

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - JUNE 30, 2016 AND 2015-UNAUDITED

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS
YEAR TO DATE - JUNE 30, 2016 AND 2015-UNAUDITED

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE - JUNE 30, 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 June 30, 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 June 30, 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 June 30, 2016 was \$18,313,283


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

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS AS OF JUNE 30, 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
ASSETS								
ELECTRIC PLANT:								
At original cost	\$ 2,724,900,502	\$ -	\$ 1,351,899,336	\$ 1,373,001,166	\$ 2,706,507,106	\$ -	\$ 1,339,679,214	\$ 1,366,827,892
Less - Accumulated provisions for depreciation	<u>(1,319,994,342)</u>	<u>-</u>	<u>(657,384,548)</u>	<u>(662,609,794)</u>	<u>(1,265,349,220)</u>	<u>-</u>	<u>(620,928,789)</u>	<u>(644,420,431)</u>
	1,404,906,160	-	694,514,788	710,391,372	1,441,157,886	-	718,750,425	722,407,461
Construction in progress	<u>22,294,823</u>	<u>-</u>	<u>13,054,521</u>	<u>9,240,302</u>	<u>24,143,788</u>	<u>-</u>	<u>12,682,002</u>	<u>11,461,786</u>
Total electric plant	<u>1,427,200,983</u>	<u>-</u>	<u>707,569,309</u>	<u>719,631,674</u>	<u>1,465,301,674</u>	<u>-</u>	<u>731,432,427</u>	<u>733,869,247</u>
INVESTMENTS AND OTHER:								
Investment in subsidiary company	-	(3,400,000)	3,400,000	-	-	(3,400,000)	3,400,000	-
Advances to subsidiary-construction	<u>-</u>	<u>(733,575,151)</u>	<u>733,575,151</u>	<u>-</u>	<u>-</u>	<u>(723,932,906)</u>	<u>723,932,906</u>	<u>-</u>
Total investments and other	<u>-</u>	<u>(736,975,151)</u>	<u>736,975,151</u>	<u>-</u>	<u>-</u>	<u>(727,332,906)</u>	<u>727,332,906</u>	<u>-</u>
CURRENT ASSETS:								
Cash and cash equivalents	23,381,934	-	23,375,734	6,200	18,400,059	-	18,393,859	6,200
Accounts receivable	31,347,455	-	31,319,742	27,713	27,534,991	-	27,146,816	388,175
Fuel in storage-at average cost	90,202,704	-	38,247,421	51,955,283	54,541,314	-	20,115,503	34,425,811
Materials and supplies-at average cost	34,058,279	-	20,126,071	13,932,208	35,152,849	-	21,821,610	13,331,239
Property taxes applicable to future years	1,425,000	-	1,425,000	-	1,390,000	-	1,390,000	-
Deferred tax assets	-	-	-	-	3,235,692	-	2,819,693	415,999
Prepaid expenses and other	<u>8,677,829</u>	<u>-</u>	<u>7,852,096</u>	<u>825,733</u>	<u>1,845,853</u>	<u>-</u>	<u>954,928</u>	<u>890,925</u>
Total current assets	<u>189,093,201</u>	<u>-</u>	<u>122,346,064</u>	<u>66,747,137</u>	<u>142,100,758</u>	<u>-</u>	<u>92,642,409</u>	<u>49,458,349</u>
REGULATORY ASSETS:								
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	<u>558,248</u>	<u>-</u>	<u>558,248</u>	<u>-</u>	<u>978,698</u>	<u>-</u>	<u>978,698</u>	<u>-</u>
Total regulatory assets	<u>30,974,669</u>	<u>-</u>	<u>16,728,612</u>	<u>14,246,057</u>	<u>34,891,495</u>	<u>-</u>	<u>19,548,675</u>	<u>15,342,820</u>
DEFERRED CHARGES AND OTHER:								
Unamortized debt expense	10,297,946	-	10,297,946	-	11,062,470	-	11,062,470	-
Long-term investments	124,448,865	-	99,101,743	25,347,122	123,219,316	-	97,400,410	25,818,906
Other	<u>21,872</u>	<u>-</u>	<u>20,888</u>	<u>984</u>	<u>104,566</u>	<u>-</u>	<u>103,582</u>	<u>984</u>
Total deferred charges and other	<u>134,768,683</u>	<u>-</u>	<u>109,420,577</u>	<u>25,348,106</u>	<u>134,386,352</u>	<u>-</u>	<u>108,566,462</u>	<u>25,819,890</u>
TOTAL	<u>\$ 1,782,037,536</u>	<u>\$ (736,975,151)</u>	<u>\$ 1,693,039,713</u>	<u>\$ 825,972,974</u>	<u>\$ 1,776,680,279</u>	<u>\$ (727,332,906)</u>	<u>\$ 1,679,522,879</u>	<u>\$ 824,490,306</u>

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS
AS OF JUNE 30, 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
CAPITALIZATION AND LIABILITIES								
CAPITALIZATION:								
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	1,205,392,207	-	1,205,392,207	-	1,252,420,023	-	1,252,420,023	-
Line of credit borrowings-long term	85,000,000	-	85,000,000	-	22,000,000	-	22,000,000	-
Retained earnings	8,313,283	-	8,313,283	-	7,434,485	-	7,434,485	-
Total capitalization	1,308,705,490	(3,400,000)	1,308,705,490	3,400,000	1,291,854,508	(3,400,000)	1,291,854,508	3,400,000
CURRENT LIABILITIES:								
Current portion of long-term debt	247,050,415	-	247,050,415	-	244,309,807	-	244,309,807	-
Accounts payable	26,552,943	-	12,938,854	13,614,089	31,434,694	-	13,588,313	17,846,381
Accrued taxes	7,971,206	-	4,848,505	3,122,701	7,907,857	-	4,598,439	3,309,418
Regulatory liabilities	15,182,641	-	9,934,355	5,248,286	16,978,068	-	10,289,664	6,688,404
Accrued interest and other	22,487,381	-	18,184,014	4,303,367	23,853,013	-	19,192,534	4,660,479
Total current liabilities	319,244,586	-	292,956,143	26,288,443	324,483,439	-	291,978,757	32,504,682
COMMITMENTS AND CONTINGENCIES								
REGULATORY LIABILITIES:								
Postretirement benefits	46,680,071	-	38,341,232	8,338,839	32,439,968	-	29,434,019	3,005,949
Decommissioning and demolition	12,594,180	-	5,611,644	6,982,536	15,110,667	-	6,663,037	8,447,630
Total regulatory liabilities	59,274,251	-	43,952,876	15,321,375	47,550,635	-	36,097,056	11,453,579
OTHER LIABILITIES:								
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	-	(733,575,151)	-	733,575,151	976,998	(723,932,906)	976,998	723,932,906
Other liabilities	911,204	-	781,966	129,238	243,273	-	-	243,273
Total other liabilities	94,813,209	(733,575,151)	47,425,204	780,963,156	112,791,697	(723,932,906)	59,592,558	777,132,045
TOTAL	\$ 1,782,037,536	\$ (736,975,151)	\$ 1,693,039,713	\$ 825,972,974	\$ 1,776,680,279	\$ (727,332,906)	\$ 1,679,522,879	\$ 824,490,306

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS YEAR TO DATE AS OF JUNE 30, 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	\$ 4,747,096	\$ -	\$ 4,747,096	\$ -	\$ 6,028,466	\$ -	\$ 6,028,466	\$ -
Ohio Valley Electric Corp.	-	(104,508,683)	-	104,508,683	-	(132,478,756)	-	132,478,756
Sponsoring Companies	260,555,621	-	260,555,621	-	279,717,076	-	279,717,076	-
Other	-	-	-	-	-	-	-	-
Total operating revenues	265,302,717	(104,508,683)	265,302,717	104,508,683	285,745,542	(132,478,756)	285,745,542	132,478,756
OPERATING EXPENSES:								
Fuel and emission allowances consumed								
in operation	109,070,586	-	48,584,519	60,486,067	134,754,657	-	50,278,012	84,476,645
Purchased power	4,289,129	(104,508,683)	108,797,812	-	5,751,792	(132,478,756)	138,230,548	-
Other operation	41,553,439	-	26,443,493	15,109,946	37,305,515	-	22,189,459	15,116,056
Maintenance	36,455,813	-	18,376,910	18,078,903	42,373,800	-	22,639,512	19,734,288
Depreciation	35,680,627	-	26,592,000	9,088,627	23,310,413	-	12,209,217	11,101,196
Taxes-other than federal income taxes	5,854,138	-	3,334,473	2,519,665	5,972,339	-	3,371,781	2,600,558
Federal income taxes	172,710	-	172,710	-	57,570	-	57,570	-
Total operating expenses	233,076,442	(104,508,683)	232,301,917	105,283,208	249,526,086	(132,478,756)	248,976,099	133,028,743
OPERATING INCOME	32,226,275	-	33,000,800	(774,525)	36,219,456	-	36,769,443	(549,987)
OTHER INCOME (EXPENSE)	4,796,303	-	4,012,251	784,052	938,424	-	372,046	566,378
INCOME BEFORE INTEREST CHARGES	37,022,578	-	37,013,051	9,527	37,157,880	-	37,141,489	16,391
INTEREST CHARGES:								
Amortization of debt expense	2,264,720	-	2,264,720	-	2,145,921	-	2,145,921	-
Interest expense	34,311,569	-	34,302,042	9,527	34,609,197	-	34,592,806	16,391
Total interest charges	36,576,289	-	36,566,762	9,527	36,755,118	-	36,738,727	16,391
NET INCOME	\$ 446,289	\$ -	\$ 446,289	\$ -	\$ 402,762	\$ -	\$ 402,762	\$ -
RETAINED EARNINGS, JAN. 1	7,866,994	-	7,866,994	-	7,031,723	-	7,031,723	-
CASH DIVIDENDS ON COMMON STOCK	-	-	-	-	-	-	-	-
RETAINED EARNINGS, JUN. 30	\$ 8,313,283	\$ -	\$ 8,313,283	\$ -	\$ 7,434,485	\$ -	\$ 7,434,485	\$ -

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE AS OF JUNE 30, 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	\$ 446,289	\$ -	\$ 446,289	\$ -	\$ 402,762	\$ -	\$ 402,762	\$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:								
Depreciation and amortization	35,680,627	-	26,592,000	9,088,627	23,310,412	-	16,184,445	7,125,967
Amortization of debt expense and discount	2,264,720	-	2,264,720	-	2,145,921	-	2,145,921	-
Deferred taxes	-	-	-	-	57,570	-	57,570	-
(Gain)/loss on marketable securities	(4,798,608)	-	(3,989,061)	(809,547)	(716,543)	-	(132,173)	(584,370)
Changes in assets and liabilities:								
Accounts receivable	(7,155,305)	-	(7,197,782)	42,477	12,466,969	-	12,481,869	(14,900)
Fuel in storage	(8,839,939)	-	(2,987,849)	(5,852,090)	(10,205,885)	-	(9,906,194)	(299,691)
Material and supplies	(998,138)	-	(552,001)	(446,137)	(653,136)	-	(965,872)	312,736
Property taxes applicable to subsequent years	1,425,000	-	1,425,000	-	1,390,000	-	1,390,000	-
Emission allowances	-	-	-	-	-	-	-	-
Refundable income taxes	-	-	-	-	-	-	-	-
Prepaid expenses and other	(6,565,072)	-	(6,740,316)	175,244	362,760	-	167,220	195,540
Other regulatory assets	247,740	-	247,740	-	-	-	-	-
Other noncurrent assets	48,786	-	48,786	-	16,311	-	17,295	(984)
Accounts payable	(12,061,701)	-	(8,321,978)	(3,739,723)	(22,670,202)	-	(10,294,971)	(12,375,231)
Accrued taxes	(1,593,550)	-	(1,459,846)	(133,704)	(1,502,284)	-	(1,522,913)	20,629
Accrued interest and other	532,486	-	79,901	452,585	238,461	-	(38,191)	276,652
Other regulatory liabilities	934,001	-	(1,987,934)	2,921,935	2,710,145	-	853,678	1,856,467
Other noncurrent liabilities	-	-	-	-	96,403	-	75,323	21,080
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(432,664)	-	(2,132,331)	1,699,667	7,449,664	-	10,915,769	(3,466,105)
INVESTING ACTIVITIES								
Electric plant additions	(11,753,914)	-	(5,147,609)	(6,606,305)	(12,386,860)	-	(9,709,697)	(2,677,163)
Sale (Purchase) of marketable securities	109,849	-	97,107	12,742	-	-	-	-
Advances to subsidiary company	-	4,893,896	(4,893,896)	-	-	6,143,268	(6,143,268)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(11,644,065)	4,893,896	(9,944,398)	(6,593,563)	(12,386,860)	6,143,268	(15,852,965)	(2,677,163)
FINANCING ACTIVITIES								
Advances from parent company	-	(4,893,896)	-	4,893,896	-	(6,143,268)	-	6,143,268
Repayment of Senior 2006 Notes	(9,136,406)	-	(9,136,406)	-	(8,625,966)	-	(8,625,966)	-
Repayment of Senior 2007 Notes	(6,469,047)	-	(6,469,047)	-	(6,101,554)	-	(6,101,554)	-
Repayment of Senior 2008 Notes	(6,881,786)	-	(6,881,786)	-	(6,450,104)	-	(6,450,104)	-
Proceeds from line of credit	69,000,000	-	69,000,000	-	22,000,000	-	22,000,000	-
Payments on line of credit	(29,000,000)	-	(29,000,000)	-	(20,000,000)	-	(20,000,000)	-
Loan maintenance costs	(1,346,671)	-	(1,346,671)	-	(939,087)	-	(939,087)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	16,166,090	(4,893,896)	16,166,090	4,893,896	(20,116,711)	(6,143,268)	(20,116,711)	6,143,268
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 4,089,361	\$ -	\$ 4,089,361	\$ -	\$ (25,053,907)	\$ -	\$ (25,053,907)	\$ -
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	4,089,361	-	4,089,361	-	(25,053,907)	-	(25,053,907)	-
CASH AND CASH EQUIVALENTS, JUN. 30	\$ 23,381,934	\$ -	\$ 23,375,734	\$ 6,200	\$ 18,400,059	\$ -	\$ 18,393,859	\$ 6,200