
Other liabilities	911,204	-	781,966	129,238	1,199,227	-	965,242	233,985
Total other liabilities	94,813,209	(733,138,648)	47,425,204	780,526,653	112,770,653	(726,397,928)	59,580,802	779,587,779
<b>TOTAL</b>	<b>\$ 1,784,172,396</b>	<b>\$ (736,538,648)</b>	<b>\$ 1,695,862,502</b>	<b>\$ 824,848,542</b>	<b>\$ 1,784,283,042</b>	<b>\$ (729,797,928)</b>	<b>\$ 1,685,411,113</b>	<b>\$ 828,669,857</b>

# OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS  
YEAR TO DATE AS OF MARCH 31, 2016 AND 2015-UNAUDITED

	2016				2015			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
OPERATING REVENUES:								
Sales of electric energy to:								
Department of Energy	\$ 3,248,232	\$ -	\$ 3,248,232	\$ -	\$ 4,090,793	\$ -	\$ 4,090,793	\$ -
Ohio Valley Electric Corp.	-	(49,718,149)	-	49,718,149	-	(66,016,876)	-	66,016,876
Sponsoring Companies	116,647,062	-	116,647,062	-	141,783,800	-	141,783,800	-
Other	-	-	-	-	-	-	-	-
Total operating revenues	<u>119,895,294</u>	<u>(49,718,149)</u>	<u>119,895,294</u>	<u>49,718,149</u>	<u>145,874,593</u>	<u>(66,016,876)</u>	<u>145,874,593</u>	<u>66,016,876</u>
OPERATING EXPENSES:								
Fuel and emission allowances consumed								
in operation	50,808,850	-	23,466,940	27,341,910	74,214,461	-	30,334,846	43,879,615
Purchased power	2,887,475	(49,718,149)	52,605,624	-	3,914,815	(66,016,876)	69,931,691	-
Other operation	18,957,816	-	11,886,500	7,071,316	18,413,722	-	11,068,415	7,345,307
Maintenance	15,590,134	-	6,986,894	8,603,240	17,533,652	-	9,143,399	8,390,253
Depreciation	12,093,705	-	6,314,586	5,779,119	11,617,356	-	6,062,898	5,554,458
Taxes-other than federal income taxes	2,867,110	-	1,629,232	1,237,878	2,904,513	-	1,623,361	1,281,152
Federal income taxes	86,355	-	86,355	-	-	-	-	-
Total operating expenses	<u>103,291,445</u>	<u>(49,718,149)</u>	<u>102,976,131</u>	<u>50,033,463</u>	<u>128,598,519</u>	<u>(66,016,876)</u>	<u>128,164,610</u>	<u>66,450,785</u>
OPERATING INCOME	16,603,849	-	16,919,163	(315,314)	17,276,074	-	17,709,983	(433,909)
OTHER INCOME (EXPENSE)	<u>1,890,737</u>	<u>-</u>	<u>1,570,255</u>	<u>320,482</u>	<u>1,572,019</u>	<u>-</u>	<u>1,129,274</u>	<u>442,745</u>
INCOME BEFORE INTEREST CHARGES	18,494,586	-	18,489,418	5,168	18,848,093	-	18,839,257	8,836
INTEREST CHARGES:								
Amortization of debt expense	1,119,721	-	1,119,721	-	1,168,914	-	1,168,914	-
Interest expense	<u>17,020,641</u>	<u>-</u>	<u>17,015,473</u>	<u>5,168</u>	<u>17,376,822</u>	<u>-</u>	<u>17,367,986</u>	<u>8,836</u>
Total interest charges	18,140,362	-	18,135,194	5,168	18,545,736	-	18,536,900	8,836
NET INCOME	\$ 354,224	\$ -	\$ 354,224	\$ -	\$ 302,357	\$ -	\$ 302,357	\$ -
RETAINED EARNINGS, JAN. 1	7,866,994	-	7,866,994	-	7,031,723	-	7,031,723	-
CASH DIVIDENDS ON COMMON STOCK	-	-	-	-	-	-	-	-
RETAINED EARNINGS, MAR. 31	<u>\$ 8,221,218</u>	<u>\$ -</u>	<u>\$ 8,221,218</u>	<u>\$ -</u>	<u>\$ 7,334,080</u>	<u>\$ -</u>	<u>\$ 7,334,080</u>	<u>\$ -</u>

## OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF CASH FLOWS  
YEAR TO DATE AS OF MARCH 31, 2016 AND 2015-UNAUDITED

	2016				2015			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
CASH FROM OPERATIONS								
Net income	\$ 354,224	\$ -	\$ 354,224	\$ -	\$ 302,357	\$ -	\$ 302,357	\$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:								
Depreciation and amortization	12,093,705	-	6,314,586	5,779,119	11,617,356	-	6,062,898	5,554,458
Amortization of debt expense and discount	1,119,721	-	1,119,721	-	1,168,914	-	1,168,914	-
Deferred taxes	-	-	-	-	-	-	-	-
(Gain)/loss on marketable securities	(1,892,580)	-	(1,562,773)	(329,807)	(1,440,384)	-	(992,297)	(448,087)
Changes in assets and liabilities:								
Accounts receivable	2,885,723	-	2,841,975	43,748	12,346,974	-	12,253,058	93,916
Fuel in storage	(12,841,562)	-	(6,139,708)	(6,701,854)	(7,937,003)	-	(2,867,384)	(5,069,619)
Material and supplies	(1,960,921)	-	(474,500)	(1,486,421)	112,326	-	(154,417)	266,743
Property taxes applicable to subsequent years	712,500	-	712,500	-	695,000	-	695,000	-
Emission allowances	-	-	-	-	-	-	-	-
Refundable income taxes	-	-	-	-	-	-	-	-
Prepaid expenses and other	(5,874,529)	-	(6,450,338)	575,809	1,016,843	-	490,017	526,826
Other regulatory assets	86,355	-	86,355	-	-	-	-	-
Other noncurrent assets	61,954	-	61,954	-	104,543	-	104,543	-
Accounts payable	(4,568,081)	-	(2,549,264)	(2,018,817)	(18,926,626)	-	(9,390,972)	(9,535,654)
Deferred revenue	-	-	-	-	-	-	-	-
Accrued taxes	(702,222)	-	(1,432,839)	730,617	(555,653)	-	(1,415,109)	859,456
Accrued interest and other	3,872,774	-	3,893,411	(20,637)	3,072,795	-	3,501,128	(428,333)
Other regulatory liabilities	3,090,507	-	2,968,506	122,001	2,363,808	-	1,756,943	606,865
Other noncurrent liabilities	-	-	-	-	75,359	-	63,567	11,792
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(3,562,432)	-	(256,190)	(3,306,242)	4,016,609	-	11,578,246	(7,561,637)
INVESTING ACTIVITIES								
Electric plant additions	(3,314,673)	-	(2,156,576)	(1,158,097)	(4,223,958)	-	(3,175,422)	(1,048,536)
Sale (Purchase) of marketable securities	55,870	-	48,924	6,946	39,405	-	37,522	1,883
Advances to subsidiary company	-	4,457,393	(4,457,393)	-	-	8,608,290	(8,608,290)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(3,258,803)	4,457,393	(6,565,045)	(1,151,151)	(4,184,553)	8,608,290	(11,746,190)	(1,046,653)
FINANCING ACTIVITIES								
Advances from parent company	-	(4,457,393)	-	4,457,393	-	(8,608,290)	-	8,608,290
Repayment of Senior 2006 Notes	(9,136,406)	-	(9,136,406)	-	(8,625,966)	-	(8,625,966)	-
Repayment of Senior 2007 Notes	-	-	-	-	-	-	-	-
Repayment of Senior 2008 Notes	-	-	-	-	-	-	-	-
Proceeds from line of credit	44,000,000	-	44,000,000	-	-	-	-	-
Payments on line of credit	(29,000,000)	-	(29,000,000)	-	(10,000,000)	-	(10,000,000)	-
Loan maintenance costs	(565,705)	-	(565,705)	-	(313,217)	-	(313,217)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,297,889	(4,457,393)	5,297,889	4,457,393	(18,939,183)	(8,608,290)	(18,939,183)	8,608,290
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,523,346)	\$ -	\$ (1,523,346)	\$ -	\$ (19,107,127)	\$ -	\$ (19,107,127)	\$ -
CASH AND CASH EQUIVALENTS, JAN. 1	19,292,573	-	19,286,373	6,200	43,453,966	-	43,447,766	6,200
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,523,346)	-	(1,523,346)	-	(19,107,127)	-	(19,107,127)	-
CASH AND CASH EQUIVALENTS, MAR. 31	\$ 17,769,227	\$ -	\$ 17,763,027	\$ 6,200	\$ 24,346,839	\$ -	\$ 24,340,639	\$ 6,200