

OHIO VALLEY ELECTRIC CORPORATION

AND SUBSIDIARY COMPANY

CONSOLIDATING BALANCE SHEETS - JUNE 30, 2018 AND 2017-UNAUDITED

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS  
YEAR TO DATE - JUNE 30, 2018 AND 2017-UNAUDITED

CONSOLIDATING STATEMENTS OF CASH FLOWS  
YEAR TO DATE - JUNE 30, 2018 AND 2017-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 June 30, 2018 and 2017 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 June 30, 2018 and 2017, 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 June 30, 2018 was \$22,169,358



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 JUNE 30, 2018 AND 2017-UNAUDITED

	2018				2017			
	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	\$ 2,782,826,177	\$ -	\$ 1,386,357,895	\$ 1,396,468,282	\$ 2,743,107,837	\$ -	\$ 1,361,062,407	\$ 1,382,045,430
Less - Accumulated provisions for depreciation	(1,471,088,081)	-	(736,311,091)	(734,776,990)	(1,381,268,638)	-	(685,120,453)	(696,148,185)
	1,311,738,096	-	650,046,804	661,691,292	1,361,839,199	-	675,941,954	685,897,245
Construction in progress	10,374,296	-	6,200,879	4,173,417	13,680,732	-	6,683,868	6,996,864
Total electric plant	1,322,112,392	-	656,247,683	665,864,709	1,375,519,931	-	682,625,822	692,894,109
<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	-	(654,880,550)	654,880,550	-	-	(677,912,881)	677,912,881	-
Total investments and other	-	(658,280,550)	658,280,550	-	-	(681,312,881)	681,312,881	-
<b>CURRENT ASSETS:</b>								
Cash and cash equivalents	47,580,882	-	47,574,682	6,200	60,713,057	-	60,706,857	6,200
Accounts receivable	43,868,306	-	43,520,435	347,871	25,069,058	-	25,040,235	28,823
Fuel in storage-at average cost	29,534,096	-	13,825,158	15,708,938	56,844,363	-	32,182,285	24,662,078
Materials and supplies-at average cost	39,614,395	-	23,452,273	16,162,122	37,076,532	-	22,087,599	14,988,933
Property taxes applicable to future years	1,337,500	-	1,337,500	-	1,292,500	-	1,292,500	-
Emission allowances	331,660	-	331,660	-	698,763	-	698,763	-
Income taxes receivable	-	-	-	-	3,118,299	-	3,118,299	-
Prepaid expenses and other	1,855,814	-	1,017,009	838,805	2,007,441	-	976,318	1,031,123
Total current assets	164,122,653	-	131,058,717	33,063,936	186,820,013	-	146,102,856	40,717,157
<b>REGULATORY ASSETS:</b>								
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
Asset retirement costs	-	(3,616,398)	3,616,398	-	-	-	-	-
Income taxes billable to customers	-	-	-	-	-	-	-	-
Total regulatory assets	41,115,832	(3,616,398)	27,358,586	17,373,644	41,401,534	-	23,160,795	18,240,739
<b>DEFERRED CHARGES AND OTHER:</b>								
Unamortized debt expense	242,146	-	242,146	-	413,073	-	413,073	-
Deferred tax asset:	9,294,909	-	9,294,909	-	2,700,000	-	2,700,000	-
Long-term investments	171,361,743	-	138,316,115	33,045,628	124,891,093	-	96,155,285	28,735,808
Other	1,534	-	550	984	1,534	-	550	984
Total deferred charges and other	180,900,332	-	147,853,720	33,046,612	128,005,700	-	99,268,908	28,736,792
<b>TOTAL</b>	<b>\$ 1,708,251,209</b>	<b>\$ (661,896,948)</b>	<b>\$ 1,620,799,256</b>	<b>\$ 749,348,901</b>	<b>\$ 1,731,747,178</b>	<b>\$ (681,312,881)</b>	<b>\$ 1,632,471,262</b>	<b>\$ 780,588,797</b>

**OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY**

CONSOLIDATING BALANCE SHEETS  
AS OF JUNE 30, 2018 AND 2017-UNAUDITED

	2018				2017			
	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, \$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	1,236,152,723	-	1,236,152,723	-	1,120,738,375	-	1,120,738,375	-
Line of credit borrowings-long term	85,000,000	-	85,000,000	-	85,000,000	-	85,000,000	-
Retained earnings	12,169,358	-	12,169,358	-	9,256,486	-	9,256,486	-
Total capitalization	1,343,322,081	(3,400,000)	1,343,322,081	3,400,000	1,224,994,861	(3,400,000)	1,224,994,861	3,400,000
<b>CURRENT LIABILITIES:</b>								
Current portion of long-term debt	78,052,948	-	78,052,948	-	249,961,254	-	249,961,254	-
Accounts payable	25,962,375	-	14,350,779	11,611,596	29,996,483	-	12,988,620	17,007,863
Accrued taxes	8,690,132	-	5,193,231	3,496,901	8,327,554	-	4,736,577	3,590,977
Regulatory liabilities	5,413,837	-	4,668,795	745,042	11,449,631	-	6,054,310	5,395,321
Accrued interest and other	18,720,386	-	15,628,346	3,092,040	20,425,567	-	16,766,587	3,658,980
Total current liabilities	136,839,678	-	117,894,099	18,945,579	320,160,489	-	290,507,348	29,653,141
<b>COMMITMENTS AND CONTINGENCIES</b>								
<b>REGULATORY LIABILITIES:</b>								
Postretirement benefits	54,828,009	-	40,886,464	13,941,545	35,149,788	-	30,064,074	5,085,714
Decommissioning and demolition	1,536,390	(3,616,398)	-	5,152,788	16,644,622	-	7,309,563	9,335,059
Advance billing of debt reserve	44,000,000	-	44,000,000	-	15,000,000	-	15,000,000	-
Income taxes refundable to customers	11,571,428	-	11,571,428	-	5,433,716	-	5,433,716	-
Total regulatory liabilities	111,935,827	(3,616,398)	96,457,892	19,094,333	72,228,126	-	57,807,353	14,420,773
<b>OTHER LIABILITIES:</b>								
Pension liability	37,249,847	-	21,172,813	16,077,034	37,128,152	-	20,658,104	16,470,048
Asset retirement obligations	57,170,620	-	29,218,810	27,951,810	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	-	(654,880,550)	-	654,880,550	-	(677,912,881)	-	677,912,881
Other liabilities	670,486	-	505,336	165,150	699,157	-	650,619	48,538
Total other liabilities	116,153,623	(654,880,550)	63,125,184	707,908,989	114,363,702	(677,912,881)	59,161,700	733,114,883
<b>TOTAL</b>	<b>\$ 1,708,251,209</b>	<b>\$ (661,896,948)</b>	<b>\$ 1,620,799,256</b>	<b>\$ 749,348,901</b>	<b>\$ 1,731,747,178</b>	<b>\$ (681,312,881)</b>	<b>\$ 1,632,471,262</b>	<b>\$ 780,588,797</b>

## OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF INCOME AND RETAINED EARNINGS  
YEAR TO DATE AS OF MARCH 31, 2018 AND 2017-UNAUDITED

	2018				2017			
	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	\$ 4,087,834	\$ -	\$ 4,087,834	\$ -	\$ 4,158,024	\$ -	\$ 4,158,024	\$ -
Ohio Valley Electric Corp	-	(129,283,491)	-	129,283,491	-	(135,035,677)	-	135,035,677
Sponsoring Companies	299,717,307	-	299,717,307	-	296,644,320	-	296,644,320	-
Other	-	-	-	-	-	-	-	-
<b>Total operating revenues</b>	<b>303,805,141</b>	<b>(129,283,491)</b>	<b>303,805,141</b>	<b>129,283,491</b>	<b>300,802,344</b>	<b>(135,035,677)</b>	<b>300,802,344</b>	<b>135,035,677</b>
<b>OPERATING EXPENSES:</b>								
Fuel and emission allowances consumed								
In operation	137,827,299	-	61,733,533	76,093,766	142,629,134	-	60,936,559	81,692,575
Purchased power	3,869,723	(129,283,491)	133,153,214	-	3,764,583	(135,035,677)	138,800,260	-
Other operation	40,276,840	-	24,823,115	15,453,725	43,257,305	-	27,968,671	15,288,634
Maintenance	43,862,627	-	22,567,470	21,295,157	42,661,539	-	23,297,725	19,363,814
Depreciation	28,177,103	-	14,418,286	13,758,817	32,165,812	-	14,300,698	17,865,114
Taxes-other than federal income taxes	6,080,480	-	3,457,581	2,622,899	5,995,499	-	3,373,134	2,622,365
Federal income taxes	-	-	-	-	-	-	-	-
<b>Total operating expenses</b>	<b>260,094,072</b>	<b>(129,283,491)</b>	<b>260,153,199</b>	<b>129,224,364</b>	<b>270,473,872</b>	<b>(135,035,677)</b>	<b>268,677,047</b>	<b>136,832,502</b>
<b>OPERATING INCOME</b>	<b>43,711,069</b>	<b>-</b>	<b>43,651,942</b>	<b>59,127</b>	<b>30,328,472</b>	<b>-</b>	<b>32,125,297</b>	<b>(1,796,825)</b>
<b>OTHER INCOME (EXPENSE)</b>	<b>(832,795)</b>	<b>-</b>	<b>(779,110)</b>	<b>(53,685)</b>	<b>6,037,067</b>	<b>-</b>	<b>4,235,949</b>	<b>1,801,118</b>
<b>INCOME BEFORE INTEREST CHARGES</b>	<b>42,878,274</b>	<b>-</b>	<b>42,872,832</b>	<b>5,442</b>	<b>36,365,539</b>	<b>-</b>	<b>36,361,246</b>	<b>4,293</b>
<b>INTEREST CHARGES:</b>								
Amortization of debt expense	2,076,244	-	2,076,244	-	1,564,905	-	1,564,905	-
Interest expense	38,974,923	-	38,969,481	5,442	34,349,610	-	34,345,317	4,293
<b>Total interest charges</b>	<b>41,051,167</b>	<b>-</b>	<b>41,045,725</b>	<b>5,442</b>	<b>35,914,515</b>	<b>-</b>	<b>35,910,222</b>	<b>4,293</b>
<b>NET INCOME</b>	<b>\$ 1,827,107</b>	<b>\$ -</b>	<b>\$ 1,827,107</b>	<b>\$ -</b>	<b>\$ 451,024</b>	<b>\$ -</b>	<b>\$ 451,024</b>	<b>\$ -</b>
<b>RETAINED EARNINGS, JAN 1</b>	<b>10,342,251</b>	<b>-</b>	<b>10,342,251</b>	<b>-</b>	<b>8,805,462</b>	<b>-</b>	<b>8,805,462</b>	<b>-</b>
<b>CASH DIVIDENDS ON COMMON STOCK</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>RETAINED EARNINGS, JUN 30</b>	<b>\$ 12,169,358</b>	<b>\$ -</b>	<b>\$ 12,169,358</b>	<b>\$ -</b>	<b>\$ 9,256,486</b>	<b>\$ -</b>	<b>\$ 9,256,486</b>	<b>\$ -</b>

OHIO VALLEY ELECTRIC CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATING STATEMENTS OF CASH FLOWS  
YEAR TO DATE AS OF JUNE 30, 2018 AND 2017-UNAUDITED

	2018				2017			
	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	\$ 1,827,107	\$ -	\$ 1,827,107	\$ -	\$ 451,024	\$ -	\$ 451,024	\$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:								
Depreciation and amortization	28,177,103	=	14,418,286	13,758,817	32,165,812	=	14,300,698	17,865,114
Amortization of debt expense and discount	2,076,244	=	2,076,244	=	1,564,905	=	1,564,905	=
Deferred taxes	=	=	=	=	=	=	=	=
(Gain)/loss on marketable securities	1,424,514	=	1,153,546	270,968	(5,984,034)	=	(4,154,371)	(1,829,663)
Changes in assets and liabilities:								
Accounts receivable	(3,133,969)	=	(3,152,333)	18,364	12,374,456	=	12,367,046	7,410
Fuel in storage	4,283,015	=	(4,074,848)	8,357,863	19,543,491	=	4,985,760	14,557,731
Material and supplies	(1,169,118)	=	(1,144,904)	(24,214)	(2,219,390)	=	(1,127,993)	(1,091,397)
Property taxes applicable to subsequent years	1,575,000	=	1,575,000	=	1,530,000	=	1,530,000	=
Emission allowances	24,192	=	24,192	=	174,157	=	174,157	=
Refundable income taxes	=	=	=	=	=	=	=	=
Prepaid expenses and other	196,164	=	93,694	102,470	(9,069)	=	60,608	(69,677)
Other regulatory assets	885,038	=	885,038	=	=	=	=	=
Other noncurrent assets	=	=	=	=	77,103	=	77,103	=
Accounts payable	(5,369,047)	=	(188,406)	(5,180,641)	(3,645,969)	=	(2,658,023)	(987,946)
Accrued taxes	(2,109,018)	=	(2,047,267)	(61,751)	(1,531,373)	=	(1,664,531)	133,158
Accrued interest and other	(6,964,454)	=	(4,796,461)	(2,167,993)	(4,964,305)	=	(3,084,741)	(1,879,564)
Decommissioning and demolition	1,329,506	=	=	1,329,506	=	=	=	=
Other regulatory liabilities	15,836,550	=	15,563,865	272,685	20,139,525	=	19,822,501	317,024
Other noncurrent liabilities	68,134	=	=	68,134	62,931	=	62,931	=
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>38,956,961</b>	<b>=</b>	<b>22,212,753</b>	<b>16,744,208</b>	<b>69,729,264</b>	<b>=</b>	<b>42,707,074</b>	<b>27,022,190</b>
<b>INVESTING ACTIVITIES</b>								
Electric plant additions	(6,275,261)	=	(3,903,603)	(2,371,658)	(6,876,987)	=	(2,883,118)	(3,993,869)
Sale (Purchase) of marketable securities	(18,512,297)	=	(16,227,541)	(2,284,756)	95,317	=	84,059	11,258
Advances to subsidiary company	=	(12,087,794)	12,087,794	=	=	(23,039,579)	23,039,579	=
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(24,787,558)</b>	<b>(12,087,794)</b>	<b>(8,043,350)</b>	<b>(4,656,414)</b>	<b>(6,781,670)</b>	<b>(23,039,579)</b>	<b>20,240,520</b>	<b>(3,982,611)</b>
<b>FINANCING ACTIVITIES</b>								
Advances from parent company	=	12,087,794	=	(12,087,794)	=	23,039,579	=	(23,039,579)
Repayment of Senior 2006 Notes	(10,249,741)	=	(10,249,741)	=	(9,677,067)	=	(9,677,067)	=
Repayment of Senior 2007 Notes	(7,271,806)	=	(7,271,806)	=	(6,858,685)	=	(6,858,685)	=
Repayment of Senior 2008 Notes	(7,834,123)	=	(7,834,123)	=	(7,342,561)	=	(7,342,561)	=
Redemption of 2009 Bonds	=	=	=	=	(25,000,000)	=	(25,000,000)	=
Proceeds from line of credit	=	=	=	=	=	=	=	=
Payments on line of credit	=	=	=	=	=	=	=	=
Loan maintenance costs	(210,941)	=	(210,941)	=	(1,166,952)	=	(1,166,952)	=
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(25,566,611)</b>	<b>12,087,794</b>	<b>(25,566,611)</b>	<b>(12,087,794)</b>	<b>(50,045,265)</b>	<b>23,039,579</b>	<b>(50,045,265)</b>	<b>(23,039,579)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (11,397,208)</b>	<b>\$ =</b>	<b>\$ (11,397,208)</b>	<b>\$ =</b>	<b>\$ 12,902,329</b>	<b>\$ =</b>	<b>\$ 12,902,329</b>	<b>\$ =</b>
CASH AND CASH EQUIVALENTS, JAN 1	58,978,090	=	58,971,890	6,200	47,810,728	=	47,804,528	6,200
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(11,397,208)</b>	<b>=</b>	<b>(11,397,208)</b>	<b>=</b>	<b>12,902,329</b>	<b>=</b>	<b>12,902,329</b>	<b>=</b>
<b>CASH AND CASH EQUIVALENTS, JUN 30</b>	<b>\$ 47,580,882</b>	<b>\$ =</b>	<b>\$ 47,574,682</b>	<b>\$ 6,200</b>	<b>\$ 60,713,057</b>	<b>\$ =</b>	<b>\$ 60,706,857</b>	<b>\$ 6,200</b>