ANNUAL REPORT 2017

HOOSIER ENERGY

MEMBERS FIRST. For more than four decades, Hoosier Energy's safety and training department has worked to create programs that meet the needs of member cooperatives, including the nationally acclaimed Hoosier Energy Apprenticeship Training and Safety program.

Table of Contents

ON THE COVER: Indiana electric cooperatives, including lineworkers from Hoosier Energy's 18 member systems, sent crews and equipment to assist in the Hurricane Irma recovery efforts. The storm created widespread property damage and left more than 6 million without power in the Southeastern part of the country.

Statistics

AS OF 12/31/2017

18
Member Systems

300,000
Member Consumers

2,000
Megawatts Generating Capacity
Coal, Natural Gas, Renewables and Contract Purchases

9.5
Million Megawatt-Hours Total Energy Sales

7.3
Million Megawatt-Hours Sales To Members

$28.2
Million Net Margins

1,425
Megawatts 2017 Peak Demand

2.2
Million Megawatt-Hours Sales To Others

1,675
Miles of Transmission Lines

$674
Million Total Operating Revenue

$1.9
Billion Assets

SEEKING THE RIGHT BALANCE. Hoosier Energy operates and maintains more than 1,600 miles of electric transmission lines that crisscross Central and Southern Indiana and Southeastern Illinois, delivering hundreds of megawatts each day to member systems.

Patronage for 2017

$6.5 million in patronage credits
$118 million total retirements and credits since 2000

MAINTAINING EFFICIENCY. At the Merom Generating Station, a planned 75-day maintenance outage to rewind the generator on Unit 1 was completed under budget and with zero recordable employee injuries. It was the first time the generator had been rewound since the unit began producing electricity in 1982.

Profile

Hoosier Energy is a non-profit generation and transmission cooperative (G&T) created in 1949 to provide wholesale power and services to member distribution cooperatives. Headquartered in Bloomington, Indiana, the G&T serves 18 member systems in Southern and Central Indiana and Southeastern Illinois.

Collectively, member cooperatives operate and maintain more than 36,000 miles of distribution lines and provide electric service to nearly 300,000 consumers or about 686,000 people in 59 Indiana and Illinois counties.

Learn more at www.hoosierenergy.com

Mission

Our mission reflects commitment to members. Hoosier Energy's mission is to provide members with assured, reliable and competitively priced energy and services in a safe and environmentally acceptable manner. We demonstrate our commitment to that mission through our actions and results.

From The Chairman and The President

No matter the issue, we always seek the right balance to meet the future needs of our members while constantly trying to improve and remain open to new ideas.

Cooperative Resiliency

Since our founding in 1949, Hoosier Energy has sought to improve our operations for the benefit of the economic health and vitality of the communities served by our members.

We lead with purpose and a strong resolve to serve through a democratic process rooted in accountability. The cooperative resilience that has kept us strong throughout our history served us well in 2017. Costs, rates and long-term financial viability were central themes for Hoosier Energy and its 18-member electric distribution cooperative owners.

A laser focus on reducing costs kept our wholesale rate outlook stable and competitive. We achieved reductions in projected 2018 operating costs, contributing significantly to a favorable rate outlook. Collaboration with members led to realigning current wholesale rate structures for 2019, providing fairness for all members.

We continued to return patronage, with $6.5 million in patronage capital credits going back to member systems, bringing total retirements and credits to approximately $118 million since 2000.

Power production and power delivery ended another year marked by strong performance and improvements in efficiency and reliability through capital improvements, reduced outage times and power supply diversification. Through owned resources and long-term power contracts, we have diversified risk while balancing reliability, affordability and environmental stewardship.

Our financial foundation remained strong, with a 22 percent equity position and solid "A" ratings from national credit rating agencies. We also remained actively engaged with the NRECA and public policymakers on discussions regarding energy standards that make sense for clean, efficient power production.

President and Chief Executive Officer J. Steven Smith (left) and Board Chairman Herbert C. Haggard

No matter the issue, we always seek the right balance to meet the future needs of our members while constantly trying to improve and remain open to new ideas.

As we look back on the accomplishments of 2017, our competitive position stands out as proof of cooperative resiliency. For every initiative, we ask ourselves only one question: Will the members benefit?

We thank the Board of Directors for their dedication and leadership, member Managers for their work and collaboration, and the Hoosier Energy workforce for their invaluable contributions to serve the members every day.

We know we can and will remain resilient, no matter what the next challenge might be. No question, it's the cooperative resolve to serve the members that defines our continued success.

Herbert C. Haggard
Chairman of the Board of Directors,
Hoosier Energy

J. Steven Smith
President and CEO,
Hoosier Energy

Year In Review

Strength in Resiliency

It may sound too simplistic, but the cooperative difference is real.

Our founders understood that strength comes from clarity of purpose and an intrinsic commitment to help one another. For us, making and transmitting electricity is not only a duty—it's a privilege. We attribute this good old-fashioned work ethic to the power of resiliency—cooperative resiliency.

BALANCED POWER: Hoosier Energy's balanced approach to its 2,000-megawatt power supply includes coal, natural gas and renewable resources, ensuring competitive resiliency.

DELIVERING RELIABLE ENERGY. Capital improvements in 2017 included $15.4 million for substation improvements, installation of a spare transformer at the Worthington Transmission Station, additional remote-control switching, replacement of transmission structures and interconnection of three new solar fields.

We need all generation sources to balance varying levels of electrical demand and ensure reliability.

Members First

Our history has proven that such resiliency means we can and will serve the long-term best interests of our members. Regardless of external pressures, we always seek the right balance to meet the future needs of our members while constantly trying to improve and be open to new ideas.

For us, the only thing that matters is what's best for our members.

Striving to serve the long-term best interests of our members and the people they serve means we are serious about creating efficiencies to control costs, competitive rates and financial strength. In doing so, our actions and results demonstrate how we provide our 18-member distribution systems with assured, reliable and competitively priced energy and services in a safe and environmentally acceptable manner.

In 2017, the Board of Directors and Hoosier Energy executed strategies that achieved significant savings while positioning the cooperative for future growth and stability.

SECURING A STEADY FUTURE

Hoosier Energy has consistently been a competitive energy provider in the region for decades. That doesn't happen overnight.

The current wholesale rate structure was developed with members in 2009 and implemented in early 2010. Over the last decade, significant capital investments, lower market energy costs and changing patterns in energy have altered the makeup of costs. Collaboration with member CEOs in 2017 led to an updated rate structure that will go into effect in 2019 and will improve the balancing of costs in an ever-changing environment.

Hoosier Energy remains focused on maintaining a competitive wholesale rate position, retiring patronage to members and achieving sound financial metrics.

An equity position that now stands at 22 percent and maintaining solid "A" credit ratings are all financial indicators of our drive to best serve our members.

Patronage, one unique cooperative difference, demonstrates in a very tangible way our commitment to serving the long-term best interests of our member owners. Members received $6.5 million in patronage capital credits, bringing total retirements and credits to approximately $118 million since Hoosier Energy began returning capital credits to member systems in 2000.

SUPPORTING MEMBER PROGRAMS

Supporting efforts to retain and expand commercial and industrial loads in rural areas and communities served by members is an important means of providing value to cooperative members. Cooperatives support industries, businesses and farms with reliable and economical power that encourages collaborative risk management. Their concerns are our concerns.

In 2017, the joint economic development program of member distribution cooperatives and Hoosier Energy assisted members in locating 47 new/expanded business facilities, which are expected to add more than 2,265 jobs, about 25,530 kilowatts of new demand, and $605 million in new investment.

Hoosier Energy also works with members to support demand side management and energy efficiency programs. A partnership with Habitat for Humanity Restores that began in 2016 continued to strengthen the cooperative appliance-recycling program that now serves all 18 member cooperatives. The cooperative commercial and industrial (C&I) efficiency support program also experienced record levels of consumer interest. Data from a 2017 residential end-use survey will help us to further develop programs to meet future needs.

The impacts of consumer energy savings add up over time. Annual savings from demand-side management programs in 2017 totaled more than 24,000 megawatt hours, which means lower electric bills for co-op members.

PROACTIVE POLICY ENGAGEMENT

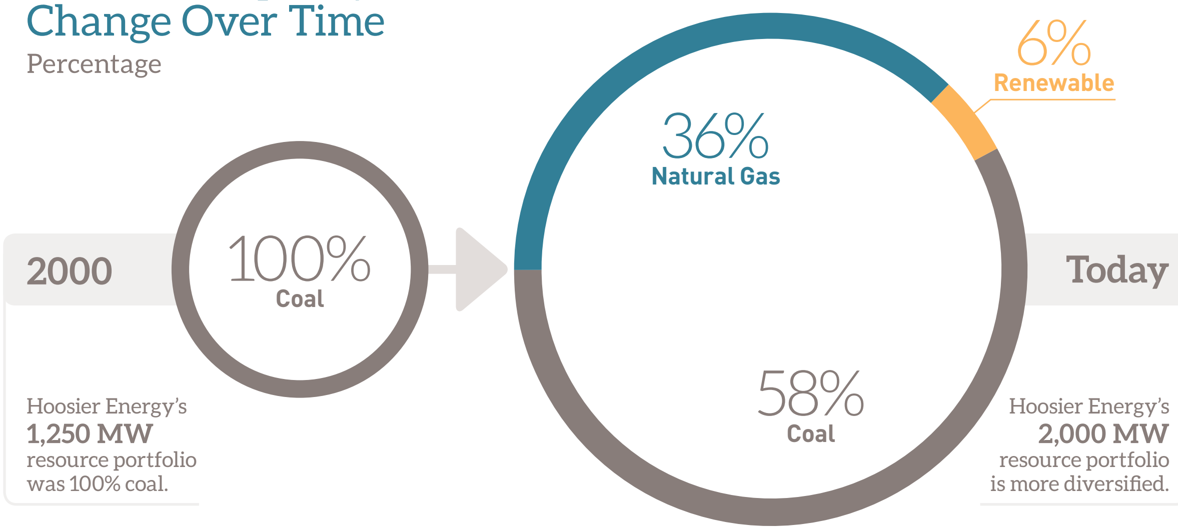
National policymakers often use the term "grid resiliency" when proposing actions to address threats to the electric grid. Hoosier Energy remains actively engaged in the conversation, working with the National Rural Electric Cooperative Association as well as state and national leaders to help shape discussions on standards necessary to support efficient, clean power plants.

Environmental Focus

Improving the quality of life in our communities includes a commitment to environmental stewardship. Hoosier Energy and the member systems demonstrate support for clean energy in every aspect of our “all-of-the-above” power supply strategy.

Resource Capacity Change Over Time

Percentage



Renewable Energy

Percentage of member energy supply

4%	7%	10%
in 2017	in 2020*	in 2025*

*projected

Renewable program volunatrily adopted in 2006

OPEN TO NEW IDEAS. Finding new ways to control expenses and create opportunities kept landfill costs down while creating environmentally safe beneficial re-use products such as gypsum.

Always Seeking the Right Balance

Competitive wholesale electric power rates depend upon Hoosier Energy's ability to always seek the right balance in delivering reliable, competitive energy and services that benefit all.

Delivery services and power production concluded another year marked by strong performance and improvements in efficiency and reliability.

As more emphasis is placed nationally on improving the resiliency of the transmission grid, the more likely the grid can withstand widespread impacts due to acts of nature. Locally, these improvements help the Hoosier Energy system respond better to equipment malfunctions, danger tree concerns or the inevitable animal intrusion, thereby minimizing end-consumer time spent without electricity.

Hoosier Energy's overall transmission interruption rate continued to improve in 2017, trending 15 percent better than the historic seven-year average, which continues to improve as well.

Capital improvements in 2017 included $15.4 million for substation improvements, installation of a spare transformer at the Worthington Transmission Station, additional remote-control switching, replacement of transmission structures and interconnection of three new solar fields.

At the Merom Generating Station, a planned 75-day maintenance outage to rewind the generator on Unit 1 was completed under budget and with zero recordable employee injuries. It was the first time the generator had been rewound since the unit started producing electricity in 1982. The major refurbishing effort involved hundreds of employees and contractors.

Resiliency is also reflected in the Board's commitment to an "all-of-the-above" power supply strategy that diversifies our generation portfolio risk through owned resources and long-term power contracts. In 2000 our power supply consisted of 100 percent coal. The generation portfolio now includes a diversified mix of coal, natural gas, landfill gas, wind, solar and hydropower. Taken together, these resources provide a strong balance for electric service reliability, affordability and environmental stewardship.

In the fall of 2017, we completed installation of a 10-megawatt solar program with the dedication of three 1-MW solar arrays in Orange County, Bartholomew County and Decatur County. Additionally, in October, we joined EDP Renewables at dedication ceremonies for the Meadow Lake V wind farm near Lafayette, Indiana. Hoosier Energy executed a contract with EDP Renewables in 2016 to purchase output from the wind farm, securing 75 megawatts of renewable energy at a fixed price for 20 years.

With about 4 percent of energy for member systems now coming from renewable energy resources and new projects underway, Hoosier Energy is on pace to achieve its goal of supplying 10 percent of member energy requirements from renewables by 2025.

Additionally, two community solar options are now available to members to offer solar products to end consumers through a program called “My Solar.” As awareness of renewables in the cooperative power supply grows, the use of solar and other renewable resources will continue to provide benefits for all homes and businesses in the communities served by member systems.

An “all-of-the-above” power supply strategy also enables Hoosier Energy to use a variety of market options to manage risk. Hoosier Energy saved $7.5 million in 2017, by preserving long-standing power agreements—known as grandfathered agreements—that pre-date the G&T’s membership in the Midcontinent Independent System Operator (MISO). MISO manages wholesale power markets and regional reliability for the broader Midwest market that includes the Hoosier Energy power network.

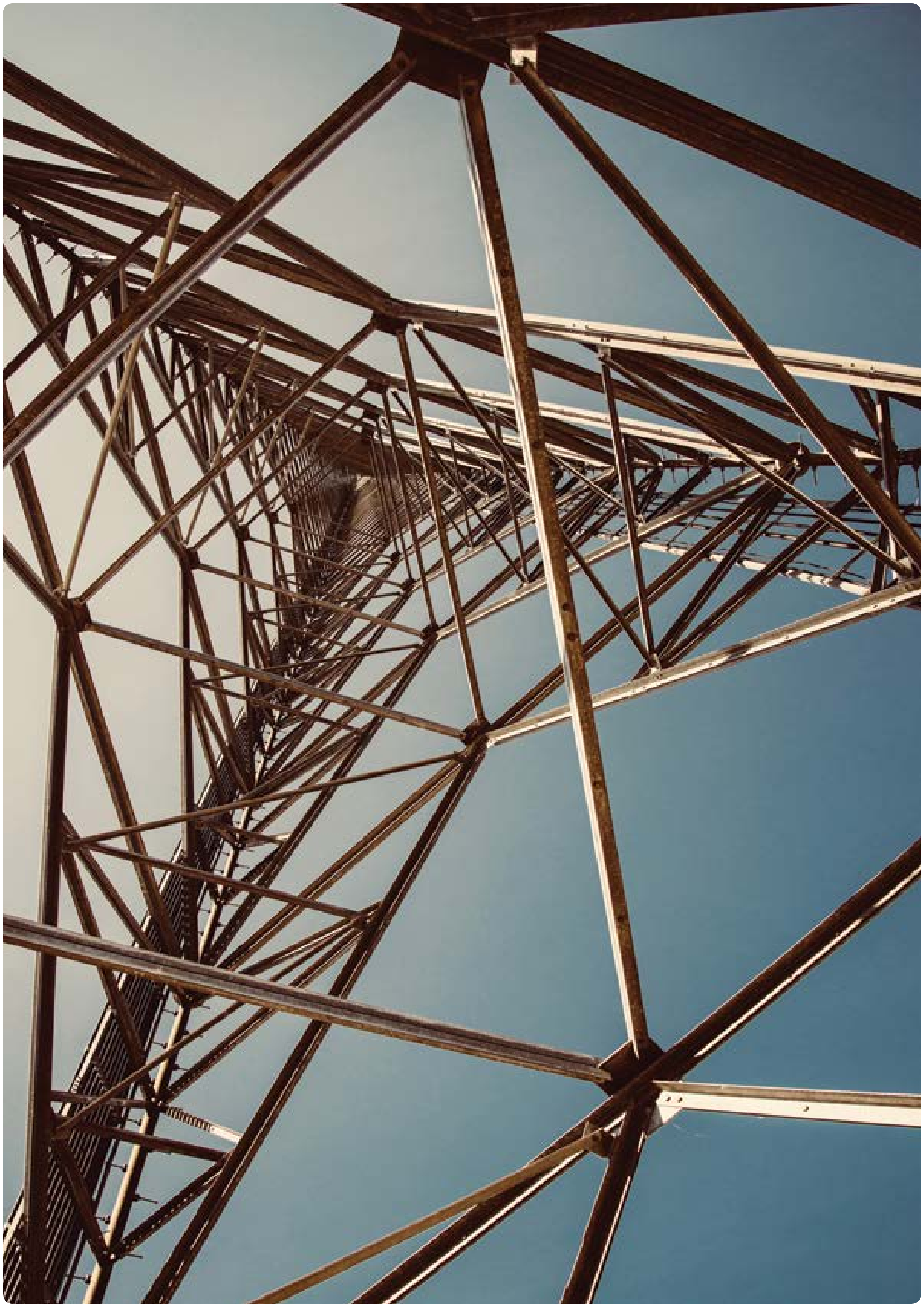
LISTENING, LEARNING, LEADING TO RESULTS

Doing more with less comes naturally to cooperatives. It’s who we are and why we care so much about providing member services that achieve long-lasting results.

The strength of cooperative programs comes from a resolve to answer member needs while listening to their concerns. Two areas in particular exemplify Hoosier Energy’s ongoing commitment to deliver meaningful member services—leadership development and safety and training.

Developing leaders throughout an organization creates a stronger cooperative network to better serve our communities. The Cooperative Accelerated Leadership Development Program finished its third year with employees from member systems completing a rigorous curriculum tailored to the cooperative business model. Hoosier Energy presents the program in partnership with the nationally ranked I.U. Kelley School of Business.

We also feel honored that three members placed their confidence in Hoosier Energy for assistance with the process of selecting new distribution cooperative chief executive officers.



CONTINUOUS IMPROVEMENT. Hoosier Energy's overall transmission interruption rate continued to improve in 2017, trending 15 percent better than the historic seven-year average, which continues to improve as well.

MEMBER DRIVEN. Hoosier Energy's service-minded field personnel are ready to respond under any circumstance.

SAFETY TRADITION

Better than average safety performance doesn't happen by accident. It's a choice our members and our employees make every minute of every day. For more than four decades, Hoosier Energy's safety and training department has worked to create programs that meet the needs of member cooperatives.

In 2017, 17 apprentices from member distribution cooperatives and Hoosier Energy graduated from the Hoosier Energy Apprenticeship Training and Safety program, or HEATS. Another 84 are enrolled in the nationally recognized program that includes hands-on and academic training in line work, climbing, power plant operations, meter technician and substation improvement.

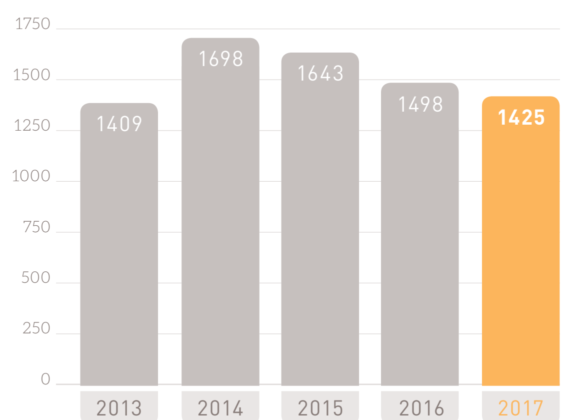
The skill-improvement program offered to electric cooperatives provides additional training in the latest advances in substation operations, material handling, herbicide application, technology, metering and safety.

To cooperatives, educating the public on power line safety is just as important as training line workers. Member systems utilized Hoosier Energy's live-line demonstration trailer at community events, fairs and farm days. The popular events attract hundreds of people and children as cooperative employees demonstrate the danger of overhead power lines as well as the specialized safety equipment that line workers must wear.

At Hoosier Energy, our Safe by Choice initiative isn't just a safety program with words on a wall. It's a way of life. Every Board meeting, every staff meeting—every meeting—at Hoosier Energy begins with a safety message that we take to heart.

In 2017, Hoosier Energy continued its journey with the Safe By Choice safety initiative. Positive results have been recognized through employee input and a structured corporate safety approach. To gauge safety initiative performance throughout the organization, an employee safety perception survey will be conducted in early 2018. The U.S. Occupational Safety and Health Administration continued to recognize the Holland, Worthington and Lawrence gas generating stations for best-in-class safety and health programs.

Annual Peak
Megawatts



Constantly Trying to Improve and Open to New Ideas

Change is constant, but the pace can sometimes seem beyond anyone's control. While change can seem intimidating, it also creates new opportunities.

Our quest to deliver assured, reliable and competitively priced energy and services in a safe and environmentally acceptable manner means we are continually seeking the next opportunity for improvement. Whether executing agreements to build and maintain the new Duff-Coleman 345 kV power line in Southern Indiana or finding opportunities to improve contracts with suppliers, our employees understand the need to manage expenditures while looking for new opportunities.

While sustained savings help maintain competitive advantage, understanding the future power needs of our members helps us operate more efficiently for the long-term. Every two years, Hoosier Energy conducts an independently administered power requirements study or forecast to better understand those future needs.

Technology changes can also be critically important to the power industry and Hoosier Energy is always on the lookout for ways to improve. Cyber security is so important to the electric power network that Indiana Gov. Eric Holcomb selected Bob Richhart, Vice President of Management Services, to co-chair the state's Executive Cyber Security Council. We welcome the opportunity to work with the state and other stakeholders on establishing a strategic framework for Indiana's cyber security initiatives.

Hoosier Energy also partners with the North American Electric Reliability Corporation, Reliability First, vendors and neighboring utilities to aid in providing an in-depth defense to protect all critical systems.

Protecting the power network and looking for new opportunities to achieve efficiencies in operations relies on the strength of Hoosier Energy's workforce. For several years, Hoosier Energy has been implementing strategies to reduce employee benefit costs while maintaining a comprehensive benefits program that attracts highly qualified, highly motivated employees.

While comparable peer programs across the nation saw annual increases of 9 percent over the last five years, Hoosier Energy's self-insured medical plan averaged just 5.5 percent. New medical benefit changes enacted in 2017 are saving an additional $1 million annually compared to budget, adding to the $8 million in savings realized over the last several years from revisions to pension and medical plans. Hoosier Energy's health care strategies, which focus on a culture of consumerism, a company/employee partnership, employee education about coverage options and a good wellness program, are the primary drivers for these favorable trends.

WINDS OF CHANGE. With the dedication of the Meadow Lake V wind farm on Oct. 10, Hoosier Energy added 75 megawatts of wind energy to the grid.

LONG-TERM COMMITMENT. Member cooperatives rely on the efficient performance of Hoosier Energy to power the needs of their communities. Improvements help the Hoosier Energy system respond better to equipment malfunctions, danger tree concerns or the inevitable animal intrusion, ensuring a safe and reliable transmission system.

In this information age, knowledge is power. Hoosier Energy rolled out a new website with a new url—hoosierenergy.com—to proactively support member communication through a mobile-friendly design and tools that facilitate information sharing. Increased use of digital publications decreased costs in printing and postage while positioning the G&T to more effectively utilize multi-media vehicles. The strength of Hoosier Energy's communication support for member systems earned three awards at the NRECA annual Spotlight on Excellence awards for solar event communications, member publication and the annual report.

RESILIENCY KEEPS US STRONG

Whether we're talking 40 years ago, today or tomorrow, electric affordability has constantly been challenged by rising costs. A strong and competitive generation and transmission cooperative can only succeed by holding itself accountable for managing costs and working with member systems to ensure a reliable power network.

With a strong financial position, diversified generation portfolio and dedicated workforce, Hoosier Energy offers members competitive wholesale electric power rates combined with extensive member services.

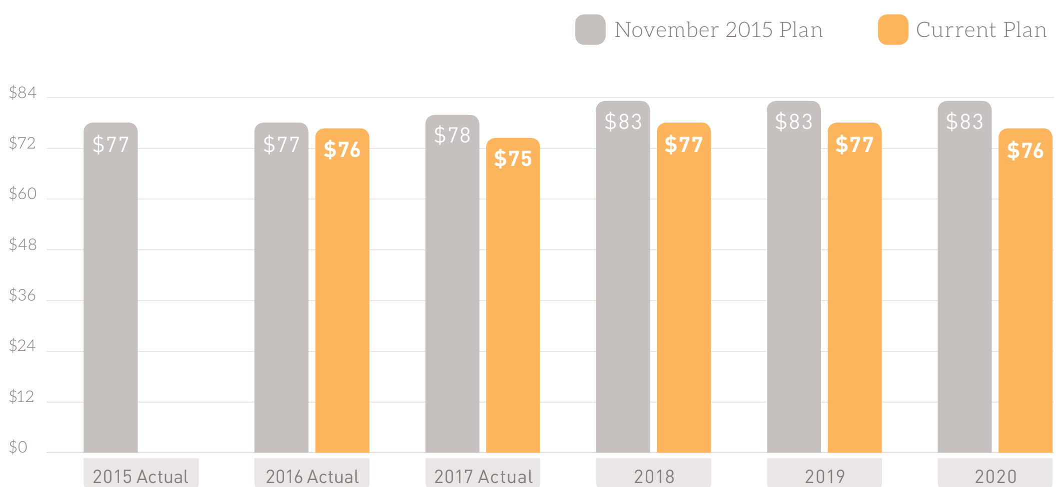
As Hoosier Energy has matured and grown into a generation and transmission cooperative that serves 18 member electric cooperatives with nearly 300,000 member consumers across a 15,000 square-mile area, we have stayed true to the cooperative principles. Resiliency has kept us strong as the winds of change shift around us. Our culture of execution seeks continuous improvement and recognizes opportunity.

While no one has a crystal ball, we can identify cost management opportunities to create greater predictability for rate stability – no matter what the future brings. As Hoosier Energy heads into 2018, we do so with a firm resolve to serve the long-term best interests of our members, seek the right balance to meet the future needs of our members and constantly try to improve and be open to new ideas. Resiliency, cooperative resiliency, will keep us strong.

Rate Outlook

Annual Average
($/MWh)

Ongoing cost management efforts in 2017 substantially offset the expiration of a long-term power sale, resulting in reductions in operating costs in all aspect of the business while contributing significantly to a stable rate outlook for 2018 and beyond.

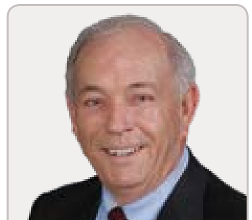


Board of Directors

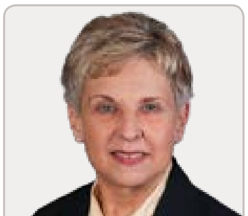
Herbert C. Haggard
Johnson County REMC
Chairman

Steve Stumler
Clark County REMC
Vice Chairman

Robert D. Stroup
RushShelby Energy
Secretary

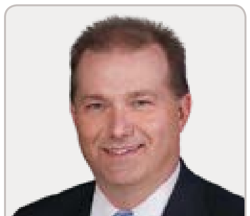


Dan Schuckman
WIN Energy
Treasurer



Janet Anthony
Bartholomew County REMC

Jodie Creek
Whitewater Valley REMC

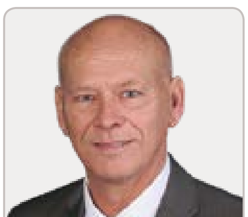


Darin L. Duncan
Harrison REMC

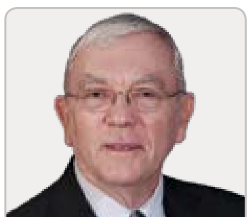
John Edwards
Daviess-Martin County REMC

Larry Hosselton
Wayne-White Counties EC

Jerry C. Jackle
Dubois REC

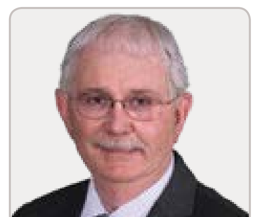


Jerry Pheifer
South Central Indiana REMC

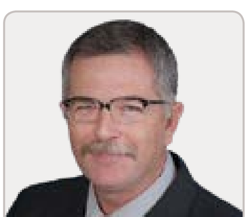


Eugene Roberts
Orange County REMC

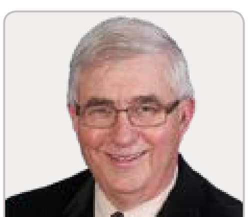
Dan Schantz
Decatur County REMC



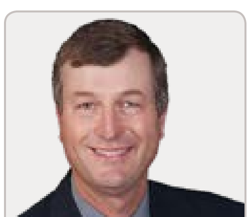
Don Sloan
Henry County REMC



David Smith
Southeastern Indiana REMC



John Trinkle
Jackson County REMC



Gary Waninger
Southern Indiana Power

William Watkins
Utilities District of Western Indiana REMC

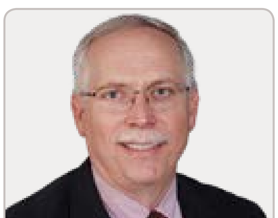
Senior Management

J. Steven Smith
President and
Chief Executive Officer

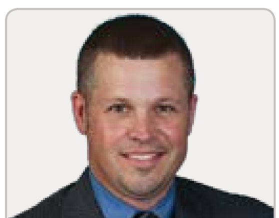
Donna L. Walker
Executive Vice President
& Chief Financial Officer

R.M. Mike Rampley
Senior Vice President
Marketing & Business
Development

Robert I. Richhart
Vice President
Management Services



David W. Sandefur
Vice President
Power Supply



Rob Horton
Vice President
Power Production

Financial Contents

Independent Auditors Report

Board of Directors
Hoosier Energy Rural Electric Cooperative, Inc.
Bloomington, Indiana

We have audited the accompanying financial statements of Hoosier Energy Rural Electric Cooperative, Inc. (the "Cooperative"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoosier Energy Rural Electric Cooperative, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2018, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Deloitte & Touche LLP

Indianapolis, Indiana
March 16, 2018

BALANCE SHEETS

AS OF DECEMBER 31, 2017 AND 2016 (In thousands)	2017	2016
ASSETS		
ELECTRIC PLANT:		
In service — at original cost	$ 2,410,094	$ 2,542,107
Construction work in progress	20,471	30,279
Plant held for future use	5,183	4,723
Total electric plant	2,435,748	2,577,109
Less accumulated depreciation	(1,074,104)	(1,191,925)
Electric plant, net	1,361,644	1,385,184
INVESTMENTS — At cost	136,953	138,957
CURRENT ASSETS:		
Cash and cash equivalents	98,734	115,395
Short-term investments	7,090	9,887
Receivables	57,622	48,650
Unrecovered power costs	4,374	–
Fuel	36,248	48,803
Materials and supplies	53,359	49,427
Prepayments and other	12,436	11,349
Total current assets	269,863	283,511
DEFERRED CHARGES AND OTHER	105,297	119,240
TOTAL	$ 1,873,757	$ 1,926,892
EQUITY AND LIABILITIES		
EQUITY:		
Patronage capital and other equities	$ 371,007	$ 349,381
Accumulated other comprehensive loss	(403)	(67)
Total equity	370,604	349,314
LONG-TERM DEBT:		
Secured notes under the Indenture	1,289,780	1,349,078
Capital lease obligations	12,713	9,631
Other unsecured notes	19,668	27,809
Total long-term debt	1,322,161	1,386,518
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	68,194	74,151
Accounts payable	56,425	55,205
Over collected power costs	–	3,412
Accrued interest	13,132	14,364
Accrued taxes	5,754	6,109
Other current liabilities	6,491	6,466
Total current liabilities	149,996	159,707
DEFERRED CREDITS AND OTHER	–	1,330
OTHER LONG-TERM LIABILITIES	30,996	30,023
COMMITMENTS AND CONTINGENCIES (Note 10)	–	–
TOTAL	$ 1,873,757	$ 1,926,892

See notes to financial statements.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)	2017	2016
OPERATING REVENUE:		
Member	$ 553,749	$ 549,858
Nonmember	119,803	137,448
Other	321	225
Total revenue	673,873	687,531
OPERATING EXPENSES:		
Fuel	125,178	159,705
Other production expenses	51,510	55,447
Purchased power	192,025	178,771
Transmission and distribution	40,549	37,501
Administrative and general	33,204	33,727
Maintenance	67,195	54,888
Depreciation and amortization	89,330	85,422
Income tax and other	(3,264)	(2,379)
Total operating expenses	595,727	603,082
OPERATING MARGIN BEFORE FIXED CHARGES	78,146	84,449
FIXED CHARGES AND OTHER:		
Interest expense	49,527	51,108
Other fixed charges and amortization of debt expense	5,394	5,825
Total fixed charges and other	54,921	56,933
OPERATING MARGIN	23,225	27,516
NONOPERATING MARGIN:		
Investment income and other	7,673	7,954
Nonoperating income tax expense	(2,725)	(2,332)
Total nonoperating margin	4,948	5,622
NET MARGIN	28,173	33,138
OTHER COMPREHENSIVE INCOME:		
Unrealized loss on postretirement benefit plans	(336)	(323)
COMPREHENSIVE INCOME	$ 27,837	$ 32,815

See notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)	Member Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE—December 31, 2015	$ 298,280	$ 24,511	$ 256	$ 323,047
Patronage retirement	(6,548)	–	–	(6,548)
Other comprehensive income	–	–	(323)	(323)
Net margin	27,516	5,622	–	33,138
BALANCE—December 31, 2016	319,248	30,133	(67)	349,314
Patronage retirement	(6,547)	–	–	(6,547)
Other comprehensive income	–	–	(336)	(336)
Net margin	23,225	4,948	–	28,173
BALANCE—December 31, 2017	$ 335,926	$ 35,081	$ (403)	$ 370,604

See notes to financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margin	$ 28,173	$ 33,138
Adjustments to reconcile net margin to net cash:		
Depreciation and amortization	89,330	85,422
Deferred charges and credits	4,994	12,422
Change in receivables and unrecovered power costs	(16,758)	(8,574)
Change in fuel and materials inventories	8,622	(8,209)
Change in accounts payable	(2,364)	4,784
Change in accrued interest	(3,828)	10,410
Change in other current assets and liabilities	(4,903)	2,686
Net cash provided by operating activities	103,266	132,079
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(51,116)	(70,154)
Purchases of investments	(734)	(53,537)
Maturities and calls of investments	11,836	11,438
Net cash used in investing activities	(40,014)	(112,253)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	–	26,710
Principal payments on long-term debt	(74,177)	(65,118)
Patronage retirements	(5,736)	(7,012)
Net cash used in financing activities	(79,913)	(45,420)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,661)	(25,594)
CASH AND CASH EQUIVALENTS—Beginning of year	115,395	140,989
CASH AND CASH EQUIVALENTS—End of year	$ 98,734	$ 115,395

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hoosier Energy Rural Electric Cooperative, Inc. ("Hoosier") is a non-profit electric generation and transmission cooperative providing wholesale electric service to 18 distribution cooperative members in central and southern Indiana and southern Illinois.

The economy of the service area of Hoosier's members is based principally on agriculture and agri-business, with increasing development in commercial and small industrial sectors. The majority of customers served by Hoosier's members are residential. Each member has entered into a wholesale power contract with Hoosier to supply all electric requirements, which remains in effect until January 1, 2050 with automatic five-year extensions each five years beginning January 1, 2019 unless any member or Hoosier gives six-months written notice of intent not to renew.

Basis of Accounting

Hoosier maintains its accounts in accordance with policies prescribed by the Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America (GAAP) in all material respects. The Financial Accounting Standards Board (FASB) developed the Accounting Standards Codification (ASC) to simplify access to authoritative GAAP and streamline research. The ASC is referenced throughout the financial statements and footnotes.

Hoosier is not subject to the general rate regulations of the Federal Energy Regulatory Commission (FERC) under the Federal Power Act as a result of its participation in the Federal loan program administered by the RUS. Hoosier's wholesale rates to its members are established by its Board of Directors (the "Board") and are subject to approval by the RUS. Wholesale power transactions with nonmembers are not subject to FERC jurisdiction because Hoosier is a borrower from the RUS. The rates charged by Hoosier for power supplied to its members are based on the revenue required by Hoosier to cover the cost of supplying such power plus an appropriate margin. As a rate-regulated entity, Hoosier's financial statements reflect actions of regulators that result in the recognition of revenues and expenses in different time periods than enterprises that are not rate-regulated in accordance with ASC 980, *Regulated Operations*.

Electric Plant and Maintenance

Electric plant is stated at original cost, including applicable supervisory and overhead costs, and interest on borrowed funds used during construction. Expenditures for maintenance and repairs, including renewals of minor items of property (as distinguished from units of property), are charged to operating expenses. The original cost of depreciable units replaced or retired, including cost of removal, net of salvage, is charged to accumulated depreciation.

Asset Impairment

Long-lived assets held and used by Hoosier are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Specifically, the evaluation for impairment involves comparison of an asset's carrying value to the estimated undiscounted cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded as a charge to operations based on the difference between the asset's carrying amount and its fair value, to the extent that the Board has not taken action to establish a regulatory asset that will be recovered in future rates. Management has determined that no material asset impairment existed in 2017 or 2016.

Fuel

Fuel inventory consists of coal and fuel oil and is valued at the lower of average cost or market.

Materials and Supplies

Materials and supplies consisting of spare parts and consumables, are valued at the lower of average cost or market and charged to expense or capitalized as plant when installed.

Depreciation and Amortization

Depreciation for the generating plants and transmission facilities is provided on the basis of estimated useful lives at straight-line composite rates. The rates applied to electric plant in service for 2017 and 2016 are:

	2017	2016
Production plant	3.00-3.10%	3.00-3.10%
Transmission plant	2.75	2.75
Distribution plant	2.88	2.88
General plant	2.50-20.00	2.50-20.00

Upon retirement of general plant assets, the resulting gain or loss is recognized in the statements of operations. Gain or Loss from retirement of production, transmission, or distribution plant is recorded as an adjustment to accumulated depreciation.

Depreciation associated with assets that are subject to capitalized leases (Note 7) is included with depreciation and amortization expense for financial reporting purposes. Depreciation expense was $71,801 and $69,063 for 2017 and 2016, respectively. Depreciation and amortization includes amortization related to a plant retired during 2016 (Note 4). Amortization expense for the retired plant was $5,649 for both 2017 and 2016.

Investments

Hoosier's investments consist primarily of voluntary advance payments to the RUS cushion of credit program, loan capital term certificates and subscription capital term certificates which are a requirement in order to borrow from the National Rural Utilities Cooperative Finance Corporation (CFC) (Note 3), and CFC member capital securities. The CFC investments represent less than a 20% ownership in CFC and management does not have significant influence over CFC. The investments are carried at cost, subject to an annual impairment test. Hoosier also held $100 in available-for-sale securities at December 31, 2017 and 2016. Additionally, Hoosier held $3,321 and $3,105 in trading securities at December 31, 2017 and 2016, respectively. Available-for-sale and trading securities are recorded in *Short-term investments*. Hoosier held investments in commercial paper and corporate bonds, with maturities of less than one year, totaling $3,669 and $6,682 recorded in *Short-term investments* at December 31, 2017 and 2016, respectively. In addition, Hoosier held investments in corporate bonds with maturities of greater than one year and less than five years totaling $3,522 and $7,414 at December 31, 2017 and 2016, respectively. The held-to-maturity investments are carried at amortized cost with no unrealized holding gains or losses recorded in other comprehensive income.

Fair Value of Financial Instruments

The carrying amount of cash, receivables and certain current liabilities approximates fair value due to the short maturity of the instruments.

Hoosier uses fair value to measure certain financial instruments with related unrealized gains or losses generally affecting future recoverable costs. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Observable inputs may be used in the calculation of fair value. ASC 820, *Fair Value Measurements and Disclosures* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below.

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

The inputs used to measure available for sale securities are Level 2 measurements consisting of observable market data for similar assets. The fair value of trading securities was measured using Level 1 inputs consisting of quoted market prices for identical assets in active markets. Derivative instruments including Financial Transmission Rights (FTRs), and purchase power contracts were measured using Level 2 inputs consisting of observable market data for similar assets. The fair value of heating oil and natural gas contracts was measured using Level 1 inputs consisting of quoted prices for identical assets or liabilities on active exchanges.

Estimated fair values of Hoosier's assets and liabilities and methods of valuation as of December 31, 2017 and 2016 were as follows:

Fair Value Measurements at December 31, 2017, Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets—investments:				
Available for sale securities	$ 100	$ –	$ 100	$ –
Trading securities	3,321	3,321	–	–
	$ 3,421	$ 3,321	$ 100	$ –
Liabilities—Derivative financial instruments	$ 2,722	$ 1,307	$ 1,415	$ –

Fair Value Measurements at December 31, 2016, Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets—investments:				
Available for sale securities	$ 100	$ –	$ 100	$ –
Trading securities	3,105	3,105	–	–
	$ 3,205	$ 3,105	$ 100	$ –
Liabilities—Derivative financial instruments	$ 3,191	$ 3,040	$ 151	$ –

The estimated fair values of Hoosier's financial instruments carried at cost at December 31, 2017 and 2016 were as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Held-to-maturity investments	$ 140,621	$ 158,098	$ 145,639	$ 162,477
Long-term debt	1,376,888	1,465,038	1,434,751	1,519,569

The inputs used to measure held-to-maturity investments are considered Level 2 and are based on third-party yield rates of similarly maturing instruments determined by recent market activity. The estimated fair value of secured notes and other notes payable was estimated using quoted market prices for the same or similar issues or on the current rates offered to Hoosier for instruments with similar characteristics and is classified as a Level 2 fair value measurement.

Because of the inherent difficulty of estimating interest rate and other market risks, the methods used to estimate fair value may not always be indicative of actual realizable value, and different methodologies could produce different fair value estimates at the reporting date. There were no other items subject to fair value disclosure.

Rate Matters

Member revenue is recognized based on month-end meter readings. Nonmember revenue is recognized based on scheduled energy and demand in accordance with contractual agreements. Hoosier's rate structure includes a power cost adjustment mechanism, which allows for the recovery of power costs varying from the targeted levels specified in base energy rates. Hoosier recognizes the under or over recovery in revenues, and a corresponding receivable or payable is recorded until such time as it is collected from or refunded to members. At December 31, 2017, the unrecovered amount is recorded as *Unrecovered power costs* on the balance sheet in current assets. At December 31, 2016, the over recovered amount is recorded as *Over collected power costs* on the balance sheet in current liabilities. Member and nonmember accounts are as follows:

	Members		Nonmembers		Totals	
	Receivables	Unrecovered (Over Collected) Power Costs	Receivables	Unrecovered (Over Collected) Power Costs	Receivables	Unrecovered (Over Collected) Power Costs
2017	$ 45,856	$ 4,374	$ 11,766	$ –	$ 57,622	$ 4,374
2016	35,377	(3,412)	13,273	–	48,650	(3,412)

Cash and Cash Equivalents

Hoosier classifies investments purchased with an original maturity of three months or less at acquisition as cash equivalents, such as money market mutual funds.

Use of Estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Regulatory Assets and Liabilities

In accordance with the provisions of ASC 980 certain revenues and expenses are deferred if it is probable that such amounts will be recovered from or returned to customers in future rates (Note 4). A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable. Revenues and expenses that are deferred are treated as non-cash items in the Statements of Cash Flows in the year of deferral.

Derivatives

Hoosier's activities expose it to a variety of market risks including interest rates, transmission congestion, market power prices and commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on its operating results. These policies and strategies include the use of derivative instruments as economic hedges. As of December 31, 2017 and 2016, Hoosier held derivative instruments in the form of natural gas future contracts for the purpose of hedging volatility in gas prices related to operation of its gas-fired generating units. Hoosier also held derivative instruments in the form of fuel oil future contracts for the purpose of hedging volatility in fuel oil prices related to the price escalation charges in coal supply contracts. In addition, Hoosier held FTRs to hedge price risk associated with transmission congestion. Hoosier also held energy swap contracts for the purpose of hedging against rising market power prices.

Hoosier records all unrealized gains and losses on derivative instruments, with the exception of the normal purchases and sales exclusions, as regulatory assets or liabilities until such time that the asset or liability is settled, at which time the gain or loss is recognized in earnings. Such derivative instruments have unrealized losses totaling $2,722 and $3,191 as of December 31, 2017 and 2016, respectively, recorded as regulatory assets as a component of deferred charges and other.

2017	Location of Gain (Loss) Recognized in Income	Realized Gain (Loss)	Unrealized Gain (Loss) Recognized in Deferred Charges
Natural gas contracts	Fuel—gas expense	$ (329)	$ (87)
Fuel oil contracts	Fuel—coal expense	(2,236)	(1,192)
FTR contracts	Purchased power	5,653	(1,415)
Energy swap contracts	Purchased power	(469)	(28)
		$ 2,619	$ (2,722)

2016	Location of Gain (Loss) Recognized in Income	Realized Gain (Loss)	Unrealized Gain (Loss) Recognized in Deferred Charges
Natural gas contracts	Fuel—gas expense	$ (1,268)	$ 200
Fuel oil contracts	Fuel—coal expense	(4,200)	(3,100)
FTR contracts	Purchased power	1,531	(151)
Energy swap contracts	Purchased power	(136)	(140)
		$ (4,073)	$ (3,191)

Derivative Instrument	Statement of Financial Position Location	2017 Derivative Fair Value		2016 Derivative Fair Value	
		Assets	Liabilities	Assets	Liabilities
Natural gas and fuel oil contracts	Prepayments and other[1]	$ –	$ (1,279)	$ 200	$ (3,100)
FTR contracts	Other current liabilities	–	(1,415)	–	(151)
Energy swap contracts	Accounts payable	–	(28)	–	(140)

[1] Excluded from derivative assets are $1,770 and $3,856 as of December 31, 2017 and 2016, respectively, of margin cash held by counterparties, recorded in prepayments and other.

The effect of derivative gains and losses is reflected in the net cash provided by operating activities in the statements of cash flows.

Asset Retirement Obligations

ASC 410, *Asset Retirement and Environmental Obligations*, requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset, including conditional asset retirements where an obligation exists even though the method or timing of settlement may be conditional. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss. Hoosier's asset retirement obligations primarily reflect requirements related to landfill and ash pond closure costs and coal pile remediation.

The following table represents the details of Hoosier's asset retirement obligations as reported on the balance sheet. *Other current liabilities* include $250 and $940 at December 31, 2017 and 2016, respectively, for obligations expected to be settled during the following year.

	Beginning Balance	Liabilities Incurred	Liabilities Settled	Accretion	Cash Flow Revisions	Ending Balance
2017	$ 21,641	$ –	$ (874)	$ 1,220	$ –	$ 21,987
2016	21,191	–	(2,234)	1,289	1,395	21,641

Recently Issued Accounting Standards

In May 2014, the FASB issued new accounting guidance to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS. The amendments in this guidance state that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. An amendment issued in August 2015 deferred the effective date of the original guidance. For nonpublic entities, the guidance is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted only as of an annual reporting period beginning after December 15, 2016. An entity should apply the amendments in this update retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. The clarified standard is not expected to significantly change current practice for rate-regulated entities. Management does not expect the adoption of this guidance to have a material impact on the Company's financial statements or disclosures.

In February 2016, the FASB issued an accounting standards update intended to improve financial reporting involving leasing transactions. The update will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Implementation of the update will primarily impact the balance sheet. It does not include provisions that would significantly impact the statement of operations and comprehensive income or statement of cash flows. For nonpublic entities, the guidance is effective for annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact it will have on the financial statements and disclosures.

In August 2016, the FASB issued an accounting standards update intended to provide specific guidance regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addresses eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon bonds; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned insurance policies; distributions received from equity method investees; beneficial interest in securitization transactions; and separately identifiable cash flows and application of the predominance principle. For nonpublic entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018. Retrospective application to each period presented is required. The Company is currently in the process of evaluating the impact of adoption on its financial statements and disclosures.

In March 2017, the FASB issued an accounting standards update intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The update will require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. For nonpublic entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018 with early adoption permitted. Retrospective application to each period presented is required. Management does not expect the adoption of this guidance to have a material impact on the Company's financial statements or disclosures.

In August 2017, the FASB issued an accounting standards update intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For nonpublic entities, the amendments in this update are effective for fiscal years beginning after December 15, 2019 with early adoption permitted. Management does not expect the adoption of this guidance to have a material impact on the Company's financial statements or disclosures.

2. ELECTRIC PLANT

Electric plant, at December 31, 2017 and 2016, consists of the following:

	2017	2016
Production plant (Note 7)	$ 1,841,156	$ 1,972,919
Transmission plant	280,328	284,909
Distribution plant	114,796	113,419
General plant	147,720	144,766
Intangible plant	26,094	26,094
Electric plant in service	2,410,094	2,542,107
Construction work in process	20,471	30,279
Plant held for future use	5,183	4,723
	$ 2,435,748	$ 2,577,109

Hoosier owns 50% of a 630-megawatt combined-cycle plant in southern Illinois and 67% of a 258-megawatt natural gas-fueled peaking plant in Indiana. The plant investments disclosed in the table above represent Hoosier's undivided interest in each co-owned plant. Hoosier's proportionate share of assets, liabilities and direct expenses associated with joint ownership is included in the accompanying financial statements.

Supplemental Cash Flow Information

As of December 31, 2017 and 2016, Hoosier's accounts payable balances included $8,655 and $11,430, respectively, for capital expenditures. These amounts will be included as a cash outflow from investing activities for capital expenditures when paid.

3. INVESTMENTS—AT COST

Amortized cost and estimated fair value of held-to-maturity investments at December 31, 2017 and 2016 are as follows:

2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
CoBank—Class C and E stock	$ 4,645	$ –	$ (386)	$ 4,259
CFC—capital and equity term certificates	7,355	–	(325)	7,030
CFC—capital patronage certificates	2,626	268	–	2,894
RUS—cushion of credit (restricted)	116,342	17,955	–	134,297
Corporate bonds	7,190	–	(35)	7,155
Other investments	2,463	–	–	2,463
	$ 140,621	$ 18,223	$ (746)	$ 158,098

2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
CoBank—Class C and E stock	$ 4,396	$ –	$ (427)	$ 3,969
CFC—capital and equity term certificates	8,387	–	(506)	7,881
CFC—capital patronage certificates	2,533	152	–	2,685
RUS—cushion of credit (restricted)	114,877	17,657	–	132,534
Corporate bonds	14,096	–	(38)	14,058
Other investments	1,350	–	–	1,350
	$ 145,639	$ 17,809	$ (971)	$ 162,477

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5% per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act and are therefore considered restricted. Hoosier's cushion of credit account balance was $116,342 and $114,877 at December 31, 2017 and 2016, respectively and is recorded in *Long-term investments*.

4. DEFERRED CHARGES AND CREDITS

Deferred charges, net of accumulated amortization, at December 31, 2017 and 2016, consist of the following:

	2017	2016
Regulatory asset for early plant retirement	$ 62,136	$ 67,784
Debt issuance costs	461	588
Regulatory asset for losses on early extinguishment of debt	490	983
Regulatory asset for termination of long-term financing obligations	11,305	15,657
Regulatory asset for valuation allowance of tax benefits	1,688	3,376
Regulatory asset for fair value of derivative instruments	2,722	3,191
Regulatory asset for realized losses on interest rate hedging	9,047	9,848
Regulatory asset for abandoned project	5,965	6,337
Pension prepayment, net of current portion (Note 9)	7,734	9,667
Other deferred charges	3,749	1,809
	$ 105,297	$ 119,240

The Ratts plant was retired from service in March 2015. The unrecovered cost of the plant is being amortized over thirteen years which represents the remaining depreciable life of Ratts at retirement. The related revenue will be collected from members over the same period.

Debt issuance costs include fees associated with Hoosier's revolving credit facility. The fees are being amortized over approximately five years, which is the term of the facility.

Losses on early extinguishment of debt arising from repricing transactions are being amortized over periods ranging from 14 to 36 years, the lives of the related or replacement debt, using the straight-line method.

During 2009, two long-term financing transactions were terminated. Hoosier's Board resolved to recognize the cost of termination over ten years, which is the life of associated borrowings. The related revenue will be collected from members over the same period.

A valuation allowance to reduce certain safe harbor tax benefits to zero was recognized in 2004 and is being amortized over fifteen years representing the remaining life of the related contract.

Hoosier records all unrealized gains and losses on derivative instruments, with the exception of the normal purchases and sales exclusions, as regulatory assets or liabilities until such time that the asset or liability is settled, at which time the gain or loss is recognized in earnings.

Hoosier recognized losses on interest rate hedges during 2013 and 2014. The losses are being amortized over 26 years, which represents the lives of the related borrowings.

During 2013, a landfill gas generation project was cancelled. Stranded costs associated with the cancellation are being amortized over twenty years, which is the average useful life of similar assets.

Total amortization related to the above items was $13,724 and $15,821 in 2017 and 2016, respectively.

Deferred credits at December 31, 2017 and 2016, consist of the following:

	2017	2016
Gain on sale leaseback (Note 7)	$ –	$ 1,330

During 1986, Hoosier recognized a gain related to a sale/leaseback agreement (Note 7). The gain was credited to income over the original lease term which ended in 2017.

5. MEMBER CAPITAL AND OTHER EQUITIES

For financial reporting purposes, operating margins are assignable to members based upon their share of amounts paid for wholesale energy during the year. Nonoperating margins are retained to offset operating losses or, by action of the Board, may be assigned to members. Accumulated unassigned nonoperating margins are recorded as other equities in the statements of changes in equity.

Hoosier's bylaws state that Hoosier's patronage-sourced federal taxable income is assignable to members based upon their share of amounts paid for wholesale energy during the year.

Hoosier has certain loan agreements (Note 6) which contain restrictions on distributions.

The Board authorized, and the RUS approved, retirement of $6,547 and $6,548 in patronage capital for 2017 and 2016, respectively.

6. LONG-TERM DEBT

Secured Notes under Indenture

An Indenture of Mortgage, Security Agreement and Financing Statement, dated as of December 21, 2010 (Indenture), between Hoosier, as Grantor, to U.S. Bank National Association, as Trustee, as supplemented, provides secured note holders with a pro-rated interest in substantially all owned assets. Secured notes payable consist of the following:

	2017	2016
Secured notes under the Indenture:		
Rural Utilities Service (RUS) (a)	$ 4,222	$ 5,263
Federal Financing Bank (FFB) (b)	995,020	1,034,290
CoBank (c)	80,997	83,536
CFC (d)	28,839	36,037
Series 2011A Notes (e)	190,000	190,000
Series 2011B Notes (f)	50,000	50,000
Subtotal:	1,349,078	1,399,126
Less portion due within one year:		
RUS	1,096	1,041
FFB	48,010	39,271
CoBank	2,709	2,538
CFC	7,483	7,198
Subtotal:	59,298	50,048
Total:	$ 1,289,780	$ 1,349,078

(a) The notes payable to United States of America (RUS) are due in monthly and quarterly installments of varying amounts through 2022. The weighted average interest rate was 5.1% at December 31, 2017.

(b) The notes payable to FFB are guaranteed by RUS and under the terms of the agreement all advances are subject to RUS's approval. Interest on each advance is payable quarterly at the respective rate established by FFB at the time of the advance. Maturity dates range from January 2018 through January 2045, and the weighted average interest rate was 3.5% at December 31, 2017.

(c) The terms of the CoBank notes provide for quarterly payments of principal and monthly payments of interest at a weighted average rate of 2.6% at December 31, 2017. Maturity dates range from October 2019 to February 2033. Hoosier, at its option, can fix the interest rate on varying amounts for various terms or allow the rate to be adjusted periodically by CoBank.

(d) The terms of the CFC notes provide for quarterly payments of principal and interest at either fixed or variable rates as elected by Hoosier. The weighted average interest rate on advanced funds was 4.0% at December 31, 2017. Maturity dates range from October 2019 to June 2040.

(e) The terms of the Series 2011A first mortgage notes provide for semiannual payments of interest at 4.9% and annual principal payments at various amounts from September 2033 to September 2039.

(f) The terms of the Series 2011B first mortgage notes provide for semiannual payments of interest at 4.1% and principal is due September 2029.

Other Unsecured Notes

Unsecured notes payable consist of the following:

	2017	2016
Other unsecured notes:		
CoBank (g)	$ 22,213	$ 28,586
CFC (h)	5,597	7,039
Subtotal:	27,810	35,625
Less portion due within one year:		
CoBank	6,593	6,375
CFC	1,549	1,441
Subtotal:	8,142	7,816
Total:	$ 19,668	$ 27,809

(g) The terms of the unsecured CFC notes provide for quarterly payments of principal and interest at either fixed or variable rates as elected by Hoosier. The weighted average interest rate on advanced funds was 5.7% at December 31, 2017. Maturity dates range from October 2019 to December 2024.

(h) The terms of the unsecured CoBank notes provide for quarterly payments of principal and interest at a weighted average rate of 4.0% at December 31, 2017. Maturity dates range from January 2020 to May 2023.

At December 31, 2017, estimated principal maturities of secured notes under the Indenture and other unsecured notes are as follows:

Years Ending December 31	
2018	$ 67,440
2019	59,873
2020	48,125
2021	37,099
2022	49,451
Thereafter	1,114,900
	$ 1,376,888

Credit Lines

Hoosier has a $300,000 syndicated revolving credit facility, which matures August 11, 2021. The proceeds of the facility may be used for working capital, capital expenditures, other general corporate purposes, and for the issuance of up to $50,000 of letters of credit. The credit facility bears interest at various rates. There were no amounts outstanding as of December 31, 2017.

The existing Indenture and certain other debt agreements contain provisions which, among other restrictions, require Hoosier to maintain certain financial ratios. Management believes that Hoosier was in compliance with these financial ratios at December 31, 2017 and 2016.

Cash paid for interest was $51,473 and $46,336 during the years ended December 31, 2017 and 2016. Capitalized interest was $565 and $1,946 in 2017 and 2016, respectively.

7. CAPITAL LEASE OBLIGATIONS

During December 1986, Hoosier entered into two sale/leaseback agreements for undivided ownership interests in certain property included in the Merom Generating Station (Merom). The original lease terms expired in 2017. Proceeds from these transactions aggregated $183,500 and were used to pay existing FFB and CoBank mortgage debt and certain related expenses. The original gain of $35,000 was included with deferred credits and was credited to income over the lease term (Note 4). Capital lease assets associated with the agreements totaled $178,000 and were included with electric plant at December 31, 2016. The fully amortized assets were removed from electric plant in 2017. Amortization related to these capital leases was $6,747 and $5,531 in 2017 and 2016, respectively. In 2016, Hoosier exercised short-term renewal options effective at the expiration of the original lease. The lease renewals are accounted for as operating leases (Note 10).

In 2016 and 2017, Hoosier entered into ten lease agreements for solar generating facilities. The original lease terms are ten years after which Hoosier may purchase the facilities or renew the leases for an additional two years. The agreements are classified as capital leases. Electric plant includes $14,257 and $10,395 of capital lease assets associated with the agreements in 2017 and 2016, respectively.

Future minimum payments, by year and in the aggregate under capital leases, are as follows:

Years Ending December 31	
2018	$ 1,360
2019	1,448
2020	1,448
2021	1,448
2022	1,448
Thereafter	10,490
Total minimum lease payments	17,642
Less amount representing interest at 4.9%	(4,175)
Present value of net minimum lease payments	13,467
Less portion due within one year	(754)
	$ 12,713

8. INCOME TAXES

Income taxes consist of the following:

	2017	**2016**
Income taxes credited to operating margin—current:		
Federal	$ (2,695)	$ (1,890)
State	(569)	(489)
	(3,264)	(2,379)
Income taxes charged to nonoperating margin—current:		
Federal	2,154	1,843
State	571	489
	2,725	2,332
Net income tax expense (benefit)	$ (539)	$ (47)

Total income tax expense differs from the amounts computed by applying the federal statutory rate to pretax income due primarily to patronage dividend deductions.

As of December 31, 2017, Hoosier has net operating loss carryforwards for federal and state income tax purposes of $307,279 and $305,203, respectively, which are available to offset future taxable income. These net operating loss carryforwards will expire between 2018 and 2036. A full valuation allowance has been established to offset these deferred tax assets since Hoosier does not expect to realize these net operating loss carryforwards before they expire.

Hoosier files income tax returns in the U.S. jurisdiction and various states. The tax years 2013 through 2017 remain open to examination by the major taxing jurisdictions to which Hoosier is subject. Hoosier has no uncertain tax positions recognized in the financial statements.

On December 22, 2017, the United States government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("the Tax Act"). Among other provisions, the Tax Act lowers the corporate federal income tax rate from 35 percent to 21 percent effective January 1, 2018. The Tax Act does not impact the Company's financial statements or disclosures.

9. RETIREMENT PLANS

Multiemployer Plan

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Hoosier's contributions to the RS Plan in 2017 and in 2016 represented less than 5% of the total contributions made to the plan by all participating employers. Hoosier made contributions to the plan of $8,075 in 2017 and $7,765 in 2016.

In 2013, Hoosier elected to participate in a voluntary prepayment option offered to participants in the RS Plan. Hoosier contributed $19,334 under the prepayment program during 2013. According to RUS guidelines, the amount will be amortized to benefit costs over a ten-year period, which represents the remaining service lives of all plan participants. The prepayment amount is Hoosier's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. After making the prepayment, Hoosier's annual contribution rate was reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in contribution rates is expected to continue for approximately 15 years but is subject to change as a result of actual plan experience. Total contributions include amortization of payments made under the voluntary prepayment option. Amortization of the prepayment totaled $1,933 for 2017 and 2016.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was at least 80% funded on January 1, 2017 and January 1, 2016, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Retirement Savings Plan

Employees of Hoosier are also eligible to participate in the Retirement Savings Plan of Hoosier Energy Rural Electric Cooperative, Inc. This is a defined contribution, 401(k) plan. Eligible employees are eligible for employer matching contributions. Hoosier provided matching contributions totaling $1,352 and $1,339 in 2017 and 2016, respectively.

Post-Retirement Health Plan

Hoosier provides post-retirement health benefits to eligible retirees, which include payment of 100% of single coverage premiums and 50% of dependent coverage premiums to age 65 for those eligible employees hired before December 31, 2007.

The following sets forth the accumulated post-retirement benefit obligation, the change in plan assets, and the components of accrued post-retirement benefit cost and net periodic benefit cost.

	2017	2016
Accumulated post-retirement benefit obligation—beginning of year	$ 4,976	$ 4,660
Service cost	170	182
Interest cost	188	190
Actuarial loss (gain)	336	324
Benefits paid	(590)	(380)
Accumulated post-retirement benefit obligation—end of year	5,080	4,976
Fair value of plan assets—beginning of year	–	–
Company contributions	590	380
Benefits paid	(590)	(380)
Fair value of plan assets – end of year	–	–
Funded status, other long-term liabilities	$ (5,080)	$ (4,976)
Service cost	$ 170	$ 182
Interest cost	188	190
Net periodic benefit cost	$ 358	$ 372
Unrecognized actuarial loss (gain)	$ 403	$ 67
Accumulated other comprehensive income	$ 403	$ 67

A 9% increase in the cost of covered health care benefits under age 65 was assumed for 2017. This rate is assumed to decrease incrementally to 5% by 2028 and remain level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the accumulated post-retirement benefit obligation by $341 at year end 2017 and increase the service and interest cost components of the net periodic post-retirement benefit cost by $34 for the year. A 1% decrease in the health care trend rate would decrease the accumulated post retirement benefit obligation by $305 at year end 2017 and decrease the total service and interest cost components of net periodic post-retirement benefit cost by $29 for the year. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 4% for 2017 and 2016. Hoosier funds the plan as health care claims are required to be paid.

Benefits expected to be paid under these assumptions over the next 10 years are as follows:

Years Ending December 31	
2018	$ 658
2019	566
2020	430
2021	443
2022	506
2023–2027	2,351

Long-Term Disability Plan

Hoosier also provides long-term disability benefits to its employees. Prior to September 2016, benefits included payment of 100% of single coverage premiums and 80% of dependent coverage premiums. Following changes to the plan, employees will receive benefits for a maximum of two years or until reaching age 62 and then are required to pay 100% of the retiree-appropriate premium. Accrued long-term disability benefits of $858 and $1,242 were recorded in *Other Long-Term Liabilities* as of December 31, 2017 and 2016, respectively.

Deferred Compensation Plan

Hoosier maintains a nonqualified deferred compensation program (Deferred Plan) to provide supplemental retirement payments to qualifying employees. The Deferred Plan liability was $3,321 and $3,104 as of December 31, 2017 and 2016, respectively, and is included in *Other Long-term Liabilities* in the balance sheets. Hoosier has elected to fund its deferred compensation obligations through a rabbi trust. The rabbi trust is subject to creditor claims in the event of insolvency, but the assets held in the rabbi trust are not available for general corporate purposes. Amounts in the rabbi trust are invested in exchange traded mutual funds, as selected by participants, which are designated as trading securities and recorded at fair value, and are included in *Short-term investments* in the balance sheets. All investments are exchange-traded mutual funds measured using Level 1 inputs (quoted prices for identical assets in active markets). Hoosier records trading gains and losses in *Investment Income and Other* in the statement of operations and comprehensive income. The offsetting amount related to the increase or decrease in deferred compensation is recorded in *Administrative and General* costs.

10. COMMITMENTS AND CONTINGENCIES

Power Sales Agreements

Hoosier sold wholesale power to nonmembers under various power sales agreements, which expired in 2017. Although the agreements meet the definition of a derivative instrument, they qualify for the normal purchase and normal sales exclusion under ASC 815, *Derivatives and Hedging*. Revenue from these contracts was $96,941 and $103,126 during 2017 and 2016, respectively.

Coal Supply Agreements

Hoosier has entered into long-term contracts for the supply of coal. Certain of these contracts extend through 2021, and provide for price escalation under certain terms, primarily based on the market price of fuel oil. Coal payments under contracts for 2017 and 2016 were $91,088 and $137,232, respectively, and total estimated minimum payments for the contracts through the year 2021 are:

Years Ending December 31		
2018	$	94,607
2019		105,717
2020		82,333
2021		34,365
	$	317,022

Rail Car Leases

Hoosier leases two hundred and five railroad cars used in transporting coal to a generating facility. Rental expense related to rail car leases was $801 and $766 in 2017 and 2016, respectively.

Merom Leases

In 2016, Hoosier exercised end of lease renewal options for certain property at Merom (Note 7). The original leases expired during 2017 and the renewal periods range in length from eighteen months to five years. The leases include various renewal alternatives and fair market value purchase options.

During 2017, Hoosier gave required notice to an owner/lessor of the intent to purchase their undivided ownership interest at the expiration of the first renewal period. The transaction will occur in December 2018 at a fair market value purchase price of $7,483.

Future annual rental payments under the operating leases for both the rail cars and Merom leases are:

Years Ending December 31		
2018	$	2,895
2019		1,664
2020		1,184
2021		1,184
2022		498
	$	7,425

Self-Insurance

Hoosier has adopted a self-insured medical plan for the benefit of its employees. Stop loss insurance is maintained for individual claims in excess of $350 for each policy year. Hoosier's expense under the self-insured medical plan was $9,168 and $10,000 for 2017 and 2016, respectively.

Guaranty

Hoosier entered into a guaranty agreement associated with fuel supply for a jointly owned generating facility. Under terms of the guaranty, Hoosier could be held responsible for obligations arising in the event a co-owner of the facility failed to perform. The amount of the guaranty was $6,000 as of December 31, 2017 and 2016, and there were no liabilities recorded against the guaranty.

New Clean Renewable Energy Bond (NCREB) Examination

The Internal Revenue Service completed examinations of Hoosier's Series 2011B first mortgage notes and CoBank borowings (Note 6) for compliance with Federal tax requirements. The examination included notes which were issued as part of the NCREB program under section 54C of the Internal Revenue Code. Hoosier was notified in 2017 the examinations had been completed with no findings.

Environmental

Hoosier entered into a Consent Decree with the Environmental Protection Agency (EPA), the Indiana Department of Environmental Management, and the United States Justice Department on November 4, 2010. The Consent Decree required Hoosier to provide $5,000 in community environmental mitigation projects, which were completed in 2015. The Consent Decree also required reductions in SO2, NOx and particulate matter which are incorporated into Merom's air permit. The Consent Decree was terminated in April 2017.

On April 17, 2015, the EPA published regulations which include requirements for the disposal of coal combustion residuals (CCRs), commonly known as coal ash, from coal-fired power plants. The rule establishes technical requirements for CCR landfills and surface impoundments under subtitle D of the Resource Conservation and Recovery Act. The Company has recognized asset retirement obligations for its coal ash ponds at the Ratts Generating Station, which ceased generating electricity before the rule became effective. Estimates included in the financial statements reflect Hoosier's understanding that its ash ponds are exempt from the new rule and therefore did not materially change after the rule became effective.

On October 23, 2015, the EPA published the Clean Power Plan rule. The rule seeks to reduce nationwide carbon dioxide emission rates from power plants 32% by 2030 from 2005 levels. The rule requires reductions beginning in 2022. On February 9, 2016 the United States Supreme Court granted a stay of EPA's Clean Power Plan pending disposition of applicants' petitions for review in the United States Court of Appeals for the District of Columbia Circuit and disposition of applicants' petition for a writ of certiorari, if such writ is sought. On March 28, 2017, an Executive Order was issued to rescind the Clean Power Plan. In October 2017, the EPA proposed to repeal the Clean Power Plan and launched a notice of advanced public rule making for a potential replacement rule. Due to the uncertainty of the rule, the Company is unable to estimate the cost of compliance at this time.

The EPA published the Effluent Limitations Guidelines and Standards for the Steam Electric Power Generating Point Source Category rule (ELG Rule) on November 3, 2015. The rule sets federal limits on the levels of metals in wastewater that can be discharged from power plants. In April 2017, the EPA issued an administrative stay to delay the compliance deadlines for the ELG Rule while the agency reviews the rule. Due to the uncertainty of the rule, the Company is unable to estimate the cost of compliance at this time.

There are many current environmental and energy policy issues, including those mentioned above, that have the potential to affect electric utilities, including Hoosier. The effect of the outcome of these issues on Hoosier's operations cannot be estimated.

Legal

Hoosier is a defendant in various other claims and lawsuits arising in the normal course of business. While the ultimate results of these other lawsuits or proceedings against Hoosier cannot be estimated with certainty, management does not expect these matters will have a material adverse effect on Hoosier's financial position, results of operations, or cash flows.

11. SUBSEQUENT EVENTS

The financial statements include a review of subsequent events through March 16, 2018, the date the financial statements were available to be issued.

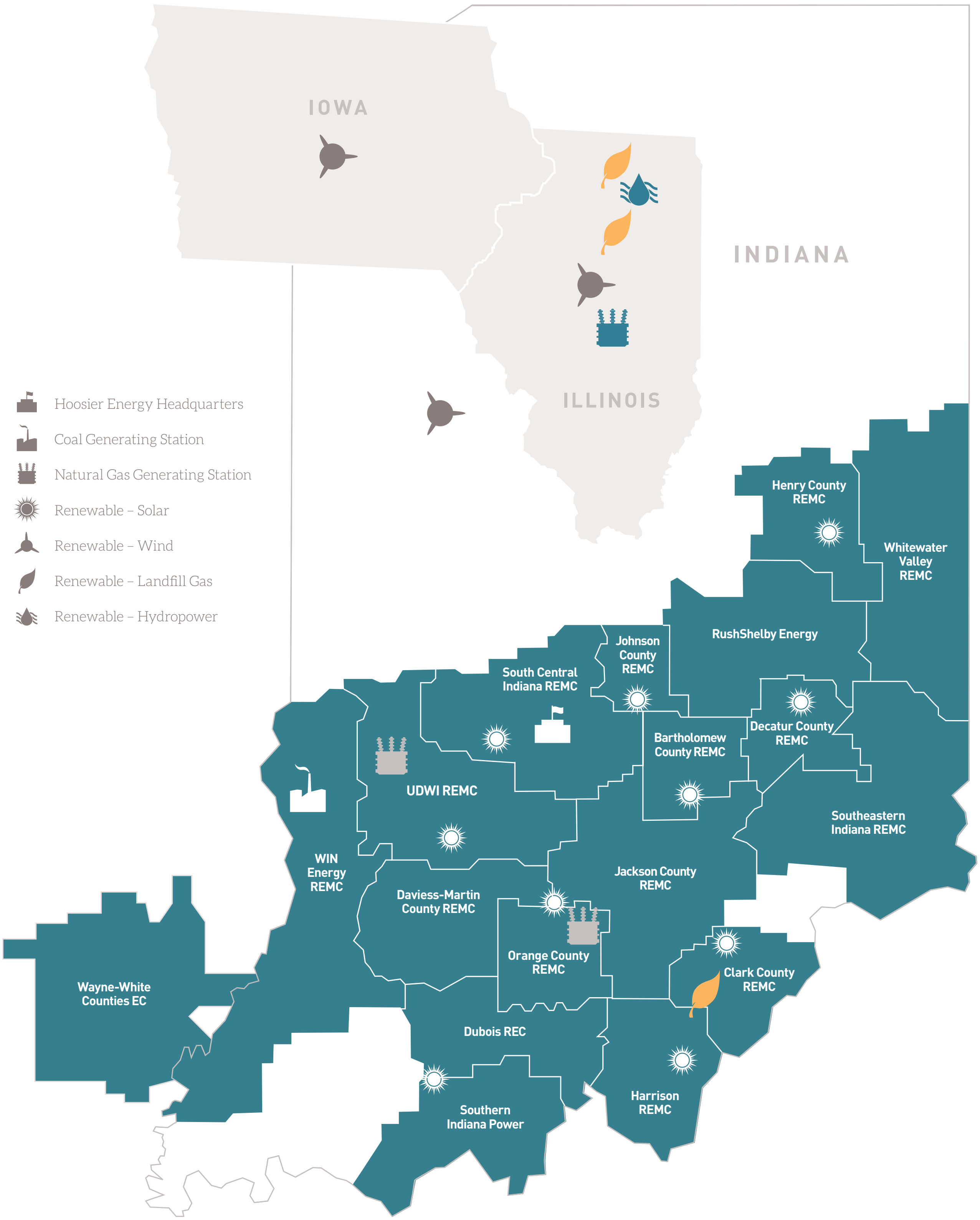
COMPARATIVE STATISTICAL SUMMARY

Five-Year Summary Of Operations

For the years ended December 31 (Dollars in thousands)	2017	2016	2015	2014	2013
REVENUES:					
Sales of electricity	$ 673,552	$ 687,306	$ 672,865	$ 709,500	$ 667,752
Other revenue	321	225	265	249	236
Total operating revenue	673,873	687,531	673,130	709,749	667,988
OPERATIONS EXPENSE:					
Production expense	176,688	215,152	199,895	244,797	245,944
Purchased power	192,025	178,771	173,887	171,561	141,825
Transmission and distribution	40,549	37,501	38,383	35,558	30,389
Administrative and general expenses	33,204	33,727	31,942	30,385	34,398
Depreciation and amortization	89,330	85,422	83,483	81,408	74,598
Income tax and other	(3,264)	(2,379)	(1,702)	(1,724)	(1,265)
Fixed charges, primarily interest expense	54,921	56,933	58,862	61,436	55,574
Total operations expense	583,453	605,127	584,750	623,421	581,463
MAINTENANCE EXPENSE:					
Production	53,395	41,233	46,496	44,312	49,396
Transmission	7,361	7,695	7,169	5,976	5,166
Distribution	4,569	4,087	4,781	5,008	3,302
General plant	1,870	1,873	3,009	2,638	2,561
Total maintenance expense	67,195	54,888	61,455	57,934	60,425
Total cost of electric service	650,648	660,015	646,205	681,355	641,888
Operating margin	23,225	27,516	26,925	28,394	26,100
Nonoperating margin and other	4,948	5,622	2,360	2,814	2,159
Net margin	$ 28,173	$ 33,138	$ 29,285	$ 31,208	$ 28,259

Member systems served	18	18	18	18	18
Peak demand by members (MW)	1,425	1,498	1,643	1,698	1,385
Sales to members (MWh)	7,309,713	7,395,500	7,354,000	7,560,572	7,313,567
Sales to others (MWh)	2,154,725	3,036,919	2,066,844	2,399,159	2,011,618
Average revenue/MWh sold	$ 71.17	$ 65.88	$ 71.42	$ 71.24	$ 71.61
Members average cost/MWh	$ 75.39	$ 75.50	$ 77.47	$ 76.79	$ 76.07
Member consumers end of year	301,103	299,000	297,065	296,570	295,873
Net generation (MWh)	5,407,732	6,912,758	5,640,739	7,290,171	6,746,513
Purchased power (MWh)	4,227,248	3,690,126	3,955,847	2,850,037	2,753,238
Coal burned (Tons)	2,261,097	2,783,762	2,437,687	3,272,847	3,065,687
Number of employees	441	450	453	473	478

Hoosier Energy Network



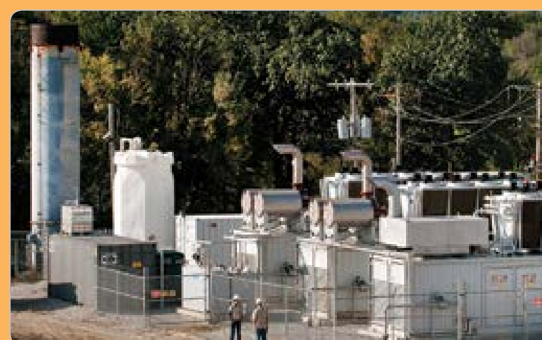
Hoosier Energy Generating Resources

Coal

Merom Generating Station, 1,070 megawatts, is a baseload facility located in Sullivan County, Indiana. Baseload resources have higher capacity factors and are available to operate throughout the year. Other resources could provide baseload energy, but sometimes less economically.

Renewables

Our renewable generation portfolio includes 35 megawatts of high-capacity factor landfill gas facilities, a 10 megawatt solar program, as well as 54 megawatts of wind and hydro resources from purchased power agreements. Most renewable facilities operate intermittently and require backup capacity from other generation to meet load and MISO requirements. New renewable resource additions are expected in support of the voluntary Board program of 10 percent of member energy requirements by 2025 from renewables.



Natural Gas

Since 2000, Hoosier Energy has added three natural gas plants to its owned assets to meet intermediate and peaking needs. Together, these gas plants allow Hoosier Energy to cost effectively match the appropriate generation source to fluctuations in demand patterns.

INTERMEDIATE

Intermediate resources provide energy for extended periods of the day, usually during weekday hours. A combined cycle natural gas power plant is this type of resource. The flexibility of combined-cycle generators to adjust production levels also helps accommodate intermittent resources such as wind and solar power.

Holland Energy Plant, 630 megawatts, is a natural gas combined cycle, located near Beecher City, Illinois. Hoosier Energy owns half the facility. Wabash Valley Power Association owns the other half.

PEAKING

The quick-start capabilities of these plants help meet member needs during a few hours of the year. Fast-start capability adds power supply flexibility and the units help meet MISO reserve requirements. Hoosier Energy has two peaking facilities.

Lawrence Generating Station, 258 megawatts, is located near Bedford, Indiana. Hoosier Energy owns two-thirds of the Lawrence Station's generating units, and Wabash Valley Power Association owns the other third.

Worthington Generating Station, 174 megawatts, is located in Greene County, Indiana and Hoosier Energy owns 100 percent.

Output may vary from the nameplate capacity stated here.

Member Distribution System Profiles

As of December 31, 2017	Member Consumers	Miles of Line	Net Utility Plant Value	Full Time Employees
Bartholomew County REMC	11,617	1,223	45,836,972	34
Clark County REMC	24,292	1,807	98,023,404	48
Daviess-Martin County REMC	8,170	1,374	28,069,240	21
Decatur County REMC	7,956	1,058	32,441,158	27
Dubois REC	13,698	1,704	41,692,084	29
Harrison REMC	22,956	2,197	68,958,729	48
Henry County REMC	9,492	1,031	36,618,122	28
Jackson County REMC	24,115	2,927	77,453,438	69
Johnson County REMC	25,391	1,681	86,370,238	58
Orange County REMC	7,792	1,108	30,149,876	25
RushShelby Energy	14,565	2,091	66,387,416	44
South Central Indiana REMC	33,351	3,625	123,083,012	89
Southeastern Indiana REMC	27,068	3,220	96,427,369	67
Southern Indiana Power	9,294	1,644	37,085,354	25
Utilities District of Western Indiana REMC	18,995	2,665	70,815,213	51
Wayne-White Counties Electric Cooperative	13,628	3,219	60,880,738	48
Whitewater Valley REMC	11,880	1,773	39,259,827	25
WIN Energy	16,843	2,649	81,405,067	53
Total	**301,103**	**36,996**	**1,120,957,257**	**789**

Seven Cooperative Principles

The consumer-owned cooperative business model is guided by seven important principles—principles that were established in 1844 in Rochdale, England, and have been adopted by cooperatives around the world ever since. These seven principles are the foundation for providing our member systems with safe, reliable and clean energy every day.

Principle #1: Voluntary and Open Membership

Cooperatives are voluntary organizations. Membership is open to all who use our services without gender, social, racial, political or religious discrimination.

Principle #2: Democratic Member Control

We are a democratic organization. That means, an elected representative from each of our 18 member distribution systems actively participates in setting policies and making decisions for the benefit of all.

Principle #3: Members' Economic Participation

As a cooperative, Hoosier Energy is just as focused on providing an affordable and reliable power supply as our member distribution cooperatives. Our goal is to run the business as efficiently as possible, not to make a profit. Any additional revenue is invested directly into the business, then returned to member systems after a specified number of years.

Principle #4: Autonomy and Independence

Cooperatives are autonomous, self-help organizations. If Hoosier Energy enters into agreements with other organizations or raises capital from external sources, it does so only if the terms ensure democratic member control and autonomy. Because the seven cooperative principles define the values we live by, cooperatives in general, and Hoosier Energy in particular, would never forsake those principles for financial gain.

Principle #5: Education, Training and Information

With the ever-changing energy landscape, Hoosier Energy works proactively to ensure a diverse mix of generation resources will provide the best balance for affordable and reliable power to member systems. Those efforts include extensive member services to provide cooperative employees with the education and training they need to contribute effectively to the development of their cooperative.

Principle #6: Cooperation Among Cooperatives

The philosophy of cooperation is a way of life for cooperatives. Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures. Cooperatives formed Hoosier Energy in 1949 to supply electric distribution systems with a dependable, economical source of power. Working together, we are providing better value for members' energy dollars.

Principle #7: Concern for Community

As a cooperative, our focus is always local. We are a part of the communities we serve. Our members' concerns are our concerns, and we work hard every day to keep the power on, keep electric bills low, and make our communities better places to live.

HOOSIERENERGY

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