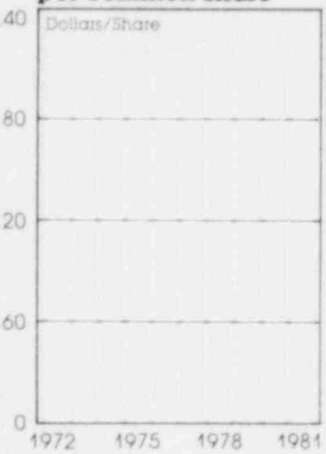
The Toledo Edison Company

1981 Annual Report

Toledo Edison

Dividends declared per Common Share



Highlights	**1981**	1980	Change
Common Stock			
Earnings Per Share			
Before Extraordinary Gain	**$2.77**	$2.56	+21¢
After Extraordinary Gain	**3.27**	2.56	+71¢
Dividends Declared Per Share	**2.30**	2.20	+10¢
Operating Results (millions)			
Operating Revenues	**$442**	$402	+10%
Operating Expenses	**339**	322	+6%
Operating Income	**103**	80	+28%
Construction and Financing (millions)			
Construction Expenditures	**$199**	$235	−15%
Internally Generated Funds	**44**	22	+100%
External Financing	**122**	190	−36%

Price Range and Dividends Paid Per Share of Common Stock

	1981				1980			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Price Range								
High	17¾	18⅜	16⅞	17⅜	18⅝	20¾	19½	18½
Low	15¼	15½	15⅝	15	15¼	15⅜	17⅜	15
Dividends Paid*	.55	.57	.57	.57	.55	.55	.55	.55

*The dividend paid in January, 1982 was increased to $.59 per share.

The Common Stock is listed on the New York Stock Exchange. These price quotations are from The Wall Street Journal. The number of common stock shareholders as of December 31, 1981 and 1980 were 85,683 and 84,855 respectively.

About Toledo Edison

The Toledo Edison Company is a public utility whose primary activities are the generation, transmission, distribution and sale of electric energy in Toledo and northwestern Ohio. Servicing approximately 2,500 square miles with an estimated population of 750,000, the Company also provides relatively small amounts of natural gas and steam heating services. Toledo Edison is owned by over 100,000 shareholders in all 50 states and in many countries throughout the world.

1981 Annual Report

Toledo Ohio: The Uncommon City

Our 1981 Annual Report takes somewhat of a departure from the considerations of past years. We've taken an enlightening look at the fabric of life in our service area—what our city is all about, the people, the places, the pleasant peculiarities of our social and cultural life. This narrative, complemented by an infrared photographic portrait of the city, offers an uncommon look at Toledo, Ohio, the Uncommon City.

The core of our company, downtown's 17-story Toledo Edison Plaza, serves as a physical reminder of our commitment to Toledo. Some 12 years ago, when we were deliberating over the site for our new headquarters building, downtown Toledo was in the throes of urban decline. We felt a responsibility to reverse that trend and thus decided to locate our offices downtown, the heart of any urban area. In addition, John P. Williamson, our chairman and chief executive officer, headed the first redevelopment committee's efforts to promote similar renewal along the downtown riverfront. It was our hope that this bold commitment would be viewed by others as an invitation for further development. Years later, with the newly completed glass tower of Owens-Illinois, the new Toledo Trust building and other downtown construction activity underway, along with the revitalization that has taken root in Toledo's fine neighborhoods as well, we see that our investment was not in vain.

Newcomers are impressed that Toledo possesses the amenities of a small city while maintaining the high quality of services and opportunities traditionally associated with big-city life. As a result of this uncommon blend of sociological extremes our business, educational, medical and civic leaders can function more effectively because of frequent interpersonal contact.

For those of you who know the Toledo area we hope you enjoy this cross-section of local life, included in this year's Annual Report. For our readers unfamiliar with our service area, our tribute to the city should underscore and explain our longstanding commitment to this vibrant corner of Ohio.

To Our Shareowners

It gives me great pleasure to report that Toledo Edison experienced a financially good year in 1981.

Our 1981 earnings per share increased 71 cents to $3.27, from $2.56 in 1980. Major factors in this increase were the efficient performance of our generation system and an increase in our rates effective in April. This includes an extraordinary gain of 50 cents per share, resulting from our innovative common stock-for-bonds exchange in the fourth quarter.

Common stock dividends were increased twice in 1981. A two cent per share increase was voted by the Board of Directors in March followed by another two cent increase in December. This was the 17th dividend increase since we started our policy of periodic increases in 1962. The current dividend rate is now 59 cents per share, or $2.36 per share on an annualized basis. The company has now established a record of 60 years of continuous dividend payments.

Two improvements in our dividend reinvestment plan should enhance the attractiveness of your Toledo Edison shares in 1982.

- A five percent discount to shareowners on shares purchased with reinvested dividends will be given starting with the April payment.
- A new tax benefit for reinvested earnings is provided in the Economic Recovery Tax Act of 1981. From 1982 through 1985, participants in qualified public utility dividend reinvestment plans, including Toledo Edison's, will be permitted to reinvest up to $750 a year ($1500 on a joint return) in dividends and defer paying any federal income tax on those dividends until the shares are sold. We expect to formally qualify our plan, although final rules and regulations have not been issued by the Internal Revenue Service.

Our earnings increase was achieved despite a three percent decrease in our kilowatt-hour sales last year. Industrial sales especially were affected by a large drop in output at our local oil refineries due to decreased gasoline consumption last year. Sales to motor vehicle manufacturers actually showed a net increase for the year due to production work being shifted into our modern and efficient local auto plants' manufacturing facilities. Residential sales were down, principally due to very mild summer and winter weather in 1981 along with some conservation efforts by our customers. Commercial sales for 1981 remained fairly constant. Sales to municipals for resale dropped 20 percent as they shifted their peak time summer loads to other government sources, freeing some of our low-cost capacity for our own customer needs.

We maintained our net generating mix of 29 percent nuclear and 71 percent coal-based output. Our Davis-Besse Nuclear Power Station accounted for a greater percentage of total generation than ever before.

Completion of our current generation expansion projects in the late 1980's will provide an economic capacity mix of 45 percent nuclear and 50 percent coal-fired capacity. The remainder will be economical, limited-usage peaking-type units. This combination of low cost nuclear fuel and highly efficient coal generation should, in future years, play a vital role in sustaining the financial viability of your company and holding down our prices to our customers.

Davis-Besse generated electricity 67 percent of the time in 1981, almost double the 1980 total and the best record in its four-year operating history. To take advantage of its low nuclear fuel costs, the station was scheduled so as to produce about 29 percent of our customer requirements even though it represented only 25 percent of our capacity mix. This translated into a significant savings in fuel costs for our customers of $39 million in 1981.

In February of this year, Davis-Besse will be taken out of service for its second refueling. About one-third of the fuel will be replaced and the remainder will be repositioned in the reactor vessel to provide a more even core configuration. The process is repeated every 12 months currently, but we are moving towards an 18-month cycle by 1985. Necessary inspection and

maintenance tasks as well as some additional required plant modifications will be performed during this year's outage.

Fossil fuel generation provided 71 percent of our customer requirements in 1981. Bay Shore Station, still rated among the most efficient of all the hundreds of fossil power plants in the nation, produced half of the system output. And the new Bruce Mansfield coal units in western Pennsylvania, in which we have partial ownership, provided us with another 14 percent.

Our coal-fired units are a dependable source of electricity for our customers and they are also a testament to our commitment to maintaining the clean environment of the Toledo area. We have completed investing $326 million in environmental improvements at all coal-fired facilities over a six-year period. As a result, our generating stations are now among the most environmentally acceptable operating in the country. Our sulfur dioxide emissions are the lowest of any electric utility in Ohio.

The company negotiated financing in 1981 that should prove very beneficial in the long term. A significant move was the exchange of new shares of common stock for some previously outstanding company bonds. The bonds were reacquired from a brokerage firm at a price about 40 percent below their face value. The exchange provided a higher value for the stock issue while also improving the ratio of the equity portion to the debt portion of our capital structure. Because of accounting requirements, this exchange resulted in an extraordinary credit of 50 cents per share in our 1981 earnings. We believe this was the first such transaction of its type in the utility industry and is a credit to the creative thinking of our financial management team.

Other innovative actions were taken as a means of having additional financial flexibility to meet changing future conditions in the securities markets. In November, a Netherlands Antilles corporation was organized as a wholly-owned subsidiary to serve as a financial corporation to raise longer-term funds outside the United States. This complements a "Eurodollar" revolving line of credit that was established in 1980 to facilitate this entry into the European long-term capital markets as well as to provide greater availability of short-term credit.

Two-thirds of our 1981 construction expenditures were for our share of three nuclear units being built by the Central Area Power Coordination Group. These units are scheduled to add 646,000 kilowatts to our system by 1988. Our construction investment of $199 million in 1981 reflected a reduction for a second consecutive year.

We must depend on rate increases for the earnings necessary to attract financing for these projects. We were granted an 18 percent rate increase in 1981 and have requested an 11 percent increase for 1982.

As part of the April 1981 rate increase, The Public Utilities Commission of Ohio approved recovery, over a ten-year period, of the Company's $47 million share of the $240 million already spent on four terminated CAPCO generation projects. However, in July, 1981, the Ohio Supreme Court, in a split decision, ruled that the PUCO had exceeded its Ohio statutory authority by allowing another Ohio utility to recover its investment in the same four units from its customers.

Your Company was not a party to this ruling, but an intervenor in our 1981 rate case appealed to the Commission for a reduction in our rates as a result of the Court's decision. The PUCO, in October, reaffirmed the fairness of our rates after a hearing on the appeal, noting that our current rates would be justified even without the cancellation cost recovery. The Commission also decided not to order an immediate write-off of our remaining investment in the four units and deferred for future consideration the impact of the Ohio Supreme Court decision.

We at Toledo Edison are confident that the economic conditions will improve in 1982. Our task of managing the company efficiently during these times was made possible only because of our talented and industrious team of officers, managers and employees. We truly appreciate their efforts.

We also extend our thanks to you, our extremely supportive stockholders, for your dedication and loyalty. Rest assured that our management team is doing its utmost to augment your investments and justify your continued confidence in Toledo Edison.

Cordially,

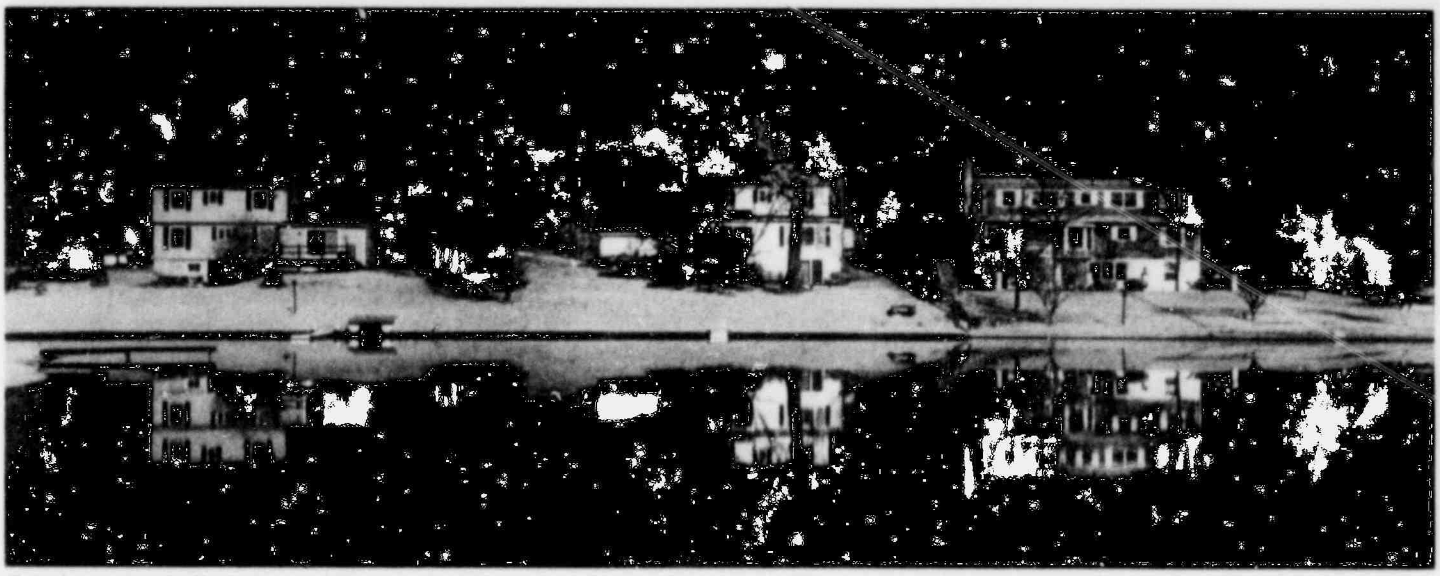
John P. Williamson

John P. Williamson
Chairman and Chief Executive Officer

Wendell A. Johnson

Wendell A. Johnson,
President and Chief Operating Officer

The Uncommon City



Toledo prides itself on fine residential neighborhoods proximate to a wealth of civic, educational and cultural institutions.

Toledo Edison is proud of its position as a leader in the life of the Toledo metropolitan area. For decades the company has been one of Toledo's major employers, and its employees have maintained a tradition of public service aimed at improving the quality of life in their city. Toledo Edison people have been active in urban redevelopment, the arts, the United Way and nearly every other aspect of the community's existence. Beyond that, the company itself has been a pioneer in the redevelopment of the Toledo city center.

Working in concert with public and private agencies, Toledo Edison has acknowledged its corporate responsibility to be a good neighbor. We have shared in preserving the historic treasures of the city while supporting exciting new facilities that beautify the area, and act as catalysts for modernization.

More importantly, Toledo Edison has done for Northwest Ohio what only a forward-looking power company can do—provide a dependable supply of electrical power to the district's homes, businesses and industries.

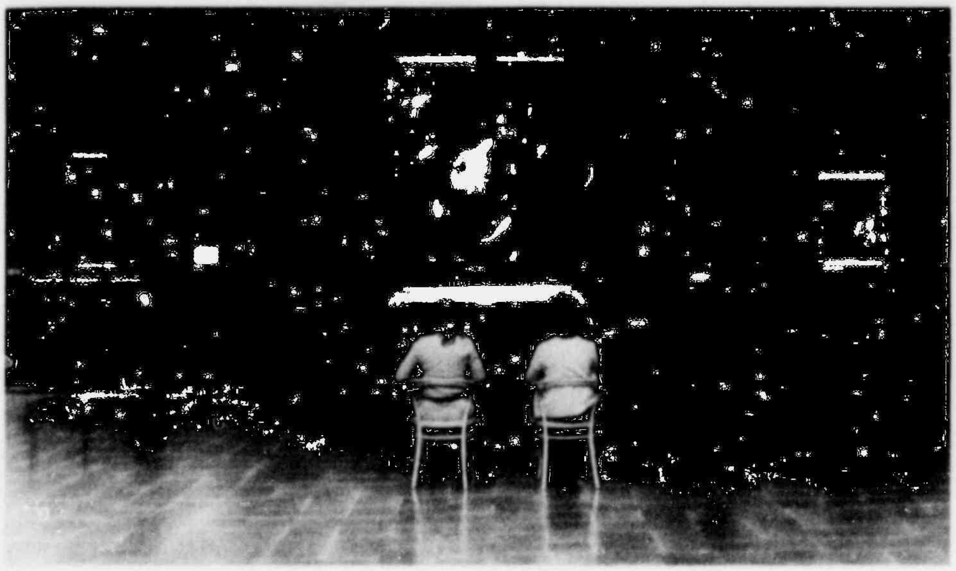
The history of Toledo is the story of the Maumee River and the Great Lakes, but modern life demands more than geographic advantage. It requires stable, progressive citizens who understand the challenges of tomorrow while venerating the institutions of the past.

The foremost cultural institution in Northwest Ohio is the Toledo Museum of Art. The stunning neoclassic structure houses one of the nation's most diverse collections. Art dating to ancient civilizations finds a home there within more than eight acres of floor space along with some of the best contemporary works.

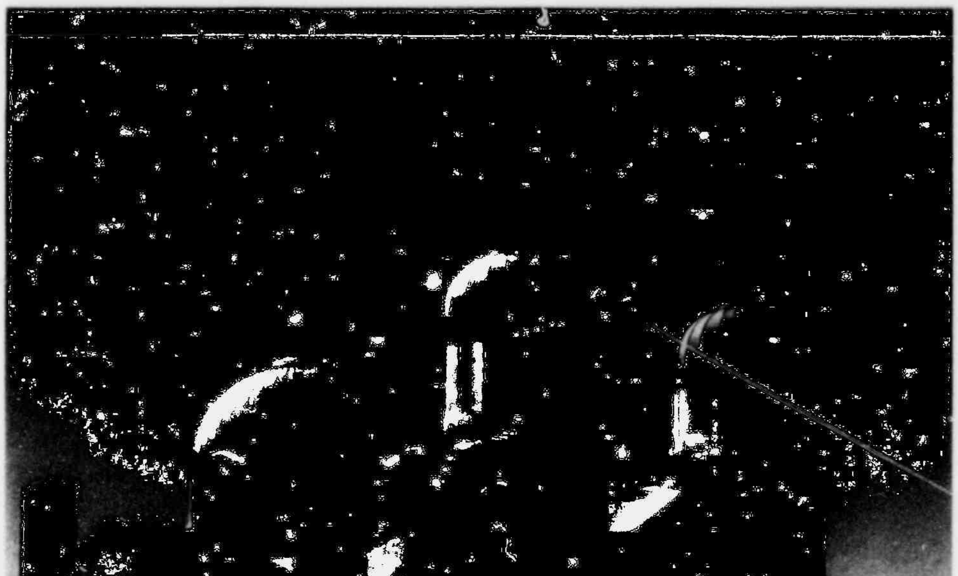
Toledo is world famous as The Glass City, and the 5,000-piece display in the Toledo Museum of Art chronicles the city's heritage as the pre-eminent producer of industrial and artistic glass. The museum's Peristyle is one of the nation's oustanding concert halls. Tours and classes at the museum, in conjunction with city schools and the University of Toledo, reach thousands of Toledoans each year from pre-school age to senior citizens. Since its founding in 1901, the museum has had more than 19 million visitors.

Sculpture of naturalist John Burroughs

Its Culture



Museum visitors view Rubens' "Crowning of St. Catherine."



The Owens-Illinois Building (background) heralds the city's Glass Capital role.

The Toledo-Lucas County Public Library is in the heart of the downtown area at Michigan Street and Madison Avenue. It features a striking art-deco interior and wide-ranging collections. The library, opened to the public in 1940, is headquarters for a county-wide system that operates through branch offices and bookmobiles to offer the institution's riches to all of Lucas County's residents.

One cannot survey the plentiful cultural life of Toledo without appreciating the work of the Symphony Orchestra, the Concert Band and the Opera Association. These organizations bring the best in music to city dwellers, suburbanites and visitors alike, performing at the Museum of Art Peristyle, the Masonic Auditorium and at the zoo amphitheatre during warm weather. Symphony musicians also visit senior citizen centers, schools and hospitals throughout the district.

Zoos are generally considered to be recreational facilities, but one as fine as Toledo's deserves to be listed as a cultural asset to Northwest Ohio. It's hard to guess what the animals think, but most humans recognize the Toledo Zoo as one of the 10 best in the United States. Like much of the metropolitan area it serves, the Toledo Zoo is a happy blend of the old and the new. The fine amphitheater and solid display halls date to the 1930s and provide outstanding facilities in the old-time zoo style. Grafted onto the central Zoo are brilliantly conceived new facilities like the Rare Mammal Building.

The Zoo is one of Toledo's oldest and most successful tourist attractions. It is open 364 days a year, with Christmas being the animals' only holiday. Toledoans as well as visitors take advantage of its charms, and last year more than 850,000 people crowded through its turnstiles.

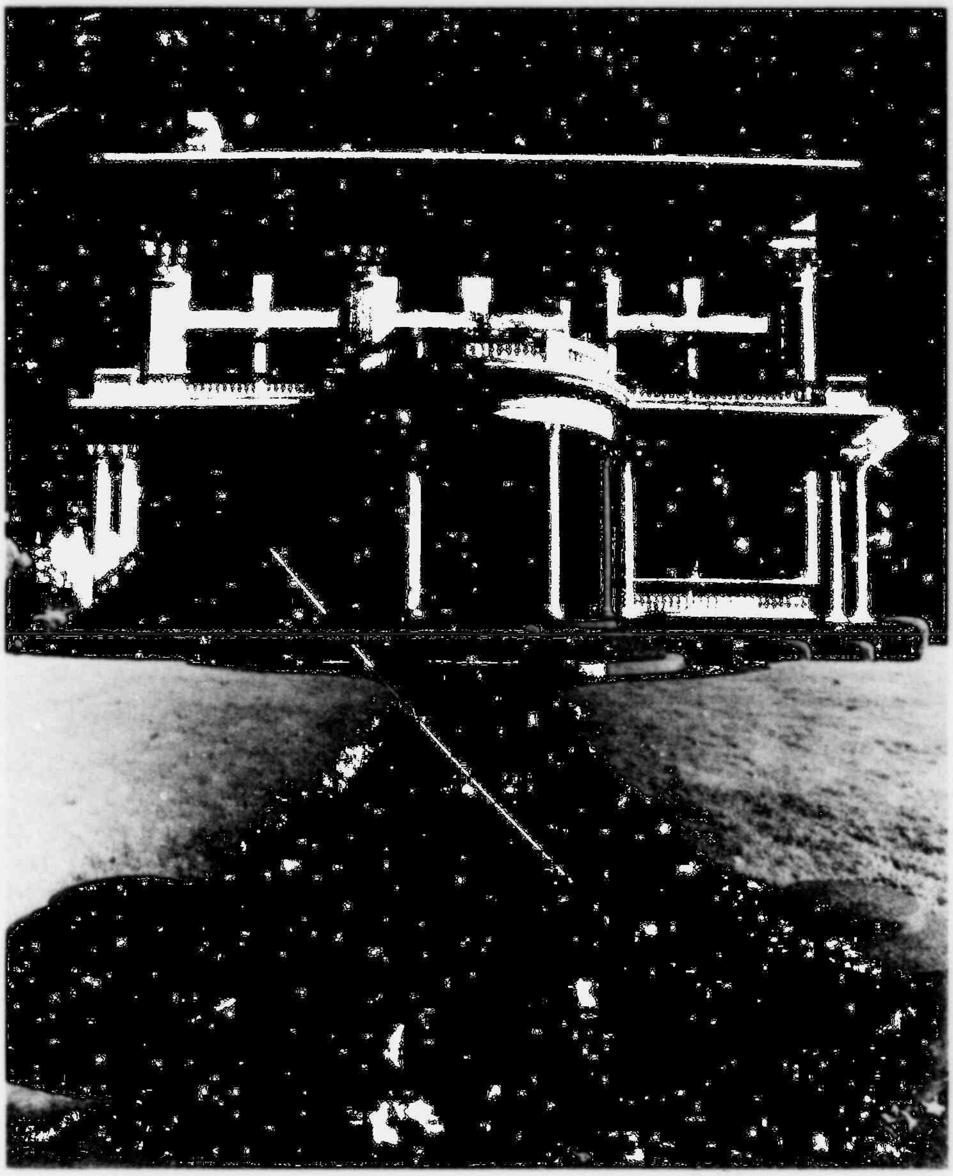
From high culture to pop culture to fun culture, Toledo offers its residents a full range of institutions that compares favorably with some of America's largest cities, yet it holds all of those cultural benefits within easy reach of Northwest Ohio's three-quarters of a million residents.

The Uncommon City

While the West Side is the cornerstone of Toledo's urban sophistication, East Toledo is home for some of the city's most secure and traditional residential districts. East Toledo features small, sensible homes that sprang up around the industrial facilities where their builders earned their wages. That hasn't changed much in the last century, as East Toledoans comprise many of the skilled workers who operate the tools and controls at the city's plants and factories.

The suburban Village of Ottawa Hills offers a gracious lifestyle within easy commuting distance of the downtown district. Homes that range from tastefully modern to purely elegant grace its parklike environs. Some 30,000 people reside in Sylvania Township and the City of Sylvania northwest of Toledo. As its name suggests, the district is heavily wooded and quiet, yet is conveniently situated for shopping, medical care and travel to the city.

The Old West End of Toledo is one of the best residential expressions of the city's spirit of renewal. Fine old homes dating to the turn of the century which might have fallen into disrepair and become nuisances are being bought and restored or remodeled for stylish modern housing. The Old West End offers its residents a brisk walk or a short transit hop to major office buildings along Summit Street at the river's edge.



American Gothic homes bring small-town New England reminiscences.

Across the river and south of town, Perrysburg is one of Northwest Ohio's most historic locations and one of its best residential sections. Although less than 20 minutes from downtown, the Perrysburg area boasts charming homes and shops that seem centuries removed—rather than a few miles distant—from the bustle of commerce downtown. Another popular riverside city is Maumee, southwest of downtown Toledo. Many of the city's executives choose to live in Maumee because of its historic elegance and quiet residential style.

Supporting these and dozens of other residential communities is a comprehensive network of shopping malls that range from quaint town malls to the giant shopping complexes that surround the city. The district also boasts several one-of-a-kind shopping facilities.

Its Homes

Modern suburban neighborhoods offer a gracious lifestyle.

Architectural diversity is shown by English Tudor home.

Quiet, tree-lined streets typify the close-in residential areas.

The Toledo market area comprises the counties of Lucas, Fulton, Ottawa and Wood in Ohio, and Monroe County across the state line in Michigan. Most recent census figures show a total population of 781,600 in 276,170 households. Total annual retail sales within the area amount to nearly $3 billion.

Estimated consumer spendable income for the five-county region is $5.8 billion a year. Median family income ranks eighth in the nation. Census figures show that more than 71 percent of the families in the five-county area own their own homes.

A key part of the quality of life in the Toledo area is the availability of the Metropark system. This network of nine outdoor facilities spanning some 6,000 acres around the metropolitan area puts the great outdoors within easy reach of most city residents. To single out an example, few parks anywhere can compare with the Side Cut Metropark south of town along the banks of the Maumee. Another asset to the park system is typified by Fort Meigs State Memorial Park—a restored riverfront fortress dating to the War of 1812.

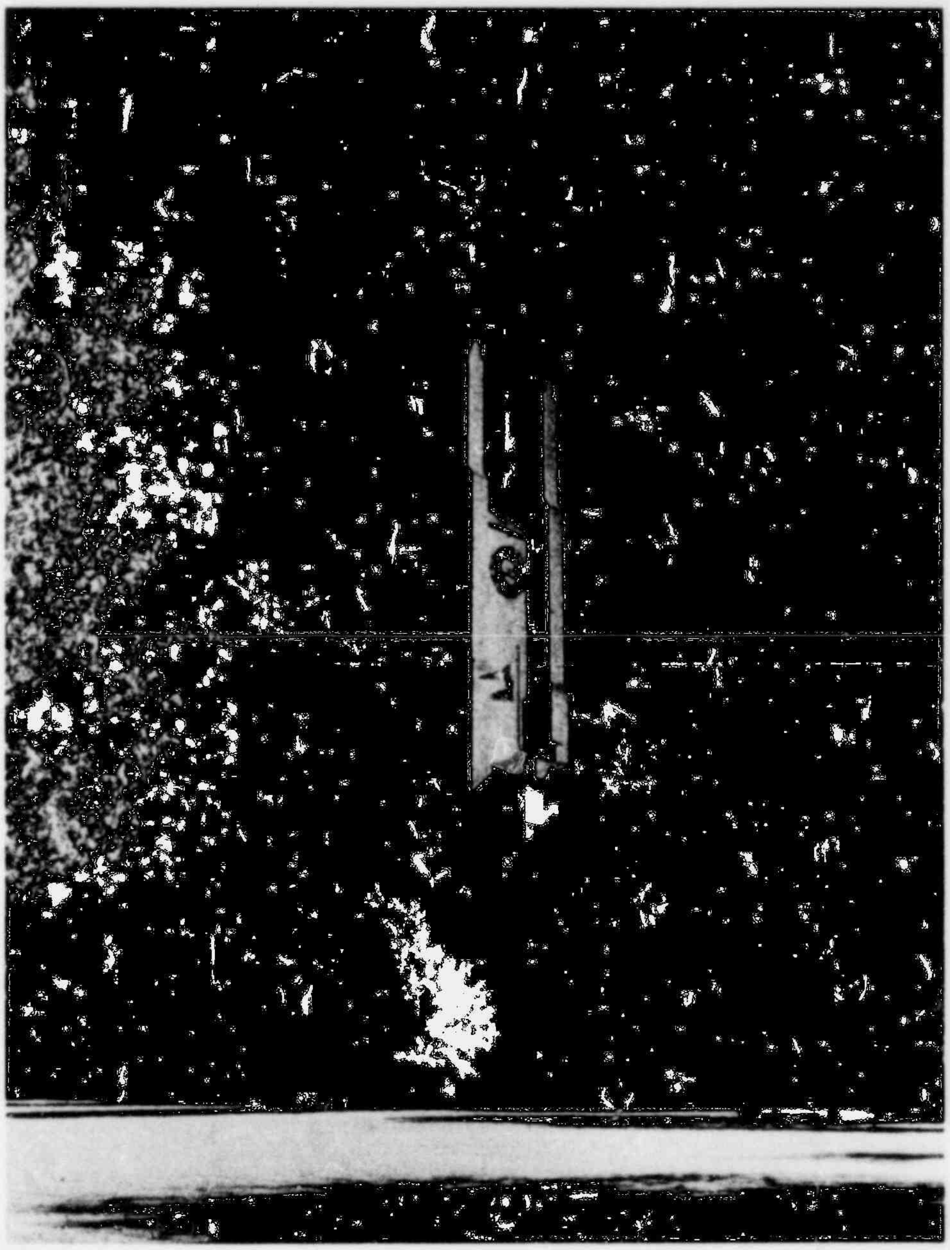
In all, more than 100 parks ranging from neighborhood playgrounds to huge state facilities are available to Toledoans, providing wholesome outdoor recreation for the city's hard-working business and industrial employees, children and senior citizens.

The Uncommon City

The educational world in Toledo is synonymous with the University of Toledo. The state-operated institution occupies two campuses on the city's West Side and reaches more than 17,000 students annually. The wide scope of course offerings makes it an attractive choice for local students who wish to continue their education without leaving home or assuming the crushing debts that often accompany college life. Course work leading to baccalaureate and graduate degrees is offered at the Main Campus, along Bancroft Street, while the Scott Park Campus offers two-year associate degrees in technical studies. More than 54,000 degrees have been conferred by the university during its 110-year history.

The campuses are centrally located within the metropolitan area, a situation greatly appreciated by commuting students and the thousands of children and adults who take advantage of the university's enrichment classes and cultural and research facilities. Despite its size and student capacity, the University of Toledo's main campus is relatively compact, snuggled within a ten-by-six-block area that contains major facilities like the Glass Bowl Stadium, Centennial Hall arena and University Hall, but still maintains wide green spaces and substantial wooded areas. The campus is a jaunty, congruent blend of Gothic architecture reaching from University Hall's tower to the Carlson Library, Law School and Dana Engineering Science Building.

The Toledo district's second major general educational institution is Bowling Green State University, 15 miles southwest of the city near Interstate 75. Bowling Green is situated on a 1,200-acre campus that is home for more than 15,000 students. The University offers comprehensive curricula for bachelor's, master's and doctoral degrees.



The University Hall Tower—a dominant landmark on the University of Toledo campus.

Withing an hour's drive by interstate highways to the north of Toledo is the University of Michigan at Ann Arbor. A great educational complex, it is also the scene each fall of outstanding football games in its 106,000-seat stadium—one of the largest in the country.

Among the dozens of other colleges, universities and technical schools within Toledo Edison's service area, some of the most

Its Sciences

prominent are Wayne State and the University of Detroit, both in Detroit, and Defiance College, 50 miles southwest of Toledo.

Residents of Northwest Ohio depend heavily on these and other institutions for undergraduate work, adult enrichment programs, advanced degrees and a wealth of research, cultural and entertainment pursuits.

The newest of all Toledo's institutions of learning is the Medical College of Ohio at Toledo. Incorporated in 1972, the school is visually stunning and academically excellent. Graduate training is offered in 16 medical specialties. More than 700 medical doctors have graduated since MCO was founded. The medical college is a major element in the outstanding system of health care with which Toledo is particularly blessed. In addition to the college there are eight other hospitals to provide for residents' health needs. They include Toledo Hospital, the district's largest with nearly 800 beds; St. Vincent Hospital and Medical Center; Flower Hospital in Sylvania; Riverside Hospital; Mercy Hospital; St. Charles Hospital; St. Luke's Hospital and Parkview Hospital-Osteopathic.

For a city the size of Toledo, such a wide variety of medical facilities is remarkable. Specialized medical techniques normally associated only with large cities—such as open-heart surgery, critical burn care, the Life Flight helicopter service and regional emergency medical ambulance service—are available locally to Toledoans.

Toledo Edison is excited to be a part of the city's educational community. We actively recruit from graduating classes at local institutions, especially in technical disciplines, to help maintain our high level of dependability in power generation and to bolster our commitment to environmental protection and quality of life. In recent years with the addition of our Davis-Besse Nuclear Power Station, an even greater need has developed for a dependable cadre of engineers, physicists, theoreticians, biologists and management specialists—to name just a few—to maintain our constant flow of clean power and a healthful environment.

Flower Hospital in Sylvania.

The Medical College of Ohio.

To meet that objective, Toledo Edison works cooperatively with the Ohio State University and the area's own universities and technical schools in work-study programs, tours, and research to help buttress within our student community that dedication to technical expertise and ecological sensitivity we have chosen as our guiding philosophy. The company even operates its own continuing education program for Toledo Edison employees at the Energy Education Center at Davis-Besse. Instructors from Ohio State University teach classes at the center for both degree and non-degree work, primarily in technical studies. The program benefits Toledo Edison employees at all levels within the company to expand their education and skills for personal enrichment and job advancement.

The Uncommon City

The most impressive testimony to Toledo's big-time status is the presence of seven of the nation's largest industrial corporations with home offices in the Toledo area. They are Owens-Illinois, Inc., Owens-Corning Fiberglas Corp., Libbey-Owens-Ford Co., Sheller-Globe Corp., Questor Corp., Dana Corp., and Champion Spark Plug Co. The city historically was a little sister to Detroit and the auto industry, but modern times have seen Toledo's industrial giants diversifying and specializing to such an extent that the city's economic well-being no longer is directly dependent on that of the Motor City.

Toledo remains the nation's largest manufacturing center for automotive parts, but she also is the glass capital of the world. She is a leader in production of spray painting equipment and food processing.

The glass industry is Toledo's special asset. As electric power takes on more and more of the industrial functions once served by coal and natural gas, Toledo Edison is assuming an ever-larger role in the vitality of the glass business which affects the building and transportation industries at all levels. From the electricity that powers an arc furnace to melt sand to the

The new Toledo Trust Building, a sign of downtown's renewal.

security alarm at the glass factories' loading docks, Toledo Edison is behind the glass industry. Our innovations, like the continually improving operation of the Davis-Besse power station, help us to bolster the investments the glass companies have made in our city.

The American auto industry is headquartered in Detroit, just 50 miles away, but the rugged, popular Jeep is manufactured in Toledo. This district also is the home of the automotive parts industry that keeps America's cars running.

Its Industry

Modern industrial parks are designed to blend with surrounding residential areas.

Toledo is the home of seven Fortune 500 companies.

Toledo Edison takes satisfaction in our ability to do the difficult but essential work of business while preserving the natural beauty of our land, water and air. Our pollution control and waste disposal systems are among the very best in the industry. When our Davis-Besse nuclear plant was built we took care not only to develop a safe, clean generating facility, we took the extra step of assuring that the land around the station would continue as a wildlife refuge. It is a source of pride to the Toledo business community that we and our industrial neighbors have been eager to do more than is necessary to maintain our quality of life.

The Uncommon City

Toledo can rightly claim to be an ideal size. She is small enough to offer her inhabitants easy access to all sectors of the metropolitan area, ideally situated for travel throughout the Midwestern United States and Canada, and large enough to afford the sophistication, tempo, culture and progress that only a major city can contain. Her medical, cultural and residential offerings are first-rate. The Toledo Express Airport is within minutes of the downtown district, and Detroit Metro Airport is just an hour away.

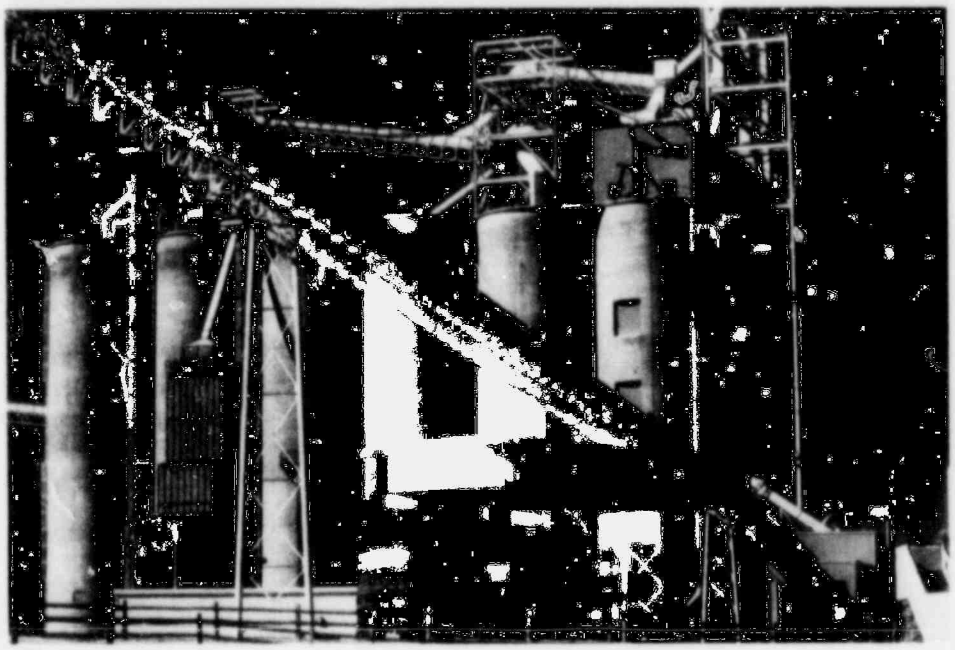
The Toledo district is unique in its blend of heavy industry, business and agriculture. The Maumee River provides not only an ideal water supply for farming, but a natural conduit to ship agricultural goods to the Great Lakes—and from there all over the world. That happy balance remains today, as Toledo enjoys the unusual benefit of serving as a center for industry, shipping and farming. The Port of Toledo is the third largest on the Great Lakes.

Corn is the leading agricultural product, followed by soybean and wheat. During 1980, 160 million bushels of these products were shipped from the port. That accounts for 4.5 million tons of grain that traveled from the Maumee River to Lake Erie.

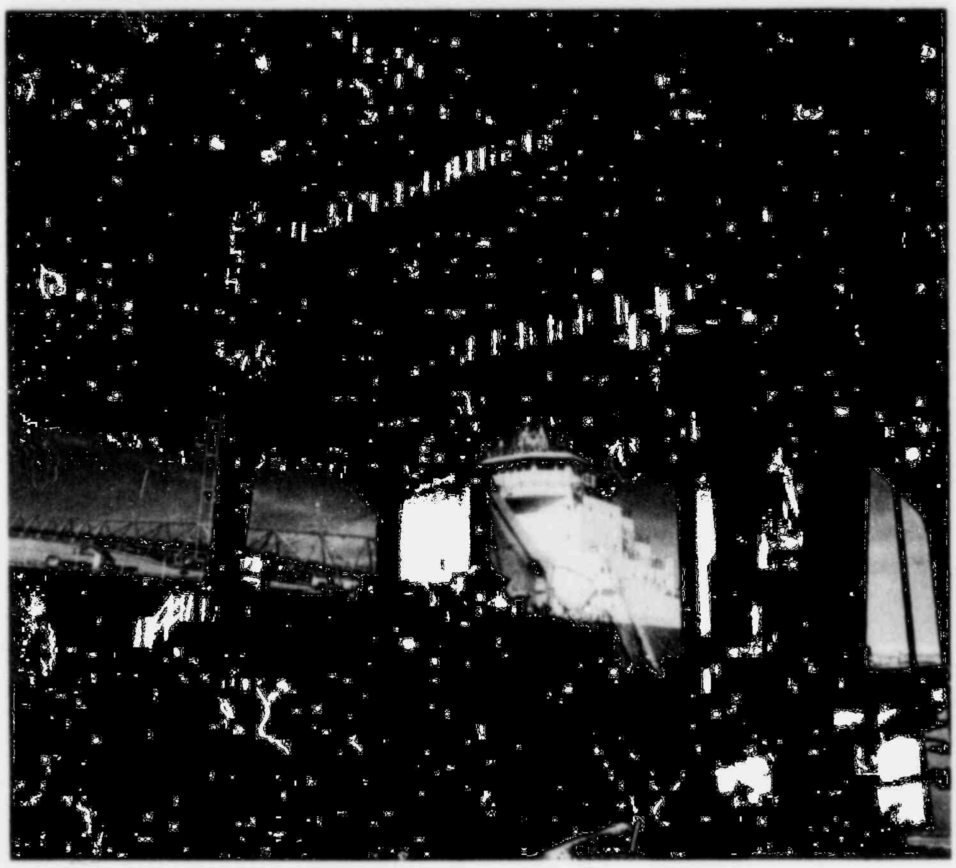
One need only view the colossal grain facility operated by The Andersons upriver on the Maumee to realize that agriculture is big business, too. Man-made mountains of grain pass through the facility enroute to food processors worldwide. That grain comes in from throughout Northwest Ohio and helps feed the world.

Toledo Edison Plaza (background) blends the new with the old.

Its Business



The Andersons' grain facility, part of the area's growing agribusiness.



The Port of Toledo is the third largest on the Great Lakes.

The Port of Toledo also ships coal, iron ore, dry bulk and petroleum products. Toledo is the largest petroleum refining center between Chicago and the East Coast. During 1980, more than 600,000 tons of petroleum derivatives departed from the port.

We at Toledo Edison take special pride in our role as a prime mover in the district's rebirth. But we're even more proud of the essential function we fill in helping our business neighbors follow suit. It was Toledo Edison power that helped build the city's new office centers, and it will be our power on which they operate in the future. Our electricity will power the sensitive testing equipment and laboratory machinery on which our future doctors are being trained at the Medical College. Our power will operate the telephones, cash registers, computers and conveyor belts on which all of Northwest Ohio's business community depends. When a residential contractor sands a floor in Defiance, Toledo Edison will be behind him. Our electricity will light the streets of the district and help keep residents safe.

From private homes to small businesses to schools, hospitals, restaurants and refineries, we are proud of the work Toledo Edison and its people have done in meeting the demands and anticipating the future needs of Northwest Ohio for reliable electrical power and a good corporate neighbor. We are gratified with the way we have been able to perform an uncommon job for the Uncommon City—Toledo.

Management's Discussion and Analysis of Results of Operations and Financial Condition

The Company continued an uninterrupted common stock dividend record in 1981 extending 60 years, from 1922 to the present. In March 1981, the dividend was increased from 55 cents to 57 cents per share. The rate was increased again in December to 59 cents per share. These dividend increases are in keeping with our policy of regular increases for our shareowners in an effort to help offset the impact of inflation on your investment. For federal income tax purposes, the Company estimates that 45.9% of the 1981 common stock dividends will be considered a return of capital.

OPERATING RESULTS IMPROVED IN 1981

Earnings per share increased in 1981 as a result of good operating performance and the settlement of outstanding insurance and tax litigation combined with an extraordinary gain late in the year. Earnings increased to $2.77 per share before the gain and $3.27 after the extraordinary gain as compared to $2.56 in 1980 and $2.65 in 1979.

Despite the continuing recession in our service area, 1981 was overall a better earnings year for the Company than the previous two years. 1981 earnings increased due to higher rates and revenues, the good performance of the Davis-Besse Nuclear Power Station throughout the year, profits from substantial power sales to neighboring utilities, the effects of tight cost controls, a non-recurring receipt of $4.8 million of insurance proceeds, and a non-recurring reversal of $3.6 million of Pennsylvania gross receipts taxes.

The Company has experienced annual increases in total operating revenues during the last three years. The increase in 1981 over 1980 is primarily due to increases in rates, partially offset by decreased fuel recovery revenues and a 3 percent decrease in kilowatt-hour sales.

The Company's July 1980 rate increase request was granted in April 1981 by The Public Utilities Commission of Ohio (PUCO) affecting retail electric customers. The increase was the full amount of an 18.3 percent request and yielded $64.5 million annually in additional revenue. As part of this rate increase, the PUCO also approved recovery, over a ten-year period, of the Company's share of the costs incurred in the four generating units terminated by the Central Area Power Coordination Group (CAPCO). Concurrent with the rate increase in April, the Company commenced the write-off, against current earnings over a ten-year period, of the cost of the four cancelled units. This amounted to an amortization expense of $3.3 million in 1981.

In July, 1981, the Ohio Supreme Court ruled that the PUCO had exceeded its Ohio statutory authority by allowing another Ohio utility to recover its investment in the same four units from its customers. Our Company was not a party to this ruling. In late January, 1982, the United States Supreme Court declined to review the Ohio court's decision.

The Company's current electric rates were found to be reasonable by the PUCO following an October 13, 1981 hearing. The Commission was acting in response to an intervenor's appeal to the PUCO for a reduction in our rates as a result of the Court's decision in the other utility's case. The Commission concluded that the Company's rates were in all respects reasonable and should not be reduced. The PUCO also decided not to order the Company into an immediate write-off of its remaining investment in the four units cancelled in 1980 and deferred consideration of the impact of the Ohio Supreme Court decision until the Company's new rate case, described below. The Company's unamortized share of the costs incurred to date in the units is about $43 million which could result in an estimated net-of-tax reduction to earnings of about $27 million in the year of the write-off. The ultimate effect of the Ohio Supreme Court decision on the construction of future generating units, on financing plans, and on Ohio regulation generally, is not determinable at this time.

Application for an additional rate increase of about 11 percent, to yield $48 million annually, was filed with the PUCO on August 21, 1981. A final decision by the Commission can be expected sometime in the spring of 1982 based upon the usual processing time. The rate increase is needed to offset continued inflationary increases in our operating expenses and financing costs, the costs of complying with environmental regulations, and the higher risk factor to our investors as a result of the Ohio Supreme Court decision.

The second step of an increase in wholesale electric rates, applied to 14 municipal systems and one rural electric co-operative, went into effect on April 1, 1981. The Federal Energy

Regulatory Commission authorized the Company to place the first step of the increase into effect on October 1, 1980. The two-step increase yielded $6.2 million annually in additional revenue.

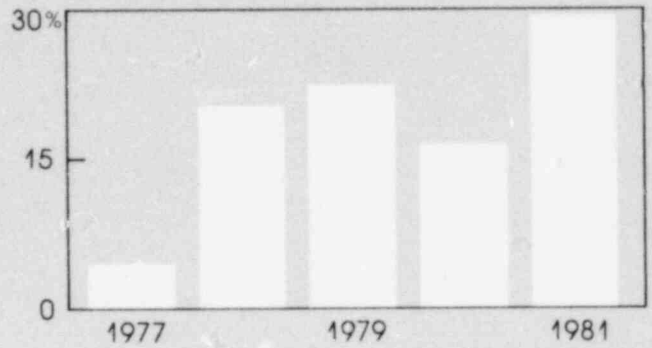
A request for an increase in rates for natural gas service in the communities of Defiance and Delta was approved by both communities on November 3, 1981 and went into effect December 4, 1981. It will produce $209,000 of additional revenue on an annual basis.

Total kilowatthour sales declined during the past two years primarily due to lower sales to industrial customers. In 1981, sales to residential customers and certain municipalities that resell electricity to their own customers also declined. Lower industrial sales have been the direct result of reduced industrial activity throughout the Company's service area, particularly in the automotive, glassmaking and petroleum refining industries. The residential sales decrease in 1981 was primarily due to milder weather experienced throughout the past year and continued customer conservation. The 1981 decline in wholesale sales reflected purchases of power from a rural electric co-operative group by our municipal customers.

Fuel expense increased in 1981 due to higher coal prices and additional generation from Company-owned generating stations in place of higher cost purchased power. The price of coal the Company used to generate electricity continued to increase. However, increased low-cost nuclear generation helped to hold total fuel costs down in 1981.

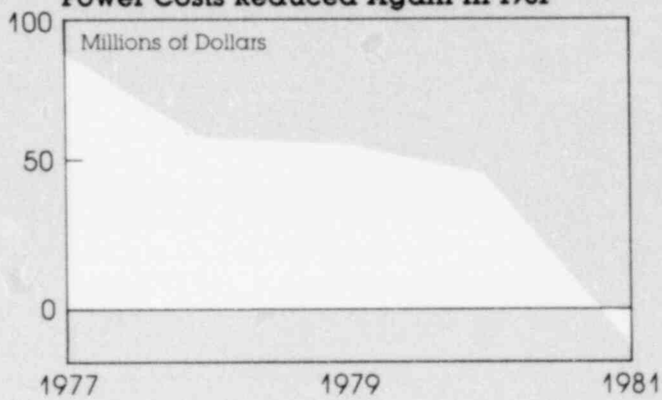
The efficient operation of Company-owned generating stations, particularly Bay Shore, Davis-Besse Unit No. 1 and Bruce Mansfield Unit No. 3 contributed to the overall improved operating performance of the Company in 1981. Bay Shore Station contributed approximately 51 percent of the Company's total generation and continued to be recognized as one of the most efficient generating stations in the nation, in terms of heat rate. The Davis-Besse nuclear unit showed a substantial improvement over 1980, generating electricity 67 percent of the time and supplying approximately 29 percent of the Company's total generation. In 1981, the Company received 608 million killowatthours from its approximate 20% ownership interest in the Bruce Mansfield coal-fired unit, during the unit's first full year of commercial operation.

Nuclear Power Supplied 29% of Generation in 1981



Because of increased efficiency at Company generating stations, for the fourth consecutive year the Company's dependence on purchased power diminished. In 1981 the Company achieved adequate generating capacity on its own system, and therefore was not a party to any firm purchase commitments. In addition, the added generation allowed us to sell power to neighboring utilities. Purchased and net interchanged power expense (which includes the sales of temporary and economy power to neighboring utilities) decreased by $46 million in 1981, helping to offset increases in other operating expenses.

Purchased and Net Interchanged Power Costs Reduced Again in 1981



Deferred fuel cost accounting was adopted in August 1981 with the implementation of new fuel recovery provisions, due to a change in Ohio law. The Company is now collecting fuel cost charges from customers based upon an estimated fuel factor per kilowatthour that remains constant (under normal circumstances) over a six-month period rather than changing on a monthly basis. Accordingly, to better match our expenses with our fuel cost billings to customers, we are deferring fuel cost variances from the billing factor into the subsequent period in which the increased, or decreased, revenues occur. At December 31, 1981, the advanced-recovery balance was $4.1 million.

In the January, 1981 PUCO Opinion and Order on Fuel Adjustment Clause Matters, the Company was ordered not to include the cost of coal purchased from Quarto Mining Company (Quarto) in the fuel adjustment clause at more than generally prevailing market prices without prior Commission approval. The Company is presently deferring the excess costs over market price. At December 31, 1981, the total of these cost deferrals to date was $9.4 million (see Note 7 for further discussion of Quarto).

The cost of operating and maintaining Company facilities has increased during recent years, reflecting the impact of inflation and regulatory mandated expenses. Inflation has increased the cost of labor and materials. In addition, increased expenses have been incurred on projects mandated by the Nuclear Regulatory Commission. The effects of inflation on the Company's operations are discussed further in Note 13 to the financial statements.

Depreciation expense increased substantially in 1981 due to increases in the level of depreciable plant assets and the unit-of-production depreciation method applied to the Davis-Besse nuclear unit. Under the unit-of-production method, the Company accrues depreciation for this unit in direct proportion to the unit's actual output each month.

State and local taxes increased primarily due to a change from 4 to 5 percent in the state excise tax rate in 1981 and increased property taxes resulting from increases in plant assets.

A settlement of Pennsylvania gross receipts taxes contributed $1.9 million (after federal income taxes) to other income in 1981. This settlement, which was $3.6 million before federal income taxes, resulted from the Company's participation with other utilities in challenging the constitutionality of gross receipts taxes imposed on electric generation transmitted out of Pennsylvania during 1977 through 1979.

Non-recurring insurance proceeds representing the recovery of costs incurred during two generating plant outages in 1974 and 1978 contributed to the 1981 earnings increase. The litigation settlements resulted in the receipt of $4.3 million for our claim arising from a Bay Shore Unit No. 1 transformer failure in December, 1974. We also received $500,000 in settlement of a claim arising from an outage at Bay Shore Unit No. 4 in December, 1978 in which the coils of the turbogenerator were damaged. We anticipate that approximately $1 million of the proceeds from these settlements will be returned to our customers through the fuel adjustment clause. The remaining $3.6 million was recognized as other income in 1981. Net of federal income taxes, the settlements increased earnings by $1.9 million, or about 9 cents per share.

Increased interest and preferred dividend requirements and a greater number of common shares outstanding have impacted earnings per share during recent years. A substantial amount of these financing costs, including a return on equity funds used, have been capitalized through the allowance for funds used during construction (AFUDC), which increased in 1980 and 1981 due to higher construction work-in-progress balances and increases in the AFUDC rate.

An extraordinary gain of $10.8 million in November 1981 resulted from the exchange with a brokerage firm of new common shares for some of our first mortgage bonds previously purchased by the brokerage firm at a discount and traded to us at the lowered prices. The Company exchanged 946,293 shares of common stock, representing $15.2 million, with the brokerage firm for $25.6 million face value of bonds. The difference between the face value of the bonds plus accrued interest and the value of the new common shares represented an extraordinary gain which was treated as a nontaxable gain to us.

LIQUIDITY AND CAPITAL RESOURCES NEEDED TO FUND CONSTRUCTION

As a public utility, the liquidity and capital resources of the Company are influenced most significantly by construction required to provide the environmentally acceptable facilities needed to meet the anticipated energy needs of customers. Frequent and extensive use of the capital markets is necessary to finance construction and retire senior securities at maturity. Maintaining liquidity will be dependent upon securing increases in the Company's rates for service sufficient to recover its costs, including debt interest, and earn a fair and reasonable return on its equity investment.

The Company reduced construction expenditures for the second consecutive year to $199 million in 1981. External financing for the 1981 program included $46.9 million from the sale and exchange of 3 million new shares of common stock; $4.8 million from the sale of 300,201 common shares through the Shareowner Dividend Reinvestment and Stock Purchase Plan; $30 million from the sale of 300,000 shares of cumulative preferred stock, and $70 million from the sale of first mortgage bonds. In addition, the Company converted $50 million of short-term debt to an unsecured

term bank loan. This external financing, together with $44 million of funds generated internally, was used to fund the 1981 construction program, reduce short-term debt and for the exchange of $25.6 million of previously issued first mortgage bonds.

In addition to its continuing needs for long-term debt and equity funds, the Company utilizes short-term borrowings for normal day-to-day operations and to meet interim cash needs for capital projects. The Company is currently authorized by the PUCO to issue up to $150 million of short-term debt. At December 31, 1981, $22.5 million of short-term debt, in the form of commercial paper, was outstanding.

Unused bank lines of credit at December 31, 1981 were $94.1 million. Included in this amount is a $20 million Eurodollar revolving line of credit which was established in 1980 to facilitate future entry into the European long-term capital markets and to provide the availability of short-term credit.

In November, 1981, the Company organized Toledo Edison Finance Company N.V., a Netherlands Antilles corporation, as a wholly-owned subsidiary to raise funds outside the United States for the Company's construction program. The finance subsidiary has not issued any securities to date, but the Company looks to this new arrangement as a means of having additional financial flexibility to meet changing future conditions in the securities markets.

The Company's 1982 construction program is estimated to be $226 million. It is currently planned that external financing amounting to approximately $136 million will be provided from the net proceeds of preferred and common stock issues, long-term debt and the Company's Shareowner Dividend Reinvestment and Stock Purchase Plan. In addition, $40 million will be required for a first mortgage bond maturity in 1982.

A five percent discount to shareowners on shares purchased through our dividend reinvestment plan will be given starting with the April 1982 dividend payment. We anticipate that a discount on reinvested dividends will attract additional investment capital.

A new tax benefit for reinvested dividends is provided in the Economic Recovery Tax Act of 1981. From 1982 through 1985, most individual participants in qualified public utility dividend reinvestment plans will be permitted to reinvest up to $750 a year ($1500 on a joint return) in dividends and defer paying any federal income tax on those dividends until the shares are sold.

Qualifying participants in the plan will be eligible for long-term capital gain treatment on the sale of shares purchased with reinvested dividends if they hold the stock for at least one year. We expect to qualify our plan, although final technical rules and regulations have not been issued by the Internal Revenue Service.

To the Shareowners and Board of Directors of The Toledo Edison Company:

We have examined the balance sheets and statements of capitalization and capitalization ratios of The Toledo Edison Company (an Ohio corporation) as of December 31, 1981, and 1980, and the related statements of results of operations, earnings reinvested and source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed further in Note 9, the Company has incurred costs related to four jointly owned generating units which have been cancelled. The Company is currently recovering these costs from its customers over a 10-year period. In 1981, the Ohio Supreme Court ruled, in a case involving another Ohio utility, that The Public Utilities Commission of Ohio had exceeded its authority in allowing these costs as operating expenses in that company's rate case. How that decision will affect the Company's recovery of these costs from its customers in future rate cases is uncertain at this time.

In our opinion, subject to the recovery of the costs of cancelled generating units discussed above, the financial statements referred to above present fairly the financial position of The Toledo Edison Company as of December 31, 1981, and 1980, and the results of its operations and the source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1981, all in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Toledo, Ohio,
January 29, 1982.

Results of Operations

Thousands of Dollars	For The Years Ended December 31, 1981	1980	1979
Operating Revenues			
Electric	**434 853**	394 886	358 707
Gas and steam heating	**7 431**	6 982	6 414
Total operating revenues	**442 284**	401 868	365 121
Operating Expenses			
Fuel	**123 074**	110 423	93 295
Purchased and net interchanged power	**(632)**	45 348	53 574
Operation	**63 976**	55 842	44 691
Maintenance	**31 908**	29 319	21 137
Depreciation and amortization	**43 427**	26 002	29 117
State and local taxes	**36 699**	31 202	29 760
Federal income taxes	**40 842**	23 376	25 139
Total operating expenses	**339 294**	321 512	296 713
Operating Income From Sales To Customers	**102 990**	80 356	68 408
Other Income			
Allowance for equity funds used during construction	**32 498**	28 443	23 512
Income tax credits applicable to nonoperating activities	**9 616**	13 218	8 251
Other income and deductions—net	**8 852**	879	1 017
Total other income	**50 966**	42 540	32 780
Income Before Interest Charges	**153 956**	122 896	101 188
Interest Charges			
Long-term debt and other borrowings	**86 310**	70 866	52 584
Allowance for borrowed funds used during construction	**(15 491)**	(15 148)	(9 991)
Interest charges—net	**70 819**	55 718	42 593
Income Before Extraordinary Gain	**83 137**	67 178	58 595
Extraordinary gain from exchange of common stock for bonds	**10 807**	—	—
Net Income	**93 944**	67 178	58 595
Preferred stock dividends accrued	**23 542**	18 021	13 894
EARNINGS ON COMMON STOCK	**70 402**	49 157	44 701
EARNINGS PER COMMON SHARE (average shares outstanding—21,507,349 in 1981, 19,226,163 in 1980 and 16,848,431 in 1979)			
Before extraordinary gain	**$2.77**	$2.56	$2.65
Extraordinary gain	**.50**	—	—
After extraordinary gain	**$3.27**	$2.56	$2.65

The notes on pages 23 through 29 are an integral part of this statement.

Balance Sheet

Thousands of Dollars	December 31, 1981	1980
ASSETS		
Property, Plant And Equipment		
Plant in service, at original cost	1 261 174	1 208 001
Less accumulated provision for depreciation	252 310	220 629
	1 008 864	987 372
Construction work in progress	656 999	518 746
Nuclear fuel in service, at amortized cost	10 951	17 644
	1 676 814	1 523 762
Current Assets		
Cash	2 590	1 945
Temporary cash investments, at cost	2 541	7 023
Accounts receivable—net	49 737	41 146
Refundable federal income taxes	—	3 359
Fuel for use in power plants, at average cost	31 077	28 080
Materials and supplies, at average cost	10 178	10 107
Prepaid taxes	6 948	5 145
Special deposits and other	7 997	7 091
	111 068	103 896
Investments And Other		
Property taxes—subsequent years	19 521	17 226
Deferred charges—Cancelled generating projects	43 048	46 771
Quarto coal costs	9 412	—
Miscellaneous	8 507	9 788
	80 488	73 785
TOTAL ASSETS	1 868 370	1 701 443
LIABILITIES		
Capitalization		
Common stock equity	550 176	478 993
Cumulative preferred stock	150 000	150 000
Cumulative preferred stock with mandatory redemption	95 500	66 500
Long-term debt	764 831	714 406
	1 560 507	1 409 899
Current Liabilities		
Short-term notes payable	22 500	89 000
Long-term debt and preferred stock due within one year	44 588	3 520
Accounts payable	35 406	39 172
Accrued taxes	45 518	38 814
Accrued interest	17 031	15 556
Dividends declared	19 794	15 958
Advanced fuel cost recovery	4 118	—
Accrued expenses and other	15 338	11 769
	204 293	213 789
Accumulated Provisions And Other		
Deferred federal income taxes		
Accelerated depreciation and amortization	54 823	43 151
Cancelled generating projects	16 247	17 365
Property taxes and other	10 552	7 811
Federal investment tax credits	17 570	8 104
Deferred credits and other	4 378	1 324
	103 570	77 755
TOTAL LIABILITIES	1 868 370	1 701 443

The notes on pages 23 through 29 are an integral part of this statement.

Capitalization And Capitalization Ratios

Thousands of Dollars						December 31, 1981		1980	
Common Stock Equity									
Common Stock, $5 par value, authorized 30,000,000 shares, issued and outstanding at year end, 23,448,533 in 1981 and 20,148,332 in 1980						117 243		100 742	
Premium on capital stock						290 713		255 508	
Earnings reinvested						142 220		122 743	
Total Common Stock Equity						550 176	35%	478 993	34%
Cumulative Preferred Stock	Shares outstanding (Thousands) 1981	Shares outstanding (Thousands) 1980	Redemption price Current	Redemption price Through	Redemption price Eventual minimum				
$100 par									
4¼%	160	160	$104.625	—	$104.625	16 000		16 000	
4.56%	50	50	101.00	—	101.00	5 000		5 000	
4.25%	100	100	102.00	—	102.00	10 000		10 000	
8.32%	100	100	105.62	9-1-84	102.46	10 000		10 000	
7.76%	150	150	107.257	9-1-82	102.437	15 000		15 000	
7.80%	150	150	106.50	9-1-83	101.65	15 000		15 000	
10%	190	190	105.00	2-28-83	101.00	19 000		19 000	
$ 25 par									
8.84%	1 000	1 000	26.55	11-30-86	25.25	25 000		25 000	
$2.365	1 400	1 400	29.85	9-30-82	27.75	35 000		35 000	
						150 000	10%	150 000	10%
$100 par with Mandatory Redemption									
11%	80	85	$111.00	8-31-84	$101.00	8 000		8 500	
Treasury Stock—11%, 5,000 shares						(500)		—	
9⅜%	250	250	106.92	5-31-85	100.00	25 000		25 000	
13¼%	130	130	112.47	5-31-82	100.00	13 000		13 000	
12.65%	200	200	112.65	6-1-85	100.00	20 000		20 000	
14.80%	300	—	114.80	3-1-86	100.00	30 000		—	
						95 500	6%	66 500	5%
Total Cumulative Preferred Stock						245 500	16%	216 500	15%

	December 31, 1981		1980	
Long-Term Debt				
First Mortgage Bonds, excluding current maturities				
10%, due 1982	—		40 000	
3⅜%, due 1984	14 000		14 000	
9.35%, due 1985	50 000		50 000	
3⅜%, due 1986	15 000		15 000	
4%, due 1988	15 000		15 000	
14%, due 1990	65 000		65 000	
16¼%, due 1991	35 000		—	
15⅝%, due 1991	35 000		—	
6⅛%, due 1997	31 400		35 000	
10%, due 1998	650		650	
9%, due 2000	34 328		35 000	
7½%, due 2002	26 000		30 000	
8%, due 2003	35 725		40 000	
9.65%, due 2006	50 000		50 000	
9⅝%, due 2008	51 900		65 000	
11%, due 2009	75 000		75 000	
Discount in process of amortization	(419)		(355)	
	533 584		529 295	
Unsecured Notes and Loans				
Notes, 8.75%, due 1983 through 1997	110 000		110 000	
Term bank loan, average interest rate 19.49%, due 1985 through 1987	50 000		—	
Pollution control note, average interest rate 5.71%, due 1984 through 2003	6 000		6 000	
Pollution control note, 7⅞%, due 1992 through 2006	15 000		15 000	
Pollution control note, 7¾%, due 1999 through 2009	16 500		16 500	
Pollution control loan agreement, average interest rate 10.055%, due 1990 through 2010	30 500		30 500	
Secured Loan				
Pollution control loan agreement, 10%, due 2000 through 2010	1 000		1 000	
Nuclear Fuel Lease	2 247		6 111	
Total Long-Term Debt	764 831	49%	714 406	51%
TOTAL CAPITALIZATION	1 560 507	100%	1 409 899	100%

The notes on pages 23 through 29 are an integral part of this statement.

Earnings Reinvested

Thousands of Dollars	For The Years Ended December 31, 1981	1980	1979
Balance, Beginning Of Year	**122 743**	117 306	111 110
Add—Net Income	**93 944**	67 178	58 595
Deduct—Preferred stock quarterly dividends declared	**24 222**	18 720	14 276
Common stock cash dividends declared	**50 245**	43 021	38 123
Earnings Reinvested During The Year	**19 477**	5 437	6 196
BALANCE, END OF YEAR	**142 220**	122 743	117 306

Source of Funds Invested in Plant and Facilities

Thousands of Dollars	For The Years Ended December 31, 1981	1980	1979
Provided From Internal Operations			
Earnings reinvested during the year	**19 477**	5 437	6 196
Principal non-cash items:			
Depreciation and amortization	**43 427**	26 002	29 117
Amortization of nuclear fuel	**6 694**	2 578	4 089
Advanced fuel cost recovery	**4 118**	—	—
Deferred Quarto coal costs	**(9 412)**	—	—
Deferred federal income taxes—net	**13 295**	29 056	9 636
Investment tax credits—net	**9 466**	(12 697)	4 828
Allowance for equity funds used during construction	**(32 498)**	(28 443)	(23 512)
Gain from exchange of common stock for bonds	**(10 807)**	—	—
Total provided from internal operations	**43 760**	21 933	30 354
Provided From New Financing			
Sale of Securities:			
Common stock	**51 706**	41 001	44 275
Preferred stock	**30 000**	33 000	25 000
First mortgage bonds (principal amount)	**70 000**	65 650	75 000
Pollution control notes—net	**1 399**	33 417	15 622
Conversion of short-term debt to a term bank loan	**50 000**	—	—
Net change in short-term borrowings	**(66 500)**	65 500	23 500
Net change in temporary cash investments	**4 482**	(7 023)	4 500
Redemption of long-term debt and preferred stock	**(18 637)**	(41 179)	(7 440)
Total provided from new financing	**122 450**	190 366	180 457
Other			
Allowance for equity funds used during construction	**32 498**	28 443	23 512
Net change in current assets and liabilities, and other accounts	**141**	(5 915)	4 687
Total other	**32 639**	22 528	28 199
Total Sources Of Construction Funds	**198 849**	234 827	239 010
Capitalized Nuclear Fuel Lease	**—**	8 398	—
INVESTED IN PLANT AND FACILITIES	**198 849**	243 225	239 010

The notes on pages 23 through 29 are an integral part of these statements.

Notes to Financial Statements

December 31, 1981

(1) Summary of Significant Accounting Policies

a. Construction Overheads

Construction costs of property, plant and equipment include overheads for payroll-related costs such as taxes, pensions, other fringe benefits, and administrative and general expenses, as well as an allowance for funds used during construction (AFUDC). AFUDC represents the estimated composite interest and equity costs of capital funds used to finance construction to the extent that such costs have been transferred to property, plant and equipment from the statement of Results of Operations. Effective January 1, 1981, 1980, and 1979, the Company's AFUDC rate net-of-tax was 8¾%, 8½%, and 7¾%, respectively.

b. Depreciation and Maintenance

Depreciation rates used in computing depreciation expense shown in the financial statements, except for Davis-Besse Unit No. 1, are based upon age-life studies and averaged 3.4% in 1981, 3.3% in 1980 and 3.4% in 1979, and are applied on a straight-line basis. Depreciation expense on Davis-Besse Unit No. 1 is based on the unit-of-production method using a rate which includes a provision for the Company's share of total estimated decommissioning costs of $53 million.

In accordance with a Public Utilities Commission of Ohio (PUCO) rate order effective January 1977, the Company began accruing additional depreciation of approximately $1.4 million annually to adjust past depreciation provisions.

Expenditures for maintenance and repairs of property including renewals of minor items are charged to maintenance expense. Costs of replacements and renewals of items considered to be units of property are charged to the property accounts.

When property is retired, the cost thereof plus the removal cost less any salvage is charged to the accumulated provision for depreciation.

c. Taxes

	(thousands of dollars)		
For The Years Ended December 31,	**1981**	1980	1979
FEDERAL INCOME TAX EXPENSE WAS COMPUTED AS FOLLOWS			
Tax at statutory rates on pre-tax income	**57 578**	35 574	34 722
Increases (reductions) in taxes due to—			
Allowance for funds used during construction	**(22 075)**	(20 052)	(15 411)
Extraordinary gain from exchange of common stock for bonds	**(4 971)**	—	—
Accelerated depreciation methods and other depreciation differences	**2 375**	(3 875)	329
Miscellaneous	**(1 681)**	(1 489)	(2 752)
Total federal income tax expense	**31 226**	10 158	16 888
Tax included as credit in Other Income	**9 616**	13 218	8 251
Federal Income Taxes Included in Operating Expenses	**40 842**	23 376	25 139
FEDERAL INCOME TAX EXPENSE DETAILS ARE AS FOLLOWS			
Payable (Refundable)	**7 477**	(6 049)	2 245
Investment tax credits—			
Deferred	**10 352**	(13 106)	5 713
Amortized	**(653)**	204	(756)
Deferred taxes—			
Accelerated depreciation (net)	**12 377**	11 269	9 716
Cancelled generating projects	**(1 118)**	17 365	—
Quarto coal costs	**4 329**	—	—
Other provisions	**(1 538)**	475	(30)
Total Federal Income Tax Expense	**31 226**	10 158	16 888
STATE AND LOCAL TAXES			
Local property taxes	**15 954**	15 569	14 100
Ohio State excise taxes	**18 602**	14 446	13 466
Other taxes	**2 143**	1 187	2 194
Total State and Local Tax Expense	**36 699**	31 202	29 760

The Company provides deferred federal income taxes on the difference between straight-line and accelerated tax depreciation methods for property additions since December 1973. The Company does not provide deferred federal income taxes resulting from other depreciation differences or from the use of accelerated tax depreciation methods for property additions prior to January 1974 since, based on Ohio court and PUCO decisions, the Company is of the opinion that such future taxes will be recoverable out of future revenues.

All interest costs are deducted for tax purposes as incurred. The benefit of interest arising from investments in non-utility properties, primarily construction work in progress, has been classified in income tax credits applicable to nonoperating activities.

The Company reported a federal income tax net operating loss in 1980. The loss reduced the tax liability for the years 1978, 1979 and 1981.

Investment tax credits have been deferred and are being added to income over the life of the property giving rise to the credits. Unrealized investment tax credits from 1976 to 1981 aggregate $54 million and will be recorded in future years when utilized.

d. Revenues

Revenues are included in income as billed to customers on a daily cycle billing basis. Revenues from the larger industrial and wholesale customers are based on month-end meter readings.

e. Fuel

Beginning August 1, 1981, the Company began deferred fuel accounting with the implementation of new fuel recovery procedures resulting from provisions of a new Ohio law. Fuel costs are being collected based upon an estimated constant cost per kilowatthour over the subsequent six months. Accordingly, to better match fuel expenses with fuel adjustment revenues, fuel cost charges are being deferred, as they occur, into the subsequent period in which the increased, or decreased, revenues occur. At December 31, 1981, the advanced-recovery balance was $4.1 million.

The cost of nuclear fuel, including a provision for estimated disposal costs, is charged to fuel expense based on the rate of consumption. Effective with a February 1980 PUCO rate order, the Company has been authorized to recover disposal costs from its customers.

f. Retirement Income Plan

The Company has a non-contributory retirement income plan covering all employee groups. The Company's policy is to fund annual costs as accrued each year and to provide for the amortization of unfunded past service costs. Pension cost is determined based upon estimated salary levels and service years of employees at their retirement. The total pension cost, including administrative expenses, was $3,728,467 in 1981, $4,464,431 in 1980 and $3,940,750 in 1979. Effective January 1, 1981, the Company changed the amortization period of the unfunded actuarial liability from 20 to 30 years. The Company also changed the amortization periods for other unfunded costs from 20 to 30 years, the amortization period for experience gains and losses from 20 to 15 years, and several other actuarial assumptions. These changes were made to update actuarial assumptions and did not affect the present value of plan benefits as of January 1, 1981.

The actuarial present value of accumulated vested and nonvested plan benefits, based upon salary levels and years of service of employees as of January 1 of each year, were $34,347,000 and $1,093,000 as of January 1, 1981 and $35,815,000 and $1,613,000, as of January 1, 1980. The weighted average assumed rate of return used in determining these values was 8 percent in 1981 and 6 percent in 1980. Market value of net assets available for benefits amounted to $54,528,000 as of January 1, 1981 and $45,516,000 as of January 1, 1980.

(2) Capitalization

a. Common Stock Equity

Shares of Common Stock sold during the three years ended December 31, 1981 were as follows:

	1981	1980	1979
Public sales	2 053 707	2 000 000	2 000 000
Exchange of common stock for bonds	946 293	—	—
Shareowner Dividend Reinvestment and Stock Purchase Plans	300 201	236 361	183 497
Total	3 300 201	2 236 361	2 183 497

Premium on Capital Stock

	(thousands of dollars)		
For The Years Ended December 31,	1981	1980	1979
Balance, Beginning of Year	255 508	225 688	192 332
Premium, net of expense, on sale of common stock	35 569	30 218	33 495
Expenses from sales of preferred stock	(364)	(398)	(139)
Balance, End of Year	290 713	255 508	225 688

b. Cumulative Preferred Stock

The Company is authorized to issue 2,000,000 shares of $100 par and 6,000,000 shares of $25 par Cumulative Preferred Stock under the Company's amended articles of incorporation. The annual dividend requirement on Cumulative Preferred Stock outstanding at December 31, 1981 is $23.8 million for an average dividend rate of 9.69%.

At the option of the Board of Directors, the Company may redeem the whole or any part of its outstanding Cumulative Preferred Stock at any time upon thirty days notice at the amounts disclosed on the statement of Capitalization, subject to the following additional restrictions. The following series may not be redeemed prior to the stated date if the refunding operation involves an effective cost of money to the Company less than the rate of the series per annum:

Series	Date
11%	September 1, 1984
12.65%	June 1, 1985
14.80%	March 1, 1986
9⅝%	June 1, 1989
13¼%	June 1, 1990

The $2.365 series may not be redeemed prior to October 1, 1982 at an effective cost of money of less than 8.60% per annum. The 9⅜% series may not be redeemed prior to June 1, 1984.

c. Cumulative Preferred Stock With Mandatory Redemption

The Company sold $100 par value Preferred Stock in the amounts of 300,000 shares of the 14.80% series in 1981, 130,000 shares of the 13¼% series and 200,000 shares of the 12.65% series in 1980 and 250,000 shares of the 9⅜% series in 1979. The Company retired 5,000 shares of the 11% series on September 1, in 1979, 1980 and 1981.

Following are the mandatory sinking fund requirements for the various series of Cumulative Preferred Stock:

Series	Minimum Yearly Shares	Effective Date
11%	5 000	1979
9⅜%	16 650	1985
13¼%	8 660	1986
12.65%	8 000	1986
14.80%	12 000	1987

The shares of the above series may be purchased at the sinking fund redemption price of $100 per share plus accrued and unpaid dividends. The sinking fund redemption requirements for the next five years are $500,000 (1982), $500,000 (1983), $500,000 (1984), $2,165,000 (1985) and $3,831,000 (1986).

Sinking fund obligations on these series of preferred stock must be met prior to the payment of any common stock cash dividends. Preferred shareowners would be entitled to elect a majority of the Board of Directors if preferred stock dividends have not been paid for four quarters.

d. Long-Term Debt

The annual interest requirement on long-term debt outstanding at December 31, 1981, including amortization of debt discount and expense, but excluding interest on a nuclear fuel lease, is $80.1 million for an average interest rate of 10.50%.

Sinking fund redemption requirements and scheduled maturities for long-term debt through 1986 are as follows:

	(thousands of dollars)		
	First Mortgage Bonds		Other Long-Term Debt
	Sinking Fund Redemption Requirements	Scheduled Maturities	Scheduled Maturities
1982	2 340	40 000	—
1983	2 990	—	6 600
1984	3 600	14 000	6 700
1985	3 600	50 000	23 367
1986	3 450	15 000	23 367

In addition, bond sinking fund redemption premiums for these periods total $11,970. The bond indenture covering the first mortgage bonds also provides for a required annual payment after certain credits, as defined, to the Trustee as a Maintenance and Replacement Fund. The Company has been satisfying these requirements by pledging additional net property additions which might otherwise be made the basis for the issuance of additional bonds.

(3) Exchange of Common Stock for Bonds

In November, 1981, the Company exchanged 946,293 shares of common stock at an exchange value of $16.025 per share for $25.6 million of outstanding first mortgage bonds owned by a brokerage firm. The exchange resulted in a non-taxable extraordinary gain of $10.8 million which is the difference between the value received by the Company for the stock and the principal amount of the bonds plus accrued interest.

(4) Assets Subject to Lien

The mortgage and supplements thereto securing first mortgage bonds issued by the Company constitute a direct first mortgage lien on substantially all property and franchises owned by the Company, other than expressly excepted property which includes cash and securities, accounts receivable, fuel, supplies and automotive equipment.

(5) Short-Term Borrowing Arrangements

The Company regularly obtains funds on an interim basis to meet current construction costs. These short-term funds were obtained during 1981 through the issuance of commercial paper.

The Company has unused lines of credit at December 31, 1981 with various banks aggregating $94.1 million. The Company pays a commitment fee for approximately two-thirds of the lines of credit. The remaining lines of credit are based on informal compensating balance arrangements. The Company is expected to maintain average deposits equal to 5% to 20% of the line of credit depending on the amount of borrowings outstanding at the respective bank. The balances are not legally restricted and also serve to compensate the banks for banking services and to provide operating balances to the Company.

(6) Power Pooling

The Company owns 4% of the common stock of Ohio Valley Electric Corporation (OVEC), which has a long-term contract to supply power to the Department of Energy (DOE). The proceeds from the sales of power are designed to be sufficient for OVEC to earn a return on its common stock after meeting all of its costs. The Company is entitled to receive and obligated to pay for the right to receive 4% of any available power not contracted for by DOE.

The Company, in the interest of reliability and economy, entered into a power-pooling arrangement with four other utilities (CAPCO Group) which involves substantial commitments for generation and transmission facilities.

Prior to 1981, the Company was involved in commitments to purchase power from other CAPCO companies. In 1980, the Company bought 150 megawatts of capacity with fixed

annual capacity charges of approximately $9 million. In 1979, the Company bought 158 megawatts with fixed annual capacity charges of approximately $11 million.

The Company's ownership share in three CAPCO units, under construction and planned for operation in 1984 and beyond, will total an investment of approximately $1.5 billion. The Company provides its own financing for this investment. The Company's share of direct expenses for operation of three jointly-owned units in service is included in operating expenses on the statement of Results of Operations.

The following represents the Company's ownership in each of the CAPCO jointly-owned units at December 31, 1981:

Generating Unit	Actual or Scheduled Completion	Ownership Share	Fuel	Plant In-Service (thousands of dollars)	Accumulated Depreciation (thousands of dollars)	Construction Work in Progress (thousands of dollars)
Davis-Besse No. 1	1977	48.62%	Nuclear	386 127	30 192	20 746
Mansfield No. 2	1977	17.30%	Coal	68 305	7 374	1 484
Mansfield No. 3	1980	19.91%	Coal	126 428	6 123	852
Perry No. 1	1984	19.91%	Nuclear	—	—	209 209
Beaver Valley No. 2	1986	19.91%	Nuclear	10 316*	—	214 556
Perry No. 2	1988	19.91%	Nuclear	—	—	187 584

*Common facilities with Unit No. 1

(7) Quarto Coal Arrangement

a. Coal Supply Contracts

The Company, together with the other CAPCO companies, has made long-term arrangements with Quarto Mining Company (Quarto), a subsidiary of North American Coal Company, to supply coal to the Mansfield units. The CAPCO companies have severally, and not jointly, agreed to guarantee their proportionate shares of Quarto's debt and lease obligations incurred in connection with developing and equipping the mines. As of December 31, 1981, the Company's 6.89% share of the guarantees was $28.6 million. The Company's share of debt and lease obligations incurred after 1982 would increase in steps to 12.4% in 1986.

Under the terms of the coal supply contract, which expires December 31, 1999, the pricing provisions reflect Quarto's costs of operating the mines, including those costs associated with mine construction. The Company's total purchases under these contracts amounted to $15,535,694 for 1981.

The Company's minimum yearly payments under these arrangements are expected to decline from $6.5 million in 1982 to $5.9 million in 1986.

In September, 1981, the CAPCO companies entered into amendments to the coal supply agreements with Quarto in order to obtain the right, on an interim basis, to implement a revised mining plan at the Quarto mines with reduced production levels to minimize the cost of Quarto coal. On the same date the CAPCO companies also acquired from the North American Coal Corporation an option until 1999 to purchase all of the Quarto stock.

b. Coal Cost Deferral

At present, Quarto coal is more expensive than other coal currently available. In January, 1981, the PUCO ordered the Company not to flow the cost of Quarto coal through its fuel adjustment clause at more than market prices. The Company has deferred $9.4 million of such costs not included in the fuel clause through December 31, 1981. The PUCO stated that it will permit the Company to recover its actual Quarto costs, including the previously deferred costs, when the average price of Quarto coal for six consecutive months approaches 125% of the market price of comparable coal.

During the fall of 1981, the PUCO conducted hearings to investigate Quarto. This directly involved the Ohio Edison Company, agent for the Quarto project. The Company was a party to this proceeding. An extensive study was presented which recommended changes in the mining plan and proposed treatment of Quarto coal costs. These hearings have been concluded but the PUCO has deferred any action until a future hearing. The Company is unable to predict the outcome of these proceedings.

(8) Financing

The Company has limitations imposed upon it by the first mortgage bond indenture and articles of incorporation which require the maintenance of required earnings coverage ratios in order to issue additional first mortgage bonds and preferred stock. The Company's coverage under the limitations for first mortgage bonds at December 31, 1981 was 2.88 and would allow the issuance of $173 million of first mortgage bonds at an assumed interest rate of 15%. In addition, the Company's coverage for preferred stock under the articles of incorporation at December 31, 1981 was 1.63 and would allow the issuance of $63 million of additional preferred stock at an assumed dividend rate of 15%.

(9) Cancelled Generating Projects

In January 1980, the Company, along with the other CAPCO companies, terminated plans for the construction of the Davis-Besse No. 2, Davis-Besse No. 3, Erie No. 1 and Erie No. 2 nuclear generating units. As part of the April 1981 rate increase, the PUCO approved recovery, over a ten-year period, of the Company's share of the costs already incurred in these four nuclear generating units. Concurrent with the rate increase in April, the Company had also commenced the write-off against current earnings over the ten-year period,

of the cost of the four cancelled units. This amounted to an amortization expense of $3.3 million for 1981.

On July 15, 1981, the Ohio Supreme Court ruled that the PUCO had exceeded its statutory authority by allowing another Ohio utility to recover from its ratepayers, over a ten-year period, its investment in these four nuclear generating units. The Court based its ruling on a strict interpretation of current Ohio regulatory law limiting allowable costs of rendering service to normal, recurring expenses incurred during the test period in the rate case. The Company was not a direct party to this ruling. The other Ohio utility's petition for a rehearing was refused by the Court. In January 1982, the United States Supreme Court declined to review the Ohio Supreme Court's decision.

On September 16, 1981 the PUCO issued an order to "show cause" as to why the Company's rates should not be reduced as a result of the Ohio Supreme Court decision. In its response, the Company set forth several grounds in support of continuing its present rates and against writing off the accumulated investment in the cancelled CAPCO units against current earnings. On October 28, 1981, the PUCO dismissed the "show cause" proceedings, noting that the Company's rates are reasonable and should not be reduced. The PUCO delayed a decision on recoverability of the unamortized cancellation costs pending further consideration in the Company's current rate case.

If the Company is ordered to cease amortization of the amounts invested in the four units and other means of recovery are not available, it would be necessary to write-off the Company's remaining unamortized share of the termination costs. The Company's unamortized share of the costs incurred to date in the units is about $43 million which could result in an estimated net-of-tax reduction in earnings of about $27 million in the year of write-off. Additional costs could be incurred as the Company terminates the outstanding contracts associated with the four units. Such additional costs cannot be reasonably estimated at this time but could be substantial.

(10) Environmental

The Company is subject to environmental regulation as to air, water, solid waste, hazardous wastes, toxic substances and noise matters and as to the location of certain facilities by federal, state and local authorities. The Company's construction program includes plans towards the initiation of such pollution control facilities as it presently foresees as being required at its present generating stations. The Company has existing equipment and permits to enable it to comply with all applicable laws and regulations, or has plans for equipment or has made application for permits or variances.

Since environmental regulations are in a state of constant change, the Company cannot estimate the effects of potential regulations and legislation. The Company could incur substantial civil and criminal penalties if it fails to comply with environmental control regulations.

(11) Leases

Members of the CAPCO Group have entered into leases for the nuclear fuel to be loaded in the five CAPCO nuclear units, Davis-Besse Unit No. 1, Perry Unit Nos. 1 and 2 and Beaver Valley Unit Nos. 1 and 2. The Company capitalized its share of the Davis-Besse Unit No. 1 nuclear fuel lease relating to the portion loaded into the reactor in June 1980 in accordance with provisions of an April 1981 PUCO rate order. The Company's share of these leases is $165.9 million. The nuclear fuel leasing arrangements are expected to be adequate for nuclear fuel deliveries through the third quarter of 1983. Additional nuclear fuel leasing arrangements will be required beyond that time. Estimated payments based on burn-up including interest are $5.5 million in 1982, $10.3 million in 1983, $26.1 million in 1984, $26.7 million in 1985 and $40.9 million in 1986.

(12) Interim Financial Reporting

The following represents the quarterly results, which are unaudited, but in the opinion of the Company reflect all adjustments (which are of a normal recurring nature) necessary for a fair statement of results for such periods.

	(thousands of dollars)				Earnings Per Common Share	
Three Months Ended	Operating Revenues	Operating Income	Income Before Extraordinary Gain	Earnings On Common Stock	Before Extraordinary Gain	After Extraordinary Gain
1981						
March 31	108 232	25 110	18 082	12 435	$ .62	$ .62
June 30	105 407	27 169	20 887	14 898	.70	.70
September 30	118 651	28 799	24 660	18 726	.86	.86
December 31	109 994	21 913	19 507	24 343	.60	1.08
1980						
March 31	97 976	19 956	17 472	13 645	$ .76	$ .76
June 30	93 202	18 589	15 383	10 982	.59	.59
September 30	107 382	21 317	19 406	14 520	.72	.72
December 31	103 308	20 494	14 915	10 009	.50	.50

(13) The Effects of Changing Prices (Unaudited)
The traditional method of reporting Results of Operations (as shown on page 18) on the basis of historical costs has the effect of overstating the earnings of a business in "real" terms—especially during a period of high inflation. The primary reason is that depreciation expense, as reported, does not adequately reflect the rapidly increasing costs of replacing property, plant and equipment. When depreciation expense is based upon values that are less than current value, the difference not only appears as a profit but, even worse, it is taxed as though it were profit.

The table below is based upon a 1979 pronouncement by the Financial Accounting Standards Board which involves presenting financial information to show the effects of general inflation (Constant Dollar Accounting) and changes in prices of specific assets, namely property, plant and equipment (Current Cost Accounting).

RESULTS OF OPERATIONS ADJUSTED FOR CHANGING PRICES
Thousands of Average 1981 Dollars

For the Year Ended December 31, 1981	Constant Dollar Accounting	Current Cost Accounting
Earnings on Common Stock From Continuing Operations (Before Extraordinary Gain)	59 595	59 595
Effects of Inflation on Common Stock Equity:		
Inflation effect during 1981 on capital investment:		
Increase in specific prices to current costs	—	289 338
Effect of change in general price level	—	(261 313)
Reduction to net recoverable cost	(114 367)	(135 921)
Additional provision for depreciation	(25 325)	(31 796)
	(139 692)	(139 692)
Gain from decline in purchasing power of net amounts owed (primarily debt)	94 959	94 959
	(44 733)	(44 733)
Earnings on Common Stock From Continuing Operations Adjusted for Changing Prices	14 862	14 862

Although inflation affects all industries, it has a more severe impact on the regulated public utilities than on industry in general. The regulatory process does not permit utilities to recover through revenues any more than the historical cost of their plant assets even though in an inflationary economy the cost to replace such assets upon their retirement will substantially exceed historical cost. Accordingly, the amount by which inflation during 1981 increased the cost to replace the Company's plant assets is not reflected in the historical cost upon which the Company's rates are based and therefore is an economic loss to the Company. This loss is shown in the above table under the caption "Inflation effect during 1981 on capital investment".

During a period of inflation, holders of monetary liabilities experience an inflationary gain to the extent such debts are fixed amounts which will be repaid with dollars of reduced purchasing power. This type of inflationary gain is particularly significant for electric utilities due to the substantial amounts of debt used to finance property, plant and equipment. The economic gain to the Company by reason of the decrease during 1981 in the value of the net amounts owed is shown in the table presented above under the caption "Gain from the decline in purchasing power of net amounts owed".

During the year 1981, the gain from the decline in value of net amounts owed by the Company was more than offset by the economic loss resulting from regulatory requirements which prevent the Company from recovering through depreciation the inflation adjusted cost of its plant assets.

The same generally accepted accounting principles used in preparing the Conventional Historical Cost Accounting financial statements are used in preparing the Constant Dollar financial statements. Only the measuring unit is restated from dollars recorded at the date of the original transactions to units of average 1981 purchasing power, as measured by the Consumers Price Index for all Urban Consumers.

The comparative Constant Dollar and Current Cost values of all items on the income statement, except depreciation, represent the amounts recorded in the conventional historical cost income statement, which amounts generally occurred ratably throughout the year. Fossil fuel inventories and the cost of fuel used in generation have not been restated from their historical cost basis. The Public Utilities Commission of Ohio and Federal Energy Regulatory Commission regulations limit the recovery of fuel and purchased power and gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs (historical cost basis).

Also, fuel inventories turn over approximately three times a year. For these reasons fuel inventories are effectively monetary assets. No federal income tax benefits for any inflation adjustment are reflected since current tax law does not allow any consideration for the erosion of capital which exists during inflationary periods. The current year's provision for depreciation on the Constant Dollar and Current Cost amounts of property, plant and equipment was determined by applying the ratio of the provision for depreciation over the average property, plant and equipment on the Historical Cost basis, to the indexed plant values.

The erosion in the value of money through inflation has been at or near the double-digit level during the last five years. The cumulative effect of recent annual rates of inflation have had substantial impact on all sectors of the economy, especially electric utilities. The following table presents selected operating and financial data for the most recent five years on a historical cost basis and on an adjusted for inflation basis as measured by the Consumer Price Index for all Urban Consumers.

Earnings on common stock and earnings per share on a constant dollar basis and on a current cost basis are shown below as if only the amount reportable as an additional provision for depreciation were deducted from the reported amount of such income. The 1980 data has been revised to reflect actual indices.

FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

For the Years Ended December 31,	1981	1980	1979	1978	1977
Consumer Price Index (annual average)	272.4	246.8	217.4	195.4	181.5
Operating Revenues (thousands)					
Historical cost basis	$442 284	$401 868	$365 121	$340 056	$276 794
Restated to average 1981 dollars	442 284	443 553	457 493	474 060	415 420
Restated to average 1977 dollars	294 694	295 539	304 827	315 866	276 794
Dividends Declared per Common Share					
Historical cost basis	$2.30	$2.20	$2.20	$2.14	$2.12
Restated to average 1981 dollars	2.30	2.43	2.76	2.98	3.18
Restated to average 1977 dollars	1.53	1.62	1.84	1.99	2.12
Consumer Price Index (year end)	282.0	258.4	229.9	202.9	186.1
Market Price per Common Share (year end)					
Historical cost basis	$16.50	$15.88	$17.50	$21.63	$25.13
Restated to year end 1981 dollars	16.50	17.33	21.47	30.08	38.08
Restated to year end 1977 dollars	10.89	11.44	14.17	19.84	25.13
Earnings on Common Stock (thousands)					
Historical cost basis	$59 595**	$49 157	$44 701		
Constant dollar accounting	34 270	36 330	28 559		
Current cost accounting	27 799	31 844	23 340		
Earnings per Common Share					
Historical cost basis	$2.77**	$2.56	$2.65		
Constant dollar accounting	1.59	1.89	1.70		
Current cost accounting	1.29	1.66	1.39		
Common Stock Equity (thousands)					
Historical cost basis	$550 176	$478 993	$432 554		
Current/Constant accounting	505 443	425 571	380 518		
Increase in General Price Level Over (Under) Increase in Specific Prices (thousands)	$(28 024)	$84 323	$76 891		
Gain From Decline in Purchasing Power of Net Amounts Owed (thousands)	$94 959	$111 341	$101 398		
Property, Plant and Equipment, Net of Accumulated Depreciation (Includes Non-Utility Plant)* (thousands)					
Historical cost basis	$1 677 879	$1 524 808	$1 310 179		
Current cost accounting	3 125 062	2 804 449	2 389 879		
Net Recoverable Cost of Net Assets (Current/Constant accounting) (thousands)	$532 547	$458 489	$408 911		

*Current Cost Values represent the changes in specific prices of property, plant and equipment, from the year the plant was acquired to average 1981 values and is determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs.

**Before Extraordinary Gain

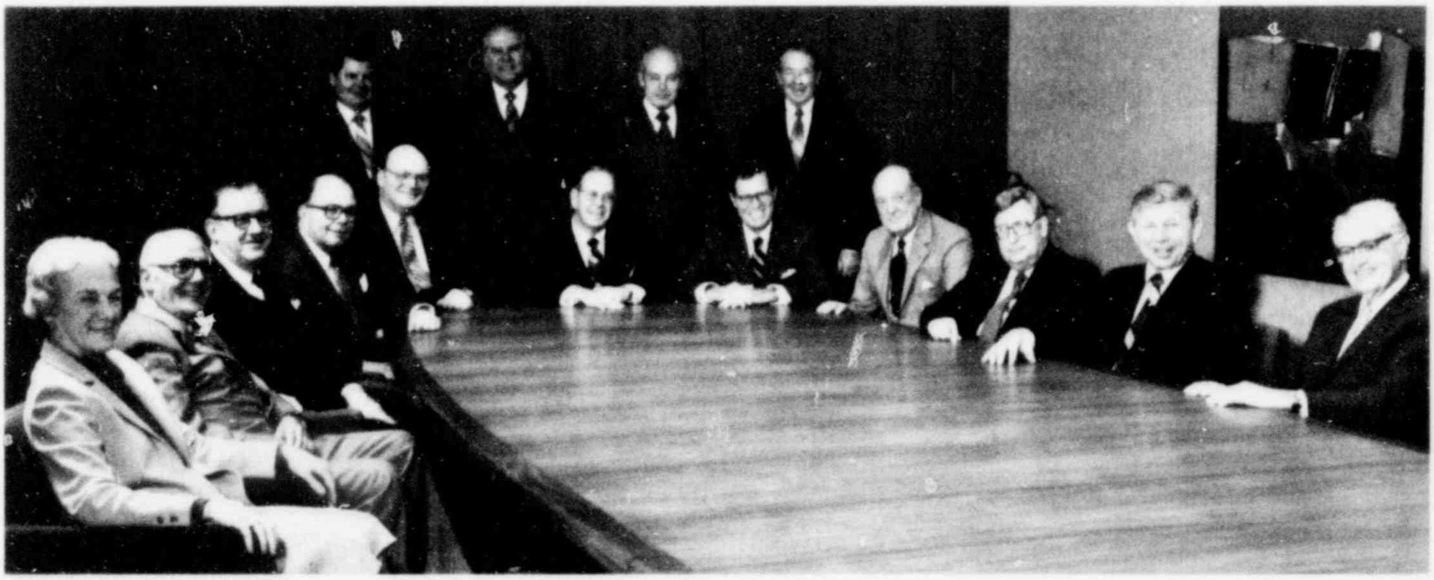
Financial Review

Thousands of Dollars	1981	1980	1979	1978	1977	1971
Operating Revenues						
Residential	138 781	126 085	113 464	106 512	86 977	32 071
Commercial	90 863	80 836	72 354	67 563	55 870	21 194
Industrial	151 539	137 860	128 931	120 570	97 586	33 838
Other	53 670	50 105	43 958	39 438	31 296	14 599
Electric—total	434 853	394 886	358 707	334 083	271 729	101 702
Gas and steam heating	7 431	6982	6 414	5 973	5 065	2 662
Total	442 284	401 868	365 121	340 056	276 794	104 364
% Increase from prior year	10%	10%	7%	23%	24%	11%
Operating Expenses						
Fuel	123 074	110 423	93 295	82 039	73 677	21 573
Purchased and net interchanged power	(632)	45 348	53 574	55 850	86 735	8 643
Operation	63 976	55 842	44 691	38 883	27 951	18 306
Maintenance	31 908	29 319	21 137	19 604	12 249	6 700
Depreciation and amortization	43 427	26 002	29 117	26 532	19 565	10 617
State and local taxes	36 699	31 202	29 760	24 320	19 129	10 075
Federal income taxes	40 842	23 376	25 139	27 397	6 173	7 755
Total	339 294	321 512	296 713	274 625	245 479	83 669
% of Total Revenues	77%	80%	81%	81%	89%	80%
Income						
Operating Income	102 990	80 356	68 408	65 431	31 315	20 695
Allowance for equity funds used during construction*	32 498	28 443	23 512	17 470	24 770	2 672
Income tax credits—non-operating activities	9 616	13 218	8 251	6 484	9 032	562
Other income and deductions—net	8 852	879	1 017	720	(7)	109
Income before interest charges	153 956	122 896	101 188	90 105	65 110	24 038
Interest charges	(86 310)	(70 866)	(52 584)	(42 746)	(35 249)	(8 754)
Allowance for borrowed funds used during construction*	15 491	15 148	9 991	7 090	18 794	—
Income before extraordinary gain	83 137	67 178	58 595	54 449	48 655	15 284
Extraordinary gain	10 807	—	—	—	—	—
Net income	93 944	67 178	58 595	54 449	48 655	15 284
Preferred stock dividends	23 542	18 021	13 894	13 020	10 518	1 675
Earnings on common stock	70 402	49 157	44 701	41 429	38 137	13 609
Common Stock						
Average Shares Outstanding (000's)	21 507	19 226	16 848	14 900	12 909	5 160
Earnings per Share						
Before extraordinary gain	2.77	2.56	2.65	2.78	2.95	2.64
Extraordinary gain	.50	—	—	—	—	—
After extraordinary gain	3.27	2.56	2.65	2.78	2.95	2.64
Return on Average Equity						
Before extraordinary gain	11.6%	10.5%	10.7%	11.3%	12.4%	14.4%
After extraordinary gain	13.5%	10.5%	10.7%	11.3%	12.4%	14.4%
Market Price Range per Share						
High	18.38	20.75	23.38	25.50	27.13	35.50
Low	15.00	15.00	17.38	20.63	24.13	26.63
Year End	16.50	15.88	17.50	21.63	25.13	30.75
Book Value per Share	23.46	23.77	24.15	24.29	24.02	18.39
Dividends Declared per Share	2.30	2.20	2.20	2.14	2.12	1.81

*In 1971, allowance for funds used during construction was reported in total in other income.

Statistical Review

	1981	1980	1979	1978	1977	1971
Sales—millions of kilowatthours						
Residential	1 919	1 971	1 934	1 914	1 874	1 366
Commercial	1 294	1 282	1 256	1 231	1 233	924
Industrial	3 080	3 165	3 559	3 617	3 475	2 757
Municipals and other	858	970	960	923	906	832
Total	7 151	7 388	7 709	7 685	7 488	5 879
% Increase (Decrease) from prior year	(3)%	(4)%	—%	3%	4%	7%
Electric Customers—year end						
Residential	241 663	240 142	238 353	234 450	230 583	208 448
Commercial	23 573	23 532	23 636	23 334	23 226	21 984
Industrial and other	3 844	3 818	3 695	3 551	3 478	2 963
Total	269 080	267 492	265 684	261 335	257 287	233 395
Residential Usage						
Annual kilowatthours per customer	7 966	8 232	8 166	8 244	8 192	6 640
Average price per kilowatthour (cents)	7.23	6.40	5.87	5.57	4.64	2.35
Annual revenue per customer (dollars)	576	527	479	459	380	156
Load—megawatts						
Net capability—at time of peak	1 773	1 760	1 825	1 813	1 536	1 228
Peak load	1 315	1 310	1 395	1 386	1 393	1 054
Reserve factor at peak	35%	34%	31%	31%	10%	17%
Load factor	66%	68%	67%	67%	66%	65%
Energy—millions of kilowatthours						
Generated—net	7 491	6 560	6 884	6 674	5 972	4 845
Purchased and net interchanged power	157	1 352	1 348	1 566	2 128	1 435
Total	7 648	7 912	8 232	8 240	8 100	6 280
Fuel						
Fuel cost per kilowatthour (cents)	1.68	1.65	1.33	1.20	1.19	.44
Efficiency—BTU per kilowatthour	10 274	10 246	10 262	10 283	10 247	10 037
Total Assets—thousands of dollars	1 868 370	1 701 443	1 467 512	1 255 947	1 101 610	355 797
Property, Plant and Equipment—thousands of dollars						
Plant in service	1 261 174	1 208 001	979 809	950 873	727 226	367 918
Accumulated provisions for depreciation	252 310	220 629	201 895	176 450	153 463	95 589
Annual Construction Expenditures—thousands of dollars	198 849	234 827	239 010	169 888	194 283	53 056
Capitalization—thousands of dollars						
Common stock equity	550 176	478 993	432 554	382 084	328 100	94 908
Cumulative preferred stock	150 000	150 000	150 000	150 000	150 000	41 000
Cumulative preferred stock with mandatory redemption	95 500	66 500	34 000	9 500	10 000	—
Long-term debt	764 831	714 406	611 137	560 644	494 280	154 687
Total	1 560 507	1 409 899	1 227 691	1 102 228	982 380	290 595
Number of Employees—year end	2 335	2 331	2 260	2 188	2 062	1 809



Board of Directors, Seated L/R Isabel F. Martin, Marvin S. Kobacker, Virgil A. Gladieux, Willard I. Webb, III, Robert H. Davies, John P. Williamson, Samuel G. Carson, Robert G. Wingerter, Elwood L. Elberson, Richard P. Anderson, Henry A. Page, Jr. **Standing L/R** Richard P. Crouse, Wendell A. Johnson, Donald G. Nicholson, Lowell E. Roe

Executive Officers

John P. Williamson, 59(30)
Chairman of the Board and
Chief Executive Officer

Wendell A. Johnson, 54(32)
President and Chief Operating Officer

Richard P. Crouse, 42(2)
Vice President, Nuclear

John R. Dyer, 55(5)
Vice President, Public Relations

Frank W. Keith, 62(34)
Vice President, Administration

David A. Nelson, 41(3)
Vice President, Corporate Development

Donald G. Nicholson, 55(31)
Vice President, Finance

Lyman C. Phillips, 42(19)
Vice President, Administrative
Services

Lowell E. Roe 56(33)
Vice President, Energy Supply

David K. Zaski, 49(31)
Vice President, Customer Services

Stratman Cooke, 60(35)
Secretary

Donald H. Saunders, 46(24)
Treasurer

Paul G. Busby, 33(11)
Controller

Numbers after officers' names indicate age and years of service

Board of Directors

Richard P. Anderson (O)
Partner and General Manager,
The Andersons

Samuel G. Carson (E)(N)*
Board Chairman,
Toledo Trust Co. and
Toledo Trustcorp, Inc.

Richard P. Crouse
Vice President, Nuclear

Robert H. Davies (C)*(O)
Senior Vice President,
Director of Corporate Development,
Owens-Illinois, Inc.

Elwood L. Elberson (C)
President and Chief Executive Officer,
Dinner Bell Foods, Inc.

Stanley W. Gustafson (C)
President, Dana Corporation

Wendell A. Johnson (E)
President and Chief
Operating Officer

Marvin S. Kobacker (E)(N)
Board Vice Chairman,
Kobacker Stores, Inc. and
Private Investor

Isabel F. Martin (A)
Consultant,
United Way - Metropolitan Division

Donald G. Nicholson
Vice President, Finance

Henry A. Page, Jr. (A)
Director of Development,
The Medical College of Ohio
at Toledo

Lowell E. Roe
Vice President, Energy Supply

William I. Webb, III (A)*(E)
Board Chairman, Chief
Executive Officer,
Ohio Citizens Bancorp, Inc.

John P. Williamson (E)*
Chairman and Chief
Executive Officer

Robert G. Wingerter (N)(O)*
Chairman, Executive Committee,
Libbey-Owens-Ford Company

Key to Directors' Committees

(A) Audit Committee
(C) Compensation Committee
(E) Executive Committee
(N) Nominating Committee
(O) Operations Committee
(*) Committee Chairman

Directors Emeriti

Floyd M. Canter
William S. Carlson
Virgil A. Gladieux

Need more information? (or less?)

Dear Shareowner:

You can help us save on production and mailing costs, and improve our shareowner relations, by checking where appropriate:

☐ Your address has changed, or will change within the next three months.

☐ You receive duplicate mailings, which you do not require, for Toledo Edison stock held in several accounts registered in your name or those of family members residing with you.

☐ You would like more information about our dividend reinvestment program.

NAME (please print) ______________________________

SIGNED ______________________________

SHAREOWNER ACCOUNT NUMBER ______________________________
(See your Annual Report mailing label)

STREET ADDRESS ______________________________

CITY ______________ STATE __________ ZIP __________

The following duplicate names and addresses should be deleted to eliminate duplicate mailings of Annual and Quarterly Reports. This will *not* affect dividend checks and proxy material. Please print your name, and also sign below where indicated. Your signature is necessary to make any change in our records.

NAME ______________________________

ACCOUNT NUMBER ______________________________

SIGNED ______________________________

NAME ______________________________

ACCOUNT NUMBER ______________________________

SIGNED ______________________________

NAME ______________________________

ACCOUNT NUMBER ______________________________

SIGNED ______________________________

TOLEDO EDISON

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IF MAILED
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TOLEDO EDISON COMPANY
DEPARTMENT A
EDISON PLAZA
300 MADISON AVENUE
TOLEDO, OHIO 43601

Toledo Edison Shareowner Survey

Dear Shareowner:

We want to make our communications with you as effective as possible. You can provide valuable help by taking a few minutes to answer this brief questionnaire. No postage stamp is required to return it to us, and there is no need to sign your name.

Thank you for your help.

Shareowner Reports

1) About how much of Toledo Edison's 1981 Annual Report did you read?

☐1 All ☐2 ¾ or more ☐3 ½ to ¾ ☐4 ¼ to ½
☐5 less than ¼ ☐6 none

2) How would you describe the readability of Toledo Edison's Annual Report?

☐1 very readable ☐2 somewhat readable
☐3 somewhat difficult ☐4 very difficult

3) Please rank by number (1, 2, 3, etc.) those sections of the Annual Report which were most interesting or important to you.

__ Letter to Shareowners
__ Management Discussion & Analysis
__ Statements & Notes
__ Statistical & Financial Reviews
__ Narrative Section on Toledo
__ Other ______________

4) What else would you like to see in next year's Annual Report?

____
____
____

5) How would you describe Toledo Edison's shareowner communications program?

☐1 Very Good ☐2 Good ☐3 Adequate ☐4 Inadequate

6) How much of Toledo Edison's Quarterly Shareowner Report do you usually read?

☐1 All ☐2 Most ☐3 Some ☐4 Very Little ☐5 None

7) Do you feel the information included in the Annual Report and Toledo Edison's Quarterly Report is keeping you adequately informed about Company activities?

☐1 Yes ☐2 Mostly ☐3 Not entirely ☐4 No

Shareowner Profile

8) Are you ☐1 male ☐2 female

9) Is your account

☐1 Individual ☐2 Joint ☐3 Custodial ☐4 Broker
☐5 Bank or Nominee ☐6 Other ______

10) What is your primary reason for purchasing Toledo Edison stock:

☐1 Current income ☐2 Total return ☐3 Long term gain
☐4 Short term gain ☐5 Return of capital dividends in recent years
☐6 Other

11) Which of the following was most influential in your initial decision to purchase Toledo Edison stock?

☐1 Personal research ☐2 Broker advice
☐3 Meeting Edison management
☐4 Advice of a friend or relative
☐5 Financial publication ☐6 Other ______________

12) How long have your owned Toledo Edison stock?

☐1 1-2 years ☐2 3-5 years ☐3 6-10 years
☐4 11-20 years ☐5 Over 20 years

12a) Was any of your stock acquired in 1950 through ownership of Cities Service stock? ☐1 Yes ☐2 No

13) What is your age?

☐1 Under 25 ☐2 26-44 ☐3 45-64 ☐4 65 or over

14) About how many shares of Toledo Edison stock do you own?

☐1 1-100 ☐2 101-500 ☐3 501-1,000 ☐4 more than 1,000

15) As a Toledo Edison shareowner, what is your primary objective in holding Toledo Edison stock now? (Check all the responses that apply.)

☐1 I have a gain on my investment and wish to defer the tax effect.
☐2 I believe that Toledo Edison's market price will improve.
☐3 Tax benefits on Reinvested Dividends under the 1981 tax law.
☐4 The dividend on my investment is satisfactory.
☐5 I desire dividends that are considered a "Return of Capital".
☐6 Other

Would you be interested in receiving information on a regular basis that would enable you to take an active role in regulatory, economic and legislative issues in Ohio and Washington, D.C. that affect the company and your investment in it? If so, please print your name and address below.

Yes, send me more information.

Name ______________
Address ______________
City/State/Zip ______________

Additional Comments

____
____
____
____
____
____

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DEPARTMENT A
EDISON PLAZA
300 MADISON AVENUE
TOLEDO, OHIO 43601

Stanley W. Gustafson, President and Director, Dana Corporation, was elected to the Board in December, 1981. He is a Director of Linbeck Construction Company, the Ohio Medical Indemnity Corporation, Highway Users Federation, Automotive Information Council, a Trustee of the University of Toledo Corporation, and a member of the Friends of St. Luke's Hospital. He is also a member of the Board of Directors of Spicer, S. A., Mexico, and Metalcon, Venezuela.

Virgil A. Gladieux resigned from the Board of Directors on November 24, 1981, having reached the mandatory retirement age for directors. He was elected Director-Emeritus, concluding 21 years of service, the longest term of any director presently on the board. Mr. Gladieux is Chairman of the Board and Chief Executive Officer of the Gladieux Corporation, a billion-dollar food service company headquartered in Toledo.

Fred E. Fuller, Director Emeritus and Senior Partner, Fuller, Henry, Hodge and Snyder, the Company's General Counsel, passed away in October, 1981. Mr. Fuller became a Director of Toledo Edison in 1949 and Director Emeritus in 1973. He had been General Counsel for the Glass Container Manufacturers Institute and was a member of several bar associations.

Executive Offices
300 Madison Avenue
Toledo, Ohio 43652
Phone (419) 259-5000

Dividend Disbursing Agent
The Toledo Trust Company
Toledo, Ohio 43603

Stock Transfer Agents
The Toledo Trust Company
Toledo, Ohio 43603
Morgan Guaranty Trust
Company of New York
New York, N.Y. 10015

Dividend Reinvestment Agent
Citibank, N.A.
Box 3305
New York, N.Y. 10043

Stock Registrars
Ohio Citizens Bank
Toledo, Ohio 43603
Morgan Guaranty Trust
Company of New York
New York, N.Y. 10015

Mortgage Trustee
The Chase Manhattan Bank, N.A.
New York, N.Y. 10081

Auditors
Arthur Andersen & Co.
300 Madison Avenue
Toledo, Ohio 43604

Counsel
Fuller & Henry
300 Madison Avenue
Toledo, Ohio 43604

Exchange Listings
Common
New York Stock Exchange
Midwest Stock Exchange

Unlisted Trading Privileges
Boston Stock Exchange
Cincinnati Stock Exchange
Philadelphia, Baltimore and Washington Stock Exchange

Preferred—$25 par value—8.84%, $2.365
New York Stock Exchange

Preferred—$100 par value—4¼%, 8.32%, 7.76% and 10%
American Stock Exchange

Bonds
10%—Due 1982, 9.35%—Due 1985
9%—Due 2000, 7½%—Due 2002
8%—Due 2003, 9.65%—Due 2006
9⅝%—Due 2008, 11%—Due 2009
New York Stock Exchange

The Annual Meeting

The Annual Meeting of The Toledo Edison Company will be held at 10 a.m. (E.S.T.) on April 27, 1982 in the Company's headquarters, Edison Plaza, 300 Madison Avenue, Toledo, Ohio. Formal notice of the meeting will be sent to shareowners with the proxy statement.

This report, including the financial statements, is submitted for the general information of Toledo Edison Company's shareowners. It is not intended to be used in connection with any sale or purchase of any securities.

A copy of Form 10-K as filed with the Securities and Exchange Commission will be available to shareowners upon written request to the Company's Vice President, Finance.

TOLEDO
EDISON