

PENNSYLVANIA POWER COMPANY
UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

PENNSYLVANIA POWER COMPANY
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

<i>(In thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
<u>STATEMENTS OF INCOME</u>				
REVENUES:				
Electric sales	\$ 53,983	\$ 49,389	\$ 120,304	\$ 113,358
Gross receipts tax collections	3,278	3,038	7,430	5,960
Total revenues	57,261	52,427	127,734	119,318
OPERATING EXPENSES:				
Purchased power from affiliates	4,802	3,450	9,835	9,136
Purchased power from non-affiliates	18,653	17,760	41,527	42,710
Other operating expenses	8,262	12,418	22,341	25,859
Provision for depreciation	5,232	4,496	10,405	8,933
Amortization (deferral) of regulatory assets, net	4,047	(2,662)	3,882	(4,258)
General taxes	3,792	3,522	8,483	7,051
Total operating expenses	44,788	38,984	96,473	89,431
OPERATING INCOME	12,473	13,443	31,261	29,887
OTHER INCOME (EXPENSE):				
Miscellaneous income, net	2,005	848	3,804	1,694
Interest expense	(2,516)	(2,414)	(5,005)	(4,814)
Total other expense	(511)	(1,566)	(1,201)	(3,120)
INCOME BEFORE INCOME TAXES	11,962	11,877	30,060	26,767
INCOME TAXES	3,016	4,534	7,054	10,293
NET INCOME	\$ 8,946	\$ 7,343	\$ 23,006	\$ 16,474
<u>STATEMENTS OF COMPREHENSIVE INCOME</u>				
NET INCOME	\$ 8,946	\$ 7,343	\$ 23,006	\$ 16,474
OTHER COMPREHENSIVE INCOME (LOSS):				
Pension and OPEB prior service costs	(377)	1,126	(742)	749
Other comprehensive income (loss)	(377)	1,126	(742)	749
Income taxes (benefits) on other comprehensive income (loss)	(109)	467	(694)	311
Other comprehensive income (loss), net of tax	(268)	659	(48)	438
COMPREHENSIVE INCOME	\$ 8,678	\$ 8,002	\$ 22,958	\$ 16,912

PENNSYLVANIA POWER COMPANY
BALANCE SHEETS
(Unaudited)

<i>(In thousands, except share amounts)</i>	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1	\$ 1
Receivables-		
Customers, net of allowance for uncollectible accounts of \$1,675 in 2018 and \$1,599 in 2017	37,543	41,641
Affiliated companies	3,977	6,052
Other	3,553	2,277
Prepaid taxes and other	11,457	5,259
	<u>56,531</u>	<u>55,230</u>
UTILITY PLANT:		
In service	733,534	721,087
Less — Accumulated provision for depreciation	201,665	195,688
	<u>531,869</u>	<u>525,399</u>
Construction work in progress	16,992	11,410
	<u>548,861</u>	<u>536,809</u>
Other Property and Investments	17,791	11,415
	<u>\$ 623,183</u>	<u>\$ 603,454</u>
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	\$ 1,521	\$ 1,512
Short-term borrowings - affiliated companies	13,414	8,860
Accounts payable-		
Affiliated companies	2,749	3,664
Other	14,130	17,827
Accrued taxes	501	2,620
Other	20,269	19,409
	<u>52,584</u>	<u>53,892</u>
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, \$30 par value, authorized 6,500,000 shares - 3,110,836 shares outstanding	93,325	93,325
Other paid-in capital	30,174	29,862
Accumulated other comprehensive income	724	772
Retained earnings	75,664	53,137
Total common stockholder's equity	<u>199,887</u>	<u>177,096</u>
Long-term debt and other long-term obligations	151,420	152,118
	<u>351,307</u>	<u>329,214</u>
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	92,623	83,793
Retirement benefits	29,665	43,792
Regulatory liabilities	61,855	59,206
Other	35,149	33,557
	<u>219,292</u>	<u>220,348</u>
	<u>\$ 623,183</u>	<u>\$ 603,454</u>

PENNSYLVANIA POWER COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

<i>(In thousands)</i>	For the Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 23,006	\$ 16,474
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization (deferral) of regulatory assets, net	11,102	4,675
Deferred income taxes and investment tax credits, net	7,052	7,815
Pension trust contribution	(12,000)	—
Retirement benefits, net of payments	(3,446)	(813)
Changes in current assets and liabilities-		
Receivables	4,897	3,972
Prepaid taxes and other	(6,198)	(9,619)
Accounts payable	(4,612)	(1,801)
Accrued taxes	(2,119)	(1,508)
Other current liabilities	562	(2,522)
Other	683	257
Net cash provided from operating activities	<u>18,927</u>	<u>16,930</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Financing-		
Short-term borrowings, net	4,554	10,362
Redemptions and Repayments-		
Long-term debt	(487)	(487)
Other	(267)	(276)
Net cash provided from financing activities	<u>3,800</u>	<u>9,599</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(20,364)	(25,013)
Loans to affiliated companies, net	—	280
Asset removal costs	(2,236)	(1,588)
Other	(127)	(208)
Net cash used for investing activities	<u>(22,727)</u>	<u>(26,529)</u>
Net change in cash, cash equivalents and restricted cash	—	—
Cash, cash equivalents and restricted cash at beginning of period	1	1
Cash, cash equivalents and restricted cash at end of period	<u>\$ 1</u>	<u>\$ 1</u>