

**THE POTOMAC EDISON COMPANY AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

**THE POTOMAC EDISON COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Unaudited)

<i>(In millions)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
<b>STATEMENTS OF INCOME</b>				
<b>REVENUES:</b>				
Electric sales	\$ 192	\$ 182	\$ 454	\$ 420
Excise tax collections	3	3	8	8
Total revenues	195	185	462	428
<b>OPERATING EXPENSES:</b>				
Purchased power from affiliates	65	66	166	148
Purchased power from non-affiliates	47	41	104	91
Other operating expenses	52	25	89	50
Provision for depreciation	16	16	32	31
Amortization (deferral) of regulatory assets, net	(13)	9	(2)	31
General taxes	12	10	25	23
Total operating expenses	179	167	414	374
<b>OPERATING INCOME</b>	16	18	48	54
<b>OTHER INCOME (EXPENSE):</b>				
Miscellaneous income, net	3	2	6	3
Interest expense	(7)	(6)	(14)	(13)
Capitalized financing costs	1	1	2	1
Total other expense	(3)	(3)	(6)	(9)
<b>INCOME BEFORE INCOME TAXES</b>	13	15	42	45
<b>INCOME TAXES</b>	3	6	9	18
<b>NET INCOME</b>	\$ 10	\$ 9	\$ 33	\$ 27
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>				
<b>NET INCOME</b>	\$ 10	\$ 9	\$ 33	\$ 27
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>				
Pension and OPEB prior service costs	—	(1)	(1)	(2)
Other comprehensive loss	—	(1)	(1)	(2)
Income tax benefits on other comprehensive loss	—	—	(2)	(1)
Other comprehensive income (loss), net of tax	—	(1)	1	(1)
<b>COMPREHENSIVE INCOME</b>	\$ 10	\$ 8	\$ 34	\$ 26

**THE POTOMAC EDISON COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

<i>(In millions)</i>	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Restricted cash	\$ 6	\$ 6
Receivables-		
Customers, net of allowance for uncollectible accounts of \$2 in 2018 and 2017	93	106
Affiliated companies	24	24
Other, net of allowance for uncollectible accounts of \$1 in 2018 and 2017	6	6
Notes receivable from affiliates	30	54
Prepaid taxes and other	12	18
	<u>171</u>	<u>214</u>
<b>UTILITY PLANT:</b>		
In service	1,754	1,709
Less — Accumulated provision for depreciation	223	204
	<u>1,531</u>	<u>1,505</u>
Construction work in progress	49	41
	<u>1,580</u>	<u>1,546</u>
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>		
Prepaid purchased power	76	79
Other	27	26
	<u>103</u>	<u>105</u>
	<u>\$ 1,854</u>	<u>\$ 1,865</u>
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES:</b>		
Currently payable long-term debt	\$ 7	\$ 7
Accounts payable-		
Affiliated companies	30	54
Other	25	22
Accrued taxes	13	32
Accrued interest	7	7
Customer deposits	22	22
Other	11	13
	<u>115</u>	<u>157</u>
<b>CAPITALIZATION:</b>		
Common stockholder's equity-		
Other paid-in capital	352	352
Accumulated other comprehensive income	7	6
Retained earnings	197	175
Total common stockholder's equity	<u>556</u>	<u>533</u>
Long-term debt and other long-term obligations	584	587
	<u>1,140</u>	<u>1,120</u>
<b>NONCURRENT LIABILITIES:</b>		
Accumulated deferred income taxes	205	197
Regulatory liabilities	300	292
Retirement benefits	20	39
Adverse power purchase contracts	38	39
Other	36	21
	<u>599</u>	<u>588</u>
	<u>\$ 1,854</u>	<u>\$ 1,865</u>

**THE POTOMAC EDISON COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

<i>(In millions)</i>	For the Six Months Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 33	\$ 27
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization (deferral) of regulatory assets, net	56	62
Deferred income taxes and investment tax credits, net	6	7
Pension trust contribution	(17)	—
Retirement benefits, net of payments	(6)	(1)
Changes in current assets and liabilities-		
Receivables	13	30
Prepaid taxes and other	6	6
Accounts payable	(21)	(13)
Accrued taxes	(19)	—
Other current liabilities	(3)	(5)
Other	3	(3)
Net cash provided from operating activities	51	110
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Redemptions and Repayments-		
Short-term borrowings, net	—	(17)
Long-term debt	(3)	(2)
Common stock dividend payment	(10)	(5)
Other	—	(1)
Net cash used for financing activities	(13)	(25)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(58)	(51)
Loans to affiliated companies, net	24	(28)
Asset removal costs	(4)	(6)
Net cash used for investing activities	(38)	(85)
Net change in cash, cash equivalents and restricted cash	—	—
Cash, cash equivalents and restricted cash at beginning of period	6	7
Cash, cash equivalents and restricted cash at end of period	\$ 6	\$ 7