

**PENNSYLVANIA POWER COMPANY**  
**UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**

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

<i>(In thousands)</i>	For the Three Months Ended March 31,	
	2018	2017
<b>STATEMENTS OF INCOME</b>		
<b>REVENUES:</b>		
Electric sales	\$ 66,321	\$ 63,969
Gross receipts tax collections	4,152	2,922
Total revenues	70,473	66,891
<b>OPERATING EXPENSES:</b>		
Purchased power from affiliates	—	5,686
Purchased power from non-affiliates	27,907	24,950
Other operating expenses	14,079	13,441
Provision for depreciation	5,173	4,437
Deferral of regulatory assets, net	(165)	(1,596)
General taxes	4,691	3,529
Total operating expenses	51,685	50,447
<b>OPERATING INCOME</b>	<b>18,788</b>	<b>16,444</b>
<b>OTHER INCOME (EXPENSE):</b>		
Miscellaneous income	1,799	846
Interest expense	(2,489)	(2,400)
Total other expense	(690)	(1,554)
<b>INCOME BEFORE INCOME TAXES</b>	<b>18,098</b>	<b>14,890</b>
<b>INCOME TAXES</b>	<b>4,038</b>	<b>5,759</b>
<b>NET INCOME</b>	<b>\$ 14,060</b>	<b>\$ 9,131</b>
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>		
<b>NET INCOME</b>	<b>\$ 14,060</b>	<b>\$ 9,131</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>		
Pension and OPEB prior service costs	(365)	(377)
Other comprehensive loss	(365)	(377)
Income tax benefits on other comprehensive loss	(585)	(156)
Other comprehensive income (loss), net of tax	220	(221)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 14,280</b>	<b>\$ 8,910</b>

**PENNSYLVANIA POWER COMPANY**  
**BALANCE SHEETS**  
(Unaudited)

<i>(In thousands, except share amounts)</i>	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1	\$ 1
Receivables-		
Customers, net of allowance for uncollectible accounts of \$1,702 in 2018 and \$1,599 in 2017	42,504	41,641
Affiliated companies	5,290	6,052
Other	3,533	2,277
Prepaid taxes and other	13,575	5,259
	<u>64,903</u>	<u>55,230</u>
<b>UTILITY PLANT:</b>		
In service	727,136	721,087
Less — Accumulated provision for depreciation	198,398	195,688
	<u>528,738</u>	<u>525,399</u>
Construction work in progress	12,829	11,410
	<u>541,567</u>	<u>536,809</u>
<b>OTHER PROPERTY AND INVESTMENTS:</b>		
Investments in employee benefit trusts	10,468	10,529
Other	1,537	886
	<u>12,005</u>	<u>11,415</u>
	<u>\$ 618,475</u>	<u>\$ 603,454</u>
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES:</b>		
Currently payable long-term debt	\$ 1,516	\$ 1,512
Short-term borrowings - affiliated companies	22,771	8,860
Accounts payable-		
Affiliated companies	152	3,664
Other	19,592	17,827
Accrued taxes	1,624	2,620
Other	18,134	19,409
	<u>63,789</u>	<u>53,892</u>
<b>CAPITALIZATION:</b>		
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	30,025	29,862
Accumulated other comprehensive income	992	772
Retained earnings	66,718	53,137
Total common stockholder's equity	<u>191,060</u>	<u>177,096</u>
Long-term debt and other long-term obligations	152,013	152,118
	<u>343,073</u>	<u>329,214</u>
<b>NONCURRENT LIABILITIES:</b>		
Accumulated deferred income taxes	88,292	83,793
Retirement benefits	30,952	43,792
Regulatory liabilities	58,805	59,206
Other	33,564	33,557
	<u>211,613</u>	<u>220,348</u>
	<u>\$ 618,475</u>	<u>\$ 603,454</u>

**PENNSYLVANIA POWER COMPANY**  
**STATEMENTS OF CASH FLOWS**  
(Unaudited)

<i>(In thousands)</i>	For the Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 14,060	\$ 9,131
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and deferral of regulatory assets, net	6,522	2,841
Deferred income taxes and investment tax credits, net	3,352	3,783
Pension trust contribution	(12,000)	—
Changes in current assets and liabilities-		
Receivables	(1,357)	(586)
Prepaid taxes and other	(8,316)	(12,505)
Accounts payable	(1,747)	509
Accrued taxes	(996)	(16)
Other current liabilities	(1,721)	88
Other	(1,524)	570
Net cash provided from (used for) operating activities	<u>(3,727)</u>	<u>3,815</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New Financing-		
Short-term borrowings, net	13,911	8,130
Other	(133)	(142)
Net cash provided from financing activities	<u>13,778</u>	<u>7,988</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(8,989)	(11,623)
Loans to affiliated companies, net	—	280
Other	(1,062)	(460)
Net cash used for investing activities	<u>(10,051)</u>	<u>(11,803)</u>
Net change in cash and cash equivalents and restricted cash	—	—
Cash and cash equivalents and restricted cash at beginning of period	1	1
Cash and cash equivalents and restricted cash at end of period	<u>\$ 1</u>	<u>\$ 1</u>