TO THE STOCKHOLDERS OF

PENNSYLVANIA POWER & LIGHT COMPANY

The Board of Directors hereby submits
the Annual Report of Pennsylvania Power &
Light Company for the calendar year 1939. Included in this report are a statement of
income and earned surplus and a balance
sheet of the Company alone, and a statement
of consolidated income and earned surplus
and consolidated balance sheet of the Com-
pany and subsidiaries, together with a
Certificate of Certified Public Accountants
covering operations of the Company and
subsidiaries for the year 1939. There is also
shown comparative property and service
statistics.

Business conditions in the Company's
territory showed improvement in 1939 as
compared with the previous year. While the
anthracite coal production was greater in
1939 than in 1938, the Company's revenue
from this source decreased about 6%, due to
a decrease in mine water pumping, resulting
from the unusually low rainfall during the
year.

OPERATING REVENUES

A comparison of operating revenues, oper-
ating revenue deductions and net operating revenues of the Company, for the years 1939
and 1938 follows:

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1938</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric</td>
<td>$36,380,491</td>
<td>$36,208,092</td>
<td>$172,399</td>
</tr>
<tr>
<td>Manufactured gas</td>
<td>1,387,087</td>
<td>1,390,279</td>
<td>3,192*</td>
</tr>
<tr>
<td>Natural gas</td>
<td>715,748</td>
<td>705,439</td>
<td>10,309</td>
</tr>
<tr>
<td>Steam heat</td>
<td>670,780</td>
<td>637,902</td>
<td>32,878</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>$39,154,106</td>
<td>$38,941,712</td>
<td>$212,394</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Revenue Deductions</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operation</td>
<td>$15,955,869</td>
<td>$15,096,559</td>
<td>$859,310</td>
</tr>
<tr>
<td>Maintenance</td>
<td>3,089,408</td>
<td>3,030,648</td>
<td>58,760</td>
</tr>
<tr>
<td>Taxes</td>
<td>2,309,402</td>
<td>3,980,657</td>
<td>1,671,255*</td>
</tr>
<tr>
<td>Property retirement reserve appropriations and amortization of limited-term investments</td>
<td>2,763,005</td>
<td>2,760,524</td>
<td>2,481</td>
</tr>
<tr>
<td>Total Operating Revenue Deductions</td>
<td>$24,117,684</td>
<td>$24,868,388</td>
<td>$750,704*</td>
</tr>
</tbody>
</table>

| Net Operating Revenues      | $15,036,422| $14,073,324| $963,098   |

* Decrease

Note: The decrease in taxes is temporary and was due to non-recurring deductions incident
to the Company's refinancing in 1939, which is referred to in a subsequent paragraph.
Electric operating revenues show a slight increase despite a general rate reduction effective January 1, 1939, estimated to save customers approximately $7,300,000 annually. The amount of electricity sold increased 7% as compared with a gain of less than one-half of 1% in revenues. The increase was due to a general improvement in business conditions in the territory served and the addition of 4,542 electric customers, as well as the Company's intensive sales activities throughout the year.

Manufactured gas revenues were approximately the same as in 1938.

Natural gas revenues increased mainly on account of larger sales to industrial customers. Reference to the Company's natural gas business is made on page 7.

Steam heat revenues increased due to greater sales to residential and commercial customers in the early months of the year.

The following tabulation shows a segregation of electric operating revenues of the Company for the twelve months ended December 31, 1939 compared with the previous year.

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$11,765,166</td>
<td>$11,742,484</td>
</tr>
<tr>
<td>Commercial</td>
<td>7,226,772</td>
<td>7,566,865</td>
</tr>
<tr>
<td>Industrial</td>
<td>12,699,532</td>
<td>12,277,649</td>
</tr>
<tr>
<td>Farm</td>
<td>1,441,360</td>
<td>1,374,488</td>
</tr>
<tr>
<td>Government and Municipal</td>
<td>2,273,774</td>
<td>2,227,572</td>
</tr>
<tr>
<td>Public Utilities</td>
<td>430,103</td>
<td>497,403</td>
</tr>
<tr>
<td><strong>Total General Business</strong></td>
<td>$35,836,707</td>
<td>$35,686,461</td>
</tr>
<tr>
<td>Miscellaneous revenues</td>
<td>543,784</td>
<td>521,631</td>
</tr>
<tr>
<td><strong>Total Electric Operating Revenues</strong></td>
<td>$36,380,491</td>
<td>$36,208,092</td>
</tr>
</tbody>
</table>

Total kilowatt-hour sales to residential customers rose 7.5% over 1938 but revenues derived from these customers were practically unchanged. These revenues would have been appreciably less because of rate reductions effective throughout the entire year if the Company's Sales Department in cooperation with local dealers had not been successful in urging customers to make more liberal use of service.
The decrease in revenues from commercial customers was occasioned by rate reductions which were made effective when new general light and power schedules were introduced on January 1, 1939. This was part of the Company’s 1939 program of rate simplification.

OPERATING REVENUE DEDUCTIONS

Operating revenue deductions of the Company amounted to $24,117,684, a decrease of $750,704, or about 3% as compared with 1938. The total revenue deductions take into account a decrease of $1,671,255 in the provision for taxes, (including the $1,446,000 referred to below due to certain factors incident to the 1939 refinancing). Operating and maintenance expenses increased $918,070 due mainly to higher payroll and material costs and to the greater volume of business.

The money spent to maintain the property in first class operating condition, plus the amount appropriated during the year to the reserve for retirement of property and amortization of limited-term investments aggregated $5,852,413, or about 15% of the Company’s total operating revenues.

It is estimated that the net operating revenues shown herein for 1939 would have been approximately $1,446,000 less had it not been for extraordinary non-recurring deductions for debt discount and expense and call premiums on the bonds retired which offset taxable income in that year and consequently made provision for Federal and State Income Taxes unnecessary. Without this deduction the net operating revenues in 1939 would have been $482,902 less than in 1938 instead of $963,098 more as shown herein. It is also estimated that the net operating revenues in 1940 will be increased about $960,000 because of deductions due to this same cause. In the consideration of the operating results in these two years, therefore, these extraordinary tax deductions should be borne in mind.

NET OPERATING REVENUES

Net operating revenues of the Company for the year amounted to $15,036,422, compared with $14,073,324 for 1938, an increase of $963,098, or about 7%.
NET INCOME

The Company’s net income for the year was $8,776,937, an improvement of $796,899, or about 10% over 1938. This gain in net income was made possible by temporary savings in income taxes as stated in a previous paragraph.

REFINANCING

During the summer of 1939, the Company retired its funded debt of $121,000,000 principal amount of First Mortgage Gold Bonds 4\% Series due 1981 and $10,000,000 principal amount of 6\% Gold Debentures due 1950 through the sale of new securities consisting of $95,000,000 principal amount First Mortgage 3\% Bonds due 1969; $28,500,000 principal amount of 4\% Debentures due 1974 and $8,500,000 principal amount 2\% Ten-Year Serial Notes. The amount realized from the sale of the new securities was about $892,500 in excess of the amount required for the retirement of the old securities and this amount became available for additions, betterments and extensions to the utility plant of the Company.

The 2\% Ten-Year Serial Notes mature at the rate of $850,000 principal amount annually. After the payment in full of these Serial Notes $850,000 is to be deposited each year with the Trustee for the retirement of the 4\% Debentures due 1974.

The refinancing results in a reduction in the interest charges of $1,214,375 for the first year. Exclusive of the $892,500 mentioned above and the temporary tax saving mentioned elsewhere herein, the net increase in cash in the first year resulting from the refinancing will be only $29,000 more than the $850,000 cash needed for the annual maturity. As Notes or Debentures are retired the interest charges will decrease each year and it is estimated that at the end of ten years this refinancing will result in an improvement of about $1,000,000 in the Company’s cash position.

In connection with this refinancing, the Company transferred from plant account to unamortized debt discount and expense the sum of $12,727,439.94 representing financing costs in connection with the issuance in 1931 of $100,000,000 of the Company’s First Mortgage Gold Bonds, 4\% Series due 1981, which were retired in 1939. This transfer was approved by the Pennsylvania Public Utility Commission.

The amortization of the portion of the financing costs applicable to the period from April 1, 1931 to May 31, 1939 amounting to
$2,078,815.19, was charged to earned surplus and current income. All unamortized debt discount and expense (including the net premium paid on the redemption in 1939 of the First Mortgage Gold Bonds, 4½% Series due 1981) is being amortized over a period of twenty years beginning August 1, 1939, in accordance with orders issued by the Pennsylvania Public Utility Commission and the Federal Power Commission.

PLANT ADDITIONS

Construction expenditures of the Company in 1939 totaled about $3,450,000, of which approximately $860,000 was spent for the extension of electric service into rural territory. The balance of the Company's expenditures was for connecting new load and for increasing the reliability and load-carrying capacity of the electric, gas and steam heat facilities to supply the growing service requirements. Owing to the plant adjustment already referred to, and other property retirements, plant accounts shows a net reduction of $11,071,368 for the year. There were no outstanding construction projects completed in the year.

Work was begun in 1939 on the installation of a 15,000 KW high pressure turbine generator with two boilers and other accessory equipment at the Company's Cedar steam-electric station in Harrisburg. Approximately $3,000,000 will be spent on this addition, of which it is estimated that $1,300,000 will be spent in 1940. This equipment is scheduled to be placed in service in 1941. On completion of this project, the Cedar steam-electric station will rank among the best on the Company's system as to operating efficiency and it is expected to provide adequate capacity to supply the electric requirements of all the Company's customers in the Harrisburg area.

RURAL ELECTRIFICATION

The Company serves extensive areas devoted to agriculture. The program of extending electric service to rural areas was continued during 1939. Construction of 417 miles of line for this purpose at a cost of approximately $860,000 (including transformers and meters) increased to 7,589 the total mileage of the Company's large rural network. The total number of farm and rural customers served at the end of 1939 was 85,105, including 3,930 customers added during the year to new and existing rural lines. Of the above total, 25,519 were farm customers.
NATURAL GAS

The wells and gas fields from which the Company obtains its supply of gas are nearing exhaustion, and during 1939 the Company took steps to augment the existing sources of supply. The wells of the Company's subsidiary, North Branch Development Company, were drilled deeper, this resulting in a slight increase in output. Also a well was drilled in Hector Township, Potter County, which proved to be non-productive. Unless unforeseen developments occur in the near future it will be necessary for the Company to again operate its manufactured gas plants.

RATE REDUCTIONS

Rate reductions that became effective January 1, 1939, were estimated to save electric customers approximately $2,300,000 a year, based on the volume of sales in 1938. Prior to January 1, 1940, 29 small power rates were withdrawn and on that date certain new general light and power schedules were introduced in order to minimize certain resulting increases. The net effect of these new rates is estimated to make a further reduction in annual revenues of approximately $130,000. Rate reductions made by the Company since January 1, 1929 are now saving electric customers more than $8,400,000 every year.

SALES ACTIVITIES

Coordinated sales programs undertaken in cooperation with local retailers resulted in a substantial increase in the sale of major load-building appliances, as well as those classed as general use appliances. Combined dealer and Company sales aggregated approximately $9,137,000, of which about 85% were dealer sales. New domestic appliances placed in customers' homes included the following:

<table>
<thead>
<tr>
<th></th>
<th>% Increase Over 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic refrigerators</td>
<td>22,093</td>
</tr>
<tr>
<td>Electric ranges</td>
<td>4,843</td>
</tr>
<tr>
<td>Electric water heaters</td>
<td>759</td>
</tr>
<tr>
<td>Gas ranges</td>
<td>3,307</td>
</tr>
<tr>
<td>Gas automatic water heaters</td>
<td>436</td>
</tr>
<tr>
<td>General use appliances</td>
<td>296,816</td>
</tr>
</tbody>
</table>

* Decrease

The average annual use of electric service per residential customer increased 35 kilowatt-hours or 5.2% over 1938 to a total of 701, and the average cost per kilowatt-hour declined 6.7% below 1938.
The accompanying chart shows that the average residential customer used 74% more electricity in 1939 than he did ten years ago. As a result of such greater use of service and the material rate reductions made by the Company within the last decade, the average rate has dropped 35%.

By using the savings resulting from rate reductions for the comforts and conveniences of more complete electric service in the home, the average customer can further reduce the unit cost of service. Though operating economies have contributed to the Company’s ability to lower its rates, taxes, disregarding extra ordinary deductions mentioned herein, have increased to such an extent that future rate reductions must be largely dependent on the willingness of customers to increase their use of service. Only through greater use of its service can the Company recover the amount of revenues lost through rate reductions.

During 1939 the Company continued its efforts to promote diversified industrial development of the territory which it serves. Industrial (manufacturing) enterprises representing 24 lines of business and expected to employ 5,500 persons were established in the Company’s territory during the year. It is estimated that their use of electric service will increase the Company’s industrial revenue about $240,000 annually.

**SUBSIDIARIES**

The subsidiaries of the Company supply water service, and produce and transport natural gas. Water service is provided in the village of Harwood Mines and in the Borough of Hummelstown by Hazle Township Water Company and Hummelstown Water Supply Company, respectively. Part of the natural gas used by the Company is purchased from North Branch Development Company which produces natural gas in the gas fields in north central Pennsylvania and all of the natural gas purchased by the Company is transported through the pipe-lines of Susquehanna Gas Company, another subsidiary. Pennsylvania
Realty & Investment Company owns real estate and investments. All of the common stock of East Penn Transportation Company, which was owned by Pennsylvania Realty & Investment Company, was sold to other interests as of April 30, 1939.

EMPLOYEES

The company hereby wishes to acknowledge the loyalty and cooperation of its employees. Relations between the Company and its employees, numbering approximately 6,000, have been satisfactory. Many of the employees have been associated with the Company since its formation in 1920, and a number were employed by predecessor companies. Approximately 68% have more than five years and 53% more than 10 years of continuous service with the Company or constituent companies.

GENERAL

The work of making a valuation of its property, in accordance with an understanding with the Pennsylvania Public Utility Commission, has been continued by the Company during the past year. The completion of this study has been delayed due to the necessity of complying with other orders of the Federal Power Commission and the Pennsylvania Public Utility Commission requiring the reclassification of accounts (involving the determination of original costs) and the establishment of continuing property records. A large force has been continuously engaged on this work for the past three years, and we hope that it may be substantially completed by the end of this year.

There have been no hearings on the rate case instituted by the Pennsylvania Public Utility Commission since the rate reduction made effective January 1, 1939. It is expected that hearings will be resumed as soon as the studies referred to above have been completed and the data are available for the establishment of a permanent rate base.

The Federal Power Commission has not yet made public its findings in connection with its inquiry into the original cost of the construction of the Wallenpaupack Hydro-Electric Project owned by this Company. Hearings before the Commission were concluded in November, 1938, and the briefs were filed during the early part of 1939.

An organization known as the Pennsylvania Public Ownership League, through its Director and President, John J. Lipko, has been soliciting customers of the Company to join the
League for the purpose of supporting its attack on the Company's electric rates and its attempt to secure a very large sum in reparations. In view of the public statements made by Lipko in his broadcasts and otherwise, the Pennsylvania Public Utility Commission on its own motion instituted an investigation, to ascertain the propriety of the activities of Lipko and his organization in so far as they relate to the regulation of public utilities in the State. Lipko applied to the Court of Common Pleas of Dauphin County to restrain this investigation but later withdrew this application.

Respectfully submitted,

By Order of the Board of Directors

J. S. WISE, JR.
President

Allentown, Pennsylvania
April 30, 1940
Accountants' Certificate

Pennsylvania Power & Light Company:

We have made an examination of the balance sheet of Pennsylvania Power & Light Company and the consolidated balance sheet of that Company and subsidiaries as of December 31, 1939 and of the related statements of income and earned surplus for the twelve months ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the systems of internal accounting control. We have previously made similar examinations for the years 1932 to 1938, inclusive.

In our opinion, based upon such examination and subject to the adequacy of the companies' property retirement reserve appropriations, as to which we are not in a position to express an opinion, the accompanying balance sheets and related statements of income and earned surplus, with their footnotes, fairly present, in accordance with accepted principles of accounting consistently followed by the companies, their financial condition at December 31, 1939 and the results of their operations for the twelve months ended that date.

HASKINS & SELLS

Philadelphia, Pennsylvania,
March 13, 1940.
Assets

PLANT, PROPERTY, AND EQUIPMENT (INCLUDING INTANGIBLES),
AND INVESTMENTS IN SUBSIDIARIES—Ledger value.............................. $214,553,745.22

INVESTMENTS—Securities and long-term advances (ledger value)................... 304,952.37

CURRENT AND ACCRUED ASSETS:
Cash in banks—On demand........................................................... $ 7,303,664.42
Cash in banks—Time deposits......................................................... 302,500.00
Special deposits:
Dividends......................................................................................... 961,496.67
Other................................................................................................. 9,297.50
Working funds.................................................................................. 229,675.00
Temporary cash investments (valuation at market quotations, $102,700)........ 100,000.00
Notes receivable................................................................................ 2,139.89
Accounts receivable:
Customers and miscellaneous.......................................................... 3,751,690.28
Subsidiaries....................................................................................... 21,234.59
Materials and supplies...................................................................... 3,229,754.10
Prepayments..................................................................................... 85,417.99
Other current and accrued assets..................................................... 14,798.35

TOTAL CURRENT AND ACCRUED ASSETS............................................... 16,009,668.75

DEFERRED DEBITS:
Unamortized debt discount and expense.............................................. $17,404,395.24
Unamortized cost of plant inventory and appraisal................................. 1,341,701.18
Retirement work in progress............................................................... 323,437.82
Other................................................................................................. 84,555.61

TOTAL DEFERRED DEBITS................................................................. 19,154,089.85

REACQUIRED CAPITAL STOCK (4,386.96 shares preferred ($7) and 3,362 shares $6 preferred)
—At cost............................................................................................ 818,472.11

TOTAL................................................................................................. $250,900,908.50

Notes 1 to 6, on page 18, are integral parts of this statement
78 Light
Pennsylvania)
DECEMBER 31, 1939

Liabilities

CAPITAL STOCK (no par value):

Preferred ($7), cumulative (entitled upon liquidation to $100 a share); pari passu with
$6 preferred and $5 preferred; authorized, 155,000 shares; issued, 175,487 shares.

$6 preferred, cumulative (entitled upon liquidation to $100 a share); pari passu with pre-
ferred ($7) and $5 preferred; authorized, 300,000 shares; issued, 79,670 shares

$5 preferred, cumulative (entitled upon liquidation to $100 a share); pari passu with pre-
ferred ($7) and $6 preferred; authorized, 500,000 shares; outstanding, 158,208 shares

Common; authorized, 2,200,000 shares; outstanding, 1,879,095 shares.

LONG-TERM DEBT:

First mortgage bonds 3 1/2% series due 1969 $95,000,000.00
4% debentures due 1974 28,500,000.00
2 1/2% serial notes due 1941-1949 (unsecured) 7,650,000.00

TOTAL LONG-TERM DEBT 131,150,000.00

CURRENT AND ACCRUED LIABILITIES:

Notes payable—2 1/2% serial notes, due August 1, 1940 (unsecured) . $850,000.00
Accounts payable:
Subsidiaries 19,665.58
Other 1,141,869.76
Dividends declared (including $961,496.67 for which cash is in special deposits) 961,633.00
Matured long-term debt and interest (cash in special deposits) 9,297.50
Customers’ deposits 384,370.34
Taxes accrued 4,295,763.28
Interest accrued 2,025,649.57
Other current and accrued liabilities 116,224.68

TOTAL CURRENT AND ACCRUED LIABILITIES 9,804,473.71

DEFERRED CREDITS:

Unamortized premium on debt $2,922,556.54
Customers’ advances for construction 44,272.06
Other 1,000.05

TOTAL DEFERRED CREDITS 2,967,828.65

RESERVES:

Property retirement $24,382,328.56
Amortization of limited-term investments 22,699.04
Uncollectible accounts 901,278.35
Inventory adjustment 37,582.40
Injuries and damages 581,672.65
Other 85,941.62

TOTAL RESERVES 25,411,502.62

CONTRIBUTIONS IN AID OF CONSTRUCTION 455,957.35
EARNED SURPLUS 3,182,890.17

TOTAL 250,900,908.50

and should be considered in connection therewith.
### Assets

**Plants, Property, and Equipment (Including Intangibles)** Based on ledger value .......................................................... $215,072,251.98

**Investments**—Securities and long-term advances (ledger value) .......................................................... 391,525.67

<table>
<thead>
<tr>
<th>Current and Accrued Assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in banks—On demand</td>
<td>$7,875,703.39</td>
</tr>
<tr>
<td>Cash in banks—Time deposits</td>
<td>302,500.00</td>
</tr>
<tr>
<td>Special deposits:</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>961,496.67</td>
</tr>
<tr>
<td>Other</td>
<td>9,297.50</td>
</tr>
<tr>
<td>Working funds</td>
<td>231,125.00</td>
</tr>
<tr>
<td>Temporary cash investments (valuation at market quotations, $102,700)</td>
<td>100,000.00</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>2,139.89</td>
</tr>
<tr>
<td>Accounts receivable—Customers and miscellaneous</td>
<td>3,756,561.12</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>3,250,951.86</td>
</tr>
<tr>
<td>Prepayments</td>
<td>90,300.52</td>
</tr>
<tr>
<td>Other current and accrued assets</td>
<td>13,117.35</td>
</tr>
</tbody>
</table>

**Total Current and Accrued Assets** .......................................................... $16,594,993.30

**Deferred Debits:**

- Unamortized debt discount and expense ................................ $17,404,395.24
- Unamortized cost of plant inventory and appraisals ............... 1,341,701.18
- Retirement work in progress .............................................. 344,540.46
- Other                                                           84,631.72

**Total Deferred Debits** .......................................................... $19,175,268.60

**Reacquired Capital Stock** (4,386.96 shares preferred [$7] and 3,362 shares $6 preferred)

- At cost .......................................................... $818,472.11

**Total** .......................................................... $252,052,511.66

Notes 1 to 6, on page 18, are integral parts of this statement
& Light Company
(Pennsylvania)

SHEET, DECEMBER 31, 1939

Liabilities

CAPITAL STOCK:
Pennsylvania Power & Light Company (no par value):

Preferred ($7), cumulative (entitled upon liquidation to $100 a share); pari passu with $6 preferred and $5 preferred; authorized, 515,000 shares; issued, 375,482 shares.

$6 preferred, cumulative (entitled upon liquidation to $100 a share); pari passu with preferred ($7) and $5 preferred; authorized, 300,000 shares; issued, 79,670 shares. $77,928,256.00

$5 preferred, cumulative (entitled upon liquidation to $100 a share); pari passu with preferred ($7) and $6 preferred; authorized, 500,000 shares; outstanding, 158,208 shares.

Common: authorized, 2,200,000 shares; outstanding, 1,879,095 shares.

LONG-TERM DEBT:
Pennsylvania Power & Light Company:

First mortgage bonds, 3½% series due 1969. $95,000,000.00

4½% debentures due 1974. 28,500,000.00

2% 9½ serial notes due 1941-1949 (unsecured). 7,650,000.00

TOTAL LONG-TERM DEBT. 131,150,000.00

CURRENT AND ACCRUED LIABILITIES:

Notes payable—2½% serial notes, due August 1, 1940 (unsecured). $830,000.00

Accounts payable. 1,163,468.84

Dividends declared (including $961,496.67 for which cash is in special deposits). 901,033.00

Matured long-term debt and interest (cash in special deposits). 9,297.50

Customers' deposits. 384,564.34

Taxes accrued. 4,378,841.42

Interest accrued. 2,025,649.69

Other current and accrued liabilities. 116,476.50

TOTAL CURRENT AND ACCRUED LIABILITIES. 9,889,931.29

DEFERRED CREDITS:

Unamortized premium on debt. $2,922,556.54

Customers' advances for construction. 44,272.06

Other. 1,383.94

TOTAL DEFERRED CREDITS. 2,968,212.54

RESERVES:

Property retirement. $29,299,299.03

Amortization of limited-term investments. 184,356.21

Uncollectible accounts. 302,903.59

Inventory adjustment. 37,582.40

Injuries and damages. 581,672.65

Other. 87,532.72

TOTAL RESERVES. 26,489,342.60

CONTRIBUTIONS IN AID OF CONSTRUCTION. 455,957.35

EARNED SURPLUS. 3,170,811.88

TOTAL. $252,052,511.66

and should be considered in connection therewith.
Pennsylvania Power & Light Company

STATEMENT OF INCOME AND EARNED SURPLUS

For the Twelve Months Ended December 31, 1939

(Statement of income for the twelve months ended December 31, 1938 shown for comparative purposes)

<table>
<thead>
<tr>
<th>Income</th>
<th>Twelve Months Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1939</td>
</tr>
<tr>
<td>OPERATING REVENUES.</td>
<td>$39,154,106.27</td>
</tr>
<tr>
<td>OPERATING REVENUE DEDUCTIONS:</td>
<td></td>
</tr>
<tr>
<td>Operating expenses:</td>
<td>$18,265,271.44</td>
</tr>
<tr>
<td>Operation, including taxes (see Note 5 on page 18).</td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>3,089,407.50</td>
</tr>
<tr>
<td>Amortization of limited-term investments</td>
<td>13,004.97</td>
</tr>
<tr>
<td>Property retirement reserve appropriations</td>
<td>2,750,000.00</td>
</tr>
<tr>
<td>TOTAL OPERATING REVENUE DEDUCTIONS</td>
<td>$24,117,683.91</td>
</tr>
<tr>
<td>NET OPERATING REVENUES</td>
<td>$15,036,422.36</td>
</tr>
<tr>
<td>OTHER INCOME (net)</td>
<td>99,884.78</td>
</tr>
<tr>
<td>GROSS INCOME</td>
<td>$15,136,307.14</td>
</tr>
<tr>
<td>INTEREST ON MORTGAGE BONDS</td>
<td>$4,725,972.22</td>
</tr>
<tr>
<td>INTEREST ON DEBENTURES</td>
<td>865,416.67</td>
</tr>
<tr>
<td>OTHER INTEREST AND DEDUCTIONS (See Note 4 on page 18).</td>
<td>779,197.23</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$6,370,586.12</td>
</tr>
<tr>
<td>LESS INTEREST CHARGED TO CONSTRUCTION</td>
<td>11,215.04</td>
</tr>
<tr>
<td>NET INTEREST AND OTHER DEDUCTIONS</td>
<td>$6,359,370.28</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>$8,776,936.86</td>
</tr>
</tbody>
</table>

Summary of Earned Surplus

EARNED SURPLUS, JANUARY 1, 1939. | $3,709,627.69 |
ADD: | |
Adjustment of Federal and State income tax accruals—prior years | 432,190.94 |
Adjustment of interest accrued on customers' deposits—prior years | 46,159.35 |
TOTAL | $4,187,977.98 |
DEDUCT: | |
Adjustment for amortization of debt discount and expense applicable to prior years | $1,972,753.19 |
Additional loss upon final liquidation of a former wholly-owned subsidiary | 110,594.73 |
BALANCE | $2,104,630.06 |
ADD NET INCOME FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1939. | $8,776,936.86 |
TOTAL | $10,881,566.92 |
DEDUCT: | |
Dividends on preferred ($7) stock | $2,597,644.00 |
Dividends on $6 preferred stock | 457,848.00 |
Dividends on $5 preferred stock | 791,040.00 |
Dividends on common stock | 3,852,144.75 |
TOTAL | 7,698,676.75 |
EARNED SURPLUS, DECEMBER 31, 1939. | $3,182,880.17 |

NOTE: Notes 2 to 6, on page 18, are integral parts of this statement and should be considered in connection therewith.
Pennsylvania Power & Light Company and Subsidiaries

STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS
For the Twelve Months Ended December 31, 1939

(Statement of consolidated income for the twelve months ended December 31, 1938 shown for comparative purposes)

### Consolidated Income

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1939</td>
<td>1938</td>
</tr>
<tr>
<td>Operating Revenues</td>
<td>$39,258,452.15</td>
<td>$39,237,335.38</td>
</tr>
<tr>
<td>Operating Revenue Deductions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operation, including taxes (see Note 5 on page 18)</td>
<td>$18,098,689.14</td>
<td>$19,055,876.35</td>
</tr>
<tr>
<td>Maintenance</td>
<td>3,113,199.48</td>
<td>3,085,758.55</td>
</tr>
<tr>
<td>Amortization of limited-term investments</td>
<td>36,192.49</td>
<td>12,041.60</td>
</tr>
<tr>
<td>Property retirement reserve appropriations</td>
<td>2,899,601.28</td>
<td>2,934,045.12</td>
</tr>
<tr>
<td><strong>Total Operating Revenue Deductions</strong></td>
<td>$24,147,682.39</td>
<td>$25,087,721.62</td>
</tr>
<tr>
<td>Net Operating Revenues</td>
<td>$15,110,769.76</td>
<td>$14,149,613.76</td>
</tr>
<tr>
<td>Other Income (net)</td>
<td>24,639.17</td>
<td>50,709.04</td>
</tr>
<tr>
<td><strong>Gross Income</strong></td>
<td>$15,135,408.93</td>
<td>$14,200,322.80</td>
</tr>
<tr>
<td>Interest on Mortgage Bonds</td>
<td>$4,725,972.22</td>
<td>$5,445,000.00</td>
</tr>
<tr>
<td>Interest on Debentures</td>
<td>865,416.67</td>
<td>600,000.00</td>
</tr>
<tr>
<td><strong>Total Interest and Deductions (see Note 4 on page 18)</strong></td>
<td>780,438.85</td>
<td>175,102.42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,371,827.74</td>
<td>$6,220,102.42</td>
</tr>
<tr>
<td><strong>Less Interest Charged to Construction</strong></td>
<td>$11,221.45</td>
<td>5,461.24</td>
</tr>
<tr>
<td><strong>Net Interest and Other Deductions</strong></td>
<td>$6,360,606.29</td>
<td>$6,214,641.18</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$8,774,802.64</td>
<td>$7,985,681.62</td>
</tr>
</tbody>
</table>

### Summary of Consolidated Earned Surplus

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Earned Surplus, January 1, 1939</td>
<td>$3,687,586.81</td>
</tr>
<tr>
<td>Adjustment of Federal and State income tax accruals—prior years</td>
<td>432,190.94</td>
</tr>
<tr>
<td>Adjustment of interest accrued on customers' deposits—prior years</td>
<td>46,159.35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$4,165,937.10</td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
</tr>
<tr>
<td>Adjustment for amortization of debt discount and expense applicable to prior years</td>
<td>$1,972,733.19</td>
</tr>
<tr>
<td>Additional loss upon final liquidation of a former wholly-owned subsidiary</td>
<td>98,497.92</td>
</tr>
<tr>
<td><strong>Balance</strong></td>
<td>$2,071,251.11</td>
</tr>
<tr>
<td><strong>Add Net Income For The Twelve Months Ended December 31, 1939</strong></td>
<td>8,774,802.64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$10,869,488.63</td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
</tr>
<tr>
<td>Dividends on preferred ($7) stock</td>
<td>$2,597,644.00</td>
</tr>
<tr>
<td>Dividends on $6 preferred stock</td>
<td>457,848.00</td>
</tr>
<tr>
<td>Dividends on $5 preferred stock</td>
<td>791,040.00</td>
</tr>
<tr>
<td>Dividends on common stock</td>
<td>3,852,144.75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,698,676.75</td>
</tr>
<tr>
<td>Consolidated Earned Surplus, December 31, 1939</td>
<td>$3,170,811.88</td>
</tr>
</tbody>
</table>

**Note:** Notes 2 to 6, on page 18, are integral parts of this statement and should be considered in connection therewith.
Pennsylvania Power & Light Company  
and Subsidiaries

NOTES

(1) Plant, property, and equipment (including intangibles) are stated on the basis of the companies' valuations thereof at acquisition where acquired by issuance of stocks and other securities or on the basis of cost where acquired for cash or constructed, less retirements at actual or estimated cost. The ledger value of plant, property, and equipment (including intangibles) does not purport to represent present realizable values or replacement costs.

(2) It has been the general practice of the companies to provide for retirements of property by making such provisions from current income as are considered by the management necessary to provide for retirements when they occur, such provisions being in addition to expenditures included in operating expenses to maintain the properties in condition to render adequate service. The provisions made for retirements do not purport to be calculated on the basis of estimated lives of the individual units of depreciable property.

(3) The system of accounts prescribed by regulatory authority provides that a study and reclassification of plant, property, and equipment (including intangibles) shall be made and that depreciation accounting shall be followed. The study by the Company and a subsidiary was in progress at December 31, 1939 and until it has been completed it is not known to what extent the related accounts may be affected.

(4) The accompanying statements reflect an adjustment recorded by the Company, as of May 31, 1939, reducing plant, property, and equipment (including intangibles) in the amount of $12,727,439.94, reducing earned surplus $1,972,753.19, reducing current income for the five months ended May 31, 1939 in the amount of $106,062.00, and increasing unamortized debt discount and expense in the amount of $10,648,624.75; thus providing for amortization of financing costs in connection with issuance of $100,000,000 first mortgage gold bonds, 4¾% series due April 1, 1981.

(5) In connection with refinancing by the Company in 1939, extraordinary deductions for income tax purposes of unamortized debt discount and expense, call premiums on bonds retired, and other related items, offset taxable income for the year 1939. Consequently the accompanying statements include no provisions by the Company for Federal or State income taxes for that year. Provision of approximately $1,446,000.00 for the year would have been required except for such extraordinary deductions.

(6) The accompanying statements do not reflect any adjustments on account of an order of The Public Service Commission of the Commonwealth of Pennsylvania which provided for a natural gas rate reduction in the Williamsport Division of the Company, estimated at the time to amount to approximately $10,000 a month to be effective after September 11, 1936. An appeal was taken to the Superior Court of Pennsylvania. Under date of July 15, 1937, the Superior Court handed down an opinion reversing the order of The Public Service Commission and remitting the record in the case to the Pennsylvania Public Utility Commission (successor to The Public Service Commission) for further action not inconsistent with the Court's opinion. Hearings were resumed in March, 1939, and the matter is still pending. The original order probably would have resulted in the rate reduction becoming retroactive to November 1, 1931, and might have involved approximately $903,000 in the aggregate at December 31, 1939.
Service and Property

The estimated population and the total number of customers served and some other statistics of the properties of the Pennsylvania Power & Light Company and Subsidiaries as of December 31, 1939, and for the twelve months period, compared with corresponding data for the previous year, follow:

<table>
<thead>
<tr>
<th></th>
<th>Consolidated</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1939</td>
<td>1938</td>
</tr>
<tr>
<td>Population served</td>
<td>1,684,000</td>
<td>1,683,000</td>
</tr>
<tr>
<td>Number of communities served</td>
<td>712</td>
<td>705</td>
</tr>
<tr>
<td>Number of customers served</td>
<td>469,047</td>
<td>463,723</td>
</tr>
<tr>
<td>Kilowatts generating station capacity installed</td>
<td>391,689(a)</td>
<td>391,689(a)</td>
</tr>
<tr>
<td>Miles of electric lines (all voltages), irrespective of the number of circuits carried (including services)</td>
<td>16,481(b)</td>
<td>15,972(b)</td>
</tr>
<tr>
<td>Kilowatt-hours generating station output (including power purchased) for twelve months</td>
<td>1,874,594,638</td>
<td>1,752,581,320</td>
</tr>
<tr>
<td>Gas works capacity (thousand cubic feet) per day</td>
<td>26,485</td>
<td>26,485</td>
</tr>
<tr>
<td>Gas holder capacity (thousand cubic feet)</td>
<td>5,996</td>
<td>5,996</td>
</tr>
<tr>
<td>Miles of gas transmission lines (including field gathering lines)</td>
<td>83</td>
<td>83</td>
</tr>
<tr>
<td>Miles of gas distribution system</td>
<td>595</td>
<td>594</td>
</tr>
<tr>
<td>Gas sendout (thousand cubic feet) for twelve months</td>
<td>3,285,093(c)</td>
<td>4,812,069(c)</td>
</tr>
</tbody>
</table>

(a) Includes 38,812 kilowatts capacity leased from Lehigh Valley Transit Company.

(b) Includes 2.5 miles leased.

(c) Includes 1,557,576 M. C. F. in 1939, and 3,107,248 M. C. F. in 1938 used as fuel in Company's Williamsport and South Milton electric generating stations.
BOARD OF DIRECTORS

FRED S. DURHAM . . . . . . Allentown, Pa.
President of Bonney Forge & Tool Works

C. M. WALTER . . . . . . Allentown, Pa.
Secretary and Treasurer of the Company

SETH T. McCOMINCK, JR. Williamsport, Pa.
Attorney

J. R. WARRINER . . . . . . Lansford, Pa.
President of Lehigh Navigation Coal Company, Incorporated

General Counsel for the Company

President of the Company

OFFICERS

President
J. S. WISE, JR.

N. G. REINICKER . . . . . . Vice-President and General Manager

C. M. WALTER . . . . . . Secretary and Treasurer

L. W. HEATH . . . . . . Vice-President in charge of Divisions

L. K. BINGAMAN . . . . . . Assistant Secretary and Assistant Treasurer

J. M. HUEBNER . . . . . . Vice-President

T. F. CARTER . . . . . . Assistant Secretary and Assistant Treasurer

Lancaster Division

W. M. BROOKS . . . . . . Assistant Secretary and Assistant Treasurer

P. A. McCARON . . . . . . Vice-President

M. H. PARKINSON, JR. Assistant Secretary, Assistant Treasurer and Manager of Accounts

Pottsville-Schuylkill Divisions

W. L. DAVIS . . . . . . Auditor

D. A. ELIAS . . . . . . Vice-President

Transfer Agents
(For Preferred Stocks)
Lehigh Valley Trust Company
Allentown, Pa.

and
Bankers Trust Company
New York, N. Y.

Registrars
(For Preferred Stocks)
The Allentown National Bank
Allentown, Pa.

and
Guaranty Trust Company of New York
New York, N. Y.