

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

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

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

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE - SEPTEMBER 30, 2016 AND 2015-UNAUDITED

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OFFICER'S CERTIFICATION

A review of the affairs and activities of Ohio Valley Electric Corporation and its wholly-owned subsidiary, Indiana-Kentucky Electric Corporation (the Companies), during the quarters ended September 30, 2016 and 2015 has been made under my supervision, and in my opinion, the unaudited financial statements for these periods present fairly the financial conditions of the Companies as of September 30, 2016 and 2015, and the results of the operations, thereof, in accordance with generally accepted accounting principles consistently applied throughout the period. To the best of my knowledge and belief, there has been no Potential Default, Default, or Event of Default by the Companies and the Companies are in compliance with the covenants of the current debt agreements.


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

CONSOLIDATED NET WORTH

The consolidated net worth of Ohio Valley Electric Corporation and its wholly-owned subsidiary, Indiana-Kentucky Electric Corporation for the quarter ending September 30, 2016 was \$18,613,536


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, 2016 AND 2015-UNAUDITED

	2016				2015			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
ASSETS								
ELECTRIC PLANT:								
At original cost	\$ 2,725,044,716	\$ -	\$ 1,352,351,826	\$ 1,372,692,890	\$ 2,711,658,376	\$ -	\$ 1,342,452,528	\$ 1,369,205,848
Less - Accumulated provisions for depreciation	(1,331,571,510)	-	(659,556,933)	(672,014,577)	(1,280,076,119)	-	(628,636,622)	(651,439,497)
	1,393,473,206	-	692,794,893	700,678,313	1,431,582,257	-	713,815,906	717,766,351
Construction in progress	22,984,965	-	13,065,882	9,919,083	23,386,201	-	12,698,322	10,687,879
Total electric plant	1,416,458,171	-	705,860,775	710,597,396	1,454,968,458	-	726,514,228	728,454,230
INVESTMENTS AND OTHER:								
Investment in subsidiary company	-	(3,400,000)	3,400,000	-	-	(3,400,000)	3,400,000	-
Advances to subsidiary-construction	-	(711,597,051)	711,597,051	-	-	(722,611,778)	722,611,778	-
Total investments and other	-	(714,997,051)	714,997,051	-	-	(726,011,778)	726,011,778	-
CURRENT ASSETS:								
Cash and cash equivalents	44,689,117	-	44,682,917	6,200	12,581,181	-	12,574,981	6,200
Accounts receivable	32,256,626	-	32,230,064	26,562	31,425,218	-	30,986,264	438,954
Fuel in storage-at average cost	72,202,187	-	36,279,264	35,922,923	58,635,287	-	24,416,793	34,218,494
Materials and supplies-at average cost	35,005,520	-	20,284,197	14,721,323	34,492,697	-	21,109,109	13,383,588
Property taxes applicable to future years	712,500	-	712,500	-	695,000	-	695,000	-
Emission allowances	122,231	-	122,231	-	-	-	-	-
Deferred tax assets	-	-	-	-	3,235,692	-	2,819,693	415,999
Prepaid expenses and other	4,846,206	-	3,641,568	1,204,638	2,773,464	-	1,385,647	1,387,817
Total current assets	189,834,387	-	137,952,741	51,881,646	143,838,539	-	93,987,487	49,851,052
REGULATORY ASSETS:								
Unrecognized postemployment benefits	2,526,541	-	903,443	1,623,098	1,437,151	-	383,615	1,053,536
Pension benefits	27,889,880	-	15,266,921	12,622,959	32,475,646	-	18,186,362	14,289,284
Income taxes billable to customers	471,893	-	471,893	-	892,343	-	892,343	-
Total regulatory assets	30,888,314	-	16,642,257	14,246,057	34,805,140	-	19,462,320	15,342,820
DEFERRED CHARGES AND OTHER:								
Unamortized debt expense	10,446,200	-	10,446,200	-	10,769,957	-	10,769,957	-
Long-term investments	123,966,597	-	97,585,146	26,381,451	119,992,206	-	95,951,087	24,041,119
Other	53,774	-	52,790	984	68,367	-	67,383	984
Total deferred charges and other	134,466,571	-	108,084,136	26,382,435	130,830,530	-	106,788,427	24,042,103
TOTAL	\$ 1,771,647,443	\$ (714,997,051)	\$ 1,683,536,960	\$ 803,107,534	\$ 1,764,442,667	\$ (726,011,778)	\$ 1,672,764,240	\$ 817,690,205

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS
AS OF SEPTEMBER 30, 2016 AND 2015-UNAUDITED

	2016				2015			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
CAPITALIZATION AND LIABILITIES								
CAPITALIZATION:								
Common stock, \$100 par value- Authorized, 300,000 shares; outstanding, 100,000 shares	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -
Common stock, without par value, stated at \$200 per share- Authorized, 100,000 shares; outstanding, 17,000 shares	-	(3,400,000)	-	3,400,000	-	(3,400,000)	-	3,400,000
Long-term debt	1,195,438,570	-	1,195,438,570	-	1,243,022,824	-	1,243,022,824	-
Line of credit borrowings-long term	85,000,000	-	85,000,000	-	20,000,000	-	20,000,000	-
Retained earnings	8,613,536	-	8,613,536	-	7,730,843	-	7,730,843	-
Total capitalization	1,299,052,106	(3,400,000)	1,299,052,106	3,400,000	1,280,753,667	(3,400,000)	1,280,753,667	3,400,000
CURRENT LIABILITIES:								
Current portion of long-term debt	247,606,853	-	247,606,853	-	244,835,140	-	244,835,140	-
Accounts payable	24,708,027	-	12,651,344	12,056,683	34,013,553	-	17,548,576	16,464,977
Accrued taxes	7,369,659	-	3,530,229	3,839,430	7,405,902	-	3,369,299	4,036,603
Regulatory liabilities	15,102,992	-	9,784,634	5,318,358	9,465,192	-	9,432,667	32,525
Accrued interest and other	24,781,723	-	21,352,580	3,429,143	31,775,484	-	23,023,112	8,752,372
Total current liabilities	319,569,254	-	294,925,640	24,643,614	327,495,271	-	298,208,794	29,286,477
COMMITMENTS AND CONTINGENCIES								
REGULATORY LIABILITIES:								
Postretirement benefits	43,834,465	-	35,772,465	8,062,000	31,318,571	-	28,809,097	2,509,474
Decommissioning and demolition	14,378,409	-	6,361,545	8,016,864	12,043,960	-	5,374,118	6,669,842
Total regulatory liabilities	58,212,874	-	42,134,010	16,078,864	43,362,531	-	34,183,215	9,179,316
OTHER LIABILITIES:								
Pension liability	27,889,880	-	15,266,921	12,622,959	32,475,646	-	18,186,362	14,289,284
Deferred income tax liability	-	-	-	-	3,235,692	-	2,819,693	415,999
Asset retirement obligations	31,249,839	-	13,054,376	18,195,463	29,547,185	-	12,345,032	17,202,153
Postretirement benefits obligation	32,235,745	-	17,418,498	14,817,247	44,875,752	-	24,880,858	19,994,894
Postemployment benefits obligation	2,526,541	-	903,443	1,623,098	1,437,151	-	383,615	1,053,536
Parent advances for construction	-	(711,597,051)	-	711,597,051	-	(722,611,778)	-	722,611,778
Other liabilities	911,204	-	781,966	129,238	1,259,772	-	1,003,004	256,768
Total other liabilities	94,813,209	(711,597,051)	47,425,204	758,985,056	112,831,198	(722,611,778)	59,618,564	775,824,412
TOTAL	\$ 1,771,647,443	\$ (714,997,051)	\$ 1,683,536,960	\$ 803,107,534	\$ 1,764,442,667	\$ (726,011,778)	\$ 1,672,764,240	\$ 817,690,205

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

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YEAR TO DATE AS OF SEPTEMBER 30, 2016 AND 2015-UNAUDITED

	2016				2015			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana- Kentucky Electric Corporation
OPERATING REVENUES:								
Sales of electric energy to:								
Department of Energy	\$ 6,662,312	\$ -	\$ 6,662,312	\$ -	\$ 8,061,121	\$ -	\$ 8,061,121	\$ -
Ohio Valley Electric Corp.	-	(179,712,510)	-	179,712,510	-	(199,139,323)	-	199,139,323
Sponsoring Companies	416,144,731	-	416,144,731	-	428,494,695	-	428,494,695	-
Other	-	-	-	-	-	-	-	-
Total operating revenues	422,807,043	(179,712,510)	422,807,043	179,712,510	436,555,816	(199,139,323)	436,555,816	199,139,323
OPERATING EXPENSES:								
Fuel and emission allowances consumed								
in operation	194,278,382	-	86,478,656	107,799,726	203,999,672	-	79,400,709	124,598,963
Purchased power	5,903,383	(179,712,510)	185,615,893	-	7,498,329	(199,139,323)	206,637,652	-
Other operation	59,991,170	-	37,780,134	22,211,036	59,246,806	-	36,648,402	22,598,404
Maintenance	53,862,654	-	26,268,787	27,593,867	63,164,665	-	33,819,270	29,345,395
Depreciation	49,771,096	-	29,590,925	20,180,171	37,424,150	-	19,883,749	17,540,401
Taxes-other than federal income taxes	8,598,800	-	4,880,134	3,718,666	8,747,349	-	4,923,842	3,823,507
Federal income taxes	259,065	-	259,065	-	143,925	-	143,925	-
Total operating expenses	372,664,550	(179,712,510)	370,873,594	181,503,466	380,224,896	(199,139,323)	381,457,549	197,906,670
OPERATING INCOME	50,142,493	-	51,933,449	(1,790,956)	56,330,920	-	55,098,267	1,232,653
OTHER INCOME (EXPENSE)	6,173,163	-	4,369,084	1,804,079	(471,331)	-	738,848	(1,210,179)
INCOME BEFORE INTEREST CHARGES	56,315,656	-	56,302,533	13,123	55,859,589	-	55,837,115	22,474
INTEREST CHARGES:								
Amortization of debt expense	3,919,777	-	3,919,777	-	3,438,234	-	3,438,234	-
Interest expense	51,649,337	-	51,636,214	13,123	51,722,235	-	51,699,761	22,474
Total interest charges	55,569,114	-	55,555,991	13,123	55,160,469	-	55,137,995	22,474
NET INCOME	\$ 746,542	\$ -	\$ 746,542	\$ -	\$ 699,120	\$ -	\$ 699,120	\$ -
RETAINED EARNINGS, JAN. 1	7,866,994	-	7,866,994	-	7,031,723	-	7,031,723	-
CASH DIVIDENDS ON COMMON STOCK	-	-	-	-	-	-	-	-
RETAINED EARNINGS, SEP. 30	\$ 8,613,536	\$ -	\$ 8,613,536	\$ -	\$ 7,730,843	\$ -	\$ 7,730,843	\$ -

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE AS OF SEPTEMBER 30, 2016 AND 2015-UNAUDITED

	2016				2015			
	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation	Consolidated	Eliminations (Deduct)	Ohio Valley Electric Corporation	Indiana-Kentucky Electric Corporation
CASH FROM OPERATIONS								
Net income	\$ 746,542	\$ -	\$ 746,542	\$ -	\$ 699,120	\$ -	\$ 699,120	\$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:								
Depreciation and amortization	49,771,096	-	29,590,925	20,180,171	37,424,150	-	19,883,749	17,540,401
Amortization of debt expense and discount	3,919,777	-	3,919,777	-	3,438,234	-	3,438,234	-
Deferred taxes	334,095	-	334,095	-	143,925	-	143,925	-
(Gain)/loss on marketable securities	(6,172,938)	-	(4,324,428)	(1,848,510)	618,450	-	(564,782)	1,183,232
Changes in assets and liabilities:								
Accounts receivable	(8,064,476)	-	(8,108,104)	43,628	8,576,742	-	8,642,421	(65,679)
Fuel in storage	9,160,578	-	(1,019,692)	10,180,270	(14,299,858)	-	(14,207,484)	(92,374)
Material and supplies	(1,945,379)	-	(710,127)	(1,235,252)	7,016	-	(253,371)	260,387
Property taxes applicable to subsequent years	2,137,500	-	2,137,500	-	2,085,000	-	2,085,000	-
Emission allowances	(122,231)	-	(122,231)	-	-	-	-	-
Refundable income taxes	-	-	-	-	-	-	-	-
Prepaid expenses and other	(2,733,449)	-	(2,529,788)	(203,661)	(564,851)	-	(263,499)	(301,352)
Other regulatory assets	-	-	-	-	-	-	-	-
Other noncurrent assets	16,884	-	16,884	-	52,510	-	53,494	(984)
Accounts payable	(13,906,617)	-	(8,609,488)	(5,297,129)	(20,091,343)	-	(6,334,708)	(13,756,635)
Accrued taxes	(2,195,097)	-	(2,778,122)	583,025	(2,004,239)	-	(2,752,053)	747,814
Accrued interest and other	2,826,828	-	3,248,467	(421,639)	3,899,163	-	3,792,387	106,776
Other regulatory liabilities	(207,024)	-	(3,956,520)	3,749,496	(4,729,066)	-	(1,917,160)	(2,811,906)
Other noncurrent liabilities	-	-	-	-	135,904	-	101,329	34,575
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	33,566,089	-	7,835,690	25,730,399	15,390,857	-	12,546,602	2,844,255
INVESTING ACTIVITIES								
Electric plant additions	(15,101,571)	-	(6,438,000)	(8,663,571)	(16,167,382)	-	(8,490,802)	(7,676,580)
Sale (Purchase) of marketable securities	1,966,447	-	1,949,071	17,376	1,892,117	-	1,881,932	10,185
Advances to subsidiary company	-	(17,084,204)	17,084,204	-	-	4,822,140	(4,822,140)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(13,135,124)	(17,084,204)	12,595,275	(8,646,195)	(14,275,265)	4,822,140	(11,431,010)	(7,666,395)
FINANCING ACTIVITIES								
Advances from parent company	-	17,084,204	-	(17,084,204)	-	(4,822,140)	-	4,822,140
Repayment of Senior 2006 Notes	(18,539,255)	-	(18,539,255)	-	(17,503,483)	-	(17,503,483)	-
Repayment of Senior 2007 Notes	(6,469,047)	-	(6,469,047)	-	(6,101,554)	-	(6,101,554)	-
Repayment of Senior 2008 Notes	(6,881,786)	-	(6,881,786)	-	(6,450,104)	-	(6,450,104)	-
Proceeds from line of credit	69,000,000	-	69,000,000	-	52,000,000	-	52,000,000	-
Payments on line of credit	(29,000,000)	-	(29,000,000)	-	(52,000,000)	-	(52,000,000)	-
Loan maintenance costs	(3,144,333)	-	(3,144,333)	-	(1,933,236)	-	(1,933,236)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	4,965,579	17,084,204	4,965,579	(17,084,204)	(31,988,377)	(4,822,140)	(31,988,377)	4,822,140
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 25,396,544	\$ -	\$ 25,396,544	\$ -	\$ (30,872,785)	\$ -	\$ (30,872,785)	\$ -
CASH AND CASH EQUIVALENTS, JAN. 1	19,292,573	-	19,286,373	6,200	43,453,966	-	43,447,766	6,200
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,396,544	-	25,396,544	-	(30,872,785)	-	(30,872,785)	-
CASH AND CASH EQUIVALENTS, SEP. 30	\$ 44,689,117	\$ -	\$ 44,682,917	\$ 6,200	\$ 12,581,181	\$ -	\$ 12,574,981	\$ 6,200