

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - SEPTEMBER 30, 2017 AND 2016-UNAUDITED

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS  
YEAR TO DATE - SEPTEMBER, 2017 AND 2016-UNAUDITED

CONSOLIDATING STATEMENTS OF CASH FLOWS  
YEAR TO DATE - SEPTEMBER 30, 2017 AND 2016-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 September 30, 2017 and 2016 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 September 30, 2017 and 2016, 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 September 30, 2017 was \$19,863,745



Secretary and Treasurer

OHIO VALLEY ELECTRIC CORPORATION and  
INDIANA-KENTUCKY ELECTRIC CORPORATION

**OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY**

CONSOLIDATING BALANCE SHEETS  
AS OF SEPTEMBER 30, 2017 AND 2016-UNAUDITED

	2017				2016			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
<b>ASSETS</b>								
<b>ELECTRIC PLANT:</b>								
At original cost	\$ 2,744,852,019	\$ -	\$ 1,361,531,044	\$ 1,383,320,975	\$ 2,725,044,716	\$ -	\$ 1,352,351,826	\$ 1,372,692,890
Less - Accumulated provisions for depreciation	(1,395,456,143)	-	(692,091,637)	(703,364,506)	(1,331,571,510)	-	(659,556,933)	(672,014,577)
	1,349,395,876	-	669,439,407	679,956,469	1,393,473,206	-	692,794,893	700,678,313
Construction in progress	16,525,720	-	8,691,674	7,834,046	22,984,965	-	13,065,882	9,919,083
Total electric plant	1,365,921,596	-	678,131,081	687,790,515	1,416,458,171	-	705,860,775	710,597,396
<b>INVESTMENTS AND OTHER:</b>								
Investment in subsidiary company	-	(3,400,000)	3,400,000	-	-	(3,400,000)	3,400,000	-
Advances to subsidiary-construction	-	(678,068,725)	678,068,725	-	-	(711,597,051)	711,597,051	-
Total investments and other	-	(681,468,725)	681,468,725	-	-	(714,997,051)	714,997,051	-
<b>CURRENT ASSETS:</b>								
Cash and cash equivalents	43,120,391	-	43,114,191	6,200	44,689,117	-	44,682,917	6,200
Accounts receivable	34,538,132	-	34,497,692	40,440	32,256,626	-	32,230,064	26,562
Fuel in storage-at average cost	47,302,732	-	20,866,365	26,436,367	72,202,187	-	36,279,264	35,922,923
Materials and supplies-at average cost	37,460,812	-	21,810,969	15,649,843	35,005,520	-	20,284,197	14,721,323
Property taxes applicable to future years	527,500	-	527,500	-	712,500	-	712,500	-
Emission allowances	362,462	-	362,462	-	122,231	-	122,231	-
Income taxes receivable	3,118,299	-	3,118,299	-	-	-	-	-
Prepaid expenses and other	2,848,567	-	1,369,435	1,479,132	4,846,206	-	3,641,568	1,204,638
Total current assets	169,278,895	-	125,666,913	43,611,982	189,834,387	-	137,952,741	51,881,646
<b>REGULATORY ASSETS:</b>								
Unrecognized post-employment benefits	4,273,382	-	2,502,691	1,770,691	2,526,541	-	903,443	1,623,098
Pension benefits	37,128,152	-	20,658,104	16,470,048	27,889,880	-	15,266,921	12,622,959
Income taxes billable to customers	-	-	-	-	471,893	-	471,893	-
Total regulatory assets	41,401,534	-	23,160,795	18,240,739	30,888,314	-	16,642,257	14,246,057
<b>DEFERRED CHARGES AND OTHER:</b>								
Unamortized debt expense	370,341	-	370,341	-	10,446,200	-	10,446,200	-
Deferred tax asset	2,700,000	-	2,700,000	-	-	-	-	-
Long-term investments	143,113,302	-	113,264,812	29,848,490	123,963,597	-	97,582,146	26,381,451
Other	1,534	-	550	984	53,774	-	52,790	984
Total deferred charges and other	146,185,177	-	116,335,703	29,849,474	134,463,571	-	108,081,136	26,382,435
<b>TOTAL</b>	<b>\$ 1,722,787,202</b>	<b>\$ (681,468,725)</b>	<b>\$ 1,624,763,217</b>	<b>\$ 779,492,710</b>	<b>\$ 1,771,644,443</b>	<b>\$ (714,997,051)</b>	<b>\$ 1,683,533,960</b>	<b>\$ 803,107,534</b>

**OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY**

CONSOLIDATING BALANCE SHEETS  
AS OF SEPTEMBER 30, 2017 AND 2016-UNAUDITED

	2017				2016			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
<b>CAPITALIZATION AND LIABILITIES</b>								
<b>CAPITALIZATION:</b>								
Common stock, \$1.00 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, 7,000 shares	-	(3,400,000)	-	3,400,000	-	(3,400,000)	-	3,400,000
Long-term debt	1,101,894,999	-	1,101,894,999	-	1,195,438,570	-	1,195,438,570	-
Line of credit borrowings-long term	85,000,000	-	85,000,000	-	85,000,000	-	85,000,000	-
Retained earnings	9,863,745	-	9,863,745	-	8,613,536	-	8,613,536	-
<b>Total capitalization</b>	<b>1,206,758,744</b>	<b>(3,400,000)</b>	<b>1,206,758,744</b>	<b>3,400,000</b>	<b>1,299,052,106</b>	<b>(3,400,000)</b>	<b>1,299,052,106</b>	<b>3,400,000</b>
<b>CURRENT LIABILITIES:</b>								
Current portion of long-term debt	250,550,638	-	250,550,638	-	247,606,853	-	247,606,853	-
Accounts payable	25,367,964	-	11,308,488	14,059,476	24,708,027	-	12,651,344	12,056,683
Accrued taxes	7,733,576	-	3,356,065	4,377,511	7,369,659	-	3,530,229	3,839,430
Regulatory liabilities	12,164,972	-	6,772,516	5,392,456	15,102,992	-	9,784,634	5,318,358
Accrued interest and other	24,232,564	-	20,500,873	3,731,691	24,781,723	-	21,352,580	3,429,143
<b>Total current liabilities</b>	<b>320,049,714</b>	<b>-</b>	<b>292,488,580</b>	<b>27,561,134</b>	<b>319,569,254</b>	<b>-</b>	<b>294,925,640</b>	<b>24,643,614</b>
<b>COMMITMENTS AND CONTINGENCIES</b>								
<b>REGULATORY LIABILITIES:</b>								
Postretirement benefits	34,990,966	-	30,186,575	4,804,391	43,834,465	-	35,772,465	8,062,000
Decommissioning and demolition	18,673,609	-	8,225,868	10,447,741	14,378,409	-	6,361,545	8,016,864
Advance billing of debt reserve	22,500,000	-	22,500,000	-	-	-	-	-
Income taxes refundable to customers	5,433,716	-	5,433,716	-	-	-	-	-
<b>Total regulatory liabilities</b>	<b>81,598,291</b>	<b>-</b>	<b>66,346,159</b>	<b>15,252,132</b>	<b>58,212,874</b>	<b>-</b>	<b>42,134,010</b>	<b>16,078,864</b>
<b>OTHER LIABILITIES:</b>								
Pension liability	37,128,152	-	20,658,104	16,470,048	27,889,880	-	15,266,921	12,622,959
Asset retirement obligations	33,044,921	-	13,813,296	19,231,625	31,249,839	-	13,054,376	18,195,463
Postretirement benefits obligation	39,218,090	-	21,536,990	17,681,100	32,235,745	-	17,418,498	14,817,247
Postemployment benefits obligation	4,273,382	-	2,502,691	1,770,691	2,526,541	-	903,443	1,623,098
Parent advances for construction	-	(678,068,725)	-	678,068,725	-	(711,597,051)	-	711,597,051
Other liabilities	715,908	-	658,653	57,255	911,204	-	781,966	129,238
<b>Total other liabilities</b>	<b>114,380,453</b>	<b>(678,068,725)</b>	<b>59,169,734</b>	<b>733,279,444</b>	<b>94,813,209</b>	<b>(711,597,051)</b>	<b>47,425,204</b>	<b>758,985,056</b>
<b>TOTAL</b>	<b>\$ 1,722,787,202</b>	<b>\$ (681,468,725)</b>	<b>\$ 1,624,763,217</b>	<b>\$ 779,492,710</b>	<b>\$ 1,771,647,443</b>	<b>\$ (714,997,051)</b>	<b>\$ 1,683,536,960</b>	<b>\$ 803,107,534</b>

**OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY**

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS  
YEAR TO DATE AS OF SEPTEMBER 30, 2017 AND 2016-UNAUDITED

	2017				2016			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
<b>OPERATING REVENUES:</b>								
Sales of electric energy to:								
Department of Energy	\$ 6,073,992	\$ -	\$ 6,073,992	\$ -	\$ 6,662,312	\$ -	\$ 6,662,312	\$ -
Ohio Valley Electric Corp.	-	(197,311,876)	-	197,311,876	-	(179,712,510)	-	179,712,510
Sponsoring Companies	445,296,407	-	445,296,407	-	416,144,731	-	416,144,731	-
Other	-	-	-	-	-	-	-	-
Total operating revenues	<u>451,370,399</u>	<u>(197,311,876)</u>	<u>451,370,399</u>	<u>197,311,876</u>	<u>422,807,043</u>	<u>(179,712,510)</u>	<u>422,807,043</u>	<u>179,712,510</u>
<b>OPERATING EXPENSES:</b>								
Fuel and emission allowances consumed in operation	211,634,453	-	96,528,850	115,105,603	194,278,382	-	86,478,656	107,799,726
Purchased power	5,195,529	(197,311,876)	202,507,405	-	5,903,383	(179,712,510)	185,615,893	-
Other operation	63,524,675	-	41,257,096	22,267,579	59,991,170	-	37,780,134	22,211,036
Maintenance	65,902,315	-	34,092,238	31,810,077	53,862,654	-	26,268,787	27,593,867
Depreciation	49,558,773	-	22,386,850	27,171,923	49,771,096	-	29,590,925	20,180,171
Taxes-other than federal income taxes	8,821,637	-	4,952,311	3,869,326	8,598,800	-	4,880,134	3,718,666
Federal income taxes	-	-	-	-	259,065	-	259,065	-
Total operating expenses	<u>404,637,382</u>	<u>(197,311,876)</u>	<u>401,724,750</u>	<u>200,224,508</u>	<u>372,664,550</u>	<u>(179,712,510)</u>	<u>370,873,594</u>	<u>181,503,466</u>
OPERATING INCOME	46,733,017	-	49,645,649	(2,912,632)	50,142,493	-	51,933,449	(1,790,956)
OTHER INCOME (EXPENSE)	8,812,275	-	5,894,068	2,918,207	6,173,163	-	4,369,084	1,804,079
INCOME BEFORE INTEREST CHARGES	55,545,292	-	55,539,717	5,575	56,315,656	-	56,302,533	13,123
<b>INTEREST CHARGES:</b>								
Amortization of debt expense	2,450,470	-	2,450,470	-	3,919,777	-	3,919,777	-
Interest expense	52,036,539	-	52,030,964	5,575	51,649,337	-	51,636,214	13,123
Total interest charges	54,487,009	-	54,481,434	5,575	55,569,114	-	55,555,991	13,123
NET INCOME	\$ 1,058,283	\$ -	\$ 1,058,283	\$ -	\$ 746,542	\$ -	\$ 746,542	\$ -
RETAINED EARNINGS, JAN 1	8,805,462	-	8,805,462	-	7,866,994	-	7,866,994	-
CASH DIVIDENDS ON COMMON STOCK	-	-	-	-	-	-	-	-
RETAINED EARNINGS, SEP 30	\$ <u>9,863,745</u>	\$ <u>-</u>	\$ <u>9,863,745</u>	\$ <u>-</u>	\$ <u>8,613,536</u>	\$ <u>-</u>	\$ <u>8,613,536</u>	\$ <u>-</u>

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF CASH FLOWS  
YEAR TO DATE AS OF SEPTEMBER 30, 2017 AND 2016-UNAUDITED

	2017				2016			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
<b>CASH FROM OPERATIONS</b>								
Net income	\$ 1,058,283	\$ -	\$ 1,058,283	\$ -	\$ 746,542	\$ -	\$ 746,542	\$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:								
Depreciation and amortization	49,558,773	-	22,386,850	27,171,923	49,771,096	-	29,590,925	20,180,171
Amortization of debt expense and discount	2,450,470	-	2,450,470	-	3,919,777	-	3,919,777	-
Deferred taxes	-	-	-	-	334,095	-	334,095	-
(Gain)/loss on marketable securities	(8,641,433)	-	(5,692,431)	(2,949,002)	(6,172,938)	-	(4,324,428)	(1,848,510)
Changes in asset and liabilities:								
Accounts receivable	2,905,382	-	2,909,589	(4,207)	(8,064,476)	-	(8,108,104)	43,628
Fuel in storage	29,085,122	-	16,301,680	12,783,442	9,160,578	-	(1,019,692)	10,180,270
Material and supplies	(2,603,670)	-	(851,363)	(1,752,307)	(1,945,379)	-	(710,127)	(1,235,252)
Property taxes applicable to subsequent years	2,295,000	-	2,295,000	-	2,137,500	-	2,137,500	-
Emission allowances	510,458	-	510,458	-	(122,231)	-	(122,231)	-
Refundable income taxes	-	-	-	-	-	-	-	-
Prepaid expenses and other	(850,195)	-	(332,509)	(517,686)	(2,733,449)	-	(2,529,788)	(203,661)
Other regulatory assets	-	-	-	-	-	-	-	-
Other noncurrent assets	77,103	-	77,103	-	16,884	-	16,884	-
Accounts payable	(8,274,488)	-	(4,338,155)	(3,936,333)	(13,906,617)	-	(8,609,488)	(5,297,129)
Accrued taxes	(2,125,351)	-	(3,045,043)	919,692	(2,195,097)	-	(2,778,122)	583,025
Accrued interest and other	(1,157,308)	-	649,545	(1,806,853)	2,826,828	-	3,248,467	(421,639)
Other regulatory liabilities	30,225,031	-	29,079,513	1,145,518	(207,024)	-	(3,956,520)	3,749,496
Other noncurrent liabilities	79,682	-	70,965	8,717	-	-	-	-
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>94,592,859</b>	<b>-</b>	<b>63,529,955</b>	<b>31,062,904</b>	<b>33,566,089</b>	<b>-</b>	<b>7,835,690</b>	<b>25,730,399</b>
<b>INVESTING ACTIVITIES</b>								
Electric plant additions	(14,671,613)	-	(6,474,529)	(8,197,084)	(15,101,571)	-	(6,438,000)	(8,663,571)
Sale (Purchase) of marketable securities	(15,469,493)	-	(15,487,408)	17,915	1,966,447	-	1,949,071	17,376
Advances to subsidiary company	-	(22,883,735)	22,883,735	-	-	(17,084,204)	17,084,204	-
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(30,141,106)</b>	<b>(22,883,735)</b>	<b>921,798</b>	<b>(8,179,169)</b>	<b>(13,135,124)</b>	<b>(17,084,204)</b>	<b>12,595,275</b>	<b>(8,646,195)</b>
<b>FINANCING ACTIVITIES</b>								
Advances from parent company	-	22,883,735	-	(22,883,735)	-	17,084,204	-	(17,084,204)
Repayment of Senior 2006 Notes	(19,636,354)	-	(19,636,354)	-	(18,539,255)	-	(18,539,255)	-
Repayment of Senior 2007 Notes	(6,858,685)	-	(6,858,685)	-	(6,469,047)	-	(6,469,047)	-
Repayment of Senior 2008 Notes	(7,342,560)	-	(7,342,560)	-	(6,881,786)	-	(6,881,786)	-
Redemption of 2009 Bonds	(25,000,000)	-	(25,000,000)	-	-	-	-	-
Proceeds from line of credit	50,000,000	-	50,000,000	-	69,000,000	-	69,000,000	-
Payments on line of credit	(50,000,000)	-	(50,000,000)	-	(29,000,000)	-	(29,000,000)	-
Loan maintenance costs	(10,304,491)	-	(10,304,491)	-	(3,144,333)	-	(3,144,333)	-
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(69,142,090)</b>	<b>22,883,735</b>	<b>(69,142,090)</b>	<b>(22,883,735)</b>	<b>4,965,579</b>	<b>17,084,204</b>	<b>4,965,579</b>	<b>(17,084,204)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (4,690,337)</b>	<b>\$ -</b>	<b>\$ (4,690,337)</b>	<b>\$ -</b>	<b>\$ 25,396,544</b>	<b>\$ -</b>	<b>\$ 25,396,544</b>	<b>\$ -</b>
<b>CASH AND CASH EQUIVALENTS, JAN 1</b>	<b>47,810,728</b>	<b>-</b>	<b>47,804,528</b>	<b>6,200</b>	<b>19,292,573</b>	<b>-</b>	<b>19,286,373</b>	<b>6,200</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4,690,337)</b>	<b>-</b>	<b>(4,690,337)</b>	<b>-</b>	<b>25,396,544</b>	<b>-</b>	<b>25,396,544</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS, SEP 30</b>	<b>\$ 43,120,391</b>	<b>\$ -</b>	<b>\$ 43,114,191</b>	<b>\$ 6,200</b>	<b>\$ 44,689,117</b>	<b>\$ -</b>	<b>\$ 44,682,917</b>	<b>\$ 6,200</b>