

PENNSYLVANIA POWER COMPANY
UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

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,	
	2019	2018	2019	2018
REVENUES:				
Electric sales	\$ 56,759	\$ 61,640	\$ 173,058	\$ 181,944
Gross receipts tax collections	3,474	3,837	10,487	11,267
Total revenues	60,233	65,477	183,545	193,211
OPERATING EXPENSES:				
Purchased power from affiliates	44	6,863	10,799	16,698
Purchased power from non-affiliates	26,752	20,444	65,475	61,971
Other operating expenses	11,212	7,807	37,827	30,148
Provision for depreciation	5,570	5,255	16,616	15,660
Deferral (amortization) of regulatory liabilities, net	(4,483)	4,795	(6,398)	8,677
General taxes	3,997	4,371	12,028	12,854
Total operating expenses	43,092	49,535	136,347	146,008
OPERATING INCOME	17,141	15,942	47,198	47,203
OTHER INCOME (EXPENSE):				
Miscellaneous income, net	1,294	1,768	4,197	5,230
Interest expense	(3,015)	(2,504)	(9,042)	(7,509)
Capitalized financing costs	332	92	737	434
Total other expense	(1,389)	(644)	(4,108)	(1,845)
INCOME BEFORE INCOME TAXES	15,752	15,298	43,090	45,358
INCOME TAXES	3,842	3,621	9,993	10,675
NET INCOME	\$ 11,910	\$ 11,677	\$ 33,097	\$ 34,683
<u>STATEMENTS OF COMPREHENSIVE INCOME</u>				
NET INCOME	\$ 11,910	\$ 11,677	\$ 33,097	\$ 34,683
OTHER COMPREHENSIVE LOSS:				
Pension and OPEB prior service costs	(134)	(377)	(400)	(1,119)
Other comprehensive loss	(134)	(377)	(400)	(1,119)
Income tax benefits on other comprehensive loss	(39)	(109)	(116)	(803)
Other comprehensive loss, net of tax	(95)	(268)	(284)	(316)
COMPREHENSIVE INCOME	\$ 11,815	\$ 11,409	\$ 32,813	\$ 34,367

PENNSYLVANIA POWER COMPANY
BALANCE SHEETS
(Unaudited)

<i>(In thousands, except share amounts)</i>	September 30, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Receivables-		
Customers, net of allowance for uncollectible accounts of \$1,499 in 2019 and \$1,621 in 2018	\$ 30,903	\$ 38,745
Affiliated companies	4,068	4,894
Other	3,599	7,070
Notes receivable from affiliated companies	27,479	24,343
Prepaid taxes and other	7,350	4,155
	<u>73,399</u>	<u>79,207</u>
UTILITY PLANT:		
In service	784,394	762,894
Less — Accumulated provision for depreciation	215,731	207,431
	<u>568,663</u>	<u>555,463</u>
Construction work in progress	20,909	11,327
	<u>589,572</u>	<u>566,790</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in employee benefit trusts	10,422	10,393
Other	6,367	3,777
	<u>16,789</u>	<u>14,170</u>
	<u>\$ 679,760</u>	<u>\$ 660,167</u>
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	\$ 1,035	\$ 1,559
Accounts payable-		
Affiliated companies	513	3,162
Other	14,769	15,113
Accrued taxes	1,135	847
Other	21,273	18,306
	<u>38,725</u>	<u>38,987</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	31,331	30,574
Accumulated other comprehensive income (loss)	(95)	189
Retained earnings	102,396	69,299
Total common stockholder's equity	<u>226,957</u>	<u>193,387</u>
Long-term debt and other long-term obligations	199,781	200,176
	<u>426,738</u>	<u>393,563</u>
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	99,562	94,487
Retirement benefits	30,349	40,816
Regulatory liabilities	48,262	57,759
Other	36,124	34,555
	<u>214,297</u>	<u>227,617</u>
	<u>\$ 679,760</u>	<u>\$ 660,167</u>

PENNSYLVANIA POWER COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

<i>(In thousands)</i>	For the Nine Months Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 33,097	\$ 34,683
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization of regulatory liabilities, net	10,961	24,643
Deferred income taxes, net	1,838	8,265
Pension trust contributions	(8,000)	(12,000)
Retirement benefits, net of payments	(4,018)	(5,729)
Change in current assets and liabilities-		
Receivables	12,425	(2,171)
Prepaid taxes and other current assets	(3,195)	(1,890)
Accounts payable	(2,993)	(3,154)
Accrued taxes	288	(1,917)
Other current liabilities	2,404	(2,435)
Other	(1,122)	449
Net cash provided from operating activities	41,685	38,744
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt redemptions and repayments	(487)	(487)
Short-term borrowings - affiliated companies, net	—	(855)
Other	(440)	(406)
Net cash used for financing activities	(927)	(1,748)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(33,914)	(33,311)
Notes receivable - associated companies, net	(3,136)	—
Asset removal costs	(3,759)	(3,430)
Other	51	(255)
Net cash used for investing activities	(40,758)	(36,996)
Net change in cash, cash equivalents, and restricted cash	—	—
Cash, cash equivalents, and restricted cash at beginning of period	—	1
Cash, cash equivalents, and restricted cash at end of period	\$ —	\$ 1