

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - DECEMBER 31, 2016 AND 2015-UNAUDITED

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS
YEAR TO DATE - DECEMBER 31, 2016 AND 2015-UNAUDITED

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE - DECEMBER 31, 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 December 31, 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 December 31, 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 December 31, 2016 was \$18,805,462



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, 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	\$ 2,739,103,561	\$ -	\$ 1,361,028,710	\$ 1,378,074,851	\$ 2,714,054,292	\$ -	\$ 1,343,347,645	\$ 1,370,706,647
Less - Accumulated provisions for depreciation	(1,352,933,437)	-	(672,452,518)	(680,480,919)	(1,292,775,251)	-	(635,262,822)	(657,512,429)
	1,386,170,124	-	688,576,192	697,593,932	1,421,279,041	-	708,084,823	713,194,218
Construction in progress	14,638,632	-	5,467,210	9,171,422	29,848,655	-	20,928,877	8,919,778
Total electric plant	1,400,808,756	-	694,043,402	706,765,354	1,451,127,696	-	729,013,700	722,113,996
INVESTMENTS AND OTHER:								
Investment in subsidiary company	-	(3,400,000)	3,400,000	-	-	(3,400,000)	3,400,000	-
Advances to subsidiary-construction	-	(704,105,533)	704,105,533	-	-	(728,681,255)	728,681,255	-
Total investments and other	-	(707,505,533)	707,505,533	-	-	(732,081,255)	732,081,255	-
CURRENT ASSETS:								
Cash and cash equivalents	47,810,728	-	47,804,528	6,200	19,292,573	-	19,286,373	6,200
Accounts receivable	32,717,518	-	32,681,285	36,233	24,192,150	-	24,121,960	70,190
Fuel in storage-at average cost	76,387,854	-	37,168,045	39,219,809	81,362,765	-	35,259,572	46,103,193
Materials and supplies-at average cost	34,728,316	-	20,832,280	13,896,036	33,060,141	-	19,574,070	13,486,071
Property taxes applicable to future years	2,822,500	-	2,822,500	-	2,850,000	-	2,850,000	-
Emission allowances	872,921	-	872,921	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-
Prepaid expenses and other	1,998,372	-	1,036,926	961,446	2,112,757	-	1,111,780	1,000,977
Total current assets	197,338,209	-	143,218,485	54,119,724	162,870,386	-	102,203,755	60,666,631
REGULATORY ASSETS:								
Unrecognized postemployment benefits	4,386,050	-	2,502,691	1,883,359	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	385,538	-	385,538	-	805,988	-	805,988	-
Total regulatory assets	41,899,740	-	23,546,333	18,353,407	31,222,409	-	16,976,352	14,246,057
DEFERRED CHARGES AND OTHER:								
Unamortized debt expense	10,514,772	-	10,514,772	-	11,204,694	-	11,204,694	-
Long-term investments	119,002,376	-	92,084,973	26,917,403	119,760,106	-	95,209,789	24,550,317
Other	78,637	-	77,653	984	70,658	-	69,674	984
Total deferred charges and other	129,595,785	-	102,677,398	26,918,387	131,035,458	-	106,484,157	24,551,301
TOTAL	\$ 1,769,642,490	\$ (707,505,533)	\$ 1,670,991,151	\$ 806,156,872	\$ 1,776,255,949	\$ (732,081,255)	\$ 1,686,759,219	\$ 821,577,985

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS
AS OF DECEMBER 31, 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	1,180,797,781	-	1,180,797,781	-	1,179,259,089	-	1,179,259,089	-
Line of credit borrowings-long term	85,000,000	-	85,000,000	-	45,000,000	-	45,000,000	-
Retained earnings	8,805,462	-	8,805,462	-	7,866,994	-	7,866,994	-
Total capitalization	1,284,603,243	(3,400,000)	1,284,603,243	3,400,000	1,242,126,083	(3,400,000)	1,242,126,083	3,400,000
CURRENT LIABILITIES:								
Current portion of long-term debt	248,483,907	-	248,483,907	-	295,659,471	-	295,659,471	-
Accounts payable	33,288,922	-	15,218,312	18,070,610	38,614,644	-	21,260,832	17,353,812
Accrued taxes	9,859,882	-	6,402,063	3,457,819	9,564,756	-	6,308,351	3,256,405
Regulatory liabilities	11,610,328	-	4,981,503	6,628,825	17,522,792	-	15,093,621	2,429,171
Accrued interest and other	20,888,581	-	17,074,737	3,813,844	21,954,895	-	18,104,113	3,850,782
Total current liabilities	324,131,620	-	292,160,522	31,971,098	383,316,558	-	356,426,388	26,890,170
COMMITMENTS AND CONTINGENCIES								
REGULATORY LIABILITIES:								
Postretirement benefits	33,121,035	-	29,211,289	3,909,746	44,780,419	-	35,747,594	9,032,825
Decommissioning and demolition	15,302,934	-	6,750,117	8,552,817	11,219,680	-	5,033,950	6,185,730
Total regulatory liabilities	48,423,969	-	35,961,406	12,462,563	56,000,099	-	40,781,544	15,218,555
OTHER LIABILITIES:								
Pension liability	37,128,152	-	20,658,104	16,470,048	27,889,880	-	15,266,921	12,622,959
Deferred income tax liability	-	-	-	-	-	-	-	-
Asset retirement obligations	31,249,839	-	13,054,376	18,195,463	31,249,839	-	13,054,376	18,195,463
Postretirement benefits obligation	39,083,391	-	21,463,121	17,620,270	32,235,745	-	17,418,498	14,817,247
Postemployment benefits obligation	4,386,050	-	2,502,691	1,883,359	2,526,541	-	903,443	1,623,098
Parent advances for construction	-	(704,105,533)	-	704,105,533	-	(728,681,255)	-	728,681,255
Other liabilities	636,226	-	587,688	48,538	911,204	-	781,966	129,238
Total other liabilities	112,483,658	(704,105,533)	58,265,980	758,323,211	94,813,209	(728,681,255)	47,425,204	776,069,260
TOTAL	\$ 1,769,642,490	\$ (707,505,533)	\$ 1,670,991,151	\$ 806,156,872	\$ 1,776,255,949	\$ (732,081,255)	\$ 1,686,759,219	\$ 821,577,985

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YEAR TO DATE AS OF DECEMBER 31, 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	\$ 8,519,114	\$ -	\$ 8,519,114	\$ -	\$ 10,249,126	\$ -	\$ 10,249,126	\$ -
Ohio Valley Electric Corp.	-	(248,795,894)	-	248,795,894	-	(260,051,143)	-	260,051,143
Sponsoring Companies	577,376,640	-	577,376,640	-	555,079,943	-	555,079,943	-
Other	-	-	-	-	-	-	-	-
Total operating revenues	585,895,754	(248,795,894)	585,895,754	248,795,894	565,329,069	(260,051,143)	565,329,069	260,051,143
OPERATING EXPENSES:								
Fuel and emission allowances consumed								
in operation	261,832,736	-	119,139,038	142,693,698	246,581,580	-	91,536,237	155,045,343
Purchased power	7,617,661	(248,795,894)	256,413,555	-	9,550,459	(260,051,143)	269,601,602	-
Other operation	78,388,622	-	46,417,345	31,971,277	78,772,695	-	47,196,544	31,576,151
Maintenance	81,651,038	-	40,877,037	40,774,001	92,750,351	-	51,160,521	41,589,830
Depreciation	73,882,917	-	43,669,797	30,213,120	53,502,810	-	27,369,839	26,132,971
Taxes-other than federal income taxes	11,983,295	-	6,512,648	5,470,647	11,358,562	-	6,435,583	4,922,979
Federal income taxes	345,420	-	345,420	-	286,972	-	230,280	56,692
Total operating expenses	515,701,689	(248,795,894)	513,374,840	251,122,743	492,803,429	(260,051,143)	493,530,606	259,323,966
OPERATING INCOME	70,194,065	-	72,520,914	(2,326,849)	72,525,640	-	71,798,463	727,177
OTHER INCOME (EXPENSE)	4,149,935	-	1,807,072	2,342,863	1,508,078	-	2,207,353	(699,275)
INCOME BEFORE INTEREST CHARGES	74,344,000	-	74,327,986	16,014	74,033,718	-	74,005,816	27,902
INTEREST CHARGES:								
Amortization of debt expense	4,618,191	-	4,618,191	-	4,434,468	-	4,434,468	-
Interest expense	68,787,341	-	68,771,327	16,014	68,763,979	-	68,736,077	27,902
Total interest charges	73,405,532	-	73,389,518	16,014	73,198,447	-	73,170,545	27,902
NET INCOME	\$ 938,468	\$ -	\$ 938,468	\$ -	\$ 835,271	\$ -	\$ 835,271	\$ -
RETAINED EARNINGS, JAN. 1	7,866,994	-	7,866,994	-	7,031,723	-	7,031,723	-
CASH DIVIDENDS ON COMMON STOCK	-	-	-	-	-	-	-	-
RETAINED EARNINGS, DEC. 31	\$ 8,805,462	\$ -	\$ 8,805,462	\$ -	\$ 7,866,994	\$ -	\$ 7,866,994	\$ -

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR TO DATE AS OF DECEMBER 31, 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	\$ 938,468	\$ -	\$ 938,468	\$ -	\$ 835,271	\$ -	\$ 835,271	\$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:								
Depreciation and amortization	73,882,917	-	43,669,797	30,213,120	53,502,810	-	27,369,839	26,132,971
Amortization of debt expense and discount	4,618,191	-	4,618,191	-	4,434,468	-	4,434,468	-
Deferred taxes	420,450	-	420,450	-	230,280	-	230,280	-
(Gain)/loss on marketable securities	(4,125,145)	-	(1,733,546)	(2,391,599)	3,149,486	-	1,723,601	1,425,885
Changes in assets and liabilities:								
Accounts receivable	(8,525,368)	-	(8,559,325)	33,957	15,809,810	-	15,506,725	303,085
Fuel in storage	4,974,911	-	(1,908,473)	6,883,384	(37,027,336)	-	(25,050,263)	(11,977,073)
Material and supplies	(1,668,175)	-	(1,258,210)	(409,965)	1,439,572	-	1,281,668	157,904
Property taxes applicable to subsequent years	27,500	-	27,500	-	(70,000)	-	(70,000)	-
Emission allowances	(872,921)	-	(872,921)	-	-	-	-	-
Refundable income taxes	-	-	-	-	-	-	-	-
Prepaid expenses and other	114,385	-	74,854	39,531	95,856	-	10,368	85,488
Other regulatory assets	-	-	-	-	3,496,376	-	2,399,613	1,096,763
Other noncurrent assets	(7,979)	-	(7,979)	-	50,219	-	51,203	(984)
Accounts payable	(4,962,217)	-	(5,820,437)	858,220	(16,588,072)	-	(5,997,708)	(10,590,364)
Accrued taxes	295,126	-	93,712	201,414	154,615	-	186,999	(32,384)
Accrued interest and other	(1,066,314)	-	(1,029,376)	(36,938)	(1,659,657)	-	(1,126,612)	(533,045)
Other regulatory liabilities	(13,488,594)	-	(14,932,256)	1,443,662	11,704,333	-	10,342,123	1,362,210
Other noncurrent liabilities	6,572,668	-	3,850,345	2,722,323	(13,905,092)	-	(8,907,897)	(4,997,195)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	57,127,903	-	17,570,794	39,557,109	25,652,939	-	23,219,678	2,433,261
INVESTING ACTIVITIES								
Electric plant additions	(23,563,977)	-	(8,699,499)	(14,864,478)	(27,307,460)	-	(15,101,108)	(12,206,352)
Sale (Purchase) of marketable securities	4,882,875	-	4,858,362	24,513	(406,819)	-	334,847	(741,666)
Advances to subsidiary company	-	(24,575,722)	24,575,722	-	-	10,891,617	(10,891,617)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(18,681,102)	(24,575,722)	20,734,585	(14,839,965)	(27,714,279)	10,891,617	(25,657,878)	(12,948,018)
FINANCING ACTIVITIES								
Advances from parent company	-	24,575,722	-	(24,575,722)	-	(10,891,617)	-	10,891,617
Repayment of Senior 2006 Notes	(18,539,255)	-	(18,539,255)	-	(17,503,483)	-	(17,503,483)	-
Repayment of Senior 2007 Notes	(13,130,063)	-	(13,130,063)	-	(12,384,167)	-	(12,384,167)	-
Repayment of Senior 2008 Notes	(13,990,154)	-	(13,990,154)	-	(13,112,545)	-	(13,112,545)	-
Proceeds from line of credit	69,000,000	-	69,000,000	-	102,000,000	-	102,000,000	-
Payments on line of credit	(29,000,000)	-	(29,000,000)	-	(77,000,000)	-	(77,000,000)	-
Principal payments under capital leases	(363,505)	-	(222,083)	(141,422)	(741,301)	-	(364,441)	(376,860)
Loan maintenance costs	(3,905,669)	-	(3,905,669)	-	(3,358,557)	-	(3,358,557)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(9,928,646)	24,575,722	(9,787,224)	(24,717,144)	(22,100,053)	(10,891,617)	(21,723,193)	10,514,757
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 28,518,155	\$ -	\$ 28,518,155	\$ -	\$ (24,161,393)	\$ -	\$ (24,161,393)	\$ -
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	28,518,155	-	28,518,155	-	(24,161,393)	-	(24,161,393)	-
CASH AND CASH EQUIVALENTS, DEC. 31	\$ 47,810,728	\$ -	\$ 47,804,528	\$ 6,200	\$ 19,292,573	\$ -	\$ 19,286,373	\$ 6,200