

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

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

<i>(In thousands)</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	\$ 61,640	\$ 57,210	\$ 181,944	\$ 170,585
Gross receipts tax collections	3,837	3,524	11,267	9,484
Total revenues	65,477	60,734	193,211	180,069
OPERATING EXPENSES:				
Purchased power from affiliates	6,863	4,158	16,698	13,294
Purchased power from non-affiliates	20,444	19,833	61,971	62,543
Other operating expenses	7,807	13,077	30,148	38,937
Provision for depreciation	5,255	4,798	15,660	13,731
Amortization (deferral) of regulatory assets, net	4,795	(1,779)	8,677	(6,037)
General taxes	4,371	4,263	12,854	11,314
Total operating expenses	49,535	44,350	146,008	133,782
OPERATING INCOME	15,942	16,384	47,203	46,287
OTHER INCOME (EXPENSE):				
Miscellaneous income, net	1,860	1,463	5,664	3,141
Interest expense	(2,504)	(2,423)	(7,509)	(7,237)
Total other expense	(644)	(960)	(1,845)	(4,096)
INCOME BEFORE INCOME TAXES	15,298	15,424	45,358	42,191
INCOME TAXES	3,621	5,725	10,675	16,018
NET INCOME	\$ 11,677	\$ 9,699	\$ 34,683	\$ 26,173
STATEMENTS OF COMPREHENSIVE INCOME				
NET INCOME	\$ 11,677	\$ 9,699	\$ 34,683	\$ 26,173
OTHER COMPREHENSIVE LOSS:				
Pension and OPEB prior service costs	(377)	(1,870)	(1,119)	(1,121)
Other comprehensive loss	(377)	(1,870)	(1,119)	(1,121)
Income tax benefits on other comprehensive loss	(109)	(776)	(803)	(465)
Other comprehensive loss, net of tax	(268)	(1,094)	(316)	(656)
COMPREHENSIVE INCOME	\$ 11,409	\$ 8,605	\$ 34,367	\$ 25,517

PENNSYLVANIA POWER COMPANY
BALANCE SHEETS
(Unaudited)

<i>(In thousands, except share amounts)</i>	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1	\$ 1
Receivables-		
Customers, net of allowance for uncollectible accounts of \$1,576 in 2018 and \$1,599 in 2017	38,383	41,641
Affiliated companies	5,002	6,052
Other	8,866	2,277
Prepaid taxes and other	7,149	5,259
	<u>59,401</u>	<u>55,230</u>
UTILITY PLANT:		
In service	744,924	721,087
Less — Accumulated provision for depreciation	204,553	195,688
	<u>540,371</u>	<u>525,399</u>
Construction work in progress	17,952	11,410
	<u>558,323</u>	<u>536,809</u>
Other Property and Investments	14,857	11,415
	<u>\$ 632,581</u>	<u>\$ 603,454</u>
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	\$ 1,525	\$ 1,512
Short-term borrowings - affiliated companies	8,005	8,860
Accounts payable-		
Affiliated companies	2,868	3,664
Other	15,469	17,827
Accrued taxes	704	2,620
Other	17,117	19,409
	<u>45,688</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	30,431	29,862
Accumulated other comprehensive income	456	772
Retained earnings	87,341	53,137
Total common stockholder's equity	<u>211,553</u>	<u>177,096</u>
Long-term debt and other long-term obligations	151,309	152,118
	<u>362,862</u>	<u>329,214</u>
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	94,153	83,793
Retirement benefits	28,682	43,792
Regulatory liabilities	65,543	59,206
Other	35,653	33,557
	<u>224,031</u>	<u>220,348</u>
	<u>\$ 632,581</u>	<u>\$ 603,454</u>

PENNSYLVANIA POWER COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

<i>(In thousands)</i>	For the Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 34,683	\$ 26,173
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization (deferral) of regulatory assets, net	24,643	7,694
Deferred income taxes and investment tax credits, net	8,265	8,604
Pension trust contribution	(12,000)	—
Retirement benefits, net of payments	(5,729)	(1,664)
Changes in current assets and liabilities-		
Receivables	(2,171)	10,292
Prepaid taxes and other	(1,890)	(6,292)
Accounts payable	(3,154)	(3,119)
Accrued taxes	(1,917)	395
Other current liabilities	(2,435)	1,903
Other	449	647
Net cash provided from operating activities	<u>38,744</u>	<u>44,633</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemptions and Repayments-		
Short-term borrowings, net	(855)	—
Long-term debt	(487)	(487)
Other	(406)	(412)
Net cash used for financing activities	<u>(1,748)</u>	<u>(899)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(33,311)	(37,874)
Loans to affiliated companies, net	—	(3,050)
Asset removal costs	(3,430)	(2,425)
Other	(255)	(385)
Net cash used for investing activities	<u>(36,996)</u>	<u>(43,734)</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>