

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
STATEMENTS OF INCOME				
REVENUES:				
Electric sales	\$ 209	\$ 204	\$ 663	\$ 624
Excise tax collections	6	5	14	13
Total revenues	215	209	677	637
OPERATING EXPENSES:				
Purchased power from affiliates	65	69	231	217
Purchased power from non-affiliates	59	48	163	139
Other operating expenses	38	29	127	79
Provision for depreciation	17	16	49	47
Amortization of regulatory assets, net	3	10	1	41
General taxes	12	13	37	36
Total operating expenses	194	185	608	559
OPERATING INCOME	21	24	69	78
OTHER INCOME (EXPENSE):				
Miscellaneous income, net	4	2	10	5
Interest expense	(7)	(8)	(21)	(21)
Capitalized financing costs	1	1	3	2
Total other expense	(2)	(5)	(8)	(14)
INCOME BEFORE INCOME TAXES	19	19	61	64
INCOME TAXES	3	7	12	25
NET INCOME	\$ 16	\$ 12	\$ 49	\$ 39
STATEMENTS OF COMPREHENSIVE INCOME				
NET INCOME	\$ 16	\$ 12	\$ 49	\$ 39
OTHER COMPREHENSIVE LOSS:				
Pension and OPEB prior service costs	(1)	—	(2)	(2)
Other comprehensive loss	(1)	—	(2)	(2)
Income tax benefits on other comprehensive loss	—	—	(2)	(1)
Other comprehensive loss, net of tax	(1)	—	—	(1)
COMPREHENSIVE INCOME	\$ 15	\$ 12	\$ 49	\$ 38

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

<i>(In millions)</i>	September 30, 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	89	106
Affiliated companies	24	24
Other, net of allowance for uncollectible accounts of \$1 in 2018 and 2017	3	6
Notes receivable from affiliates	26	54
Prepaid taxes and other	22	18
	<u>168</u>	<u>214</u>
UTILITY PLANT:		
In service	1,774	1,709
Less — Accumulated provision for depreciation	233	204
	<u>1,541</u>	<u>1,505</u>
Construction work in progress	60	41
	<u>1,601</u>	<u>1,546</u>
DEFERRED CHARGES AND OTHER ASSETS:		
Prepaid purchased power	74	79
Other	29	26
	<u>103</u>	<u>105</u>
	<u>\$ 1,872</u>	<u>\$ 1,865</u>
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	\$ 6	\$ 7
Accounts payable-		
Affiliated companies	27	54
Other	35	22
Accrued taxes	12	32
Accrued interest	8	7
Customer deposits	23	22
Other	11	13
	<u>122</u>	<u>157</u>
CAPITALIZATION:		
Common stockholder's equity-		
Other paid-in capital	354	352
Accumulated other comprehensive income	6	6
Retained earnings	203	175
Total common stockholder's equity	<u>563</u>	<u>533</u>
Long-term debt and other long-term obligations	581	587
	<u>1,144</u>	<u>1,120</u>
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	215	197
Regulatory liabilities	306	292
Retirement benefits	20	39
Adverse power purchase contracts	37	39
Other	28	21
	<u>606</u>	<u>588</u>
	<u>\$ 1,872</u>	<u>\$ 1,865</u>

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

<i>(In millions)</i>	For the Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 49	\$ 39
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization of regulatory assets, net	67	88
Deferred income taxes and investment tax credits, net	13	4
Pension trust contribution	(17)	—
Retirement benefits, net of payments	(9)	(3)
Changes in current assets and liabilities-		
Receivables	21	46
Prepaid taxes and other	(4)	4
Accounts payable	(14)	(14)
Accrued taxes	(20)	3
Other current liabilities	(1)	(3)
Other	6	(3)
Net cash provided from operating activities	91	161
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemptions and Repayments-		
Short-term borrowings, net	—	(17)
Long-term debt	(5)	(5)
Common stock dividend payments	(20)	(15)
Other	(1)	(1)
Net cash used for financing activities	(26)	(38)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(89)	(75)
Loans to affiliated companies, net	28	(42)
Asset removal costs	(6)	(9)
Net cash used for investing activities	(67)	(126)
Net change in cash, cash equivalents and restricted cash	(2)	(3)
Cash, cash equivalents and restricted cash at beginning of period	6	7
Cash, cash equivalents and restricted cash at end of period	\$ 4	\$ 4