

Ohio Valley Electric Corporation and Subsidiary Company

Consolidated Financial Statements as of and for the
Years Ended December 31, 2017 and 2016, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ohio Valley Electric Corporation:

We have audited the accompanying consolidated financial statements of Ohio Valley Electric Corporation and its subsidiary company, Indiana-Kentucky Electric Corporation (the "Companies"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income and retained earnings and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Companies' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Companies as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

April 23, 2018

**OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY**

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016**

	2017	2016
ASSETS		
ELECTRIC PLANT:		
At original cost	\$2,782,873,612	\$2,739,103,561
Less—accumulated provisions for depreciation	<u>1,445,352,656</u>	<u>1,352,933,437</u>
	1,337,520,956	1,386,170,124
Construction in progress	<u>6,493,278</u>	<u>14,638,632</u>
Total electric plant	<u>1,344,014,234</u>	<u>1,400,808,756</u>
CURRENT ASSETS:		
Cash and cash equivalents	58,978,090	47,810,728
Accounts receivable	40,734,337	37,443,514
Fuel in storage	33,817,111	76,387,854
Emission allowances	355,852	872,920
Materials and supplies	38,445,277	34,857,142
Income taxes receivable	-	3,118,299
Property taxes applicable to future years	2,912,500	2,822,500
Prepaid expenses and other	<u>2,051,978</u>	<u>1,998,372</u>
Total current assets	<u>177,295,145</u>	<u>205,311,329</u>
REGULATORY ASSETS:		
Unrecognized postemployment benefits	3,865,985	4,273,382
Unrecognized pension benefits	37,249,847	37,128,152
Decommissioning and demolition	<u>678,154</u>	<u>-</u>
Total regulatory assets	<u>41,793,986</u>	<u>41,401,534</u>
DEFERRED CHARGES AND OTHER:		
Unamortized debt expense	327,610	498,536
Long-term investments	154,273,960	119,002,376
Income taxes receivable	9,294,909	-
Deferred tax assets	-	2,700,000
Other	<u>1,534</u>	<u>78,637</u>
Total deferred charges and other	<u>163,898,013</u>	<u>122,279,549</u>
TOTAL	<u>\$1,727,001,378</u>	<u>\$1,769,801,168</u>

(Continued)

**OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY**

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016**

	2017	2016
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common stock, \$100 par value—authorized, 300,000 shares; outstanding, 100,000 shares in 2017 and 2016	\$ 10,000,000	\$ 10,000,000
Long-term debt	1,261,297,697	1,170,781,545
Line of credit borrowings	85,000,000	85,000,000
Retained earnings	<u>10,342,251</u>	<u>8,805,462</u>
Total capitalization	<u>1,366,639,948</u>	<u>1,274,587,007</u>
CURRENT LIABILITIES:		
Current portion of long-term debt	76,483,805	248,483,907
Accounts payable	31,331,422	33,642,452
Accrued other taxes	10,799,150	9,858,927
Regulatory liabilities	1,909,470	11,610,328
Accrued interest and other	<u>25,684,840</u>	<u>25,389,872</u>
Total current liabilities	<u>146,208,687</u>	<u>328,985,486</u>
COMMITMENTS AND CONTINGENCIES (Notes 3, 11, 12)		
REGULATORY LIABILITIES:		
Postretirement benefits	56,495,826	32,986,336
Income taxes refundable to customers	11,571,428	5,433,716
Advance billing of debt reserve	30,000,000	-
Decommissioning and demolition	<u>-</u>	<u>13,507,852</u>
Total regulatory liabilities	<u>98,067,254</u>	<u>51,927,904</u>
OTHER LIABILITIES:		
Pension liability	37,249,847	37,128,152
Asset retirement obligations	57,170,620	33,044,921
Postretirement benefits obligation	17,196,685	39,218,090
Postemployment benefits obligation	3,865,985	4,273,382
Other noncurrent liabilities	<u>602,352</u>	<u>636,226</u>
Total other liabilities	<u>116,085,489</u>	<u>114,300,771</u>
TOTAL	<u>\$1,727,001,378</u>	<u>\$1,769,801,168</u>

See notes to consolidated financial statements.

(Concluded)

**OHIO VALLEY ELECTRIC CORPORATION
AND SUBSIDIARY COMPANY**

**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
OPERATING REVENUES—Sales of electric energy to:		
Department of Energy	\$ 8,187,803	\$ 8,519,114
Sponsoring Companies	<u>615,870,005</u>	<u>577,376,640</u>
Total operating revenues	<u>624,057,808</u>	<u>585,895,754</u>
OPERATING EXPENSES:		
Fuel and emission allowances consumed in operation	288,503,093	261,832,736
Purchased power	6,922,507	7,617,661
Other operation	85,206,695	78,388,622
Maintenance	82,862,095	81,651,038
Depreciation	84,699,703	73,882,917
Taxes—other than income taxes	11,975,463	11,983,295
Income taxes	<u>-</u>	<u>345,420</u>
Total operating expenses	<u>560,169,556</u>	<u>515,701,689</u>
OPERATING INCOME	63,888,252	70,194,065
OTHER INCOME	<u>12,619,686</u>	<u>4,149,935</u>
INCOME BEFORE INTEREST CHARGES	<u>76,507,938</u>	<u>74,344,000</u>
INTEREST CHARGES:		
Amortization of debt expense	3,479,683	4,618,191
Interest expense	<u>71,491,466</u>	<u>68,787,341</u>
Total interest charges	<u>74,971,149</u>	<u>73,405,532</u>
NET INCOME	1,536,789	938,468
RETAINED EARNINGS—Beginning of year	<u>8,805,462</u>	<u>7,866,994</u>
RETAINED EARNINGS—End of year	<u>\$ 10,342,251</u>	<u>\$ 8,805,462</u>

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES:		
Net income	\$ 1,536,789	\$ 938,468
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	84,699,703	73,882,917
Amortization of debt expense	3,479,683	4,618,191
Deferred taxes/refundable taxes	-	3,539,704
Loss (gain) on marketable securities	(6,998,135)	655,288
Changes in assets and liabilities:		
Accounts receivable	(3,290,823)	(13,251,364)
Fuel in storage	42,570,743	4,974,911
Materials and supplies	(3,588,135)	(1,797,001)
Property taxes applicable to future years	(90,000)	27,500
Emissions allowances	517,068	(872,920)
Income tax receivable	(3,476,610)	(3,118,299)
Prepaid expenses and other	(53,606)	114,385
Other regulatory assets	(4,215,734)	(10,985,113)
Other noncurrent assets	77,103	(7,979)
Accounts payable	(2,476,932)	(955,698)
Accrued taxes	940,223	294,171
Accrued interest and other	294,968	3,434,977
Other liabilities	(20,444,880)	19,995,842
Other regulatory liabilities	52,091,672	(15,418,375)
	<u>141,573,097</u>	<u>66,069,605</u>
Net cash provided by operating activities		
INVESTING ACTIVITIES:		
Electric plant additions	(17,028,105)	(27,580,471)
Proceeds from sale of long-term investments	55,607,351	47,626,573
Purchases of long-term investments	(83,880,802)	(47,524,131)
	<u>(45,301,556)</u>	<u>(27,478,029)</u>
Net cash used in investing activities		
FINANCING ACTIVITIES:		
Debt issuance and maintenance costs	(11,308,531)	(3,905,669)
Repayment of Senior 2006 Notes	(19,636,354)	(18,539,255)
Repayment of Senior 2007 Notes	(13,920,909)	(13,130,063)
Repayment of Senior 2008 Notes	(14,926,913)	(13,990,154)
Redemption of 2009 Bonds	(25,000,000)	-
Proceeds from line of credit	50,000,000	69,000,000
Payments on line of credit	(50,000,000)	(29,000,000)
Principal payments under capital leases	(311,472)	(508,280)
	<u>(85,104,179)</u>	<u>(10,073,421)</u>
Net cash provided by financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,167,362	28,518,155
CASH AND CASH EQUIVALENTS—Beginning of year	47,810,728	19,292,573
	<u>58,978,090</u>	<u>47,810,728</u>
CASH AND CASH EQUIVALENTS—End of year		
SUPPLEMENTAL DISCLOSURES:		
Interest paid	\$ 72,541,166	\$ 69,458,491
Income taxes paid (received)—net	\$ (2,912,531)	\$ (76,578)
Noncash electric plant additions included in accounts payable at December 31	\$ 746,202	\$ 268,828

See notes to consolidated financial statements.

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements—The consolidated financial statements include the accounts of Ohio Valley Electric Corporation (OVEC) and its wholly owned subsidiary, Indiana-Kentucky Electric Corporation (IKEC), collectively, the Companies. All intercompany transactions have been eliminated in consolidation.

Organization—The Companies own two generating stations located in Ohio and Indiana with a combined electric production capability of approximately 2,256 megawatts. OVEC is owned by several investor-owned utilities or utility holding companies and two affiliates of generation and transmission rural electric cooperatives. These entities or their affiliates comprise the Sponsoring Companies. The Sponsoring Companies purchase power from OVEC according to the terms of the Inter-Company Power Agreement (ICPA), which has a current termination date of June 30, 2040. Approximately 27% of the Companies' employees are covered by a collective bargaining agreement that expires on August 31, 2018.

Prior to 2004, OVEC's primary commercial customer was the U.S. Department of Energy (DOE). The contract to provide OVEC-generated power to the DOE was terminated in 2003 and all obligations were settled at that time. Currently, OVEC has an agreement to arrange for the purchase of power (Arranged Power), under the direction of the DOE, for resale directly to the DOE. The agreement with the DOE expires on July 31, 2018. All purchase costs are billable by OVEC to the DOE.

Rate Regulation—The proceeds from the sale of power to the Sponsoring Companies are designed to be sufficient for OVEC to meet its operating expenses and fixed costs, as well as earn a return on equity before federal income taxes. In addition, the proceeds from power sales are designed to cover debt amortization and interest expense associated with financings. The Companies have continued and expect to continue to operate pursuant to the cost plus rate of return recovery provisions at least to June 30, 2040, the date of termination of the ICPA. However, in 2014 the Companies reduced their billings under the ICPA to effectively forego recovery of the equity return through the ICPA billings.

On March 31, 2018, one of the Sponsoring Companies filed for Chapter 11 bankruptcy protection. OVEC made a preemptive filing on March 26, 2018, with the Federal Energy Regulatory Commission (FERC) to request FERC take exclusive jurisdiction over the possible rejection of the ICPA in regards to the potential bankruptcy of this Sponsoring Company. On April 1, 2018, the Sponsoring Company filed a motion to reject the ICPA; however, no decision by the courts has been taken on this rejection motion to date. This Sponsoring Company's ownership and power participating benefits and requirements are approximately 5%. However, the Companies currently have access to the credit markets to fund ongoing liquidity needs, and the Sponsoring Companies remain obligated to fund debt service payments when due.

The accounting guidance for Regulated Operations provides that rate-regulated utilities account for and report assets and liabilities consistent with the economic effect of the way in which rates are established, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. The Companies follow the accounting and

reporting requirements in accordance with the guidance for Regulated Operations. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred in the accompanying consolidated balance sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

The Companies' regulatory assets, liabilities, and amounts authorized for recovery through Sponsor billings at December 31, 2017 and 2016, were as follows:

	2017	2016
Regulatory assets:		
Other assets:		
Unrecognized postemployment benefits	\$ 3,865,985	\$ 4,273,382
Unrecognized pension benefits	37,249,847	37,128,152
Asset retirement costs	<u>4,501,436</u>	<u>-</u>
Total	<u>45,617,268</u>	<u>41,401,534</u>
Total regulatory assets	<u>\$ 45,617,268</u>	<u>\$ 41,401,534</u>
Regulatory liabilities:		
Current liabilities:		
Deferred revenue—advances for construction	145,226	9,722,972
Deferred credit—advance collection of interest	<u>1,764,244</u>	<u>1,887,356</u>
Total	<u>1,909,470</u>	<u>11,610,328</u>
Other liabilities:		
Post retirement benefits	56,495,826	32,986,336
Income taxes refundable to customers	11,571,428	5,433,716
Advance billing of debt reserve	30,000,000	-
Decommissioning and demolition	<u>3,823,282</u>	<u>13,507,852</u>
Total	<u>101,890,536</u>	<u>51,927,904</u>
Total regulatory liabilities	<u>\$ 103,800,006</u>	<u>\$ 63,538,232</u>

Regulatory Assets—Regulatory assets consist primarily of pension benefit costs, postemployment benefit costs, and accrued decommissioning and demolition costs to be billed to the Sponsoring Companies in future years. The Companies' current billing policy for pension and postemployment benefit costs is to bill its actual plan funding.

Regulatory Liabilities—The regulatory liabilities classified as current in the accompanying consolidated balance sheet as of December 31, 2017, consist primarily of interest expense collected from customers in advance of expense recognition and customer billings for construction in progress. These amounts will be credited to customer bills during 2018. Other regulatory liabilities consist primarily of postretirement benefit costs and decommissioning and demolition costs that have been billed to customers in excess of cumulative expense recognition, income taxes refundable to customers that will be credited to bills over a long-term basis, and advanced billings collected from the Sponsoring Companies for debt services

In 2003, the DOE terminated the DOE Power Agreement with OVEC, entitling the Sponsoring Companies to 100% of OVEC's generating capacity under the terms of the ICPA. Under the terms of the DOE Power Agreement, OVEC was entitled to receive a "termination payment" from the DOE to recover unbilled costs upon termination of the agreement. The termination payment included unbilled postretirement benefit costs. In 2003, OVEC recorded a settlement payment of \$97 million for the DOE obligation related to postretirement benefit costs. The regulatory liability for postretirement benefits recorded at December 31, 2017 and 2016, represents amounts collected in historical billings in excess of the accounting principles generally accepted in the United States of America (GAAP) net periodic benefit costs, including the DOE termination payment and incremental unfunded plan obligations recognized in the balance sheets but not yet recognizable in GAAP net periodic benefit costs. The Companies' ratemaking policy will recover postretirement benefits in an amount equal to estimated benefit accrual cost, plus amortization of unfunded liabilities, if any. As a result, related regulatory liabilities are being credited to customer bills on a long-term basis.

In January 2017, the Companies started advance billing the Sponsoring Companies for debt service as allowed under the ICPA. At December 31, 2017, \$30 million had been advance billed to the Sponsoring Companies. As the Companies have not yet incurred these debt costs, a regulatory liability was recorded which will be credited to customer bills on a long-term basis.

Cash and Cash Equivalents—Cash and cash equivalents primarily consist of cash and money market funds and their carrying value approximates fair value. For purposes of these statements, the Companies consider temporary cash investments to be cash equivalents since they are readily convertible into cash and have original maturities of less than three months.

Electric Plant—Property additions and replacements are charged to utility plant accounts. Depreciation expense is recorded at the time property additions and replacements are billed to customers or at the date the property is placed in service if the in-service date occurs subsequent to the customer billing. Customer billings for construction in progress are recorded as deferred revenue—advances for construction. These amounts are closed to revenue at the time the related property is placed in service. Depreciation expense and accumulated depreciation are recorded when financed property additions and replacements are recovered over a period of years through customer debt retirement billing. All depreciable property will be fully billed and depreciated prior to the expiration of the ICPA. Repairs of property are charged to maintenance expense.

Fuel in Storage, Emission Allowances, and Materials and Supplies—The Companies maintain coal, reagent, and oil inventories, as well as emission allowances, for use in the generation of electricity for regulatory compliance purposes due to the generation of electricity. These inventories are valued at average cost, less reserves for obsolescence. Materials and supplies consist primarily of replacement parts necessary to maintain the generating facilities and are valued at average cost.

Long-Term Investments—Long-term investments consist of marketable securities that are held for the purpose of funding postretirement benefits, decommissioning and demolition costs, and debt service. These securities have been classified as trading securities in accordance with the provisions of the accounting guidance for Investments—Debt and Equity Securities. Trading securities reflected in Long-Term Investments are carried at fair value with the unrealized gain or loss, reported in Other Income (Expense). The cost of securities sold is based on the specific identification cost method. The fair value of most investment securities is determined by reference to currently available market prices. Where quoted market prices are not available, the Companies use the market price of similar types of securities that are traded in the market to estimate fair value. See Fair Value Measurements in Note 10. Due to tax limitations, the amounts held in the postretirement benefits portfolio have not yet been transferred to the Voluntary Employee Beneficiary Association (VEBA) trusts (see Note 8). Long-term investments

primarily consist of municipal bonds, money market mutual fund investments, and mutual funds. Net unrealized gains (losses) recognized during 2017 and 2016 on securities still held at the balance sheet date were \$6,995,056 and \$(509,314), respectively.

Fair Value Measurements of Assets and Liabilities—The accounting guidance for Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Where observable inputs are available, pricing may be completed using comparable securities, dealer values, and general market conditions to determine fair value. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and other observable inputs for the asset or liability.

Unamortized Debt Expense—Unamortized debt expense relates to costs incurred in connection with obtaining revolving credit agreements. These costs are being amortized over the term of the related revolving credit agreement and are recorded as an asset in the consolidated balance sheets. Costs incurred to issue debt are recorded as a reduction to long-term debt as presented in Note 6.

Asset Retirement Obligations and Asset Retirement Costs—The Companies recognize the fair value of legal obligations associated with the retirement or removal of long-lived assets at the time the obligations are incurred and can be reasonably estimated. The initial recognition of this liability is accompanied by a corresponding increase in depreciable electric plant. Subsequent to the initial recognition, the liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to electric plant) and for accretion of the liability due to the passage of time.

These asset retirement obligations are primarily related to obligations associated with future asbestos abatement at certain generating stations and certain plant closure costs, including the impacts of the coal combustion residuals rule.

Balance—January 1, 2016	\$ 31,249,839
Accretion	1,832,759
Liabilities settled	<u>(37,677)</u>
Balance—December 31, 2016	33,044,921
Accretion	1,941,140
Liabilities settled	(45,038)
Revisions to cash flows	<u>22,229,597</u>
Balance—December 31, 2017	<u>\$ 57,170,620</u>

During 2017, the Companies completed an updated study to estimate the asset retirement costs described above. The revised estimated costs are recorded in the accompanying balance sheets. Adjustments resulting from the revised estimated costs are included as revisions to cash flows in the above table. The increase in the asset retirement obligation is primarily the result of proposed regulations related to the disposal of coal combustion residuals, as further discussed in Note 9.

The Companies do not recognize liabilities for asset retirement obligations for which the fair value cannot be reasonably estimated. The Companies have asset retirement obligations associated with transmission assets at certain generating stations. However, the retirement date for these assets cannot be determined; therefore, the fair value of the associated liability currently cannot be estimated and no amounts are recognized in the consolidated financial statements herein.

Income Taxes—The Companies use the liability method of accounting for income taxes. Under the liability method, the Companies provide deferred income taxes for all temporary differences between the book and tax basis of assets and liabilities which will result in a future tax consequence. The Companies account for uncertain tax positions in accordance with the accounting guidance for Income Taxes.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. In August 2015, ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, was issued deferring the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2018. The Companies plan to adopt the standard and all subsequent amendments in the fiscal year ending December 31, 2018. The Companies have not yet completed their evaluation of the impact of adopting the standard. The Companies' evaluation process will include, but is not limited to, identifying contracts within the scope of Topic 606 as well as evaluating the implications of specific contractual terms. The Companies expect the adoption of ASC 606 will not have a material impact on either the timing or amount of revenues recognized in their consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which represents a wholesale change to lease accounting. The standard introduces a lessee model that brings most leases into the balance sheet as well as aligns certain underlying principles of the new lessor model with those in Accounting Standards Codification (ASC) 606, *Revenue From Contracts With Customers*. In January 2018, the FASB issued ASU No. 2018-01, *Leases (Topic 842): Land Easements Practical Expedient for Transition to Topic 842*, which offers a practical expedient for accounting for land easements under ASU 2016-02. This practical expedient allows an entity the option of not evaluating existing land easements under ASC 842. New or modified land easements will still require evaluation under ASC 842 on a prospective basis beginning on the date of adoption. The Companies plan to adopt the new standard and all subsequent amendments in the fiscal year ending December 31, 2019. The Companies are in the process of evaluating the impact of adoption of this ASU on the Companies' consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The pronouncement changes the impairment model for most financial assets, replacing the current “incurred loss” model. ASU No. 2016-13 will require the use of an “expected loss” model for instruments measured at amortized cost and will also

require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount. The Companies plan to adopt the standard for the fiscal year ended December 31, 2020. The Companies are in the process of evaluating the impact of adoption, if any, of this ASU on the Companies' consolidated financial statements.

Subsequent Events—In preparing the accompanying financial statements and disclosures, the Companies reviewed subsequent events through April 12, 2018, which is the date the consolidated financial statements were issued.

2. RELATED-PARTY TRANSACTIONS

Transactions with the Sponsoring Companies during 2017 and 2016 included the sale of all generated power to them, the purchase of Arranged Power from them, and other utility systems in order to meet the DOE's power requirements, contract barging services, railcar services, and minor transactions for services and materials. The Companies have Power Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, Kentucky Utilities Company, Ohio Edison Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies; and Transmission Service Agreements with Louisville Gas and Electric Company, Duke Energy Ohio, Inc., The Dayton Power and Light Company, The Toledo Edison Company, Ohio Edison Company, Kentucky Utilities Company, and American Electric Power Service Corporation as agent for the American Electric Power System Companies.

At December 31, 2017 and 2016, balances due from the Sponsoring Companies are as follows:

	2017	2016
Accounts receivable	<u>\$ 39,005,995</u>	<u>\$ 36,035,316</u>

During 2017 and 2016, American Electric Power accounted for approximately 44% of operating revenues from Sponsoring Companies and Buckeye Power accounted for 18%. No other Sponsoring Company accounted for more than 10%.

American Electric Power Company, Inc. and subsidiary company owned 43.47% of the common stock of OVEC as of December 31, 2017. The following is a summary of the principal services received from the American Electric Power Service Corporation as authorized by the Companies' Boards of Directors:

	2017	2016
General services	\$ 3,787,293	\$ 3,978,358
Specific projects	<u>1,113,250</u>	<u>1,562,412</u>
Total	<u>\$ 4,900,543</u>	<u>\$ 5,540,770</u>

General services consist of regular recurring operation and maintenance services. Specific projects primarily represent nonrecurring plant construction projects and engineering studies, which are approved by the Companies' Boards of Directors. The services are provided in accordance with the service agreement dated December 15, 1956, between the Companies and the American Electric Power Service Corporation.

3. COAL SUPPLY

The Companies have coal supply agreements with certain nonaffiliated companies that expire at various dates from the year 2018 through 2021. Pricing for coal under these contracts is subject to contract provisions and adjustments. The Companies currently have approximately 87% of their 2018 coal requirements under contract. These contracts are based on rates in effect at the time of contract execution.

4. ELECTRIC PLANT

Electric plant at December 31, 2017 and 2016, consists of the following:

	2017	2016
Steam production plant	\$2,688,812,712	\$2,645,647,687
Transmission plant	81,190,947	80,459,171
General plant	12,843,389	12,970,139
Intangible	<u>26,564</u>	<u>26,564</u>
	2,782,873,612	2,739,103,561
Less accumulated depreciation	<u>1,445,352,656</u>	<u>1,352,933,437</u>
	1,337,520,956	1,386,170,124
Construction in progress	<u>6,493,278</u>	<u>14,638,632</u>
Total electric plant	<u>\$1,344,014,234</u>	<u>\$1,400,808,756</u>

All property additions and replacements are fully depreciated on the date the property is placed in service, unless the addition or replacement relates to a financed project. As the Companies' policy is to bill in accordance with the debt service schedule under the debt agreements, all financed projects are being depreciated in amounts equal to the principal payments on outstanding debt.

5. BORROWING ARRANGEMENTS AND NOTES

OVEC has an unsecured bank revolving line of credit agreement with a borrowing limit of \$200 million as of December 31, 2017 and 2016. The \$200 million line of credit has an expiration date of November 14, 2019. At December 31, 2017 and 2016, OVEC had borrowed \$85 million under this line of credit. Interest expense related to line of credit borrowings was \$2,680,713 in 2017 and \$1,692,301 in 2016. During 2017 and 2016, OVEC incurred annual commitment fees of \$304,448 and \$335,376, respectively, based on the borrowing limits of the line of credit.

6. LONG-TERM DEBT

The following amounts were outstanding at December 31, 2017 and 2016:

	Interest Rate	2017	2016
Senior 2006 Notes:			
2006A due February 15, 2026	5.80 %	\$ 209,037,387	\$ 227,600,578
2006B due June 15, 2040	6.40 %	56,503,080	57,576,242
Senior 2007 Notes:			
2007A-A due February 15, 2026	5.90 %	93,609,630	102,311,927
2007A-B due February 15, 2026	5.90 %	23,574,667	25,766,254
2007A-C due February 15, 2026	5.90 %	23,762,382	25,971,422
2007B-A due June 15, 2040	6.50 %	28,209,392	28,752,657
2007B-B due June 15, 2040	6.50 %	7,104,257	7,241,073
2007B-C due June 15, 2040	6.50 %	7,160,825	7,298,730
Senior 2008 Notes:			
2008A due February 15, 2026	5.92 %	29,219,169	31,932,971
2008B due February 15, 2026	6.71 %	59,238,453	64,641,227
2008C due February 15, 2026	6.71 %	61,136,357	66,463,125
2008D due June 15, 2040	6.91 %	41,017,439	41,752,834
2008E due June 15, 2040	6.91 %	41,730,140	42,478,312
Series 2009 Bonds:			
2009A due February 1, 2026			25,000,000
2009B due February 1, 2026	2.85 %	25,000,000	25,000,000
2009C due February 1, 2026	2.85 %	25,000,000	25,000,000
2009D due February 1, 2026	0.85 %	25,000,000	25,000,000
2009E due October 1, 2019	5.63 %	100,000,000	100,000,000
Series 2010 Bonds:			
2010A due February 1, 2040	5.57 %	50,000,000	50,000,000
2010B due February 1, 2040	2.85 %	50,000,000	50,000,000
Series 2012 Bonds:			
2012A due June 1, 2032	5.00 %	76,800,000	76,800,000
2012A due June 1, 2039	5.00 %	123,200,000	123,200,000
2012B due June 1, 2040	5.57 %	50,000,000	50,000,000
2012C due June 1, 2040	5.57 %	50,000,000	50,000,000
Series 2013 Notes:			
2013A due February 15, 2018	- %	-	100,000,000
Series 2017 Notes:			
2017A due August 4, 2022	5.57 %	100,000,000	-
Total debt		1,356,303,178	1,429,787,352
Total premiums and discounts (net)		(483,065)	(505,664)
Less unamortized debt expense		(18,038,611)	(10,016,236)
Total debt net of premiums, discounts, and unamortized debt expense		1,337,781,502	1,419,265,452
Current portion of long-term debt		76,483,805	248,483,907
Total long-term debt		<u>\$ 1,261,297,697</u>	<u>\$ 1,170,781,545</u>

All of the OVEC amortizing unsecured senior notes have maturities scheduled for February 15, 2026, or June 15, 2040, as noted in the previous table.

During 2009, OVEC issued a series of four \$25 million variable-rate non-amortizing tax-exempt pollution control bonds (2009A, B, C, and D Bonds) and \$100 million fixed-rate non-amortizing tax-exempt pollution control bonds (2009E Bonds). The variable rates listed above reflect the interest rate in effect at December 31, 2017.

The 2009 Series D Bonds are secured by irrevocable transferable direct-pay letters of credit, expiring on November 14, 2019, issued for the benefit of the owners of the bonds. The interest rate on the bonds is adjusted weekly, and bondholders may require repurchase of the bonds at the time of such interest rate adjustments. OVEC has entered into an agreement to provide for the remarketing of the bonds if such repurchase is required. The 2009D Series Bonds are current, as they are redeemable at the election of the holders at any time. The 2009 Series B and C Bonds were remarketed in August 2016 for a five-year interest period that extends to August 25, 2021. The 2009A Bonds were secured by an irrevocable transferable direct-pay letter of credit at December 31, 2016, but were repurchased by OVEC on February 6, 2017 and are held by OVEC.

In December 2010, OVEC established a borrowing facility under which OVEC borrowed, in 2011, \$100 million remarketable variable-rate bonds due on February 1, 2040. In June 2011, the \$100 million variable-rate bonds were issued as two \$50 million non-amortizing pollution control revenue bonds (Series 2010A and 2010B) with initial interest periods of three years and five years, respectively. The Series 2010A Bond was remarketed in June 2014 for a three-year period and in August 2017 for another three-year period that extends to August 4, 2020. The Series 2010B Bond was remarketed in August 2016 for another five-year interest period that extends to August 25, 2021.

During 2012, OVEC issued \$200 million fixed-rate tax-exempt midwestern disaster relief revenue bonds (2012A Bonds) and two series of \$50 million variable-rate tax-exempt midwestern disaster relief revenue bonds (2012B and 2012C Bonds). The 2012A, 2012B, and 2012C Bonds will begin amortizing on June 1, 2027, to their respective maturity dates. The variable rates listed above reflect the interest rate in effect at December 31, 2017.

In 2017, the 2012B and 2012C Bonds, which were secured by irrevocable transferable direct-pay letters of credit, expiring June 28, 2017, and June 28, 2018, were remarketed with four-year and five-year interest periods expiring August 4, 2021 and August 4, 2022, respectively.

During 2017, OVEC issued \$100 million 2017A variable-rate non-amortizing unsecured senior notes (2017A Notes) to refinance and retire a 2013 series of notes (2013A). The 2013A Notes had an original maturity date of February 15, 2018. The 2017A Notes have annual repayment of \$33,333,333 on August 4, 2020, August 4, 2021, and at the maturity date of August 4, 2022.

The annual maturities of long-term debt as of December 31, 2017, are as follows:

2018	\$ 76,483,805
2019	154,670,115
2020	141,387,803
2021	244,982,570
2022	148,800,891
2023–2040	<u>589,977,994</u>
Total	<u>\$ 1,356,303,178</u>

Note that the 2017 current maturities of long-term debt include \$25 million of remarketable variable-rate bonds. The Companies expect cash maturities of as little as \$51,483,805 to the extent the remarketing agents are successful in their ongoing efforts to remarket the bonds through the contractual maturity dates in February 2026 and to the extent that OVEC elects not to repurchase the bonds.

7. INCOME TAXES

OVEC and IKEC file a consolidated federal income tax return. The effective tax rate varied from the statutory federal income tax rate due to differences between the book and tax treatment of various transactions as follows:

	2017	2016
Income tax expense at 35% statutory rate	\$ 537,876	\$ 449,361
Temporary differences flowed through to customer bills	(546,716)	(115,669)
Permanent differences and other	<u>8,840</u>	<u>11,728</u>
Income tax provision	<u>\$ -</u>	<u>\$ 345,420</u>

Components of the income tax provision were as follows:

	2017	2016
Current income tax expense—federal	\$ -	\$ 345,420
Current income tax (benefit)/expense—state	-	-
Deferred income tax expense/(benefit)—federal	<u>-</u>	<u>-</u>
Total income tax provision	<u>\$ -</u>	<u>\$ 345,420</u>

OVEC and IKEC record deferred tax assets and liabilities based on differences between book and tax basis of assets and liabilities measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are adjusted for changes in tax rates.

On December 22, 2017, the United States Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (“TCJA”). The TCJA makes broad and complex changes to the Internal Revenue Code (“IRC”), many of which are effective on January 1, 2018, including, but not limited to, (1) reducing the federal corporate income tax rate from 35 percent to 21 percent, (2) eliminating the use of bonus depreciation for regulated utilities, while permitting full expensing of qualified property for non-regulated entities, (3) eliminating the domestic production activities deduction previously allowable under Section 199 of the IRC, (4) creating a new limitation on the deductibility of interest expense for non-regulated businesses, (5) eliminating the corporate alternative minimum tax (“AMT”) and changing how existing AMT credits can be realized, and (6) restricting the deductibility of entertainment and lobbying-related expenses.

As a result of the reduction in the federal tax rate, the Companies recorded a revaluation adjustment to decrease deferred tax assets by \$15.3 million, with a corresponding decrease of \$15.3 million in the valuation allowance.

At December 31, 2017, the Companies have alternative minimum tax credit carryforwards which do not expire. Pursuant to the TCJA, the Companies now have a noncontingent right to recover their alternative minimum tax carryforwards through 2021. Accordingly, the Companies recorded \$9.3 million as income taxes receivable in the accompanying balance sheets as of December 31, 2017.

To the extent that the Companies have not reflected credits in customer billings for deferred tax assets, they have recorded a regulatory liability representing income taxes refundable to customers under the applicable agreements among the parties. The regulatory liability was \$11,571,428 and \$5,433,716 at December 31, 2017 and 2016, respectively.

Deferred income tax assets (liabilities) at December 31, 2017 and 2016, consisted of the following:

	2017	2016
Deferred tax assets:		
Deferred revenue—advances for construction	\$ 30,515	\$ 3,404,026
AMT credit carryforwards	-	8,837,712
Federal net operating loss carryforwards	56,314,469	104,723,266
Postretirement benefit obligation	3,613,382	13,683,150
Pension liability	7,113,085	11,721,810
Postemployment benefit obligation	812,324	1,535,562
Asset retirement obligations	12,012,740	11,569,073
Advanced collection of interest and debt service	6,674,331	660,766
Miscellaneous accruals	1,284,013	2,158,746
Regulatory liability—other	-	-
Regulatory liability—asset retirement costs	-	4,729,118
Regulatory liability—postretirement benefits	11,870,952	9,670,762
Regulatory liability—income taxes refundable to customers	-	-
	<u>7,302,379</u>	<u>15,096,997</u>
Total deferred tax assets	<u>107,028,190</u>	<u>187,790,988</u>
Deferred tax liabilities:		
Prepaid expenses	(360,396)	(602,424)
Electric plant	(77,669,885)	(128,994,396)
Unrealized gain/loss on marketable securities	(3,649,108)	(3,694,091)
Regulatory asset—pension benefits	(7,826,970)	(12,998,618)
Regulatory asset—asset retirement costs	(142,494)	-
Regulatory asset—unrecognized postemployment benefits	(812,324)	(1,535,562)
Total deferred tax liabilities	(90,461,177)	(147,825,091)
Valuation allowance	<u>(16,567,013)</u>	<u>(37,265,897)</u>
Deferred income tax assets	<u>\$ -</u>	<u>\$ 2,700,000</u>

As discussed in Note 1, OVEC indefinitely changed its billing practices in 2014 to effectively suspend billings for its authorized equity return. As a result, the Companies' long-term expectation is that taxable income will be breakeven for the foreseeable future. Accordingly, the Companies have recorded a valuation allowance for their deferred tax assets as of December 31, 2017 and 2016.

The accounting guidance for Income Taxes addresses the determination of whether the tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Companies may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Companies have not identified any uncertain tax positions as of December 31, 2017 and 2016, and accordingly, no liabilities for uncertain tax positions have been recognized.

The Companies file income tax returns with the Internal Revenue Service and the states of Ohio, Indiana, and the Commonwealth of Kentucky. The Companies are no longer subject to federal tax examinations for tax years 2013 and earlier. The Companies are no longer subject to State of Indiana tax examinations for tax years 2013 and earlier. The Companies are no longer subject to Ohio and the Commonwealth of Kentucky examinations for tax years 2012 and earlier. The Companies have \$268,164,138 of Federal Net Operating Loss carryovers that begin to expire in 2032.

8. PENSION PLAN AND OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

The Companies have a noncontributory qualified defined benefit pension plan (the Pension Plan) covering substantially all of their employees hired prior to January 1, 2015. The benefits are based on years of service and each employee's highest consecutive 36-month compensation period. Employees are vested in the Pension Plan after five years of service with the Companies.

Funding for the Pension Plan is based on actuarially determined contributions, the maximum of which is generally the amount deductible for income tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974, as amended.

In addition to the Pension Plan, the Companies provide certain health care and life insurance benefits (Other Postretirement Benefits) for retired employees. Substantially, all of the Companies' employees hired prior to January 1, 2015, become eligible for these benefits if they reach retirement age while working for the Companies. These and similar benefits for active employees are provided through employer funding and insurance policies. In December 2004, the Companies established VEBA trusts. In January 2011, the Companies established an Internal Revenue Code Section 401(h) account under the Pension Plan.

The full cost of the pension benefits and other postretirement benefits has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 57% and 43% split between OVEC and IKEC, respectively, as of December 31, 2017, and approximately a 56% and 44% split between OVEC and IKEC, respectively, as of December 31, 2016.

The Pension Plan's assets as of December 31, 2017, consist of investments in equity and debt securities. All of the trust funds' investments for the pension and postemployment benefit plans are diversified and managed in compliance with all laws and regulations. Management regularly reviews the actual asset allocation and periodically rebalances the investments to targeted allocation when appropriate. The investments are reported at fair value under the Fair Value Measurements and Disclosures accounting guidance.

All benefit plan assets are invested in accordance with each plan's investment policy. The investment policy outlines the investment objectives, strategies, and target asset allocations by plan. Benefit plan assets are reviewed on a formal basis each quarter by the OVEC-IKEC Qualified Plan Trust Committee.

The investment philosophies for the benefit plans support the allocation of assets to minimize risks and optimize net returns.

Investment strategies include:

- Maintaining a long-term investment horizon.
- Diversifying assets to help control volatility of returns at acceptable levels.
- Managing fees, transaction costs, and tax liabilities to maximize investment earnings.

- Using active management of investments where appropriate risk/return opportunities exist.
- Keeping portfolio structure style neutral to limit volatility compared to applicable benchmarks.

The target asset allocation for each portfolio is as follows:

Pension Plan Assets	Target
Domestic equity	15.0 %
International and global equity	15.0
Fixed income	70.0
VEBA Plan Assets	Target
Domestic equity	20 %
International and global equity	20
Fixed income	57
Cash	3

Each benefit plan contains various investment limitations. These limitations are described in the investment policy statement and detailed in customized investment guidelines. These investment guidelines require appropriate portfolio diversification and define security concentration limits. Each investment manager's portfolio is compared to an appropriate diversified benchmark index.

Equity investment limitations:

- No security in excess of 5% of all equities.
- Cash equivalents must be less than 10% of each investment manager's equity portfolio.
- Individual securities must be less than 15% of each manager's equity portfolio.
- No investment in excess of 5% of an outstanding class of any company.
- No securities may be bought or sold on margin or other use of leverage.

Fixed-Income Limitations—As of December 31, 2017, the Pension Plan fixed-income allocation consists of managed accounts composed of U.S. Government, corporate, and municipal obligations. The VEBA benefit plans' fixed-income allocation is composed of a variety of fixed-income securities and mutual funds. Investment limitations for these fixed-income funds are defined by manager prospectus.

Cash Limitations—Cash and cash equivalents are held in each trust to provide liquidity and meet short-term cash needs. Cash equivalent funds are used to provide diversification and preserve principal. The underlying holdings in the cash funds are investment grade money market instruments, including money market mutual funds, certificates of deposit, treasury bills, and other types of investment-grade short-term debt securities. The cash funds are valued each business day and provide daily liquidity.

Projected Pension Plan and Other Postretirement Benefits obligations and funded status as of December 31, 2017 and 2016, are as follows:

	Pension Plan		Other Postretirement Benefits	
	2017	2016	2017	2016
Change in projected benefit obligation:				
Projected benefit obligation—beginning of year	\$ 232,998,159	\$ 210,230,403	\$ 174,338,482	\$ 159,175,000
Service cost	6,511,513	6,100,517	5,100,383	4,668,640
Interest cost	9,796,123	10,010,361	7,434,498	7,490,213
Plan participants' contributions	-	-	1,357,889	1,242,428
Benefits paid	(11,928,458)	(8,968,048)	(6,175,593)	(5,477,750)
Net actuarial loss (gain)	18,676,940	15,674,831	(4,131,790)	7,239,951
Plan amendments (1)	-	-	(9,436,660)	-
Expenses paid from assets	(34,854)	(49,905)	-	-
Projected benefit obligation—end of year	<u>256,019,423</u>	<u>232,998,159</u>	<u>168,487,209</u>	<u>174,338,482</u>
Change in fair value of plan assets:				
Fair value of plan assets—beginning of year	195,870,007	182,340,523	135,120,392	126,939,255
Actual return on plan assets	28,862,881	16,380,770	16,259,397	7,972,778
Expenses paid from assets	(34,854)	(49,905)	-	-
Employer contributions	6,000,000	6,166,667	4,728,439	4,443,681
Plan participants' contributions	-	-	1,357,889	1,242,428
Benefits paid	(11,928,458)	(8,968,048)	(6,175,593)	(5,477,750)
Fair value of plan assets—end of year	<u>218,769,576</u>	<u>195,870,007</u>	<u>151,290,524</u>	<u>135,120,392</u>
Underfunded status—end of year	<u>\$ (37,249,847)</u>	<u>\$ (37,128,152)</u>	<u>\$ (17,196,685)</u>	<u>\$ (39,218,090)</u>

(1) The \$9.4 million plan amendment is the result of the removal of a cost of living adjustment for non-grandfathered employees. These employees are expected to receive benefits through a Medicare Exchange with OVEC's maximum annual subsidy to be limited to \$4,000.

See Note 1 for information regarding regulatory assets related to the Pension Plan and Other Postretirement Benefits plan.

The accumulated benefit obligation for the Pension Plan was \$230,114,000 and \$208,284,000 at December 31, 2017 and 2016, respectively.

Components of Net Periodic Benefit Cost—The Companies record the expected cost of Other Postretirement Benefits over the service period during which such benefits are earned.

Pension expense is recognized as amounts are contributed to the Pension Plan and billed to customers. The accumulated difference between recorded pension expense and the yearly net periodic pension expense, as calculated under generally accepted accounting principles, is billable as a cost of operations under the ICPA when contributed to the pension fund. This accumulated difference has been recorded as a regulatory asset in the accompanying consolidated balance sheets.

	Pension Plan		Other Postretirement Benefits	
	2017	2016	2017	2016
Service cost	\$ 6,511,513	\$ 6,100,517	\$ 5,100,383	\$ 4,668,640
Interest cost	9,796,123	10,010,361	7,434,498	7,490,213
Expected return on plan assets	(11,658,739)	(10,904,733)	(7,275,382)	(6,719,397)
Amortization of prior service cost	(416,565)	(416,565)	(1,763,901)	(1,763,901)
Recognized actuarial loss (gain)	1,049,964	643,503	-	(75,802)
Total benefit cost	\$ 5,282,296	\$ 5,433,083	\$ 3,495,598	\$ 3,599,753
Pension and other postretirement benefits expense recognized in the consolidated statements of income and retained earnings and billed to Sponsoring Companies under the ICPA	\$ 6,000,000	\$ 6,166,667	\$ -	\$ -

The following table presents the classification of Pension Plan assets within the fair value hierarchy at December 31, 2017 and 2016:

	Fair Value Measurements at Reporting Date Using			Total
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
2017				
Common stock	\$ 9,089,309	\$ -	\$ -	\$ 9,089,309
Equity mutual funds	43,799,989	-	-	43,799,989
Fixed-income securities	-	149,310,352	-	149,310,352
Cash equivalents	2,983,062	-	-	2,983,062
Subtotal Benefit Plan Assets	\$ 55,872,360	\$ 149,310,352	\$ -	205,182,712
Investments measured at net asset value (NAV)				13,586,864
Total Benefit Plan Assets				\$ 218,769,576
2016	(Level 1)	(Level 2)	(Level 3)	Total
Common stock	\$ 9,056,579	\$ -	\$ -	\$ 9,056,579
Equity mutual funds	40,257,125	-	-	40,257,125
Fixed income securities	-	127,711,240	-	127,711,240
Cash equivalents	6,727,436	-	-	6,727,436
Subtotal Benefit Plan Assets	\$ 56,041,140	\$ 127,711,240	\$ -	183,752,380
Investments measured at net asset value (NAV)				12,117,627
Total Benefit Plan Assets				\$ 195,870,007

The following table presents the classification of VEBA and 401(h) account assets within the fair value hierarchy at December 31, 2017 and 2016:

	Fair Value Measurements at Reporting Date Using			2017 Total
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
2017				
Equity mutual funds	\$ 55,419,961	\$ -	\$ -	\$ 55,419,961
Fixed-income mutual funds	69,687,330	-	-	69,687,330
Fixed-income securities	-	19,304,908	-	19,304,908
Cash equivalents	<u>736,826</u>	<u>-</u>	<u>-</u>	<u>736,826</u>
Benefit Plan Assets	<u>\$ 125,844,117</u>	<u>\$ 19,304,908</u>	<u>\$ -</u>	145,149,025
Uncleared cash disbursements from benefits paid				(1,839,265)
Investments measured at net asset value (NAV)				<u>7,980,764</u>
Total Benefit Plan Assets				<u>\$ 151,290,524</u>
2016				
Equity mutual funds	\$ 68,645,763	\$ -	\$ -	\$ 68,645,763
Fixed-income mutual funds	41,750,065	-	-	41,750,065
Fixed-income securities	-	18,611,238	-	18,611,238
Cash equivalents	<u>728,483</u>	<u>-</u>	<u>-</u>	<u>728,483</u>
Benefit Plan Assets	<u>\$ 111,124,311</u>	<u>\$ 18,611,238</u>	<u>\$ -</u>	129,735,549
Uncleared cash disbursements from benefits paid				(1,601,641)
Investments measured at net asset value (NAV)				<u>6,986,484</u>
Total Benefit Plan Assets				<u>\$ 135,120,392</u>

Investments that were measured at net asset value (NAV) per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. These investments represent holdings in a single private investment fund that are redeemable at the election of the holder upon no more than 30 days' notice. The values reported above are based on information provided by the fund manager.

Pension Plan and Other Postretirement Benefit Assumptions—Actuarial assumptions used to determine benefit obligations at December 31, 2017 and 2016, were as follows:

	Pension Plan		Other Postretirement Benefits			
	2017	2016	2017		2016	
			Medical	Life	Medical	Life
Discount rate	3.75 %	4.31 %	3.76 %	3.76 %	4.31 %	4.31 %
Rate of compensation increase	3.00	3.00	N/A	3.00	N/A	3.00

Actuarial assumptions used to determine net periodic benefit cost for the years ended December 31, 2017 and 2016, were as follows:

	<u>Pension Plan</u>		<u>Other Postretirement Benefits</u>			
	<u>2017</u>	<u>2016</u>	<u>2017</u>		<u>2016</u>	
			<u>Medical</u>	<u>Life</u>	<u>Medical</u>	<u>Life</u>
Discount rate	4.31 %	4.82 %	4.31 %	4.31 %	4.80 %	4.80 %
Expected long-term return on plan assets	6.00	6.00	5.29	6.00	5.29	6.00
Rate of compensation increase	3.00	3.00	N/A	3.00	N/A	3.00

In selecting the expected long-term rate of return on assets, the Companies considered the average rate of earnings expected on the funds invested to provide for plan benefits. This included considering the Pension Plan and VEBA trusts' asset allocation and the expected returns likely to be earned over the life of the Pension Plan and the VEBAs.

Assumed health care cost trend rates at December 31, 2017 and 2016, were as follows:

	2017	2016
Health care trend rate assumed for next year—participants under 65	7.30 %	7.00 %
Health care trend rate assumed for next year—participants over 65	7.00	7.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)—participants under 65	5.00	5.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)—participants over 65	5.00	5.00
Year that the rate reaches the ultimate trend rate	2022	2022

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total service and interest cost	\$ 2,438,218	\$ (1,883,985)
Effect on postretirement benefit obligation	25,619,686	(20,533,984)

Pension Plan and Other Postretirement Benefit Assets—The asset allocation for the Pension Plan and VEBA trusts at December 31, 2017 and 2016, by asset category was as follows:

Asset category:	<u>Pension Plan</u>		<u>VEBA Trusts</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Equity securities	30 %	31 %	41 %	40 %
Debt securities	70	69	59	60

Pension Plan and Other Postretirement Benefit Contributions—The Companies expect to contribute \$6,000,000 to their Pension Plan and \$5,000,000 to their Other Postretirement Benefits plan in 2018.

Estimated Future Benefit Payments—The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years Ending December 31	Pension Plan	Other Postretirement Benefits
2018	\$ 8,716,563	\$ 6,578,426
2019	9,496,969	7,068,992
2020	10,253,026	7,543,046
2021	11,102,802	7,938,311
2022	11,750,758	8,497,990
Five years thereafter	69,890,983	50,073,420

Postemployment Benefits—The Companies follow the accounting guidance in FASB ASC 712, *Compensation—Non-Retirement Postemployment Benefits*, and accrue the estimated cost of benefits provided to former or inactive employees after employment but before retirement. Such benefits include, but are not limited to, salary continuations, supplemental unemployment, severance, disability (including workers’ compensation), job training, counseling, and continuation of benefits, such as health care and life insurance coverage. The cost of such benefits and related obligations has been allocated to OVEC and IKEC in the accompanying consolidated financial statements. The allocated amounts represent approximately a 66% and 34% split between OVEC and IKEC, respectively, as of December 31, 2017, and approximately a 59% and 41% split between OVEC and IKEC, respectively, as of December 31, 2016. The liability is offset with a corresponding regulatory asset and represents unrecognized postemployment benefits billable in the future to customers. The accrued cost of such benefits was \$3,865,985 and \$4,273,362 at December 31, 2017 and 2016, respectively.

Defined Contribution Plan—The Companies have a trustee-defined contribution supplemental pension and savings plan that includes 401(k) features and is available to employees who have met eligibility requirements. The Companies’ contributions to the savings plan equal 100% of the first 1% and 50% of the next 5% of employee-participants’ pay contributed. In addition, the Companies provide contributions to eligible employees, hired on or after January 1, 2015, of 3% to 5% of pay based on age and service. Benefits to participating employees are based solely upon amounts contributed to the participants’ accounts and investment earnings. By its nature, the plan is fully funded at all times. The employer contributions for 2017 and 2016 were \$1,997,840 and \$1,985,582, respectively.

9. ENVIRONMENTAL MATTERS

Air Regulations

On March 10, 2005, the United States Environmental Protection Agency (the U.S. EPA) issued the Clean Air Interstate Rule (CAIR) that required significant reductions of SO₂ and NO_x emissions from coal-burning power plants. On March 15, 2005, the U.S. EPA also issued the Clean Air Mercury Rule (CAMR) that required significant mercury emission reductions for coal-burning power plants. The CAIR and CAMR emission reductions were respectively required in two phases: 2009 and 2015 for NO_x; 2010 and 2015 for SO₂; and 2010 and 2018 for mercury. Ohio and Indiana subsequently finalized their respective versions of CAIR and CAMR. In response, the Companies determined that it would be necessary to install flue gas desulfurization (FGD) systems at both plants to comply with these rules. Following completion of the necessary engineering and permitting, construction was started on the FGD systems, and the two Kyger Creek FGD systems were placed into service in 2011 and 2012, while the two Clifty Creek FGD systems were placed into service in 2013.

After the promulgation of CAIR and CAMR, a series of legal challenges to those rules resulted in their replacement with additional rules. CAMR was replaced with a rule referred to as the Mercury and Air Toxics Standards (MATS) rule. The rule became final on April 16, 2012, and the Companies had to demonstrate compliance with MATS emission limits on April 16, 2015. The MATS rule has also undergone legal challenges since it went into effect, and there are a few remaining legal issues pending. The controls the Companies have installed have proven to be adequate to meet the stringent emissions requirements outlined in the MATS rule.

After CAIR was promulgated, legal challenges resulted in that rule being remanded back to the U.S. EPA. The U.S. EPA subsequently promulgated a replacement rule to CAIR called the Cross-State Air Pollution Rule (CSAPR). CSAPR was issued on July 6, 2011, and it was scheduled to go into effect on January 1, 2012. However, a legal challenge of that rule resulted in a stay. The stay was lifted by the D.C. Circuit Court in 2014 and CSAPR, which requires significant NO_x and SO₂ emissions reductions, became effective on January 1, 2015. Further legal challenges of CSAPR resulted in the U.S. Supreme Court remanding portions of the CSAPR rule back to the D.C. Circuit Court for additional review and subsequent action by the U.S. EPA. This resulted in U.S. EPA issuing the CSAPR Update rule which became final on September 7, 2016, and went into effect beginning with the May 1, 2017 to September 30, 2017 ozone season. The CSAPR Update did not replace CSAPR, it only required additional reductions in NO_x emissions from utilities in certain states during the ozone season. The Companies prepared for and implemented a successful compliance strategy for the CSAPR Update rule requirements in the 2017 ozone season. The Companies expect that this compliance strategy will be successful for the 2018 ozone season as well.

As a result of the installation and effective operation of the FGD systems and the SCR systems at each plant, management did not need to purchase additional SO₂ allowances in 2017 to cover actual emissions. The Companies also did not need to consume additional NO_x ozone season allowances purchased strategically in advance of the 2017 ozone season as a safeguard to cover NO_x emissions in 2017 and beyond. Depending on a variety of operational and economic factors, management may elect to consume banked allowances and/or strategically purchase additional CSAPR annual and ozone season NO_x allowances in 2018 and beyond for compliance with the CSAPR Update rule.

With all FGD systems fully operational, the Companies continue to expect to have adequate SO₂ allowances available without having to rely on market purchases to comply with the CSAPR rules in their current form. Given the success of our NO_x ozone season compliance strategy in 2017, the purchase of additional NO_x allowances is less likely in the short term as well; however, we did implement changes in unit dispatch criteria for Clifty Creek Unit 6 during the 2017 ozone season and are continuing to evaluate the need for additional NO_x controls for this unit to provide additional flexibility in operating this unit under the CSAPR Update regulations as well as any future NO_x regulations.

CCR Rule

In 2010, the U.S. EPA published a proposed rule to regulate the disposal and beneficial reuse of coal combustion residuals (CCRs), including fly ash and boiler slag generated at coal-fired electric generating units as well as FGD gypsum generated at some coal-fired plants. The proposed rule contained two alternative proposals. One proposal would impose federal hazardous waste disposal and management standards on these materials and another would allow states to retain primary authority to regulate the beneficial reuse and disposal of these materials under state solid waste management standards, including minimum federal standards for disposal and management. Both proposals would impose stringent requirements for the construction of new coal ash landfills and existing unlined surface impoundments.

Various environmental organizations and industry groups filed a petition seeking to establish deadlines for a final rule. To comply with a court-ordered deadline, the U.S. EPA issued a prepublication copy of its final rule in December 2014. The rule was published in the Federal Register in April 2015 and became effective in October 2015.

In the final rule, the U.S. EPA elected to regulate CCR as a nonhazardous solid waste and issued new minimum federal solid waste management standards. The rule applies to new and existing active CCR landfills and CCR surface impoundments at operating electric utility or independent power production facilities. The rule imposes new and additional construction and operating obligations, including location restrictions, liner criteria, structural integrity requirements for impoundments, operating criteria, and additional groundwater monitoring requirements. The rule is self-implementing and currently does not require state action. As a result of this self-implementing feature, the rule contains extensive recordkeeping, notice, and Internet posting requirements.

The Companies have been systematically implementing applicable provisions of the CCR rule. The Companies have completed all compliance obligations associated with the rule to date and are continuing to evaluate what, if any, impacts groundwater quality will have on its CCR units. Preliminary background results indicate that there is a potential for groundwater quality issues with the boiler slag ponds at each plant and both landfills. This information is still being collected and evaluated, so no final determination has been made to date. Alternative source demonstrations (ASD) are already being completed in parallel to the additional groundwater evaluations. The Companies are confident in being able to demonstrate that an ASD is the cause of the preliminary groundwater quality issues being observed in the Kyger Creek landfill and boiler slag ponds.

In February 2014, the U.S. EPA completed a risk evaluation of the beneficial uses of coal fly ash in concrete and FGD gypsum in wallboard and concluded that the U.S. EPA supports these beneficial uses. Currently, approximately eight percent of the coal ash and other residual products from our generating facilities are reused in the production of cement and wallboard, as soil amendments, as abrasives or road treatment materials, and for other beneficial uses.

NAAQS Compliance for SO₂

On June 22, 2010, the U.S. EPA revised the Clean Air Act by developing and publishing a new one-hour SO₂ NAAQS of 75 parts per billion, which replaced the previously existing 24-hour and annual standards, and became effective on August 23, 2010. States with areas failing to meet the new standard are required to develop SIPs to expeditiously attain and maintain the standard.

On August 15, 2013, the U.S. EPA published its initial non-attainment area designations for the new one-hour SO₂, which did not include the areas around Kyger Creek or Clifty Creek. However, the amended rule does establish that at a minimum sources that emit 2,000 tons SO₂ or more per year be characterized by their respective states using either modeling of actual source emissions or through appropriately sited ambient air quality monitors.

In addition, U.S. EPA entered into a settle agreement with Sierra Club/NRDC in the U.S. District Court for the Northern District of California requiring U.S. EPA to take certain actions, including completing area designation by July 2, 2016, for areas with either monitored violations based on 2013-15 air quality monitoring or sources not announced for retirement that emitted more than 16,000 tons SO₂ or more than 2,600 tons with a 0.45 SO₂/mmBtu emission rate in 2012.

Both Kyger Creek and Clifty Creek either directly or indirectly triggered one of the criteria and have been evaluated by our respective state regulatory agencies through modeling. The modeling results

showed Clifty Creek could meet the new one-hour SO₂ limit using their current scrubber systems without any additional investment or modifications. Kyger Creek's modeling data was rejected by U.S. EPA as inconclusive. As a result, Kyger Creek installed a SO₂ monitoring network around the plant and is being required to monitor ambient air quality for at least a three-year window which began on January 1, 2017. U.S. EPA will then use the results of the monitoring network data to make a determination of our compliance status with the SO₂ NAAQS by no later than December 31, 2020. Based on the first year of data from that network, OVEC expects to show compliance with the new one-hour standard, and we expect to avoid additional scrubber investments or modifications.

Steam Electric ELGs

On September 30, 2015, the U.S. EPA signed a new final rule governing Effluent Limitations Guidelines (ELGs) for the wastewater discharges from steam electric power generating plants. The rule, which was formally published in the Federal Register on November 3, 2015, was going to impact future wastewater discharges from both the Kyger Creek and Clifty Creek Stations.

The rule was intended to require the Companies to modify the way we handle a number of wastewater processes at both power plants. Specifically, the new ELG standards were going to affect the following wastewater processes in three ways listed below; however, in April of 2017, EPA issued an administrative stay on the ELG rule, and then in June of 2017, the EPA issued a separate rulemaking staying the compliance deadlines for portions of the ELG rule applicable to bottom ash sluice water and to FGD wastewater discharges. EPA intends to reevaluate what constitutes "best available technology" for these two wastewater discharges and issue an updated rule by no later than the fall of 2020. The original impacts and updated impacts to each wastewater discharge are highlighted below:

1. Kyger Creek will need to convert to dry fly ash handling by no later than December 31, 2023. The EPA stay on portions of the ELG rule do not impact the need to convert Kyger Creek Station to dry fly ash handling or the associated timeline. The Clifty Creek Station already has a dry fly ash handling system in place, so this provision of the rule will not impact Clifty Creek's operations.
2. The new ELG rules originally prohibited the discharge of bottom ash sluice water from boiler slag/bottom ash wastewater treatment systems. For Clifty Creek and Kyger Creek, this would have most likely resulted in conversion of each plant's boiler slag ponds to either a closed-loop sluicing system or a dry handling system for boiler slag. The Companies conducted a Phase I engineering study in 2016 to determine options and costs associated with retrofitting the plants' boiler slag treatment systems. The study results are now on hold while we await further regulatory action from EPA that will determine if these options are still appropriate or if other technology-based options will be available to demonstrate compliance. Until the new rulemaking is published associated with the ELG stay that would either change the scope or timeline for compliance, we are still expected to complete engineering, design, construction, installation, and successful operation of all controls needed to demonstrate compliance with ELGs on these discharges by no later than December 31, 2023.
3. The new ELG rules originally established new internal limitations for the FGD system wastewater discharges. Specifically, there was to be new internal limits for arsenic, mercury, selenium, and nitrate/nitrite nitrogen from the FGD chlorides purge stream wastewater treatment plant at each plant. For both Clifty Creek and Kyger Creek Stations, we were expecting to be able to meet the mercury and arsenic limitations with the current wastewater treatment technology; however, we were expecting to add some form of biological (or equivalent nonbiological) treatment system on the back end of each station's existing FGD wastewater treatment plant to

meet the new nitrate/nitrite nitrogen and selenium limitations. Installation of new controls for selenium and nitrate-nitrite nitrogen are now on hold while the Companies await further regulatory action from EPA that will determine if the biological controls are still appropriate or if other technology based options will be available to demonstrate compliance. Until the new rulemaking is published associated with the ELG stay that would either change the scope or timeline for compliance, we are still expected to complete engineering, design, construction, installation, and successful operation of all controls needed to demonstrate compliance with ELGs on these discharges by no later than December 31, 2023.

Any new ELG limits will be implemented through each station's wastewater discharge permit which is typically renewed on a five-year basis. The final compliance dates are expected to be facility-specific and negotiated with our state permit agencies based on the time needed to plan, secure funding, design, procure, and install necessary control technologies once the new rulemaking has been completed. The Companies will continue to monitor EPA regulatory actions on this rule and will respond as necessary.

316(b) Compliance

The 316(b) rule was published as a final rule in the Federal Register on August 15, 2014, and impacts facilities that use cooling water intake structures designed to withdraw at least two million gallons per day from waters of the U.S. and who also have an NPDES permit. The rule requires such facilities to choose one of seven options specified by the rule to reduce impingement to fish and other aquatic organisms. Additionally, facilities that withdraw 125 million gallons or more per day must conduct entrainment studies to assist state permitting authorities in determining what site-specific controls are required to reduce the number of aquatic organisms entrained by each respective cooling water system.

The Companies have completed the required two-year fish entrainment studies. Additional analysis is being performed in compliance with the rule, and comprehensive reports are being developed for submittal to each plant's respective state agency for review.

Currently, the Companies expect to provide the results of the comprehensive 316(b) studies and our control technology recommendations to our state regulatory agencies in 2018. The timeline for when the Companies will be required to retrofit the cooling water systems at Clifty Creek and Kyger Creek, as well as the type of retrofit required, will then be negotiated with each state regulatory agency.

10. FAIR VALUE MEASUREMENTS

The accounting guidance for Financial Instruments requires disclosure of the fair value of certain financial instruments. The estimates of fair value under this guidance require the application of broad assumptions and estimates. Accordingly, any actual exchange of such financial instruments could occur at values significantly different from the amounts disclosed.

OVEC utilizes its trustee's external pricing service in its estimate of the fair value of the underlying investments held in the benefit plan trusts and investment portfolios. The Companies' management reviews and validates the prices utilized by the trustee to determine fair value. Equities and fixed-income securities are classified as Level 1 holdings if they are actively traded on exchanges. In addition, mutual funds are classified as Level 1 holdings because they are actively traded at quoted market prices. Certain fixed-income securities do not trade on an exchange and do not have an official closing price. Pricing vendors calculate bond valuations using financial models and matrices. Fixed-income securities are typically classified as Level 2 holdings because their valuation inputs are based on observable market data. Observable inputs used for valuing fixed-income securities are benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, and economic events. Other securities with model-derived valuation inputs that are observable are also classified as Level 2 investments. Investments with unobservable valuation inputs are classified as Level 3 investments.

As of December 31, 2017 and 2016, the Companies held certain assets that are required to be measured at fair value on a recurring basis. These consist of investments recorded within long-term investments. The investments consist of money market mutual funds, equity mutual funds, and fixed-income municipal securities. Changes in the observed trading prices and liquidity of money market funds are monitored as additional support for determining fair value, and unrealized gains and losses are recorded in earnings.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Companies believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As cash and cash equivalents, current receivables, current payables, and line of credit borrowings are all short-term in nature, their carrying amounts approximate fair value.

Long-Term Investments—Assets measured at fair value on a recurring basis at December 31, 2017 and 2016, were as follows:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017			
Equity mutual funds	\$ 49,400,226	\$ -	\$ -
Fixed-income mutual funds	10,246,444	-	-
Fixed-income municipal securities	-	90,140,833	-
Cash equivalents	<u>4,486,457</u>	<u>-</u>	<u>-</u>
Total fair value	<u>\$ 64,133,127</u>	<u>\$ 90,140,833</u>	<u>\$ -</u>
2016			
Equity mutual funds	\$ 28,106,968	\$ -	\$ -
Fixed-income municipal securities	-	87,163,674	-
Cash equivalents	<u>3,731,735</u>	<u>-</u>	<u>-</u>
Total fair value	<u>\$ 31,838,703</u>	<u>\$ 87,163,674</u>	<u>\$ -</u>

Long-Term Debt—The fair values of the senior notes and fixed-rate bonds were estimated using discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. These fair values are not reflected in the balance sheets.

The fair values and recorded values of the senior notes and fixed- and variable-rate bonds as of December 31, 2017 and 2016, are as follows:

	2017		2016	
	Fair Value	Recorded Value	Fair Value	Recorded Value
Total	<u>\$ 1,509,468,557</u>	<u>\$ 1,381,303,178</u>	<u>\$ 1,548,416,122</u>	<u>\$ 1,429,281,688</u>

11. LEASES

OVEC has various operating leases for the use of other property and equipment.

The amount in property under capital leases is \$1,744,030 and \$1,866,796 with accumulated depreciation of \$908,732 and \$949,520 as of December 31, 2017 and 2016, respectively.

Future minimum lease payments for capital and operating leases at December 31, 2017, are as follows:

Years Ending December 31	Operating	Capital
2018	\$ 34,218	\$ 292,230
2019	15,095	117,888
2020	7,512	131,671
2021	-	86,433
2022	-	63,898
Thereafter	<u>-</u>	<u>215,891</u>
Total future minimum lease payments	<u>\$ 56,825</u>	908,011
Less estimated interest element		<u>273,015</u>
Estimated present value of future minimum lease payments		<u>\$ 634,996</u>

The annual operating lease cost incurred was \$36,610 and \$41,198 for 2017 and 2016, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Companies are party to or may be affected by various matters under litigation. Management believes that the ultimate outcome of these matters will not have a significant adverse effect on either the Companies' future results of operation or financial position.

* * * * *