

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 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 March 31, | |
|---|---|--------|
| | 2018 | 2017 |
| STATEMENTS OF INCOME | | |
| REVENUES: | | |
| Electric sales | \$ 262 | \$ 238 |
| Excise tax collections | 5 | 5 |
| Total revenues | 267 | 243 |
| OPERATING EXPENSES: | | |
| Purchased power from affiliates | 60 | 82 |
| Purchased power from non-affiliates | 98 | 50 |
| Other operating expenses | 37 | 25 |
| Provision for depreciation | 16 | 15 |
| Amortization of regulatory assets, net | 11 | 22 |
| General taxes | 13 | 13 |
| Total operating expenses | 235 | 207 |
| OPERATING INCOME | 32 | 36 |
| OTHER INCOME (EXPENSE): | | |
| Miscellaneous income | 3 | 2 |
| Interest expense | (7) | (7) |
| Capitalized financing costs | 1 | — |
| Total other expense | (3) | (5) |
| INCOME BEFORE INCOME TAXES | 29 | 31 |
| INCOME TAXES | 6 | 12 |
| NET INCOME | \$ 23 | \$ 19 |
| STATEMENTS OF COMPREHENSIVE INCOME | | |
| NET INCOME | \$ 23 | \$ 19 |
| OTHER COMPREHENSIVE INCOME: | | |
| Pension and OPEB prior service costs | (1) | (1) |
| Other comprehensive loss | (1) | (1) |
| Income tax benefits on other comprehensive loss | (2) | (1) |
| Other comprehensive income, net of tax | 1 | — |
| COMPREHENSIVE INCOME | \$ 24 | \$ 19 |

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

| <i>(In millions)</i> | March 31, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Restricted cash | \$ 4 | \$ 6 |
| Receivables- | | |
| Customers, net of allowance for uncollectible accounts of \$2 in 2018 and 2017 | 115 | 106 |
| Affiliated companies | 23 | 24 |
| Other, net of allowance for uncollectible accounts of \$1 in 2018 and 2017 | 5 | 6 |
| Notes receivable from affiliates | 48 | 54 |
| Prepaid taxes and other | 15 | 18 |
| | <u>210</u> | <u>214</u> |
| UTILITY PLANT: | | |
| In service | 1,728 | 1,709 |
| Less — Accumulated provision for depreciation | 213 | 204 |
| | <u>1,515</u> | <u>1,505</u> |
| Construction work in progress | 48 | 41 |
| | <u>1,563</u> | <u>1,546</u> |
| DEFERRED CHARGES AND OTHER ASSETS: | | |
| Prepaid purchased power | 77 | 79 |
| Other | 26 | 26 |
| | <u>103</u> | <u>105</u> |
| | <u>\$ 1,876</u> | <u>\$ 1,865</u> |
| LIABILITIES AND CAPITALIZATION | | |
| CURRENT LIABILITIES: | | |
| Currently payable long-term debt | \$ 7 | \$ 7 |
| Accounts payable- | | |
| Affiliated companies | 26 | 54 |
| Other | 38 | 22 |
| Accrued taxes | 33 | 32 |
| Accrued interest | 8 | 7 |
| Customer deposits | 22 | 22 |
| Other | 12 | 13 |
| | <u>146</u> | <u>157</u> |
| CAPITALIZATION: | | |
| 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> |
| NONCURRENT LIABILITIES: | | |
| Accumulated deferred income taxes | 204 | 197 |
| Regulatory liabilities | 309 | 292 |
| Retirement benefits | 21 | 39 |
| Adverse power purchase contracts | 38 | 39 |
| Other | 18 | 21 |
| | <u>590</u> | <u>588</u> |
| | <u>\$ 1,876</u> | <u>\$ 1,865</u> |

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

| <i>(In millions)</i> | For the Three Months Ended March 31, | |
|--|---|-------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 23 | \$ 19 |
| Adjustments to reconcile net income to net cash from operating activities- | | |
| Depreciation and amortization of regulatory assets, net | 31 | 37 |
| Deferred income taxes and investment tax credits, net | 5 | 8 |
| Pension trust contribution | (17) | — |
| Changes in current assets and liabilities- | | |
| Receivables | (7) | 5 |
| Prepaid taxes and other | 3 | (2) |
| Accounts payable | (12) | (6) |
| Accrued taxes | 1 | 7 |
| Accrued interest | 1 | 1 |
| Other current liabilities | (3) | (3) |
| Other | 1 | (1) |
| Net cash provided from operating activities | 26 | 65 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Redemptions and Repayments- | | |
| Short-term borrowings, net | — | (17) |
| Long-term debt | (3) | (3) |
| Common stock dividend payment | — | (5) |
| Net cash used for financing activities | (3) | (25) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Property additions | (29) | (27) |
| Loans to affiliated companies, net | 6 | (14) |
| Asset removal costs | (2) | (1) |
| Net cash used for investing activities | (25) | (42) |
| Net change in cash and cash equivalents and restricted cash | (2) | (2) |
| Cash and cash equivalents and restricted cash at beginning of period | 6 | 7 |
| Cash and cash equivalents and restricted cash at end of period | \$ 4 | \$ 5 |