

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - DECEMBER 31, 2017 AND 2016-UNAUDITED

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

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE - DECEMBER 31, 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 December 31, 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 December 31, 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.



CFO, 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 December 31, 2017 was \$20,342,251



CFO, Secretary and Treasurer

OHIO VALLEY ELECTRIC CORPORATION and
INDIANA-KENTUCKY ELECTRIC CORPORATION

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS
AS OF DECEMBER 31, 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
ASSETS								
ELECTRIC PLANT:								
At original cost	\$ 2,760,644,015	\$ -	\$ 1,371,804,435	\$ 1,388,839,580	\$ 2,739,103,561	\$ -	\$ 1,361,028,710	\$ 1,378,074,851
Less - Accumulated provisions for depreciation	(1,423,123,058)	-	(708,271,304)	(714,851,754)	(1,352,933,437)	-	(672,452,518)	(680,480,919)
	1,337,520,957	-	663,533,131	673,987,826	1,386,170,124	-	688,576,192	697,593,932
Construction in progress	6,493,278	-	3,229,235	3,264,043	14,638,632	-	5,467,210	9,171,422
Total electric plant	1,344,014,235	-	666,762,366	677,251,869	1,400,808,756	-	694,043,402	706,765,354
INVESTMENTS AND OTHER:								
Investment in subsidiary company	-	(3,400,000)	3,400,000	-	-	(3,400,000)	3,400,000	-
Advances to subsidiary-construction	-	(667,378,774)	667,378,774	-	-	(700,952,460)	700,952,460	-
Total investments and other	-	(670,778,774)	670,778,774	-	-	(704,352,460)	704,352,460	-
CURRENT ASSETS:								
Cash and cash equivalents	58,978,090	-	58,971,890	6,200	47,810,728	-	47,804,528	6,200
Accounts receivable	39,805,769	-	39,439,534	366,235	37,443,514	-	37,407,281	36,233
Fuel in storage-at average cost	33,817,111	-	9,750,310	24,066,801	76,387,854	-	37,168,045	39,219,809
Materials and supplies-at average cost	38,445,277	-	22,307,369	16,137,908	34,857,142	-	20,959,606	13,897,536
Property taxes applicable to future years	2,912,500	-	2,912,500	-	2,822,500	-	2,822,500	-
Emission allowances	355,852	-	355,852	-	872,920	-	872,920	-
Income taxes receivable	205,768	-	205,768	-	3,118,299	-	3,118,299	-
Prepaid expenses and other	2,051,977	-	1,110,702	941,275	1,998,372	-	1,036,926	961,446
Total current assets	176,572,344	-	135,053,925	41,518,419	205,311,329	-	151,190,105	54,121,224
REGULATORY ASSETS:								
Unrecognized post-employment benefits	3,865,985	-	2,569,375	1,296,610	4,273,382	-	2,502,691	1,770,691
Pension benefits	37,249,847	-	21,172,813	16,077,034	37,128,152	-	20,658,104	16,470,048
Income taxes billable to customers	-	-	-	-	-	-	-	-
Total regulatory assets	41,115,832	-	23,742,188	17,373,644	41,401,534	-	23,160,795	18,240,739
DEFERRED CHARGES AND OTHER:								
Unamortized debt expense	327,610	-	327,610	-	498,536	-	498,536	-
Deferred tax assets	2,700,000	-	2,700,000	-	2,700,000	-	2,700,000	-
Long-term investments	154,273,960	-	123,242,120	31,031,840	119,002,376	-	92,084,973	26,917,403
Other	1,534	-	550	984	78,637	-	77,653	984
Total deferred charges and other	157,303,104	-	126,270,280	31,032,824	122,279,549	-	95,361,162	26,918,387
TOTAL	\$ 1,719,005,515	\$ (670,778,774)	\$ 1,622,607,533	\$ 767,176,756	\$ 1,769,801,168	\$ (704,352,460)	\$ 1,668,107,924	\$ 806,045,704

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS
AS OF DECEMBER 31, 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
CAPITALIZATION AND LIABILITIES								
CAPITALIZATION:								
Common stock, \$100 par value- Authorized, 300,000 shares; outstanding, 100,000 shares	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -
Common stock, without par value, stated at \$200 per share- Authorized, 100,000 shares; outstanding, 7,000 shares	-	(3,400,000)	-	3,400,000	-	(3,400,000)	-	3,400,000
Long-term debt	1,086,297,697	-	1,086,297,697	-	1,170,781,545	-	1,170,781,545	-
Line of credit borrowings-long term	85,000,000	-	85,000,000	-	85,000,000	-	85,000,000	-
Retained earnings	10,342,251	-	10,342,251	-	8,805,462	-	8,805,462	-
Total capitalization	1,191,639,948	(3,400,000)	1,191,639,948	3,400,000	1,274,587,007	(3,400,000)	1,274,587,007	3,400,000
CURRENT LIABILITIES:								
Current portion of long-term debt	251,483,805	-	251,483,805	-	248,483,907	-	248,483,907	-
Accounts payable	31,145,886	-	14,435,082	16,710,804	33,642,452	-	15,646,643	17,995,809
Accrued taxes	10,547,721	-	6,989,069	3,558,652	9,858,927	-	6,401,108	3,457,819
Regulatory liabilities	1,909,470	-	1,904,265	5,205	11,610,328	-	4,981,503	6,628,825
Accrued interest and other	24,941,808	-	20,010,771	4,931,037	25,389,872	-	19,851,328	5,538,544
Total current liabilities	320,028,690	-	294,822,992	25,205,698	328,985,486	-	295,364,489	33,620,997
COMMITMENTS AND CONTINGENCIES								
REGULATORY LIABILITIES:								
Postretirement benefits	56,495,826	-	42,087,129	14,408,697	32,986,336	-	27,632,746	5,353,590
Decommissioning and demolition	23,447,546	-	10,904,078	12,543,468	13,507,852	-	5,991,197	7,516,655
Advance billing of debt reserve	30,000,000	-	30,000,000	-	-	-	-	-
Income taxes refundable to customers	5,433,716	-	5,433,716	-	5,433,716	-	5,433,716	-
Total regulatory liabilities	115,377,088	-	88,424,923	26,952,165	51,927,904	-	39,057,659	12,870,245
OTHER LIABILITIES:								
Pension liability	37,249,847	-	21,172,813	16,077,034	37,128,152	-	20,658,104	16,470,048
Asset retirement obligations	33,044,921	-	13,813,296	19,231,625	33,044,921	-	13,813,296	19,231,625
Postretirement benefits obligation	17,196,685	-	9,658,850	7,537,835	39,218,090	-	21,536,990	17,681,100
Postemployment benefits obligation	3,865,985	-	2,569,375	1,296,610	4,273,382	-	2,502,691	1,770,691
Parent advances for construction	-	(667,378,774)	-	667,378,774	-	(700,952,460)	-	700,952,460
Other liabilities	602,351	-	505,336	97,015	636,226	-	587,688	48,538
Total other liabilities	91,959,789	(667,378,774)	47,719,670	711,618,893	114,300,771	(700,952,460)	59,098,769	756,154,462
TOTAL	\$ 1,719,005,515	\$ (670,778,774)	\$ 1,622,607,533	\$ 767,176,756	\$ 1,769,801,168	\$ (704,352,460)	\$ 1,668,107,924	\$ 806,045,704

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YEAR TO DATE AS OF DECEMBER 31, 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
OPERATING REVENUES:								
Sales of electric energy to:								
Department of Energy	\$ 8,187,803	\$ -	\$ 8,187,803	\$ -	\$ 8,519,114	\$ -	\$ 8,519,114	\$ -
Ohio Valley Electric Corp	-	(273,016,055)	-	273,016,055	-	(248,795,894)	-	248,795,894
Sponsoring Companies	615,870,005	-	615,870,005	-	577,376,640	-	577,376,640	-
Other	-	-	-	-	-	-	-	-
Total operating revenues	624,057,808	(273,016,055)	624,057,808	273,016,055	585,895,754	(248,795,894)	585,895,754	248,795,894
OPERATING EXPENSES:								
Fuel and emission allowances consumed								
In operation	288,503,093	-	130,399,723	158,103,370	261,832,736	-	119,139,038	142,693,698
Purchased power	6,922,507	(273,016,055)	279,938,562	-	7,617,661	(248,795,894)	256,413,555	-
Other operation	85,206,695	-	53,496,374	31,710,321	78,388,622	-	46,417,345	31,971,277
Maintenance	82,862,095	-	42,309,172	40,552,923	81,651,038	-	40,877,037	40,774,001
Depreciation	84,699,703	-	42,969,917	41,729,786	73,882,917	-	43,669,797	30,213,120
Taxes—other than federal income taxes	11,975,463	-	6,962,589	5,012,874	11,983,295	-	6,512,648	5,470,647
Federal income taxes	-	-	-	-	345,420	-	345,420	-
Total operating expenses	560,169,556	(273,016,055)	556,076,337	277,109,274	515,701,689	(248,795,894)	513,374,840	251,122,743
OPERATING INCOME	63,888,252	-	67,981,471	(4,093,219)	70,194,065	-	72,520,914	(2,326,849)
OTHER INCOME (EXPENSE)	12,619,686	-	8,518,252	4,101,434	4,149,935	-	1,807,072	2,342,863
INCOME BEFORE INTEREST CHARGES	76,507,938	-	76,499,723	8,215	74,344,000	-	74,327,986	16,014
INTEREST CHARGES:								
Amortization of debt expense	3,479,683	-	3,479,683	-	4,618,191	-	4,618,191	-
Interest expense	71,491,466	-	71,483,251	8,215	68,787,341	-	68,771,327	16,014
Total interest charges	74,971,149	-	74,962,934	8,215	73,405,532	-	73,389,518	16,014
NET INCOME	\$ 1,536,789	\$ -	\$ 1,536,789	\$ -	\$ 938,468	\$ -	\$ 938,468	\$ -
RETAINED EARNINGS, JAN 1	8,805,462	-	8,805,462	-	7,866,994	-	7,866,994	-
CASH DIVIDENDS ON COMMON STOCK	-	-	-	-	-	-	-	-
RETAINED EARNINGS, DEC 31	\$ 10,342,251	\$ -	\$ 10,342,251	\$ -	\$ 8,805,462	\$ -	\$ 8,805,462	\$ -

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE AND OF DECEMBER 31, 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
CASH FROM OPERATIONS								
Net income	\$ 1,536,789	\$ -	\$ 1,536,789	\$ -	\$ 938,468	\$ -	\$ 938,468	\$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:								
Depreciation and amortization	84,699,703	-	42,969,917	41,729,786	73,882,917	-	43,669,797	30,213,120
Amortization of debt expense and discount	3,479,683	-	3,479,683	-	4,618,191	-	4,618,191	-
Deferred taxes	-	-	-	-	3,539,704	-	3,539,704	-
(Gain)/loss on marketable securities	(12,359,677)	-	(8,219,077)	(4,140,600)	655,288	-	2,157,082	(1,501,794)
Changes in assets and liabilities:								
Accounts receivable	(2,050,783)	-	(1,823,034)	(227,749)	(13,251,364)	-	(13,285,321)	33,957
Fuel in storage	42,570,743	-	27,417,735	15,153,008	4,974,911	-	(1,908,473)	6,883,384
Material and supplies	(3,588,135)	-	(1,347,763)	(2,240,372)	(1,797,001)	-	(1,385,536)	(411,465)
Property taxes applicable to subsequent years	(90,000)	-	(90,000)	-	27,500	-	-	-
Emission allowances	517,068	-	517,068	-	(872,920)	-	(872,920)	-
Refundable income taxes	2,912,531	-	2,912,531	-	(3,118,299)	-	(3,118,299)	-
Prepaid expenses and other	(53,605)	-	(73,776)	20,171	114,385	-	74,854	39,531
Other regulatory assets	-	-	-	-	(10,985,113)	-	(6,990,431)	(3,994,682)
Other noncurrent assets	77,103	-	77,103	-	(7,979)	-	(7,979)	-
Accounts payable	(2,496,566)	-	(1,211,561)	(1,285,005)	(955,698)	-	(1,852,001)	896,303
Accrued taxes	688,794	-	587,961	100,833	294,171	-	92,757	201,414
Accrued interest and other	(448,064)	-	159,443	(607,507)	3,434,977	-	1,747,215	1,687,762
Other regulatory liabilities	53,748,326	-	46,290,026	7,458,300	(15,418,375)	-	(17,269,719)	1,851,344
Other noncurrent liabilities	(22,055,280)	-	(11,960,492)	(10,094,788)	19,995,842	-	11,944,018	8,051,824
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	147,088,630	-	101,222,553	45,866,077	66,069,605	-	22,118,907	43,950,698
INVESTING ACTIVITIES								
Electric plant additions	(27,905,182)	-	(15,688,881)	(12,216,301)	(27,580,471)	-	(12,461,687)	(15,118,784)
Sale (Purchase) of marketable securities	(22,911,907)	-	(22,938,070)	26,163	102,442	-	967,734	(865,292)
Advances to subsidiary company	-	(33,573,686)	33,573,686	-	-	(27,728,795)	27,728,795	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(50,817,089)	(33,573,686)	(5,053,265)	(12,190,138)	(27,478,029)	(27,728,795)	16,234,842	(15,984,076)
FINANCING ACTIVITIES								
Advances from parent company	-	33,573,686	-	(33,573,686)	-	27,728,795	-	(27,728,795)
Repayment of Senior 2006 Notes	(19,636,354)	-	(19,636,354)	-	(18,539,255)	-	(18,539,255)	-
Repayment of Senior 2007 Notes	(13,920,909)	-	(13,920,909)	-	(13,130,063)	-	(13,130,063)	-
Repayment of Senior 2008 Notes	(14,926,913)	-	(14,926,913)	-	(13,990,154)	-	(13,990,154)	-
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)	-
Principal payments under capital leases	(311,472)	-	(209,219)	(102,253)	(508,280)	-	(270,453)	(237,827)
Loan maintenance costs	(11,308,531)	-	(11,308,531)	-	(3,905,669)	-	(3,905,669)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(85,104,179)	33,573,686	(85,001,926)	(33,675,939)	(10,073,421)	27,728,795	(9,835,594)	(27,966,622)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 11,167,362	\$ -	\$ 11,167,362	\$ -	\$ 28,518,155	\$ -	\$ 28,518,155	\$ -
CASH AND CASH EQUIVALENTS, JAN 1	47,810,728	-	47,804,528	6,200	19,292,573	-	19,286,373	6,200
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,167,362	-	11,167,362	-	28,518,155	-	28,518,155	-
CASH AND CASH EQUIVALENTS, DEC 31	\$ 58,978,090	\$ -	\$ 58,971,890	\$ 6,200	\$ 47,810,728	\$ -	\$ 47,804,528	\$ 6,200