Application for

Operating License for

Beaver Valley Power Station - Unit No. 2

GENERAL INFORMATION SECTION

A F F I D A V I T

COMMONWEALTH OF PENNSYLVANIA)
) SS:
COUNTY OF ALLEGHENY)

On this 15th day of December, 1982, before me, a Notary Public in and for said Commonwealth and County, personally appeared E. J. Woolever, who being duly sworn, deposed and said that (1) he is Vice President of Duquesne Light, (2) he is duly authorized to execute and file this information and report on behalf of said Company, 3) he is a duly authorized agent for Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company, and 4) the statements set forth in the report are true and correct to the best of his knowledge, information, and belief.

E. J. Woolever

E. J. Woolever - Vice President
Nuclear Construction

Sworn to and subscribed before me the day and year aforesaid.

Judith M. Nill

Notary Public

JUDITH M. NILL, NOTARY PUBLIC
ROSS TOWNSHIP, ALLEGHENY COUNTY
MY COMMISSION EXPIRES MAY 28, 1984
Member, Pennsylvania Association of Notaries

Before the

UNITED STATES NUCLEAR REGULATORY COMMISSION

Docket No. 50-412

In the Matter of

DUQUESNE LIGHT COMPANY, OHIO EDISON COMPANY,
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY,
and THE TOLEDO EDISON COMPANY

Application for

Operating License for

Beaver Valley Power Station - Unit No. 2

Consisting of:

(1) General Information Section

(2) Final Safety Analysis Report (under separate cover)

(3) Environmental Report - Operating License Stage (under separate cover)

Date: December 15, 1982

Application for Utilization Facility Operating License

General Information

1. Names and Addresses of Applicants

   a. DUQUESNE LIGHT COMPANY
   301 Grant Street
   Pittsburgh, Pennsylvania 15219

   b. OHIO EDISON COMPANY
   76 South Main Street
   Akron, Ohio 44308

   c. THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
   Post Office Box 5000
   Cleveland, Ohio 44101

   d. THE TOLEDO EDISON COMPANY
   300 Madison Avenue
   Toledo, Ohio 43652

Duquesne Light Company, Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company share undivided ownership of the utilization facility, known as the Beaver Valley Power Station-Unit No. 2. Together, the four electric power companies have a total installed net demonstrated generating capacity of 14,700,430 kilowatts as of December 31, 1982, and serve a population of 6,525,000 in a service area of about 12,472 square miles in western Pennsylvania, northwestern, northeastern, and central Ohio, the details of which are as follows:

	Net Demonstrated Generated Capability (KW)	Population	Size (Square Miles)
Duquesne Light Company	3,169,000	1,430,000	800
Ohio Edison Company	5,077,430	2,495,000	7,472

	Net Demonstrated Generated Capability (KW)	Population	Size (Square Miles)
The Cleveland Electric Illuminating Company	4,716,000	1,850,000	1,700
The Toledo Edison Company	1,738,000	750,000	2,500

Duquesne Light Company has complete responsibility for the design, installation, construction, operation, and maintenance of the Beaver Valley Power Station-Unit No. 2 and for the prosecution of this application and all related licensing activities and proceedings before the Nuclear Regulatory Commission. Duquesne Light Company, Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company are not acting as the agent or representative of any other persons in filing this application.

2. Description of Business and Organization of Applicants

a. Duquesne Light Company is a public utility incorporated under the laws of the Commonwealth of Pennsylvania and is engaged in the generation, transmission, distribution, and sale of electricity in the City of Pittsburgh and municipalities in Allegheny and Beaver Counties, Pennsylvania. Duquesne Light Company sells directly to customers in 148 municipalities in Pennsylvania and provides wholesale power to one municipality in Pennsylvania. Duquesne Light Company is not owned, controlled, or dominated by an alien, foreign corporation, or foreign government. The names and business addresses of Duquesne Light Company's directors and principal officers, all of whom are citizens of the United States, are as follows:

Directors

Henry G. Allyn, Jr.
THE PITTSBURGH AND LAKE ERIE RAILROAD COMPANY
Terminal Building
Pittsburgh, PA 15219

John M. Arthur
DUQUESNE LIGHT COMPANY
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15219

C. M. Atkinson
DUQUESNE LIGHT COMPANY
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

Doreen E. Boyce
THE BUHL FOUNDATION
Four Gateway Center
Pittsburgh, PA 15222

John H. Demmler
REED SMITH SHAW & McCLAY
Box 2009
Pittsburgh, PA 15230

William H. Knoell
CYCLOPS CORPORATION
650 Washington Road
Pittsburgh, PA 15228

Sigo Falk
HEALTH SYSTEMS AGENCY OF SOUTHWESTERN PENNSYLVANIA
Centre City Towers
650 Smithfield Street
Pittsburgh, PA 15222

Christian G. Lantzsch
MELLON BANK, N.A.
Mellon Square
Pittsburgh, PA 15230

Stanley G. Shaffer
DUQUESNE LIGHT COMPANY
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

Eric W. Springer
HORTY, SPRINGER & MATTERN
4614 Fifth Avenue
Pittsburgh, PA 15213

Officers

John M. Arthur
Chairman of the Board and Chief Executive Officer
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

Stanley G. Schaffer
President
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

Charles M. Atkinson
Vice President-Fiscal
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

Roger D. Beck
Vice President-Engineering & Construction
One Oxford Centre
301 Grant Street

John J. Carey
Vice President-Nuclear
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

Clifford N. Dunn
Vice President-Operations
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

William F. Gilfillan, Jr.
Vice President-Customer Service
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

George I. Rifendifer
Vice President-General Services
One Oxford Centre
301 Grant Street

E. J. Woolever
Vice President-Nuclear Construction
Robinson Plaza II
Suite 210
Pittsburgh, PA 15205

James O. Ellenberger
Controller
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

Ronald G. Males
Treasurer
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

Thomas Welfer, Jr.
Secretary
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

b. Ohio Edison Company is a public utility incorporated under the laws of the State of Ohio and is engaged principally in the generation, transmission, distribution, and sale of electricity in northeastern and central Ohio. Ohio Edison Company sells directly to customers in 528 communities and in rural areas and supplies electric energy for resale to 21 municipalities.

Ohio Edison Company is not owned, controlled, or dominated by an alien, foreign corporation, or foreign government. The names and business addresses of Ohio Edison Company's directors and principal officers, all of whom are citizens of the United States, are as follows:

Directors

Donald Blasius
THE TAPPAN COMPANY
Tappan Park
Mansfield, OH 44901

Joseph S. Davis
THE M. O'NEIL COMPANY
266 South Main Street
Akron, OH 44308

W. A. Derrick
Post Office Box 2394
Sandusky, OH 44870

Lucille G. Ford
Ashland College
Ashland, OH 44805

Robert L. Loughhead
COPPERWELD STEEL COMPANY
4000 Mahoning Avenue
Warren, OH 44483

Glenn H. Meadows
McNEIL CORPORATION
666 West Market Street
Akron, OH 44303

John Nelson
COMMERCIAL SHEARING, INC.
1775 Logan Avenue
Youngstown, OH 44505

V. A. Owoc
OHIO EDISON COMPANY
76 South Main Street
Akron, OH 44308

J. T. Rogers, Jr.
OHIO EDISON COMPANY
76 South Main Street
Akron, OH 44308

D. W. Tschappat
OHIO EDISON COMPANY
76 South Main Street
Akron, OH 44308

Frank C. Watson
THE YOUNGSTOWN WELDING & ENGINEERING COMPANY
3700 Oakwood Avenue
Youngstown, OH 44509

William C. Zekan
A. SHULMAN, INC.
3550 West Market Street
Akron, OH 44313

R. G. Zimmerman
OHIO EDISON COMPANY
76 South Main Street
Akron, OH 44308

Officers

J. T. Rogers, Jr.
President
76 South Main Street
Akron, OH 44308

David R. Gundry
(effective 2/1/83)
Senior Vice President
76 South Main Street
Akron, OH 44308

James D. Wilson
Vice President
76 South Main Street
Akron, OH 44308

V. A. Owoc
Executive Vice President
76 South Main Street
Akron, OH 44308

Russell J. Spetrino
Vice President and
General Counsel
76 South Main Street
Akron, OH 44308

W. A. Daniels
Comptroller
76 South Main Street
Akron, OH, 44308

D. W. Tschappat
Executive Vice
President
76 South Main Street
Akron, OH 44308

F. E. Derry
Vice President
76 South Main Street
Akron, OH 44308

G. F. LaFlame
Secretary
76 South Main Street
Akron, OH 44308

Lynn Firestone
Senior Vice President
76 South Main Street
Akron, OH 44308

C. W. Frederickson
Vice President
76 South Main Street
Akron, OH 44308

H. P. Burg
Treasurer
76 South Main Street
Akron, OH 44308

R. J. McWhorter
Senior Vice President
76 South Main Street
Akron, OH 44308

D. J. List
Vice President
76 South Main Street
Akron, OH 44308

R. G. Zimmerman
Senior Vice President
76 South Main Street
Akron, OH 44308

Ronald D. Best
Vice President
76 South Main Street
Akron, OH 44308

c. The Cleveland Electric Illuminating Company is a public utility incorporated under the laws of the State of Ohio and is engaged principally in the generation, transmission, distribution, and sales of electricity in northeastern Ohio. The Cleveland Electric Illuminating Company sells directly to customers in the City of Cleveland and 88 other municipalities and surrounding territories.

The Cleveland Electric Illuminating Company is not owned, controlled, or dominated by an alien, foreign corporation, or foreign government. The names and business addresses of The Cleveland Electric Illuminating Company's directors and principal officers, all of whom are citizens of the United States, are as follows:

Directors

Leigh Carter
TREMCO, INC.
10701 Shaker Blvd.
Cleveland, OH 44104

Richard A. Miller
THE ILLUMINATING COMPANY
55 Public Square
Cleveland, OH 44113

Herbert E. Strawbridge
THE HIGBEE COMPANY
100 Public Square
Cleveland, OH 44113

Robert M. Ginn
THE ILLUMINATING COMPANY
55 Public Square
Cleveland, OH 44113

Karl H. Rudolph
THE ILLUMINATING COMPANY
55 Public Square
Cleveland, OH 44113

Richard B. Tullis
HARRIS CORPORATION
Melbourne, FL 32919

Roy H. Holdt
WHITE CONSOLIDATED INDUSTRIES, INC.
11770 Berea Road
Cleveland, OH 44111

Craig R. Smith
THE WARNER & SWASEY COMPANY
11100 Cedar Road
Cleveland, OH 44106

Harold L. Williams
THE ILLUMINATING COMPANY
55 Public Square
Cleveland, OH 44113

John Lansdale, Jr.
SQUIRE, SANDERS & DEMPSEY
21 Dupont Circle, NW
Washington, DC 20036

Charles E. Spahr
1901 Terminal Tower Building
Cleveland, OH 44113

Officers

Robert M. Ginn
President
55 Public Square
Cleveland, OH 44113

Dalwyn R. Davidson
Senior Vice President
55 Public Square
Cleveland, OH 44113

Alan D. Wright
Vice President-Public Affairs & Legal
55 Public Square
Cleveland, OH 44113

Richard A. Miller
Executive Vice President
55 Public Square
Cleveland, OH 44113

John J. Misic
Vice President-Distribution & Services
55 Public Square
Cleveland, OH 44113

Murray R. Edelman
Vice President-Nuclear Group
55 Public Square
Cleveland, OH 44113

Harold L. Williams
Executive Vice President
55 Public Square
Cleveland, OH 44113

Edgar H. Maugans
Vice President-Finance
55 Public Square
Cleveland, OH 44113

Edgar H. Maugans Vice President- Finance 55 Public Square Cleveland, OH 44113	E. Lyle Pepin Secretary 55 Public Square Cleveland, OH 44113	Richard C. Horning Assistant Treasurer 55 Public Square Cleveland, OH 44113
R. J. Farling Vice President Administrative Services 55 Public Square Cleveland, OH 44113	Janis T. Percio Assistant Secretary 55 Public Square Cleveland, OH 44113	Delores Hargrove Assistant Treasurer 55 Public Square Cleveland, OH 44113
John W. Fenker Vice President Power Supply 55 Public Square Cleveland, OH 44113	Larry K. Leonard Assistant Secretary 55 Public Square Cleveland, OH 44113	William B. Kinde Assistant Treasurer 55 Public Square Cleveland, OH 44113
Frank A. Kender Vice President Marketing 55 Public Square Cleveland, OH 44113	Andrew R. Felmer Treasurer 55 Public Square Cleveland, OH 44113	Charles C. Chopp Controller 55 Public Square Cleveland, OH 44113

d. The Toledo Edison Company is a public utility incorporated under the laws of the State of Ohio and is engaged principally in the generation, transmission, distribution, and sale of electricity in northwestern Ohio. The Toledo Edison Company sells directly to customers in 49 incorporated municipalities and in rural areas and provides wholesale power to 13 municipalities and one rural electric cooperative.

The Toledo Edison Company is not owned, controlled, or dominated by an alien, foreign corporation, or foreign government. The names and business addresses of The Toledo Edison Company's directors and principal officers, all of whom are citizens of the United States, are as follows:

Directors

Richard P. Anderson 1200 Dussel Drive Maumee, OH 43537	Richard P. Crouse THE TOLEDO EDISON COMPANY 300 Madison Avenue Toledo, OH 43652	Elwood L. Elberson Post Office Box 388 Defiance, OH 43512
Samuel G. Carson Summit & Madison Avenue Toledo, OH 43603	Robert H. Davies Post Office Box 1035 Toledo, OH 43666	Stanley W. Gustafson Post Office Box 1000 Toledo, OH 43697

Wendell A. Johnson
THE TOLEDO EDISON COMPANY
300 Madison Avenue
Toledo, OH 43652

Donald G. Nicholson
THE TOLEDO EDISON COMPANY
300 Madison Avenue
Toledo, OH 43652

Williard I. Webb, III
Post Office Box 1688
Toledo, OH 43603

Marvin S. Kobacker
Post Office Box 1508
Central Station
Toledo, OH 43603

Henry A. Page, Jr.
MEDICAL COLLEGE OF OHIO AT TOLEDO
3000 Arlington Avenue
Toledo, OH 43614

John P. Williamson
THE TOLEDO EDISON COMPANY
300 Madison Avenue
Toledo, OH 43652

Isabel F. Martin
One Stranahan Square
Toledo, OH 43604

Lyman C. Phillips
THE TOLEDO EDISON COMPANY
300 Madison Avenue
Toledo, OH 43652

Robert G. Wingerter
811 Madison Avenue
Toledo, Ohio 43695

Officers

John P. Williamson
Chairman of the Board & Chief Executive Officer
300 Madison Avenue
Toledo, OH 43652

Frank W. Keith
Vice President
Administration
300 Madison Avenue
Toledo, OH 43652

David K. Zaski
Vice President
Customer Services
300 Madison Avenue
Toledo, OH 43652

Wendell A. Johnson
President and Chief Operating Officer
300 Madison Avenue
Toledo, OH 43652

David A. Nelson
Vice President
Administrative Service
300 Madison Avenue
Toledo, OH 43652

Stratman Cooke
Secretary
300 Madison Avenue
Toledo, OH 43652

Richard P. Crouse
Vice President
Nuclear
300 Madison Avenue
Toledo, OH 43652

Donald G. Nicholson
Vice President
Finance
300 Madison Avenue
Toledo, OH 43652

Donald H. Saunders
Treasurer
300 Madison Avenue
Toledo, OH 43652

John R. Dyer
Vice President
Public Relations
300 Madison Avenue
Toledo, OH 43652

Lyman C. Phillips
Vice President
Corporate Development
300 Madison Avenue
Toledo, OH 43652

Paul G. Busby
Controller
300 Madison Avenue
Toledo, OH 43652

Lowell E. Roe
Vice President
Energy Supply
300 Madison Avenue
Toledo, OH 43652

3. Class and Period of License Requested

Applicants request a class 103 operating license for a period of 40 years from date of issuance of the operating license, authorizing Duquesne Light Company to operate the utilization facility described in Item 5 below.

4. Additional Licenses Requested

Applicants request such additional source, special nuclear, and by-product material licenses as may be necessary and appropriate to the operation of the facility.

5. Description and Use of Facility

The Beaver Valley Power Station-Unit No. 2 is a nuclear electric generating plant with a pressurized water reactor generating system, with a rated core thermal power of 2660 MWt and a design power of 2774 MWt. The corresponding unit gross electrical outputs are 894 MWe and 923 MWe.

The Beaver Valley Power Station-Unit No. 2, is located on the southern shore of the Ohio River in Beaver County, Pennsylvania, approximately 22 miles northwest of Pittsburgh and 5 miles east of East Liverpool, Ohio.

Details concerning the plant and site are contained in the Environmental Report - Operating License Stage, and in the Final Safety Analysis Report (FSAR), both of which are submitted under separate cover and which constitute parts of this application.

6. Financial Qualifications

Applicants are electric utilities within the meaning of 10 CFR Section 50.2(x) and therefore are not required to submit financial qualification information. 10 CFR Section 50.33(f)(1).

7. Technical Qualifications

A description of the technical qualifications of Duquesne Light Company and its principal contractors is contained in Chapters 1 and 13 of the FSAR. A description of Duquesne Light Company's training program is contained in Chapter 13 of the FSAR.

8. a. Regulatory Agencies

One or more regulatory agencies and municipalities may have jurisdiction over the respective rates and services of the Applicants incident to the generation and distribution of electrical energy from the utilization facility for which a class 103 license is requested herein. The names and addresses of such agencies and the names of such municipalities are set forth in the attached Appendices A through D.

b. Trade and News Publications

The lists of trade and news publications which are in general circulation in the respective service areas of the Applicants and which are considered appropriate to give reasonable notice of this Application to those municipalities, private utilities, public bodies, and cooperatives which have a potential interest in the utilization facility are set forth in Appendices E through I.

9. Security Agreement

The Application does not contain any Restricted Data or other defense information. Applicants agree that they will not permit any individual to have access to Restricted Data until the Civil Service Commission shall have made an investigation and report to the Nuclear Regulatory Commission on the character, associations, and loyalty of such individual, and the Nuclear Regulatory Commission shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense and security.

10. Communications

Duquesne Light Company, on behalf of itself, Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company, will hereafter submit all further information required in connection with this Application. Applicants requested that all communications pertaining to this Application be sent to:

Earl J. Woolever
Vice President-Nuclear Construction
Robinson Plaza II, Suite 210
Pittsburgh, PA 15205

In addition, it is requested that copies of each communication be sent to Duquesne Light Company's Washington counsel:

Gerald Charnoff, Esquire
Jay E. Silberg, Esquire
Shaw, Pittman, Potts and Trowbridge
1800 M Street, NW
Suite 900 South
Washington, DC 20036

Duquesne Light Company

By E J Woolever

E. J. Woolever - Vice President
Nuclear Construction

Sworn to and subscribed before me, this 15th day of

December, 1982.

Judith M. Nill

Notary Public

My Commission Expires:

JUDITH M. NILL, NOTARY PUBLIC
ROSS TOWNSHIP, ALLEGHENY COUNTY
MY COMMISSION EXPIRES MAY 28, 1984
Member, Pennsylvania Association of Notaries

Ohio Edison Company

By Justin T. Rogers Jr.

Sworn to and subscribed before me, this 13th day of

December, 1982.

Betty E. DiLauro
Notary Public

My Commission Expires:

[illegible]
Notary Public [illegible]
Resident of [illegible] County
My Commission Expires Aug. 15, 1983

The Cleveland Electric
Illuminating Company

By Dalwyn R. Davidson
Dalwyn R. Davidson
Vice President, System Engineering
and Construction Group

Sworn to and subscribed before me, this 30 day of

Nov, 1982.

William J. Kerner
Notary Public

WILLIAM J. KERNER Attorney
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date.
Section 147.03 R.C.

My Commission Expires:

The Toledo Edison Company

By Lyman Phillips
Lyman C. Phillips
Vice President, Corporate
Planning and Development

Sworn to and subscribed before me, this 3rd day of

December, 1982.

Stephen B. Mosier
Notary Public

STEPHEN B. MOSIER
ATTORNEY AT LAW
Notary Public, State of Ohio
My commission has no expiration date
Section 147.03 R.C.

My Commission Expires:

APPENDIX A

Duquesne Light Company
Regulatory Agencies Having Jurisdiction Over Rates and Services

1. Federal Energy Regulatory Commission
825 North Capitol Street, NE
Washington, DC 20426

2. Pennsylvania Public Utility Commission
Post Office Box 3265
Harrisburg, PA 17120

APPENDIX B

Ohio Edison Company

Regulatory Agencies Having Jurisdiction Over Rates and Services

1. Federal Energy Regulatory Commission
   825 North Capitol Street, NE
   Washington, DC 20426

2. The Public Utilities Commission of Ohio
   375 South High Street
   Columbus, OH 43215

3. The following Municipalities:

Akron Division

Akron
Aurora
Barberton
Boston Heights
Brady Lake
Briarwood Beach
Broadview Heights*
Brunswick
Chippewa-On-The-Lake
Clinton
Cuyahoga Falls*
Doylestown
Fairlawn
Glenwillow
Gloria Glens Park
Hartville
Kent
Lakemore
Macedonia
Mantua
Medina
Mogadore
Munroe Falls
North Royalton*
Northfield
Norton
Oakwood*
Peninsula
Ravenna
Reminderville
Richfield
Silver Lake
Solon
Stow
Streetsboro
Strongsville*
Sugar Bush Knolls
Tallmadge
Twinsburg
Wadsworth
Walton Hills*
Westfield Center

Bay Division

Bay View
Bellevue
Castalia
Huron
Marblehead
Milan
North Fairfield
Norwalk
Port Clinton
Put-In-Bay
Sandusky

Lake Erie Division

Amherst*
Avon*
Berlin Heights
Elyria
Grafton*
Kipton
LaGrange
Lorain
North Ridgeville
Oberlin*
Olmstead Falls
Sheffield
Sheffield Lake
South Amherst
Vermilion
Wakeman

Mansfield Division

Ashland
Butler
Crestline
Hayesville
Jeromesville
Loudonville
Mansfield
Mifflin
Ontario
Perrysville
Polk

Marion Division

Ashley
Caledonia
Cardington
Chesterville
Delaware
Dublin*
Edison
Green Camp
Magnetic Springs
Marion
Mt. Gilead
Plain City
Richwood
Shawnee Hills

Springfield Division

Catawba
Donnelsville
Enon
Fairborn*
Lawrenceville
London
North Hampton
Springfield
Tremont
West Jefferson*

Stark Division

Alliance
Beloit
Brewster
Canal Fulton
Creston
Dalton
Limaville
Massillon
Meyers Lake
Navarre
Rittman
Sebring

Warren Division

Cortland
Garrettsville
Hiram
Lordstown
Newton Falls*
Warren
West Farmington
Windham

Youngstown Division

Andover
Campbell
Canfield
Columbiana*
Craig Beach
East Palestine
Girard
Hanoverton
Hubbard*
Leetonia
Lisbon
Lowellville
McDonald
New Middletown
New Waterford
Orangeville
Poland
Rogers
Salem
Struthers
Washingtonville
Yankee Lake
Youngstown

*Only partially served.

APPENDIX C

The Cleveland Electric Illuminating Company
Regulatory Agencies Having Jurisdiction Over Rates and Services

1. Federal Energy Regulatory Commission
   825 North Capitol Street, NE
   Washington, DC 20426

2. The Public Utilities Commission of Ohio
   361 E. Broad Street
   Columbus, OH 43215

3. The following Municipalities:

CUYAHOGA COUNTY

City of Bay Village
City of Beachwood
City of Bedford
City of Bedford Heights
Village of Bentleyville
City of Berea
Village of Bratenahl
City of Brecksville
City of Broadview Heights
City of Brook Park
City of Brooklyn
Village of Brooklyn Heights
Village of Chagrin Heights
City of Cleveland
City of Cleveland Heights
Village of Cuyahoga Heights
City of East Cleveland
City of Euclid
City of Fairview Park
City of Garfield Heights
Village of Gates Mills
Village of Glenwillow
City of Highland Heights
Village of Hunting Valley
City of Independence
City of Lakewood
Village of Linndale
City of Lyndhurst
City of Maple Heights
Village of Mayfield
City of Mayfield Heights
City of Middleburg Heights
Village of Moreland Hills
Village of Newburgh Heights
City of North Olmsted
Village of North Randall
City of North Royalton
Village of Oakwood
Village of Olmsted Falls
Village of Orange
City of Parma
City of Parma Heights
City of Pepper Pike
City of Richmond Heights
City of Rocky River
City of Seven Hills
City of Shaker Heights
City of Solon
City of South Euclid
City of Strongsville
City of University Heights
Village of Valley View
Village of Walton Hills
City of Warrensville Heights
City of Westlake
Village of Woodmere

LAKE COUNTY

City of Eastlake
Village of Fairport Harbor
Village of Grand River
City of Kirtland
City of Kirtland Hills
Village of Lakeline
Village of Madison
City of Mentor
City of Mentor-on-the-Lake
Village of North Perry
Village of Perry
Village of Timberlake
Village of Waite Hill
City of Wickliffe
City of Willoughby
City of Willowick
City of Willoughby Hills

GEAUGA COUNTY

Village of Aquilla
Village of Burton
Village of Chardon
Village of Middlefield
Village of South Russell

LORAIN COUNTY

City of Avon
City of Avon Lake
City of North Ridgeville

ASHTABULA COUNTY

City of Ashtabula
City of Conneaut
City of Geneva
Village of Geneva-on-the-Lake
Village of Jefferson
Village of North Kingsville
Village of Orwell
Village of Rock Creek

APPENDIX D

The Toledo Edison Company

Regulatory Agencies Having Jurisdiction Over Rates and Services

1. Federal Energy Regulatory Commission
   825 North Capitol Street, NE
   Washington, DC 20426

2. The Public Utilities Commission of Ohio
   375 South High Street
   Columbus, OH 43215

3. The following Municipalities:

Alvordton
Archbold
Berkey
Blakeslee
Burgoon
Clay Center
Clyde
Defiance
Delta
Edon
Fayette
Gibsonburg
Grand Rapids
Green Springs
Hamler
Harbor View
Helena
Holgate
Holland
Jerry City
Liberty Center
Lindsey
Luckey
Lyons
Maumee
McClure
Metamora
Millbury
Milton Center
New Bavaria
Ney
Northwood
Oregon
Ottawa Hills
Perrysburg
Risingsun
Rocky Ridge
Rossford
Stryker
Swanton
Sylvania
Toledo
Walbridge
Waterville
Wauseon
Wayne
Weston
Watt Unity
Whitehouse

APPENDIX E

List of Trade Publications

NAME	ADDRESS
Atomic Industrial Forum, Inc.	Public Affairs & Information Program 7101 Wisconsin Avenue, Suite 605 Washington, DC 20014
Electrical Light & Power	221 Columbus Avenue Boston, MA 02116
Electrical Week	1221 Avenue of the Americas New York, NY 10020
Electrical World	330 West 42nd Street New York, NY 10036
Nuclear Assurance Corporation	Librarian 24 Executive Park West Atlanta, GA 30329
Nuclear Industry	475 Park Avenue South New York, NY 10016
Nuclear News	244 Ogden Avenue Hinsdale, IL 60521
Nucleonics	330 W. 42nd Street New York, NY 10036
Power Engineering	Technical Publishing Company 1301 S. Grove Avenue Barrington, IL 60010
Public Utilities Fortnightly	Suite 502 1828 L Street, NW Washington, DC 20036

APPENDIX F

Duquesne Light Company
List of News Publications in Service Area

PITTSBURGH PRESS
34 Blvd. of the Allies
Pittsburgh, PA 15222

PITTSBURGH POST-GAZETTE
50 Blvd. of the Allies
Pittsburgh, PA 15222

BEAVER COUNTY TIMES
Box 400
Beaver, PA 15009

McKEESPORT DAILY NEWS
Post Office Box 128
McKeesport, PA

NEW YORK TIMES
299 West 43rd Street
New York, NY 10036

WALL STREET JOURNAL
One Oliver Plaza
Suite 208
Pittsburgh, PA 15222

USA TODAY
Post Office Box 500
Washington, DC 20044

VALLEY NEWS DISPATCH
210 Fourth Avenue
Tarentum, PA 15084

DAILY TRIBUNE
335 East Mall Boulevard
Expo Mart
Monroeville, PA 15146

EVENING REVIEW
210 East Fourth Street
East Liverpool, OH 43920

GREENSBURG TRIBUNE
REVIEW
Cabin Hill Drive
Greensburgh, PA 15601

APPENDIX G

OHIO EDISON COMPANY - List of News Pubications in Service Area

AKRON DIVISION

AKRON BEACON JOURNAL
44 E. Exchange St.
Akron, OH 44328

MEDINA COUNTY GAZETTE
885 W. Liberty St.
Medina, OH 44256

RECORD COURIER
124 N. Chestnut St.
Ravenna, OH 44266

BAY DIVISION

BELLEVUE GAZETTE
Gazette Building
Bellevue, OH 44811

NORWALK REFLECTOR
61 E. Monroe
Norwalk, OH 44857

PORT CLINTON NEWS
114 E. Fifth St.
Port Clinton, OH 43452

SANDUSKY REGISTER
314 W. Market
Sandusky, OH 44870

LAKE ERIE DIVISION

CHRONICLE-TELEGRAN
225 East Ave.
Elyria, OH 44035

THE JOURNAL
1657 Broadway
Lorain, OH 44052

MANSFIELD DIVISION

ASHLAND TIMES-GAZETTE
40-46 E. Second St.
Ashland, OH 44805

NEWS JOURNAL
70 W. Fourth St.
Mansfield, OH 44902

MARION DIVISION

MARION STAR
150 Court Street
Marion, OH 43302

GALION INQUIRER
N. Market St.
Galion, OH 44833

DELAWARE GAZETTE
18 E. William St.
Delaware, OH 43015

SPRINGFIELD DIVISION

THE MADISON PRESS
30 S. Oak St.
London, OH 43140

SPRINGFIELD NEWS-SUN
202 N. Limestone St.
Springfield, OH 45501

FAIRBORN DAILY HERALD
One Herald Square
Fairborn, OH 45324

STARK DIVISION

ALLIANCE REVIEW
40 S. Linden Ave.
Alliance, OH 46601

EVENING INDEPENDENT
50 North St.
Massillon, OH 44646

THE DAILY RECORD
212 E. Liberty St.
Wooster, OH 44691

WARREN DIVISION

WARREN TRIBUNE-CHRONICLE
240 Franklin St.
Warren, OH 44482

THE DAILY TIMES
35 W. State St.
Niles, OH 44446

YOUNGSTOWN DIVISION

THE MORNING JOURNAL
308 W. Maple St.
Lisbon, OH 44432

THE STAR BEACON
4626 Park Ave.
Ashtabula, OH 44004

THE SALEM NEWS
161 N. Lincoln
Salem, OH 44460

YOUNGSTOWN VINDICATOR
Vindicator Square &
W. Boardman
Youngstown, OH 44501

SHARON HERALD
S. Dock St.
Sharon, PA 16146

APPENDIX H

The Cleveland Electric Illuminating Company
List of News Publications in Service Area

CUYAHOGA COUNTY

THE PLAIN DEALER
1801 Superior Ave.
Cleveland, OH 44114

LAKE COUNTY

THE NEWS HERALD
38879 Mentor Ave.
Willoughby, OH 44094

PAINESVILLE TELEGRAPH
84 N. State St.
Painesville, OH 44097

GEAUGA COUNTY

THE PLAIN DEALER
1801 Superior Ave.
Cleveland, OH 44114

GEAUGA TIMES-LEADER
111 Water St.
Chardon, OH 44024

ASHTABULA COUNTY

ASHTABULA STAR BEACON
4626 Park Ave.
Ashtabula, OH 44004

CONNEAUT NEWS HERALD
182 Broad St.
Conneaut, OH 44030

GENEVA FREE PRESS
23 S. Forest St.
Geneva, OH 44041

LORAIN COUNTY

ELYRIA CHRONICAL TELEGRAM
225 East Avenue
Elyria, OH 44035

LORAIN JOURNAL
1657 Broadway
Lorain, OH 44052

APPENDIX I

The Toledo Edison Company
List of News Publications in Service Area

THE ADVANCE REPORTER
106 N. Defiance
Stryker, OH 43557

ANTHONY WAYNE HERALD
4444 W. Alexis Rd.
Toledo, OH 43623

ARCHBOLD BUCKEYE
207 N. Defiance
Archbold, OH 43502

BG NEWS-GSU
104 University Hall
Bowling Green, OH 43403

THE BELLEVUE GAZETTE
107 N. Sandusky St.
Gazette Bldg.
Bellevue, OH 44811

THE BLADE
541 Superior St.
Toledo, OH 43660

BOWLING GREEN
SENTINEL-TRIBUNE
Post Office Box 88
Bowling Green, OH 43402

BRYAN TIMES
121 S. Walnut St.
Bryan, OH 43506

CATHOLIC CHRONICLE
Post Office Box 1866
(1933 Spielbusch)
Toledo, OH 43603

CHRONICLE-TELEGRAM
225 East Ave.
Elyria, OH 44035

CLYDE ENTERPRISE
Post Office Box 29
Clyde, OH 43410

THE COLLEGIAN-U OF T
2801 W. Bancroft
Toledo, OH 43606

CONNECTIONS
Post Office Box 113
Toledo, OH 43694

COMMUNITY MIRROR
113 W. Wayne St.
Maumee, OH 43537

CONSUMERS GUIDE
4037 Monroe St.
Suite #1
Toledo, OH 43606

DELTA ATLAS
212-1/2 Main St.
Delta, OH 43515

DEFIANCE CRESENT
-NEWS
Second & Perry Sts.
Defiance, OH 43512

EDON COMMERCIAL
N. Michigan St.
Edon, OH 43518

EDGE TON EARTH
Edgerton, OH 43517

FAYETTE REVIEW
118 W. Main St.
Fayette, OH 43521

FREMONT NEWS MESSENGER
1170 Cedar St.
Fremont, OH 43420

FULTON COUNTY EXPOSITOR
201 N. Fulton
Wauseon, OH 43567

LIBERTY CENTER PRESS
511 East St.
Liberty Center, OH 43532

LORAIN JOURNAL
1657 Broadway
Lorain, OH 44052

MAUMEE VALLEY HERALD
4444 W. Alexis Rd.
Toledo, OH 43623

MONTPELIER LEADER-
ENTERPRISE
319 W. Main St.
Montpelier, OH 43543

NEWS HERALD
115 W. Second St.
Port Clinton, OH 43452

NORTHWEST-SIGNAL
Route 474 East
Post Office Box 567
Napoleon, OH 43545

OTTAWA COUNTY EXPONENT
106 Locust St.
Oak Harbor, OH 43449

PERRYSBURG MESSENGER
-JOURNAL
229 W. Sixth St.
Perrysburg, OH 43551

THE POINT AND SHORELAND JOURNAL
Post Office Box 5166
(5108 N. Summit St.)
Toledo, OH 43611

POINT PLACE HERALD
4444 W. Alexis Rd.
Toledo, OH 43623

ROSSFORD RECORD
Post Office Box 106
Perrysburg, OH 43551

SANDUSKY REGISTER
314 W. Market St.
Sandusky, OH 44870

THE SUBURBAN PRESS
Post Office Box 550
Genoa, OH 43430

SWANTON ENTERPRISE
97 N. Main St.
Swanton, OH 43558

SYLVANIA SENTINEL HERALD
4444 W. Alexis Rd.
Toledo, OH 43623

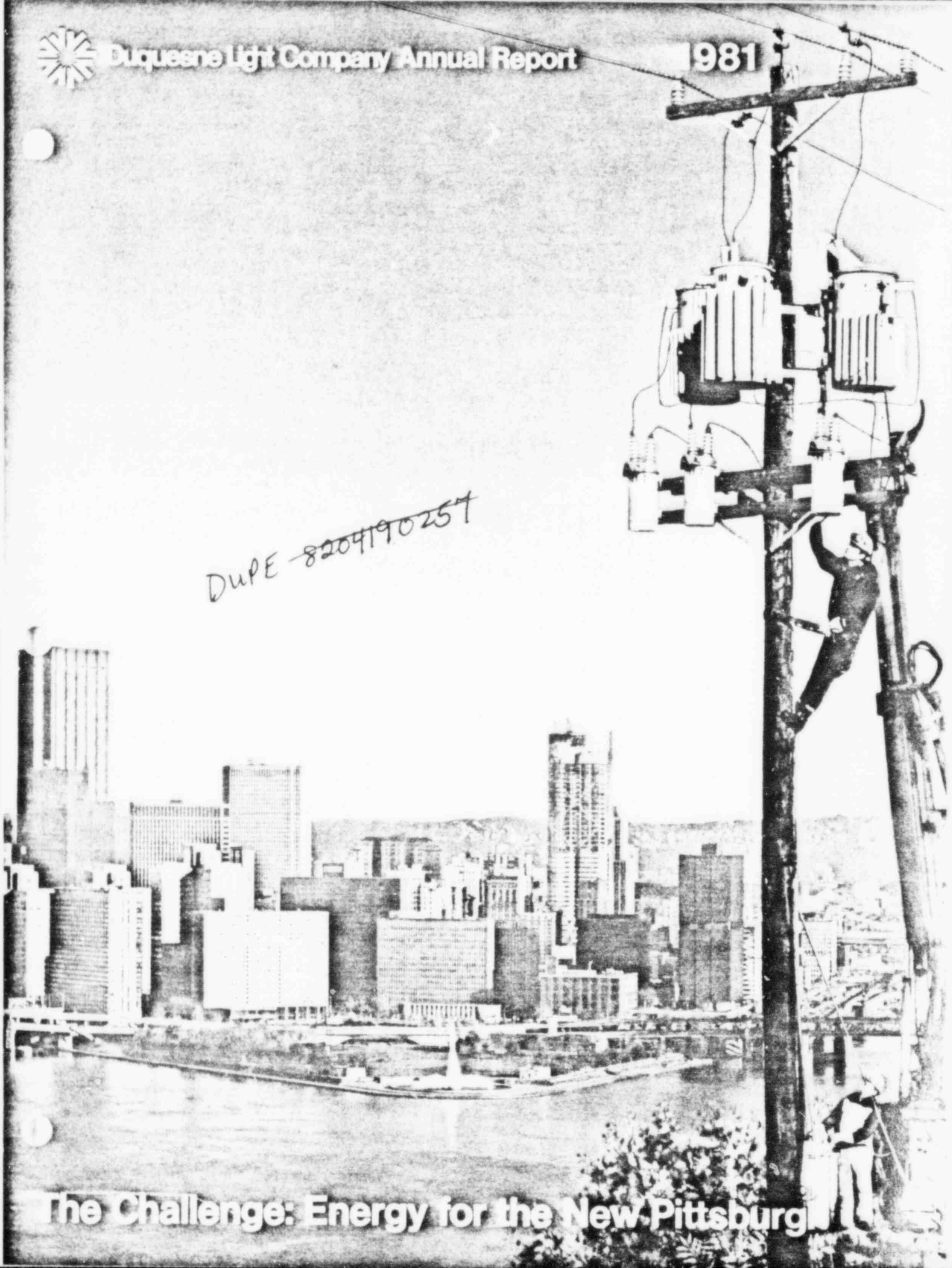
TOLEDO BUSINESS NEWS
Toledo Area Chamber of Commerce
218 Huron St.
Toledo, OH 43604

TOLEDO UNION JOURNAL
2300 Ashland Ave.
Toledo, OH 43620

THE VILLAGE VOICE
3463 Woodley Rd.
Toledo, OH 43623

WEST TOLEDO HERALD
4444 W. Alexis Rd.
Toledo, OH 43623

Duquesne Light Company Annual Report 1981



DUPE ~~8204190257~~

The Challenge: Energy for the New Pittsburgh

The Challenge: Energy for the New Pittsburgh

On the cover is Pittsburgh, the heart of Duquesne Light's service area. Ranked as one of the most liveable cities in the country, Pittsburgh is in the midst of Renaissance II, a massive program of new construction and renovation. This huge urban redevelopment activity is indicative of the vitality of Duquesne's service area and its increasing demand for electric energy.

Contents

Board of Directors

John M. Arthur ‡
Chairman of the Board and Chief Executive Officer of the Company

Stanley G. Schaffer
President of the Company

Charles M. Atkinson
Vice President—Fiscal of the Company

Henry G. Allyn, Jr.*† ᴬ
President and Chief Executive Officer of The Pittsburgh and Lake Erie Railroad Company

Doreen E. Boyce*‡
Director, The Buhl Foundation

John H. Demmler ‡
Partner, Reed Smith Shaw & McClay Attorneys-at-Law

Sigo Falk*
Associate Director, Health Systems Agency of Southwestern Pennsylvania

Philip A. Fleger † ᴮ
Retired Chairman of the Board and Chief Executive Officer of the Company

William H. Knoell †
President and Chief Executive Officer of Cyclops Corporation (principally a producer of steel and fabricated steel products)

G. Christian Lantzsch*‡
Vice Chairman of Mellon Bank, N.A. and Mellon National Corporation

Eric W. Springer †
Partner, Horty, Springer and Mattern Attorneys-at-Law

* Member of Audit Committee
† Member of Compensation Committee
‡ Member of Nominating Committee
ᴬ New Director
ᴮ Retired as Director on August 19, 1981

New Director

At the Company's April 21, 1981 Stockholders' Meeting, Mr. Henry G. Allyn, Jr. was elected to the Board of Directors. Mr. Allyn is President and Chief Executive Officer of The Pittsburgh and Lake Erie Railroad Company.

Director Retires

On August 19, 1981, Philip A. Fleger resigned as a Director of the Company. Mr. Fleger was Chairman of the Board and Chief Executive Officer of the Company from 1950 to 1968 and was a Director of the Company for 42 years. The employees, Directors and officers of the Company appreciate the many years that Mr. Fleger so capably served the Company.

Left to right: John H. Demmler; Doreen E. Boyce; Eric W. Springer; John M. Arthur

Financial Highlights—1981

Duquesne Light Company

Financial	1981	1980	Percent Increase
Total Operating Revenues (000)	**$796,847**	$689,465	15.6
Net Income (000)	**$108,871**	$92,962	17.1
Earnings Per Share of Common Stock	**$2.06**	$1.82	13.2
Dividends Per Share of Common Stock	**$1.85***	$1.80	2.8
Shares of Common Stock Outstanding at Year End	**45,302,520**	40,166,083	12.8
Operating			
Utility Plant (000)	**$ 2,809,753**	$ 2,604,333	7.9
MWH Sales	**13,630,269**	13,297,453	2.5
Peak Load Megawatts	**2,522**	2,474	1.9
Cost of Fuel Per Million BTU	**159.7¢**	149.8¢	6.6
Average BTU Per KWH Output	**10,931**	10,811	1.1
Annual System Output MWH	**14,323,618**	14,026,435	2.1

*The quarterly dividend was raised from 45¢ to 47½¢ per share payable October 1, 1981. This is an indicated annual rate of $1.90.

Left to right: Charles M. Atkinson; Henry G. Allyn, Jr.; Sigo Falk

Left to right: William H. Knoell; Stanley G. Schaffer; G. Christian Lantzsch

To Our Stockholders

Despite high interest rates, continuing inflation and a serious business recession which began in the fourth quarter, we are pleased to report that 1981 was a reasonably good year for your Company. Our earnings rose modestly from $1.82 in 1980 to $2.06 in 1981, a 13% increase. Higher sales and rate relief were the main reasons for the improvements.

In February, the Pennsylvania Public Utility Commission (PUC) approved a rate increase of $47.5 million and an additional increase of $64.2 million in June. While the total amount received was only 52% of the amount requested, this amount did make possible a mid-year dividend increase, which raised the indicated annual dividend rate from $1.80 to $1.90 per share.

The Company will file for additional rate relief within the next few months. The amount of the increase to be requested is under consideration.

Sales and Prospects

On July 9, 1981, your Company set a new record peak-hour load of 2,522,000 kilowatts. This was 48,000 kilowatts above the previous record, set in 1980. In addition, our output of 51,742,000 kilowatt-hours that day was 3% higher than on the previous record day.

We expect the pattern of new peak records to continue in future years. New electric steelmaking furnaces and 20 major commercial projects in the planning stage or under construction in the Pittsburgh area will have a positive impact on our sales over the next several years. Among the commercial projects are two high-rise office complexes scheduled for completion in 1982, and two more are scheduled for completion in 1983.

Nuclear Performance Comeback

Our Beaver Valley Power Station Unit No. 1 operated very well during 1981 and had an availability rate of 74%—the unit's best performance since its start-up six years ago. During the three-month coal strike in early 1981, Beaver Valley produced 17% of all the electricity used by our customers. In late December, Beaver Valley Unit No. 1 was removed from service for an estimated period of approximately five months for refueling and additional modifications required by the Nuclear Regulatory Commission (NRC).

Conservation Efforts

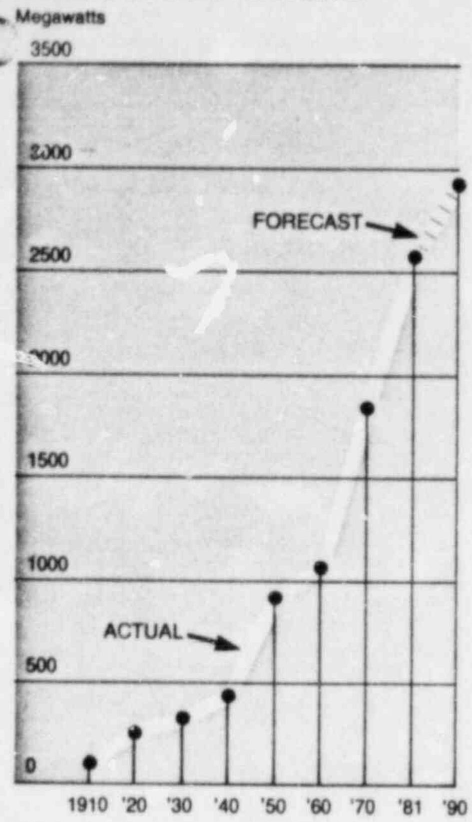
To assist homeowners in conservation efforts Duquesne Light, in cooperation with the state, initiated a Residential Conservation Service program. For a below-cost charge of $15, a certified energy auditor makes a basement-to-attic efficiency evaluation, recommends steps the homeowner can take to save energy, and estimates the savings for each action taken.

In October, the Company established a special rate for the purchase of electricity from customer-owned generating facilities using renewable energy resources such as solar, wind, water or waste. We believe this new purchase rate will encourage the building of customer-owned generating facilities and may help to reduce the need for construction of additional Company-owned generating units in the future.

Cost Reductions

One of the bright spots of 1981 was a major step toward the ending of a serious cost threat. At this time last year, we were concerned that we might be forced to install "scrubbers" at our Cheswick Power Station. However, the Environmental Protection Agency approved revised air quality regulations for Allegheny County including a revised standard for sulfur oxide emissions applicable to the station. The revised standard will enable the Company to achieve compliance through the use of a blend of regular and low-sulfur coal. Over the life of the station, this alternative should save our customers an estimated one *billion* dollars.

ANNUAL SYSTEM PEAK LOAD



Environmental Auditing Program

Also on the environmental front, the Company developed a new Environmental Compliance Assurance Program designed to improve the information flow to management on the acceptability of all operations that affect the environment. The program will help our operating departments comply with changing environmental regulations and implement effective environmental control systems. We believe this coordinated effort will help minimize the cost of keeping all Company operations in compliance with local, state and federal environmental regulations.

Management Audit

During the year a management audit, mandated by the PUC, was conducted by the Boston firm of Temple, Barker and Sloane, Inc. While we believe that the audit, when completed, will give Duquesne Light good marks on overall management, supervision and employee competence, we expect and will welcome constructive criticism that will help us make our operations even more efficient.

A Future Concern

Looking ahead, our most pressing concern is our ability to finance the construction necessary to meet this community's future electrical needs as reliably as in the past. The area's economic future, including the creation of much-needed jobs, depends on an adequate supply of electric energy. We anticipate that electrical consumption in our territory will continue to grow although conservation efforts will keep the rate of growth at a moderate level.

Our ability to cope with the increasing demand for energy is directly related to the rates we are permitted to charge for the service we provide. Therefore, for the continued growth and economic stability of our community, we must continue to seek reasonable rate relief.

With your help we expect to provide the energy necessary to meet the aspirations of those we serve.

John M. Arthur

John M. Arthur
Chairman of the Board
and Chief Executive Officer

Stanley G. Schaffer

Stanley G. Schaffer
President

February 18, 1982

Stanley G. Schaffer and John M. Arthur at the construction site of the Company's new headquarters.

1981 in Review

Incrcased Revenues

Revenues for 1981 increased by $107 million over 1980. Approximately 90% of the increase resulted from rate relief and the energy cost rate. The remaining 10% came from increased customer sales and the Pennsylvania tax surcharge.

Customer Consumption Increased

Electric kilowatt-hour sales were up 2½% over last year. The two new 170-ton electric arc furnaces at Colt Industries' Crucible Stainless and Alloy Steel Division at Midland, Pa., as well as a number of new or expanded business customers, contributed significantly to the increased sales.

About 29% of electric revenues came from residential customers, 31% from commercial customers and 38% from industrial customers. The remaining 2% came from such other sources as street lighting and sales to other utilities.

Pittsburgh's Renaissance II is well underway. New construction and building rehabilitation projects throughout the entire downtown area are contributing to the economic vitality of the Pittsburgh region as well as providing future revenues for the Company.

More than 20 major construction projects are in progress or in the final planning stage for Pittsburgh's Golden Triangle. Among those new buildings scheduled for occupancy in 1982 are the 20-story National Steel Building, the 10-story Comstock Center and the 46-story One Oxford Centre (the Company's future corporate headquarters). Scheduled for 1983 occupancy are the 54-story Dravo Building and the 40-story PPG Place.

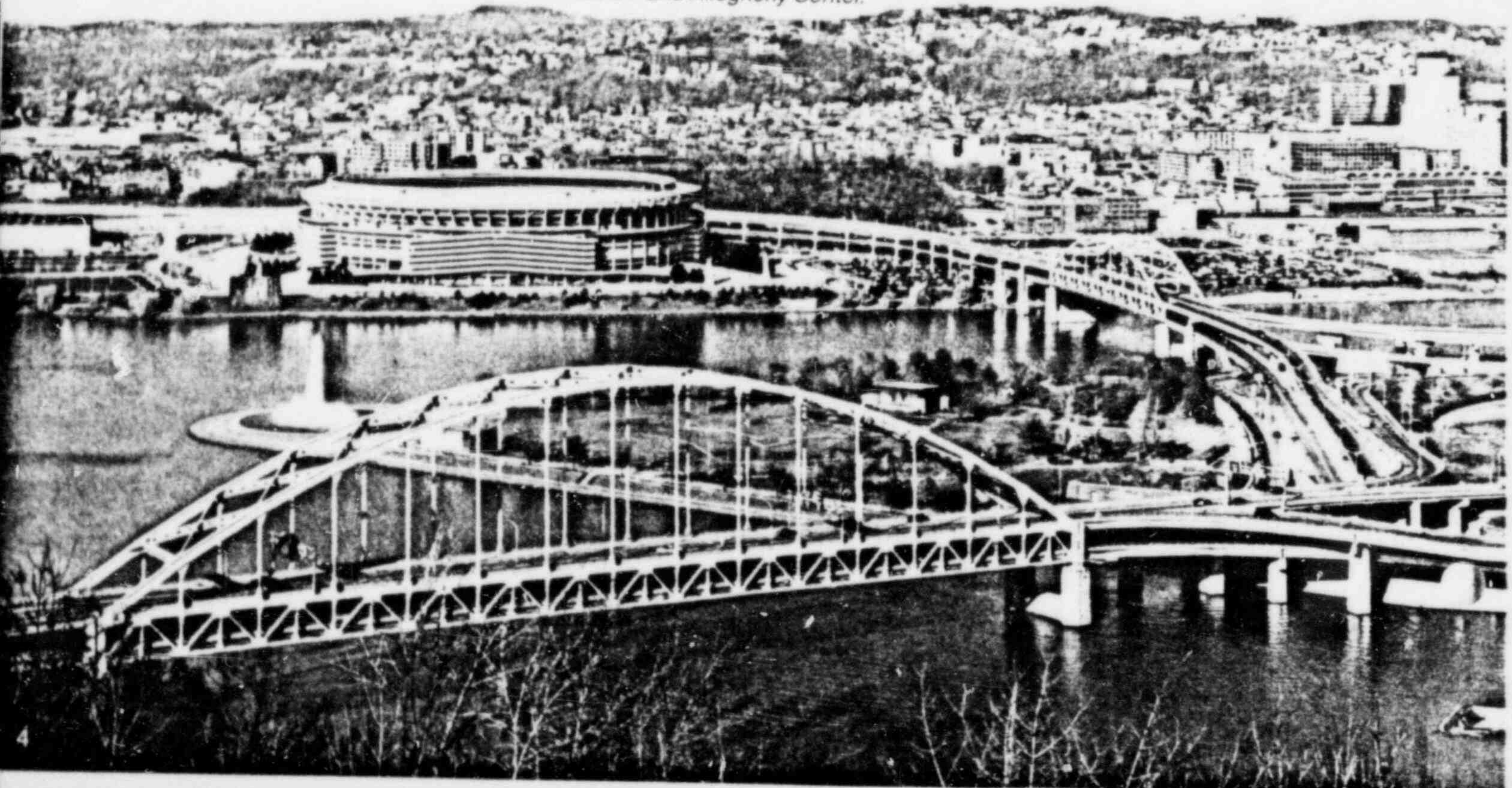
In addition to the present downtown construction programs, the Pittsburgh area continues to make significant strides in diversifying employment opportunities. Major gains in the non-manufacturing job market have resulted in area unemployment percentages below both state and national levels.

Duquesne Light will relocate its corporate headquarters to One Oxford Centre during the fall of 1982. By choosing to remain in downtown Pittsburgh, the Company was able to take advantage of the extremely competitive development situation and use its negotiating strength as a major tenant to secure an unusually attractive long-term lease. This will assure the Company of reasonable space costs over the next 20 years.

Roberto Clemente Park on the North Shore of the Allegheny River will extend to the 7th Street Bridge and will include a public plaza in the Federal-Sandusky Streets block.

The North Shore Development, due within the decade, will feature a new waterfront with one or two first-class restaurants within walking distance of Three Rivers Stadium and Allegheny Center.

The Blockhouse, a pre-Revolutionary structure at the Point, is one of many historic landmarks that the City has preserved as an important part of its heritage.



During the year, the Company began offering an energy audit to residential customers. For a modest $15 fee, the customer receives a thorough, basement-to-attic home survey. At the conclusion of the survey, the homeowner is given a list of energy conservation measures.

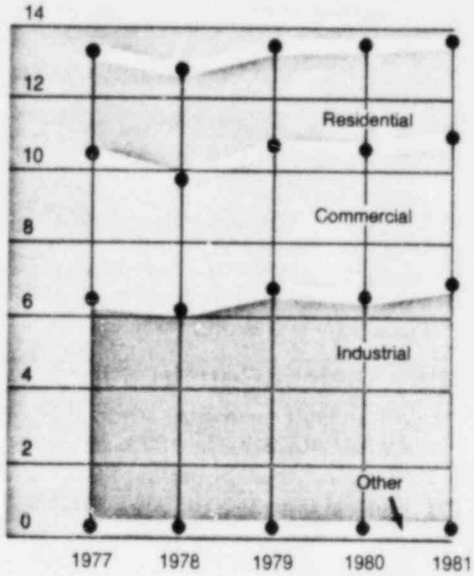
Customer Conservation Activities

Most of the Company's residential customers are reached through effective mass media methods. Every opportunity is taken to provide conservation of energy messages via bill stuffers, brochures and booklets, radio and TV talk shows and newspaper ads. Group presentations and a telephone answering service covering appliance and homemaking matters are used to convey conservation information to customers on an individualized basis.

Company engineers continued to work closely with industrial and commercial customers, helping them plan and implement economical ways to save energy and dollars. In addition, the Company conducted an Industrial Load Management Seminar in cooperation with the Smaller Manufacturers Council, a local organization with 1,400 member companies. The purpose of the seminar was to inform the smaller manufacturers of advances in energy-saving technology, and of the variety of related services that are available to them.

In 1981, the Company presented National Energy Watch awards to 22 large commercial and industrial customers.

5-YEAR GROWTH KWH SALES



The Light Rail Transit system's main terminal—one of four downtown—will be in Gateway Center. The new system will run the 10.5 miles from the City to South Hills Village.

PPG Place, a complex of gothic-style buildings, will provide over one million square feet of office space for an estimated 6,000 people. A 40-story reflective-glass tower will be the centerpiece of PPG Place, which will also include a 14-story tower, four six-story structures, a 15,000-square feet Grand Plaza, and a glass-enclosed Winter Garden.

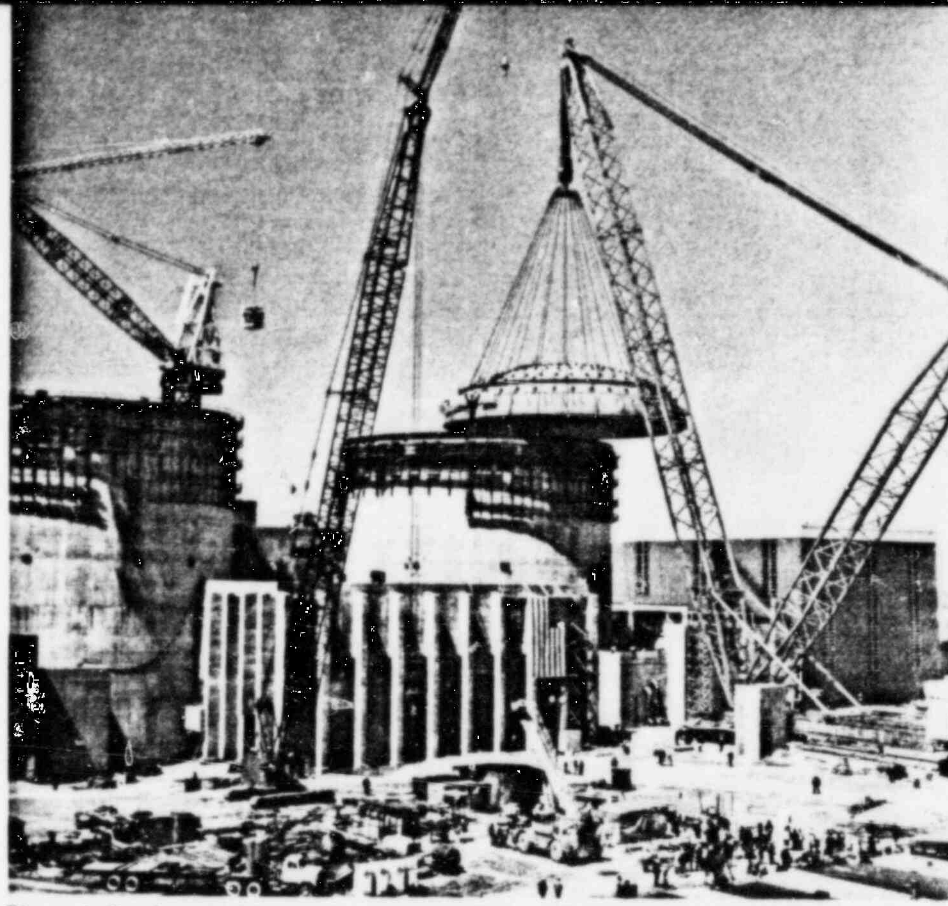
Nuclear Operations

In March 1981, the Board of Directors of the Company established a new Division, the Nuclear Division, and named Mr. John J. Carey, Vice President. The new Division was established to ensure the maximum efficiency of the Company's nuclear organization and activities through closer management control and optimum utilization of personnel. The new Division is responsible for nuclear operations, licensing, support services and engineering.

The Beaver Valley Power Station Unit No. 1 (a CAPCO facility—see page 35) is the Company's lowest fuel cost generating station. Beaver Valley Unit No. 1 operated at a 74% availability rate during 1981, well above the national average for nuclear power stations.

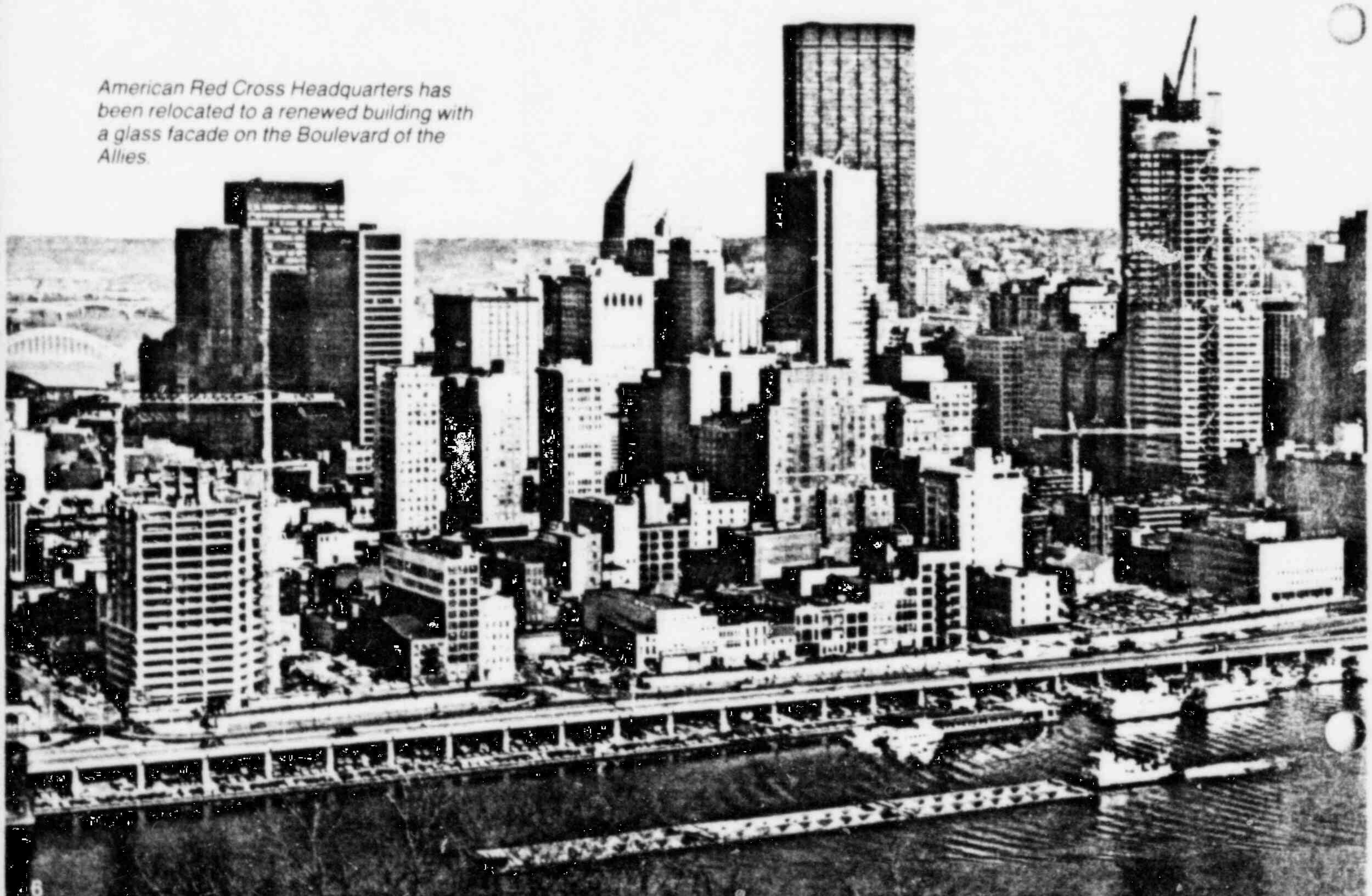
New Nuclear Construction

Beaver Valley Power Station Unit No. 2 was approximately 50% completed at year end. Scheduled for commercial operation in 1986, the 833,000 kilowatt unit will provide 114,454 kilowatts to the Duquesne Light system as a 13.74% owner.



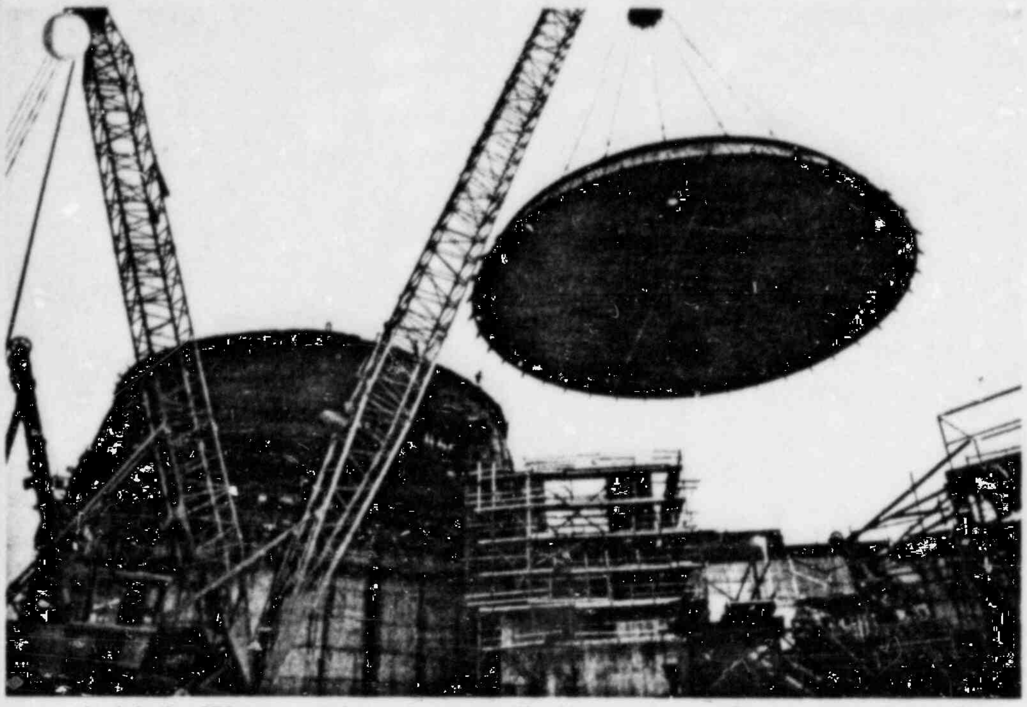
Shown is the dome setting on the reactor building of Perry Nuclear Power Plant Unit No. 1. This jointly-owned, 1,205 MW unit is scheduled to begin commercial operation in 1984. Duquesne Light's share is 165 MW and represents the Company's next block of generation capacity.

American Red Cross Headquarters has been relocated to a renewed building with a glass facade on the Boulevard of the Allies.



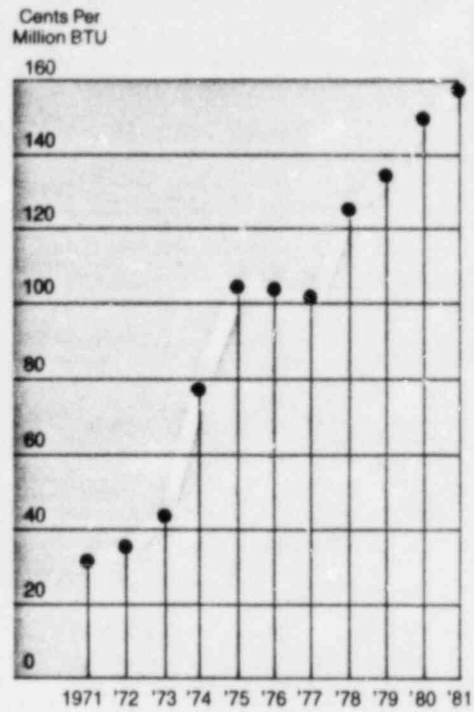
Fuel Mix

The Company relies principally on coal for generating electricity. During the year, approximately 79.3% of the electricity distributed by the Company was produced in coal-fired plants. Of the remaining electricity sold by the Company, about 17.6% was generated by nuclear facilities, 0.3% came from oil-fired peaking units, and approximately 2.8% was purchased from other utilities.



In July the 270-ton containment cap was lifted into position at Beaver Valley Power Station Unit No. 2. The cap was fabricated on the ground and lifted into place because it was the least expensive method of construction. At year end, Beaver Valley Unit No. 2 was 50% completed with commercial operation scheduled for 1986.

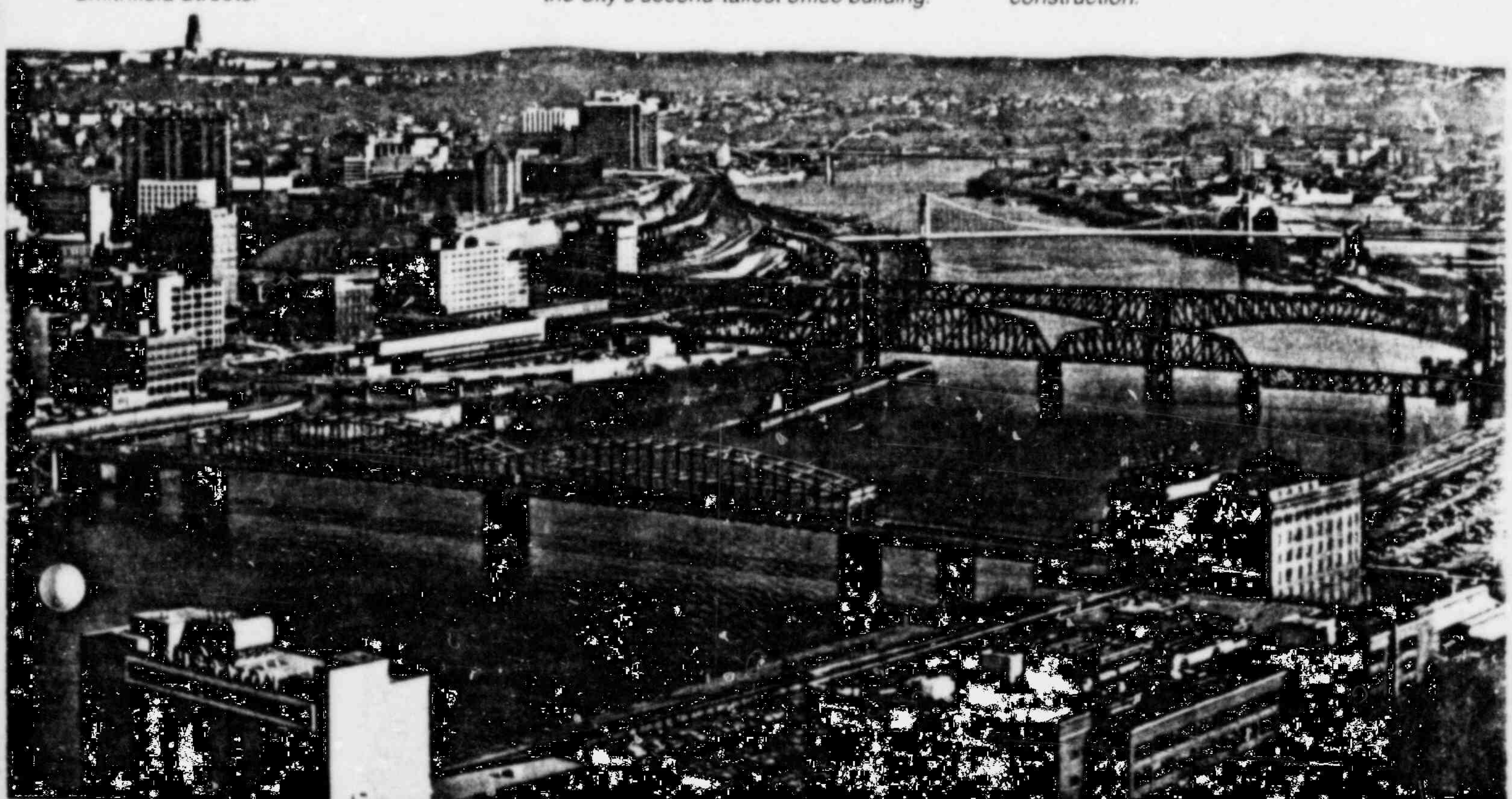
COST OF FOSSIL AND NUCLEAR FUEL



One Oxford Centre will be a 46-story retail and office structure. The Oxford Centre development involves four blocks of new construction between Grant and Smithfield Streets.

Steel Plaza's key element, the Dravo Building, will be a 54-story tower with over 1.5 million square feet of office space. When completed in Spring 1983, it will be the City's second-tallest office building.

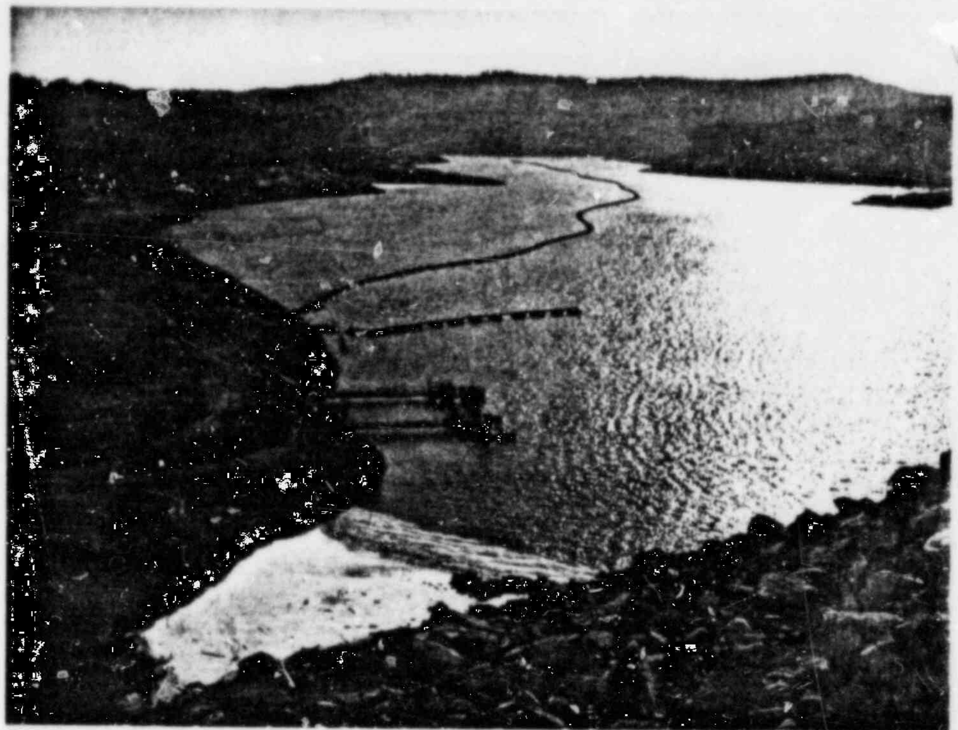
The National Steel Building is located in the First Side area between the Blvd. of the Allies and Fort Pitt Blvd. It will be a mixture of historic preservation and new construction.



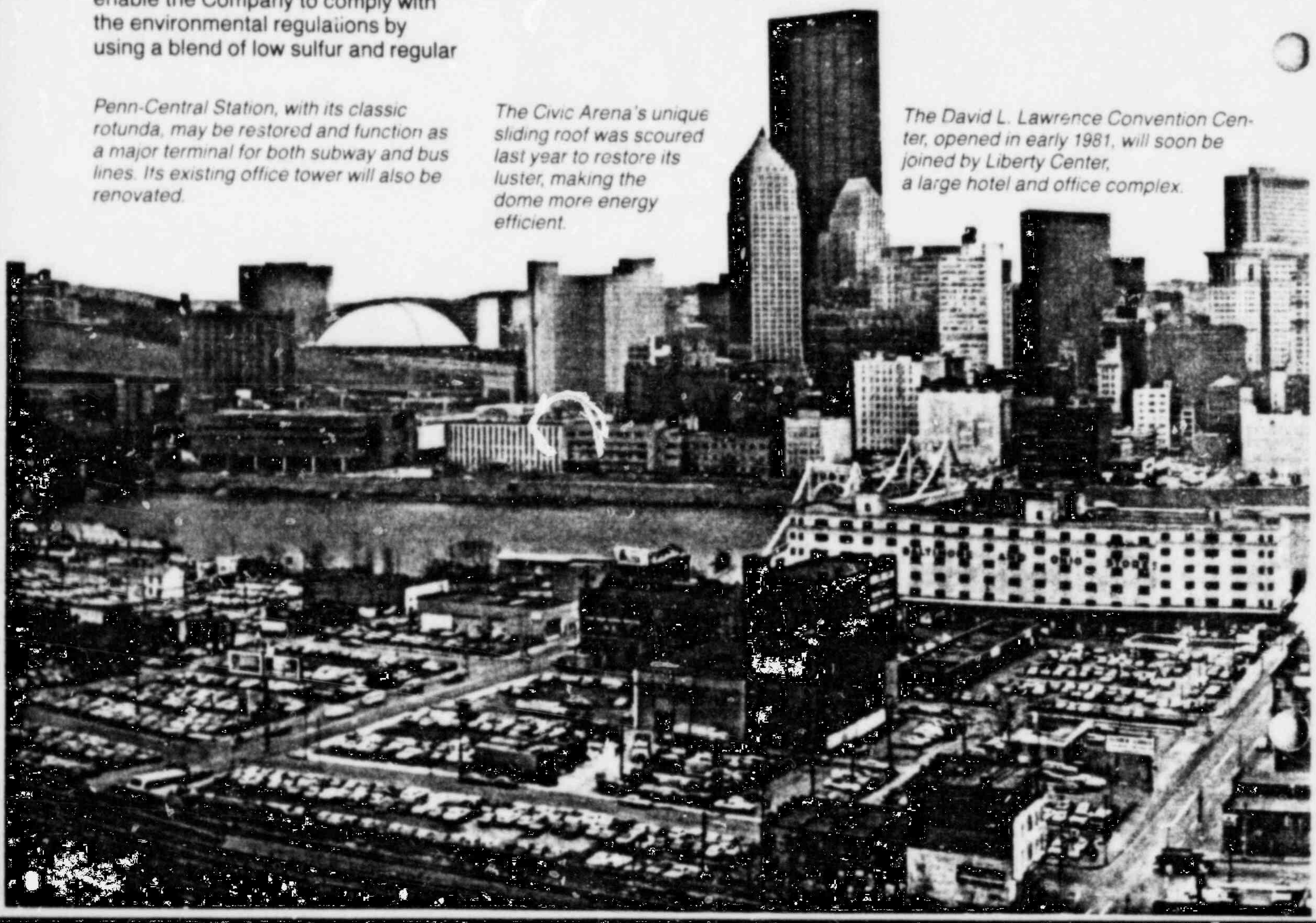
Environmental Matters

Duquesne Light, winner of two major environmental awards, is an advocate of a healthful environment. During 1981, the Company invested $28 million in pollution control facilities bringing the total investment in environmental control to $453 million at a current annual operating cost of $115 million representing over 14% of customer revenues. Nevertheless, the Company believes that there should be economic as well as other justifications for environmental programs and that such programs should be based on realistic and balanced considerations founded on scientific fact.

Of particular interest was the October 1981 Environmental Protection Agency approval of revisions to the Pennsylvania State Implementation Plan for Allegheny County which includes a revised sulfur dioxide emission standard for the Company's Cheswick Power Station. Although one party has started a court proceeding with regard to another part of the regulations, the revised standard applicable to Cheswick is presently effective. The revised standard will enable the Company to comply with the environmental regulations by using a blend of low sulfur and regular coal instead of having to install a scrubber system that would have ultimately cost the ratepayer more than $1 billion in capital, operating and maintenance expenses over the life of the station.



Over the next 25 years, 200 million tons of sludge from the pollution control scrubbers at the Bruce Mansfield Plant (a jointly-owned CAPCO facility) will be disposed of behind the Little Blue Run disposal dam.



Penn-Central Station, with its classic rotunda, may be restored and function as a major terminal for both subway and bus lines. Its existing office tower will also be renovated.

The Civic Arena's unique sliding roof was scoured last year to restore its luster, making the dome more energy efficient.

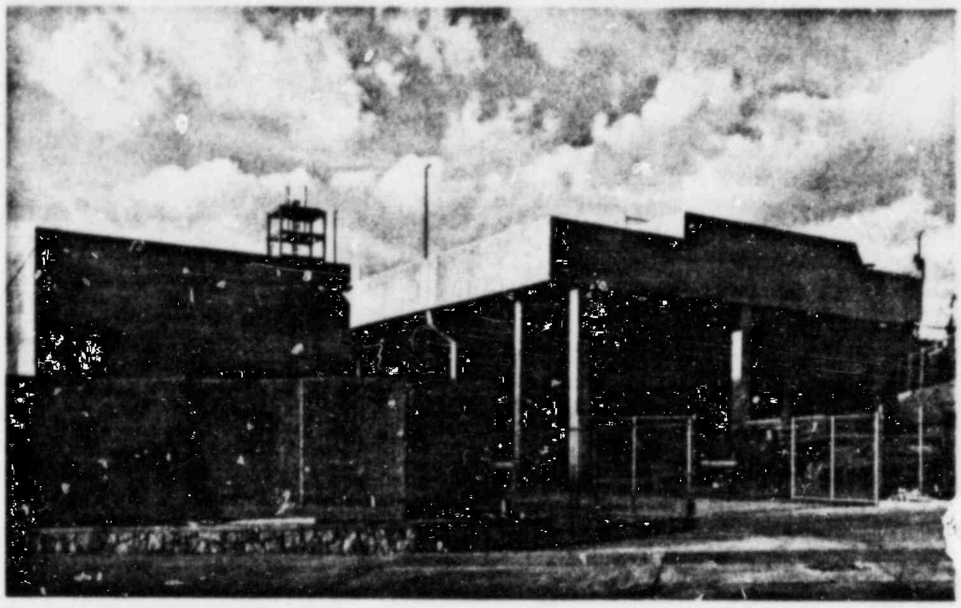
The David L. Lawrence Convention Center, opened in early 1981, will soon be joined by Liberty Center, a large hotel and office complex.

Rate Increases

On February 20, 1981, the Pennsylvania Public Utility Commission (PUC) entered a final Order regarding the Company's $113 million rate increase filed in April 1980. The Order granted only $47.5 million of the amount requested. The Company has filed an appeal with respect to certain issues raised by the final Order. On April 30, 1981, the Company filed with the PUC a new rate schedule estimated to increase annual revenues based on levels of business at December 31, 1980 by approximately $100.4 million or about 15%. On June 29, 1981 the PUC entered an Order instituting an investigation into the rate request and granting the Company the option to place a rate increase of approximately $64.2 million or about 10% into effect pending the outcome of the investigation if the Company reduced the requested increase to that amount. On June 30, 1981 the Company filed a new rate schedule in accordance with the option granted by the PUC. On July 17, 1981 the PUC approved the new rate schedule, thereby permitting the new rates to become effective for service rendered on and after July 15, 1981 subject to refund with interest if the PUC investigation results in approval of a smaller rate increase. A final decision on the option rate increase of $64.2 million is expected early in 1982.

Dividend Increase

On August 18, 1981, the Company placed the Common Stock on an indicated $1.90 annual dividend rate by raising its quarterly dividend on Common Stock from 45¢ to 47½¢ per share beginning with the dividend payable October 1, 1981.



Heavy power loads in several high-density-population areas of Allegheny County will be relieved when the new Arsenal Substation comes on line in 1982. While the new substation can perform the same basic functions as a conventional substation, it requires less land area than a substation of the same rating. The Arsenal project was the first installation of this type in the Duquesne Light system.

Two Chatham Center, a 16-story office tower of grey reflective glass and off-white aluminum, was completed in 1981 as part of Chatham Center's apartment-hotel-office complex.

Renaissance II is more than new construction. Major renovation projects underway include the old Eiben & Irr Building, the Century Building, the Liberty Building, the Arrott Building and the Magee Building.

Financing

About 54% of the Company's total capital expenditures of $179 million during 1981 was raised through outside financing which included:

1. On March 24, 1981 the Allegheny County Industrial Development Authority issued $50,000,000 principal amount of pollution control revenue bonds to reimburse the Company for funds expended to complete air pollution control facilities at the Company's Phillips and Elrama Power Stations. The bonds have an interest rate of 12%, and payments of principal and interest on the bonds will be funded by the Company. The Company received from the Authority net proceeds of $48.7 million from the sale of the bonds.

2. On June 25, 1981, the Company issued $80,000,000 principal amount of 16% First Mortgage Bonds, Series due June 1, 2011. Net proceeds to the Company were approximately $78.7 million.

3. The Company issued 4,100,000 shares of Common Stock on September 29, 1981. Net proceeds to the Company were approximately $48.6 million.

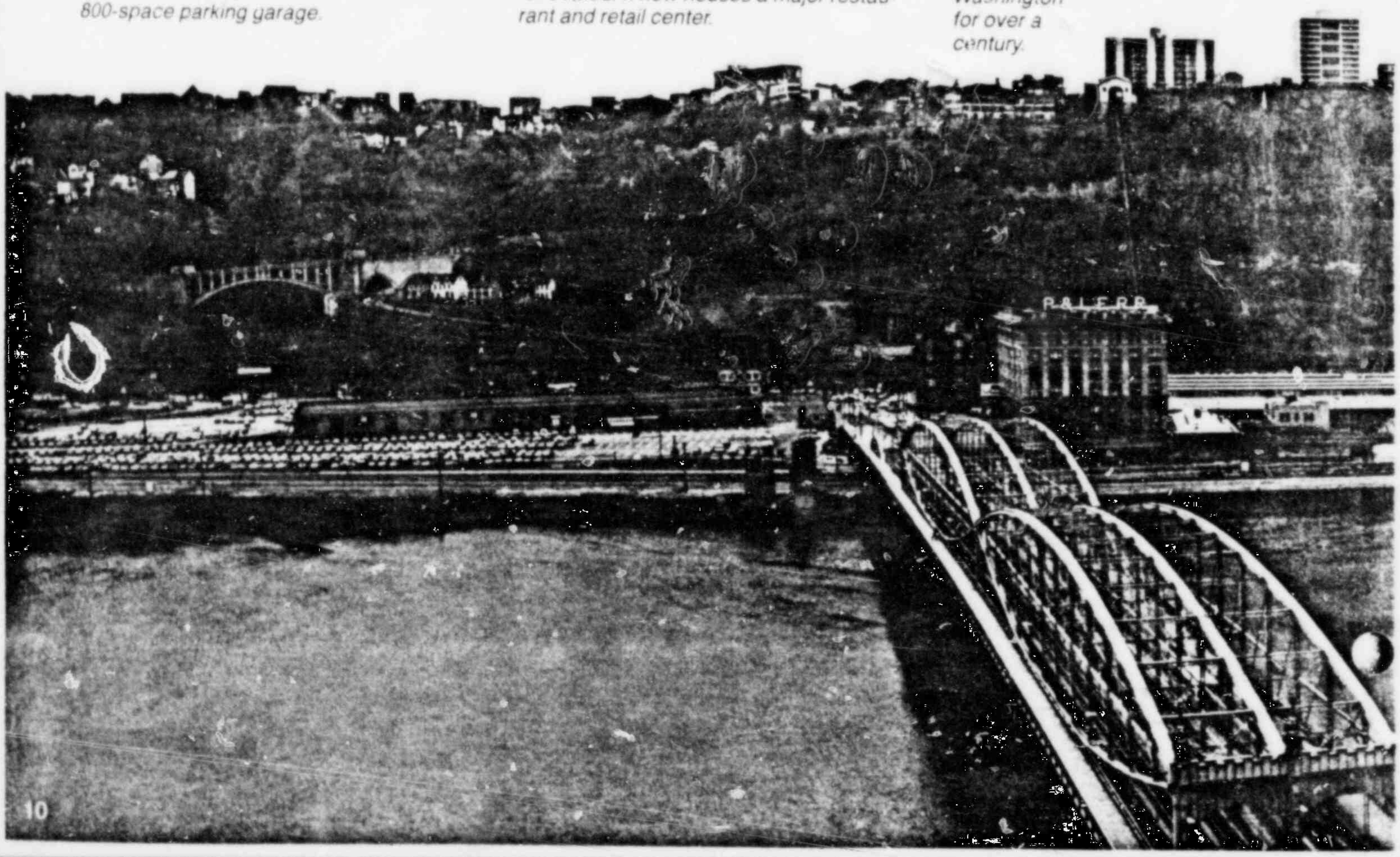
4. Also, 902,977 shares of Common Stock were issued in 1981 pursuant to the Company's Dividend Reinvestment Plan and 133,460 shares of Common Stock were issued pursuant to the Company's Employee Stock Ownership Plan. The aggregate dollar value of Common Stock issued through these plans was $12,706,000.

Communicating with customers takes many forms. The role of the news media in that communication is increasing every day. Duquesne Light recognizes that fact, and has always strived to work with local and national media to help keep customers informed. Here, an employee is being interviewed for a segment of the ABC-TV news show "20/20" featuring women in non-traditional jobs.

The South Shore of the Monongahela River will soon have a large, recreational-boat marina complex as well as a new 800-space parking garage.

Station Square, originally a terminal for the P & LE Railroad, has been completely renovated. It now houses a major restaurant and retail center.

The Monongahela Incline has climbed up and down Mount Washington for over a century.



Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan is available to holders of the Company's Preferred, Preference and Common Stock. The Plan was amended in 1981 to provide a 5% discount from market price on Common Stock purchased under the Plan.

Effective January 1,1982, the Plan was further amended to permit eligible participants to elect to exclude from current income for federal income tax purposes up to $1,500 on a joint return and $750 on an individual return of dividends received in the form of Common Stock under the Plan.

For a free Prospectus which fully describes the Plan and an authorization form for participation in the Plan, write: *Duquesne Light Company, Stockholder Relations Section, 435 Sixth Ave., Pittsburgh, PA 15219.*

Customer Communications

The Company has a number of communications programs designed to keep the public informed about energy-related matters.

In order to educate customers in efficient energy use, the Company has developed and distributed informative booklets including tips on insulation, "do-it-yourself" conservation measures, understanding electric rates, and special bill payment programs.

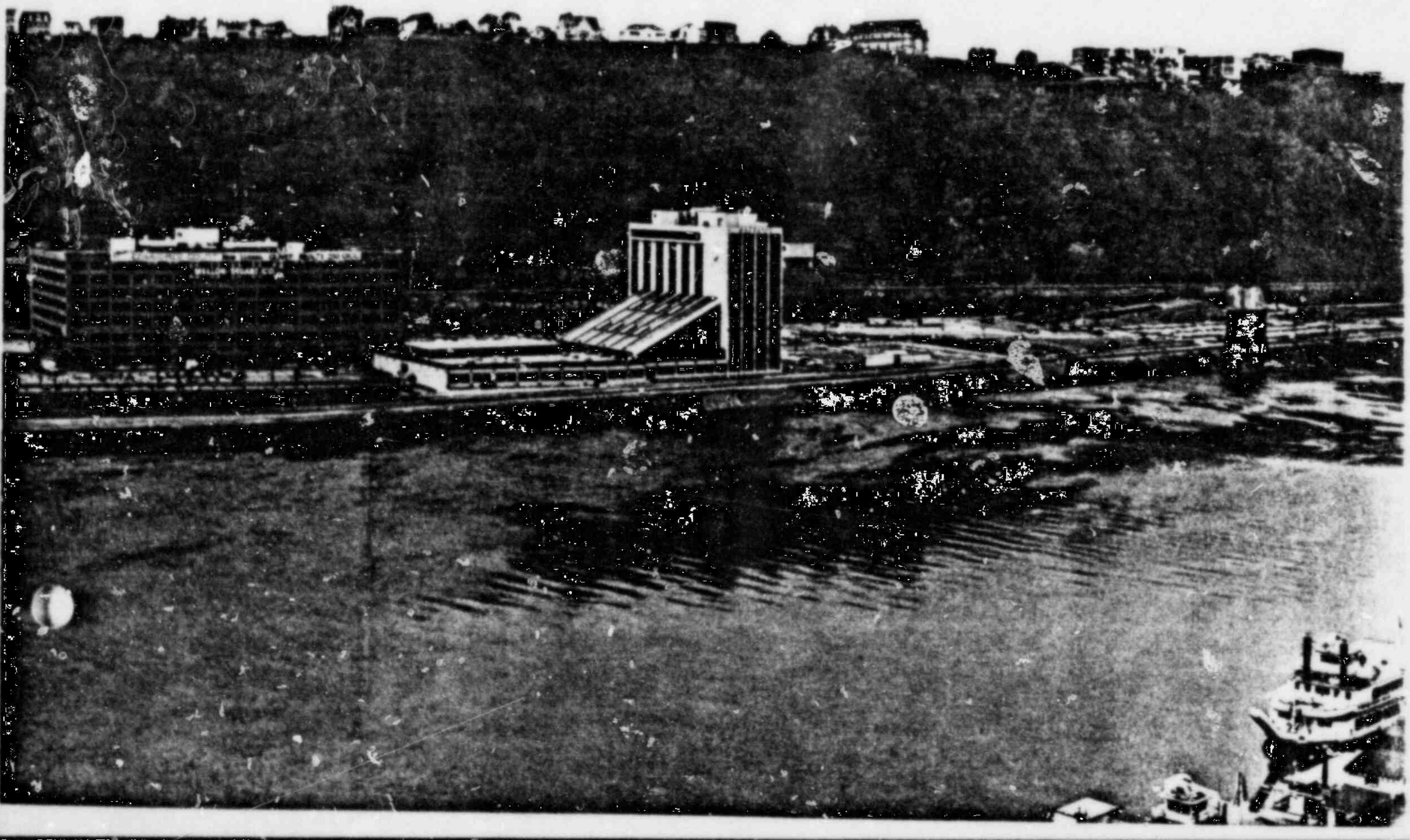
In addition to the traditional advertising media such as direct mail and newspapers, the Company's Speakers' Team was actively involved in communicating with customers. During the year the Team made 361 presentations to over 15,000 members of important civic organizations in our service area.

In September the Company's Speakers' Team made their 1,000th presentation. Formed in 1974, the volunteer Team has presented the Company's views to over 52,000 area opinion leaders.

Commerce Court, a former warehouse, is being extensively rebuilt as a 7-story, 440,000 square-foot office building.

The Sheraton Inn, a 14-story, 297-room hotel, opened in 1981, is the first of several new hotels planned for the downtown area.

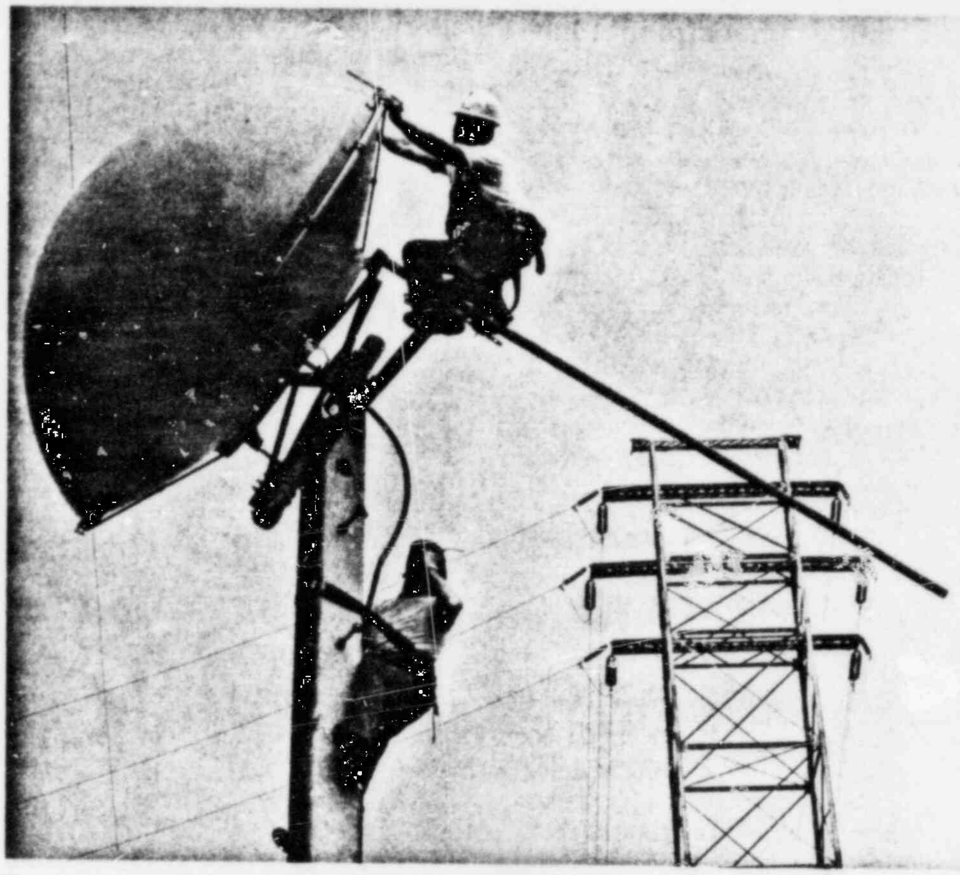
Pittsburgh's Gateway Clipper Fleet will have a new dock and mooring facility near Station Square.



Record Peak Load

On July 9, 1981, the Company experienced a record peak load of 2,522,000 kilowatts which exceeded the previous system peak established in 1980 by 48,000 kilowatts or about 2%.

Duquesne Light reached a new system peak load of 2,522,000 kilowatts at approximately 2 p.m. on July 9. The new peak is 48,000 kilowatts higher than the previous peak and 87,000 kilowatts higher than the peak load forecast for 1981.

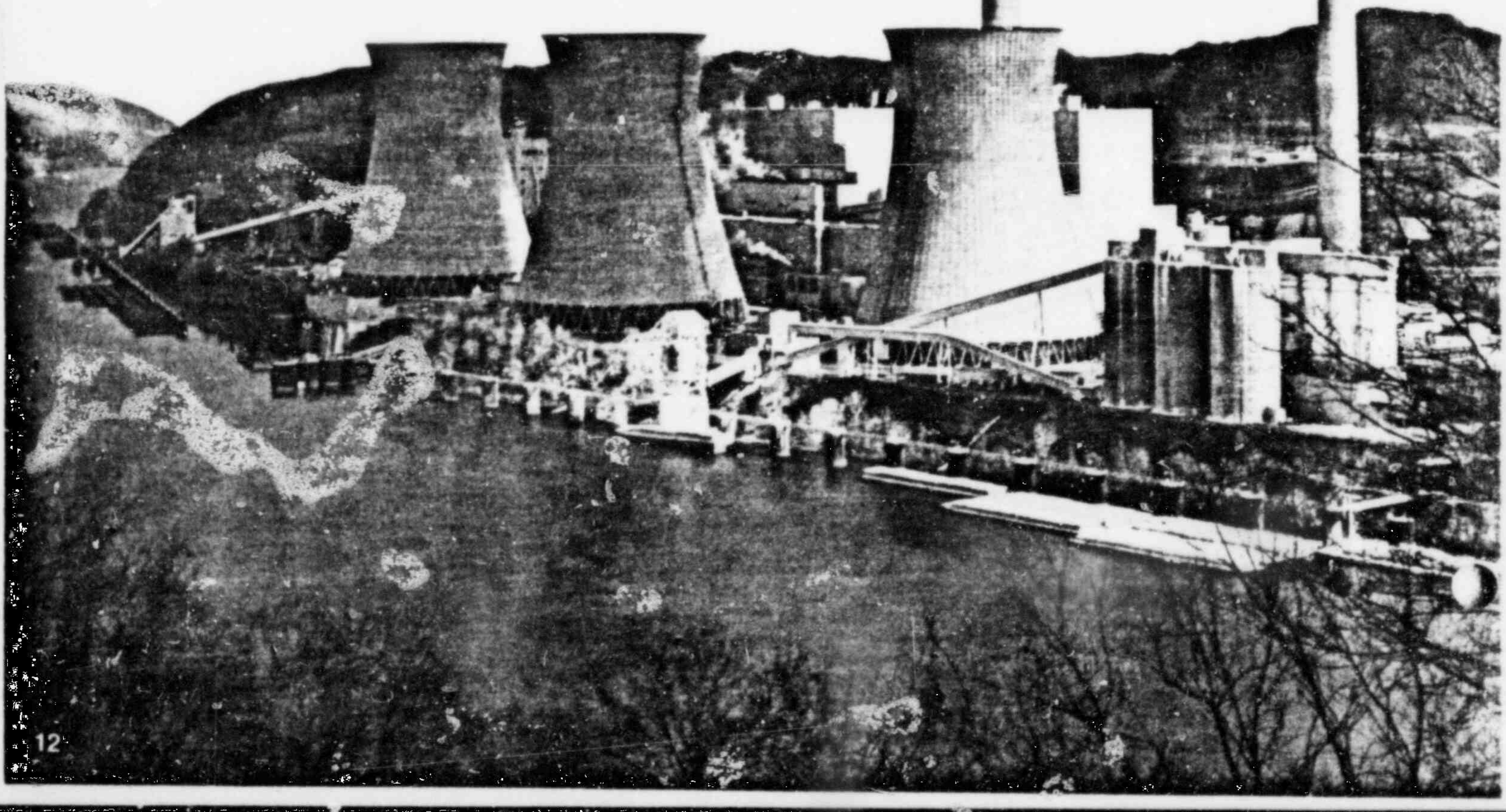


Company personnel are shown adjusting the alignment of a microwave antenna. Microwave towers are used throughout the Company's system to provide communications channels for protective relays, telemetering, supervisory control, data processing and the Company's telephone system.

Duquesne Light, a CAPCO member, feels that uranium and coal are the only abundant and economical domestic fuels available for electric power generation.

Use of these fuels will reduce the nation's dependence on foreign oil and help reduce America's balance of payments deficit.

The Bruce Mansfield Plant (below) comprises three coal-burning power units and is operated by the Pennsylvania Power Company.



Steam Heating Discontinuance

The Company's steam heating subsidiary, Allegheny County Steam Heating Company, filed an application with the PUC in August 1981, requesting approval to discontinue steam heating service to the public on June 1, 1982. In its application, the Steam Company cited, among other reasons for its action, financial problems, the continuing loss of customers, a deteriorating distribution system and the high cost of fuel. A number of steam customers have filed protests to the application.

Union Relations

The Company and the International Brotherhood of Electrical Workers (IBEW) reached an agreement on a two-year contract effective October 1, 1981. The agreement maintained the Company's relative wage position with other electric utilities.

Employees of the Company's coal mine are represented by the United Mine Workers of America (UMWA) and are covered by the industry-wide Bituminous Coal Wage Agreement. After a 90-day strike by the UMWA, a three-year contract was reached effective June 7, 1981.

Employees

The number of employees at year end was 4,603, about 3% higher than in 1980. During the year, about 26% of our employees received additional training through Company-sponsored courses or by attending local schools or universities.

Professional and Supervisory Employees

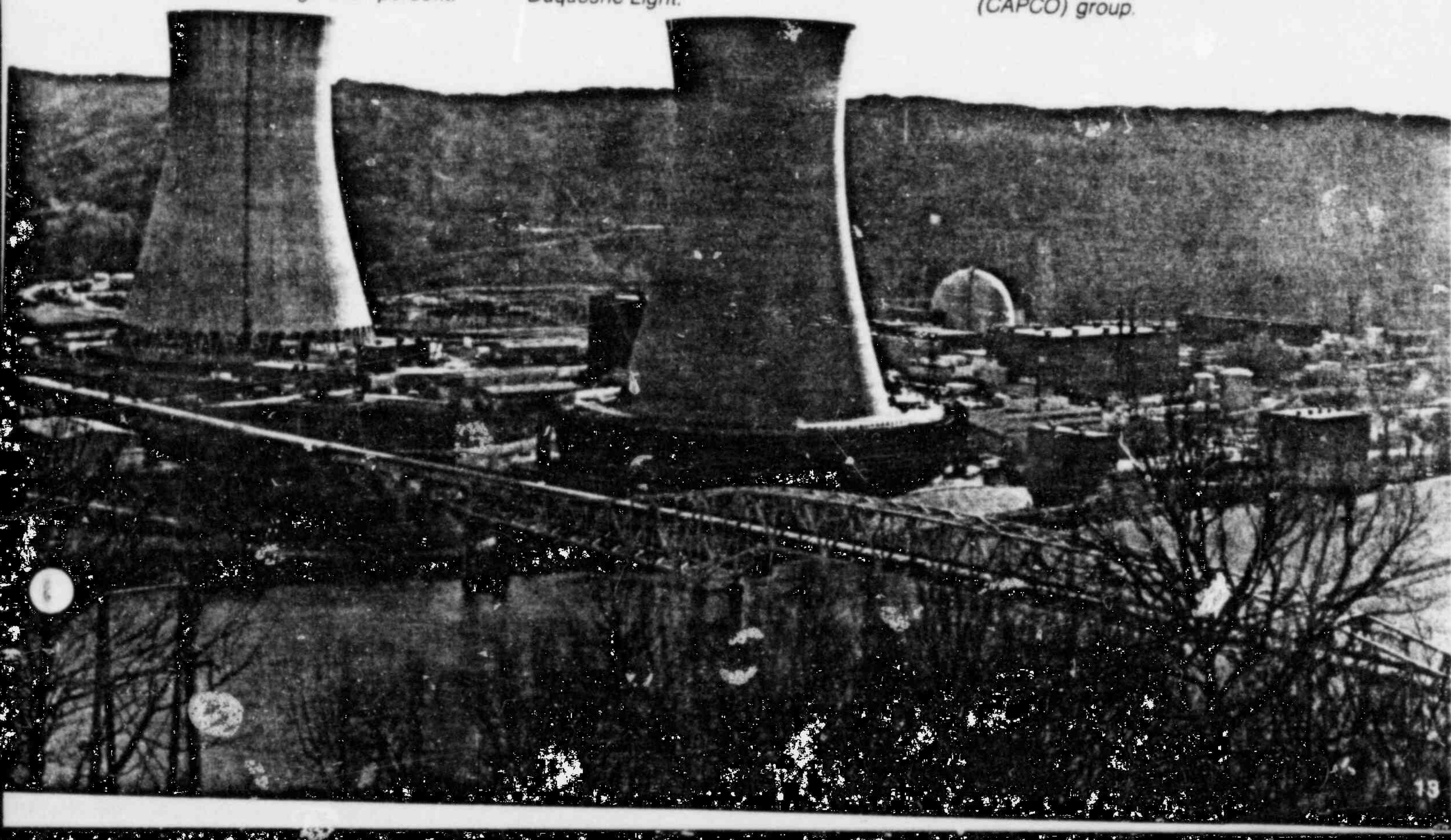
Most of Duquesne Light's supervisory employees have spent years learning their skills. In fact, the typical Duquesne Light non-union employee is 43 years old and has 18 years of service with the Company.

Electrically-powered vehicles, similar to those shown, will be part of the Port Authority of Allegheny County's new Light Rail Transit System. The $480 million project is scheduled for completion in 1984.

Unit No. 1 of the Beaver Valley Power Station (right) attained an availability rate of 74 percent in 1981—considerably higher than the national average of 67 percent.

Unit No. 2, now under construction, is expected to go on-line in 1986. Both nuclear generating units are operated by Duquesne Light.

These stations, Bruce Mansfield and Beaver Valley, are jointly-owned by members of the Central Area Power Coordination (CAPCO) group.



Company Report on Financial Statements

The Company is responsible for the financial information and representations contained in the financial statements and other sections of this Annual Report. The Company believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect, in all material respects, the substance of events and transactions that should be included and that the other information in the Annual Report is consistent with those statements. In preparing the financial statements, the Company makes informed judgments and estimates based on currently available information of the effects of certain events and transactions.

The Company maintains a system of internal accounting control designed to provide reasonable assurance that the Company's assets are safeguarded and that transactions are executed and recorded in accordance with established procedures. There are limits inherent in any system of internal control based on the recognition that the cost of such a system should not exceed the benefits to be derived. The system of internal accounting control is supported by written policies and guidelines and is supplemented by a staff of internal auditors. The Company believes that the internal accounting control system provides reasonable assurance that assets are safeguarded and financial information is reliable.

The accompanying consolidated financial statements have been audited by Deloitte Haskins & Sells, independent certified public accountants, whose appointment was approved at the 1981 Annual Meeting of Stockholders. Their examination was made in accordance with generally accepted auditing standards and included a review of the system of internal accounting controls and tests of transactions to the extent they considered necessary to provide reasonable assurance that the financial statements are not misleading and do not contain material errors.

The Board of Directors has an Audit Committee composed of four non-officer directors which met four times in 1981. The Audit Committee has the following duties and responsibilities: (1) recommend the independent public accountants; (2) review the planned scope and results of their audit and other services to be performed; (3) review the financial statements and the related report of the independent public accountants; (4) review with the officers, internal auditors and the independent public accountants the adequacy of the Company's system of internal accounting control, including their recommendations with respect thereto; and (5) review the planned scope and results of the internal audit function. The independent public accountants have full and free access to the Audit Committee and meet with it, with and without management being present, to discuss internal accounting controls, auditing and financial reporting matters.

C. M. Atkinson John M. Arthur

C. M. Atkinson
Vice President
Fiscal

John M. Arthur
Chairman of the Board and
Chief Executive Officer

Opinion of Independent Certified Public Accountants

DELOITTE HASKINS & SELLS
Certified Public Accountants
Two Gateway Center
Pittsburgh, Pennsylvania 15222

TO THE DIRECTORS AND STOCKHOLDERS
OF DUQUESNE LIGHT COMPANY:

We have examined the consolidated balance sheets of Duquesne Light Company as of December 31, 1981 and 1980 and the related statements of consolidated income, retained earnings, capital surplus and changes in financial position 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.

In our opinion, such consolidated financial statements present fairly the consolidated financial position of Duquesne Light Company at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1979, in the method of billing and recognizing revenues as described in Note B to the financial statements.

Deloitte Haskins & Sells

February 18, 1982

Duquesne Light Company

Statement of Consolidated Income

For the Three Years Ended December 31, 1981
(Thousands of Dollars, Except Per Share Amounts)

	1981	1980	1979
OPERATING REVENUES:			
Electric	$786,015	$674,537	$611,346
Steam heating	10,832	14,928	11,194
Total Operating Revenues	796,847	689,465	622,540
OPERATING EXPENSES:			
Fuel	249,547	212,672	211,939
Purchased power	16,189	18,524	10,922
Other operation	115,433	101,549	87,682
Maintenance (Note N)	64,026	61,253	52,444
Depreciation	61,464	53,897	48,450
Taxes other than income taxes (Note N)	58,213	48,358	47,476
Income taxes (Note H)	71,625	60,343	49,095
Total Operating Expenses	636,502	556,596	508,008
OPERATING INCOME	160,345	132,869	114,532
OTHER INCOME:			
Allowance for equity funds used during construction	24,579	22,374	18,852
Income taxes—credit (Note H)	14,272	10,051	8,643
Other income and deductions—net	2,643	3,298	1,750
Total Other Income	41,494	35,723	29,245
INCOME BEFORE INT[illegible]ARGES	201,839	168,592	143,777
INTEREST CHARGES:			
Interest on long-term d[illegible]	97,404	80,558	69,655
Other interest	6,957	4,268	3,475
Allowance for borrowed funds used during construction, net of income taxes	(11,393)	(9,196)	(7,715)
Total Interest Charges	92,968	75,630	65,415
INCOME BEFORE CUMULATIVE EFFECT OF THE CHANGE IN BILLING PRACTICE	108,871	92,962	78,362
CUMULATIVE EFFECT TO JANUARY 1, 1979 OF THE CHANGE IN BILLING PRACTICE, NET OF INCOME TAXES (Note B)	—	—	3,845
NET INCOME	108,871	92,962	82,207
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	22,976	23,353	23,721
EARNINGS FOR COMMON STOCK	$ 85,895	$ 69,609	$ 58,486
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000)	41,764	38,267	32,239
EARNINGS PER SHARE OF COMMON STOCK:			
Before Cumulative Effect of the Change in Billing Practice	$ 2.06	$ 1.82	$ 1.69
Cumulative Effect to January 1, 1979 of the Change in Billing Practice (Note B)	—	—	.12
Total	$ 2.06	$ 1.82	$ 1.81
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$ 1.85	$ 1.80	$ 1.76

The accompanying Notes to Financial Statements are an integral part of these statements.

Duquesne Light Company

Consolidated Balance Sheet

December 31, 1981 and 1980
(Thousands of Dollars)

	1981	1980
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant:		
In service	$2,202,613	$2,120,882
Construction work in progress	582,734	459,743
Held for future use	825	136
Total electric plant	2,786,172	2,580,761
Steam heating plant:		
In service	23,371	23,280
Construction work in progress	210	292
Total property, plant and equipment	2,809,753	2,604,333
Less accumulated depreciation	477,009	424,653
Property, Plant and Equipment—Net	2,332,744	2,179,680
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property (at original cost less accumulated depreciation of $278 at December 31, 1981 and $269 at December 31, 1980)	1,565	1,574
Miscellaneous investments	275	272
Total Other Property and Investments	1,840	1,843
CURRENT ASSETS:		
Cash	3,310	2,600
Temporary cash investments (at cost which approximates market)	47,345	950
Accounts receivable:		
Customers (less reserve for uncollectible accounts of $2,242 at December 31, 1981 and $2,144 at December 31, 1980)	71,089	69,016
Tax refund—principally investment tax credit carryback	2,875	2,416
Other	20,386	13,384
Materials and supplies (generally at average cost):		
Coal	53,111	54,411
Other operating and construction	30,767	27,738
Deferred fuel costs	2,212	21,007
Other current assets	9,788	8,736
Total Current Assets	240,883	200,258
DEFERRED DEBITS:		
Deferred costs of cancelled generating units (Note C)	31,443	31,286
Deferred coal costs (Notes G and M)	15,669	314
Unamortized debt expense	2,970	2,556
Other deferred debits	43,028	31,223
Total Deferred Debits	93,110	65,379
Total	$2,668,577	$2,447,163

The accompanying Notes to Financial Statements are an integral part of these statements.

	1981	1980
LIABILITIES		
CAPITALIZATION (Note D):		
Common Stock (authorized—60,000,000 and 45,000,000 shares, respectively; outstanding—45,302,520 and 40,166,083 shares, respectively)	**$ 45,303**	$ 40,166
Capital surplus	**550,244**	494,228
Retained earnings	**167,149**	158,546
Total Common Stockholders' Equity	**762,696**	692,940
Non-redeemable Preferred and Preference Stock	**156,137**	156,137
Redeemable Preferred and Preference Stock, less sinking fund and repurchase requirements	**143,924**	146,867
First mortgage bonds (less sinking fund requirements and current maturities)	**983,870**	918,230
Sinking fund debentures	**10,682**	10,981
Pollution control obligations	**166,000**	116,000
Unamortized debt discount and premium—net	**(9,453)**	(7,161)
Total Capitalization	**2,213,[illegible]**	2,033,994
CURRENT LIABILITIES:		
Notes payable—bank (Note E)	**—**	6,500
Notes payable—commercial paper (Note E)	**—**	28,500
First mortgage bonds maturing within one year	**14,000**	—
Accounts payable	**80,010**	66,292
Accrued federal income tax (Notes H and I)	**135**	2,037
Other accrued taxes	**21,499**	17,102
Deferred income taxes—deferred fuel costs	**1,174**	10,884
Accrued interest	**24,342**	21,005
Dividends declared	**27,232**	23,889
Sinking fund and repurchase requirements (Note D)	**9,733**	10,591
Total Current Liabilities	**178,125**	186,800
DEFERRED CREDITS:		
Investment tax credits	**109,866**	98,368
Accumulated deferred income taxes	**158,463**	120,357
Other deferred credits	**8,267**	7,644
Total Deferred Credits	**276,596**	226,369
COMMITMENTS AND CONTINGENT LIABILITIES (Notes C, G, I, L, M and O)		
Total	**$2,668,577**	$2,447,163

Duquesne Light Company

Statement of Changes in Consolidated Financial Position

For the Three Years Ended December 31, 1981
(Thousands of Dollars)

	1981	1980	1979
SOURCE OF FUNDS:			
Operations:			
Net income (1979 includes cumulative effect of change in billing practice of $3,845)	$108,871	$ 92,962	$ 82,207
Items not affecting working capital:			
Depreciation	64,170	56,737	51,428
Investment tax credit deferred—net	11,498	16,002	18,453
Income taxes deferred—net (noncurrent portion)	38,106	17,613	15,603
Allowance for equity and borrowed funds used during construction	(35,972)	(31,570)	(26,567)
Total	186,673	151,744	141,124
Sale of bonds	80,000	110,000	100,000
Issuance of Common Stock	61,332	65,309	50,730
Increase (decrease) in notes payable	(35,000)	24,000	(23,500)
Construction costs reimbursed by trustees from proceeds of pollution control financings	50,000	3,223	7,375
Decrease in working capital (exclusive of current maturities of long-term debt and notes payable) (a)	—	—	35,687
Total Source of Funds	$343,005	$354,276	$311,416
APPLICATION OF FUNDS:			
Construction expenditures (net of allowance for equity and borrowed funds used during construction)	$178,942	$209,778	$197,927
Dividends on capital stock	100,268	93,188	81,343
Payment of first mortgage bonds	—	12,000	15,000
Sinking fund and repurchase requirements	4,461	3,740	5,496
Deferred coal costs	15,355	314	—
Other—net	15,679	7,202	11,650
Increase in working capital (exclusive of current maturities of long-term debt and notes payable) (a)	28,300	28,054	—
Total Application of Funds	$343,005	$354,276	$311,416
(a) The components of working capital (exclusive of current maturities of long-term debt and notes payable) were as follows:			
Current assets:			
Cash and temporary cash investments	$ 50,655	$ 3,550	$ 4,449
Accounts receivable	94,350	84,816	77,404
Materials and supplies and other current assets	93,666	90,885	75,528
Deferred fuel costs	2,212	21,007	10,619
Total	240,883	200,258	168,000
Current liabilities:			
Accounts payable and accrued interest	104,352	87,297	82,354
Accrued and deferred taxes	22,808	30,023	33,211
Dividends declared	27,232	23,889	21,886
Sinking fund and repurchase requirements	9,733	10,591	10,145
Total	164,125	151,800	147,596
Working capital at close of year	76,758	48,458	20,404
Working capital at beginning of year	48,458	20,404	56,091
Increase (decrease) in working capital (exclusive of current maturities of long-term debt and notes payable)	$ 28,300	$ 28,054	$ (35,687)

The accompanying Notes to Financial Statements are an integral part of these statements.

Duquesne Light Company

Statement of Consolidated Retained Earnings

For the Three Years Ended December 31, 1981
(Thousands of Dollars)

	1981	1980	1979
BALANCE AT BEGINNING OF YEAR:			
As previously reported	$158,546	$158,772	$158,857
Less settlement of prior years' income taxes (Note I)	—	—	822
As restated			158,035
NET INCOME FOR THE YEAR	108,871	92,962	82,207
Total	267,417	251,734	240,242
DEDUCT:			
Cash Dividends Declared:			
Preferred Stock:			
4% Series	1,100	1,100	1,100
3.75% Series	281	281	281
4.15% Series	291	291	291
4.20% Series	210	210	210
4.10% Series	246	246	246
$2.10 Series	336	336	336
$8.54 Series	2,323	2,375	2,427
$7.20 Series	2,520	2,520	2,520
$8.375 Series	2,512	2,512	2,512
Preference Stock:			
$7.50 Series	2,119	2,195	2,283
$2.75 Series	1,177	1,426	1,689
$2.315 Series	2,778	2,778	2,778
$2.10 Series	2,520	2,520	2,520
$9.125 Series	4,563	4,563	4,560
Common Stock (Per Share: 1981—$1.85; 1980—$1.80; 1979—$1.76)	77,292	69,835	57,590
Total cash dividends	100,268	93,188	81,343
Loss on redemption of capital stock	—	—	127
BALANCE AT CLOSE OF YEAR	$167,149	$158,546	$158,772

Statement of Consolidated Capital Surplus

For the Three Years Ended December 31, 1981
(Thousands of Dollars)

	1981	1980	1979
BALANCE AT BEGINNING OF YEAR	$494,228	$433,984	$387,185
Premium on common stock issued	56,196	60,693	46,930
Expense of issuing capital stock (debit)	(180)	(449)	(131)
BALANCE AT CLOSE OF YEAR	$550,244	$494,228	$433,984

The accompanying Notes to Financial Statements are an integral part of these statements.

Notes to Financial Statements

A. SUMMARY OF ACCOUNTING POLICIES:

Consolidation

The consolidated financial statements include the Company and its wholly-owned steam heating subsidiary.

Property, Plant and Equipment

The properties of the Company and its subsidiary are carried at original cost. The Company's properties, with minor exceptions, are subject to a first mortgage lien. All maintenance and repairs and replacements of minor units of property are charged to income. Replacements of retirement units of property and betterments are charged to property. In connection with retirements, reserves are charged with the carrying value, plus dismantling charges, less salvage, of property retired.

Revenues

Customer meters are read monthly or bimonthly and bills are rendered on a monthly basis. Revenues are recorded when billed.

Allowance for Funds Used During Construction

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction (AFC) is included in construction work in progress and credited to other income for AFC attributable to equity funds and to interest charges for AFC attributable to borrowed funds, net of income taxes. AFC is a non-cash item and is computed using a composite rate, which is applied to the balance of construction work in progress and assumes that funds used for construction are provided by borrowings and by preferred, preference and common stock equity. The rate was 7.6%, 7.4% and 7.0% compounded semi-annually in 1981, 1980 and 1979, respectively. This accounting procedure results in the inclusion in property, plant and equipment of amounts considered by regulatory authorities as appropriate costs for the purpose of establishing rates for utility charges to customers.

Depreciation

The Company provides for depreciation of electric plant, exclusive of coal properties, on a straight-line basis determined in a manner consistent with applicable Pennsylvania law and with methods applied by the Pennsylvania Public Utility Commission in the determination of depreciation in rate proceedings. The Company provides for decontamination and dismantling costs for the Beaver Valley No. 1 nuclear generating unit on a straight-line basis over the life of the unit. Such costs are currently estimated to be approximately $30,000,000. The Company deposits certain revenues in a trust fund which has been established to pay for such costs. At December 31, 1981, $874,000 was included in this fund. Provisions for depreciation and depletion of other Company property and the steam heating subsidiary's property are made on various bases such as tons of coal mined for coal properties.

Income Taxes

Deferred income taxes are provided principally for differences between depreciation for income tax purposes and depreciation for accounting purposes to the extent permitted by the Pennsylvania Public Utility Commission for rate-making purposes, and for fuel and cancellation costs deferred for accounting purposes but deducted currently for income tax purposes. In compliance with regulatory accounting, income taxes are allocated between operating expenses and other income, principally with respect to interest charges related to construction work in progress. Investment tax credits are deferred and amortized over the lives of the related facilities.

Deferred Fuel Costs

The Company defers the difference between actual fuel costs and base fuel costs until the period in which such costs are billed to its customers through its energy cost rate. Effective May 1, 1981, the energy clause was revised from a historical cost basis to a projected cost basis, with provisions for subsequent adjustments to actual cost. This change reduced the time lag in the recovery of energy costs through revenues that existed in the previous net energy clause and significantly reduced deferred fuel costs.

Nuclear Fuel Costs

The Company's share of nuclear fuel costs under a non-capitalized financing lease agreement is charged to fuel expense based on the quantity of electric energy generated and reflects a zero net salvage value for the leased nuclear fuel. Since regulatory authorities have not determined whether spent fuel may be reprocessed, and therefore it may be necessary to store spent fuel for an indefinite period, no provision for final disposition costs of such fuel has been made.

Debt Discount, Premium and Expense

Debt discount or premium and related expenses are amortized over the lives of the issues to which they pertain.

Reclassifications

Certain minor reclassifications have been made to amounts reported in the 1980 Consolidated Balance Sheet to conform to the presentation used for 1981.

B. CHANGE IN BILLING PRACTICE:

Pursuant to an order by the Pennsylvania Public Utility Commission, the Company changed its method of billing and recognizing revenues for residential and certain commercial customers from a quarterly to a monthly basis, effective January 1, 1979. The $3,845,000 cumulative effect of the change on prior years (after reduction for income taxes of $7,353,000) is included in income for the year ended December 31, 1979. The additional effect of the change on the year ended December 31, 1979 was not significant.

C. CANCELLATION OF CAPCO GENERATING UNITS:

In January 1980, the Company and the other CAPCO companies cancelled the construction of four nuclear generating units. The Company's share of the accumulated construction costs applicable to these units was $31,443,000 as of December 31, 1981. The Company has received approval from the Federal Energy Regulatory Commission to defer and amortize the accumulated construction costs over a 10-year period beginning with the recovery of such costs from its customers. The Pennsylvania Public Utility Commission has not yet decided whether to approve such recovery.

Claims related to the termination of associated contracts have been filed, for which the Company's share could be substantial. No termination costs have been recorded at December 31, 1981 as the CAPCO companies have available to them and intend to assert legal claims and defenses. If any termination costs are incurred, the Company would seek approval from the Pennsylvania Public Utility Commission to recover such costs from its customers over a 10-year period.

If the Company is denied the right to recover these costs from its customers it would charge such costs to income in the year of disallowance. The Company believes that recovery of all such costs from its customers is proper, and that final resolution of the accumulated construction costs and the termination costs will not have a material adverse effect on the Company's financial position.

D. CAPITALIZATION:

Capital Stock:

	December 31, 1981 Shares Outstanding	December 31, 1981 Amount	December 31, 1980 Shares Outstanding	December 31, 1980 Amount
Common Stock—$1 par value (1)	45,302,520	$ 45,302,520	40,166,083	$ 40,166,083
Capital Surplus:				
Premium on Common Stock		$556,598,987		$500,403,359
Capital stock expense (debit)		(6,607,112)		(6,406,437)
Other		252,261		231,016
Total capital surplus		$550,244,136		$494,227,938
Non-redeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
4% Series (2)	549,969	$ 27,498,450	549,969	$ 27,498,450
3.75% Series (2)	150,000	7,500,000	150,000	7,500,000
4.15% Series (2)	140,000	7,000,000	140,000	7,000,000
4.20% Series (2)	100,000	5,000,000	100,000	5,000,000
4.10% Series (2)	120,000	6,000,000	120,000	6,000,000
$2.10 Series (2)	160,000	8,000,000	160,000	8,000,000
$7.20 Series (3)	350,000	17,500,000	350,000	17,500,000
Preference Stock—$1 par value (cumulative) (1)				
$2.315 Series (4)	1,200,000	1,200,000	1,200,000	1,200,000
$2.10 Series (4)	1,200,000	1,200,000	1,200,000	1,200,000
		80,898,450		80,898,450
Premium on Non-redeemable Preferred and Preference Stock		75,238,760		75,238,760
Non-redeemable Preferred and Preference Stock		$156,137,210		$156,137,210
Involuntary liquidation value		$155,998,450		$155,998,450
Redeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
$8.64 Series (3)	268,872	$ 13,443,600	274,872	$ 13,743,600
$8.375 Series (3)	300,000	15,000,000	300,000	15,000,000
Preference Stock—$1 par value (cumulative) (1)				
$7.50 Series (3)	280,120	280,120	289,800	289,800
$2.75 Series (4)	385,100	385,100	488,850	488,850
$9.125 Series (3)	500,000	500,000	500,000	500,000
		29,608,820		30,022,250
Premium on Redeemable Preferred and Preference Stock		114,917,880		118,666,200
Repurchase and Sinking Fund Requirements		(602,500)		(1,821,250)
Redeemable Preferred and Preference Stock		$143,924,200		$146,867,200
Involuntary liquidation value		$143,924,200		$146,867,200

(1) Authorized shares: Common Stock—60,000,000 and 45,000,000 shares, respectively; Preferred Stock—4,000,000; and Preference Stock—8,000,000.

(2) $50 per share involuntary liquidation value.

(3) $100 per share involuntary liquidation value.

(4) $25 per share involuntary liquidation value.

The following summary indicates the changes in the number of shares of Common Stock outstanding during 1981, 1980 and 1979:

	Year Ended December 31,		
	1981	1980	1979
Common Stock:			
Shares outstanding at beginning of year	**40,166,083**	35,550,000	31,750,000
Issuances:			
Common Stock sales	**4,100,000**	4,000,000	3,800,000
Dividend Reinvestment Plan	**902,977**	446,172	—
Employee Stock Ownership Plan	**133,460**	169,911	—
Shares outstanding at end of year	**45,302,520**	40,166,083	35,550,000

The number of shares reserved at December 31, 1981 for issuance under the Dividend Reinvestment Plan and the Employee Stock Ownership Plan are 2,850,851 and 696,629, respectively.

The outstanding Preference Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: $7.50—redeemable at $112 through April 1, 1983; $105 through April 1, 1986; $103 through April 1, 1989; and $101 thereafter; $2.75—not redeemable prior to August 1, 1984 through certain refunding operations, otherwise redeemable at $27.75 through July 31, 1984; $26.50 through July 31, 1989; and $25.25 thereafter; $2.315—redeemable at $26.60 through March 31, 1986; $25.90 through March 31, 1991; and $25.25 thereafter; $2.10—not redeemable prior to April 1, 1982 through certain refunding operations, otherwise redeemable at $27.10 through March 31, 1982; $26.40 through March 31, 1987; $25.70 through March 31, 1992; and $25.00 thereafter; $9.125—not redeemable prior to January 1, 1989 through certain refunding operations, otherwise redeemable at $100 plus the applicable redemption premium decreasing from $7.68 in 1982 to $.48 in 1998.

The outstanding Preferred Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: 4%—$51.50; 3.75%—$51.00; 4.15%—$51.73; 4.20%—$51.71; 4.10%—$51.75; $2.10—$51.84; $8.64—redeemable at $107 through September 30, 1984; $104 through September 30, 1989; and $101 thereafter; $7.20—redeemable at $105 through March 31, 1982; $102.50 through March 31, 1987; and $101 thereafter; $8.375—not redeemable prior to April 1, 1983 through certain refunding operations, otherwise redeemable at $112 through March 31, 1988, and thereafter at $100 plus the applicable redemption premium decreasing from $5.03 in 1988 to $.34 in 2003.

Redeemable Preferred and Preference Stock: The shares of $7.50 Preference Stock are entitled to a non-cumulative purchase fund under which the Company offers to repurchase annually at $100 per share up to 4% of the number of shares originally issued. The shares of $2.75 Preference Stock are subject to a cumulative sinking fund which will retire 55,000 shares by August 1 in each year at $25 per share. The Company may on a non-cumulative basis retire an additional 55,000 shares in each such year. The shares of $9.125 Preference Stock are subject to a cumulative sinking fund beginning with the year 1984 and continuing through 1997 inclusive which will retire 33,300 shares on January 1 in each year at $100 per share. The Company may, on a non-cumulative basis, retire an additional 33,300 shares in each such year, provided that the Company may not redeem through the exercise of this option more than an aggregate of 150,000 shares. The Preference Stock is entitled to quarterly cumulative dividends except that no dividends may be paid if dividends on any series of the Preferred Stock are accumulated and unpaid. In the event that six quarterly dividends on any series of Preference Stock are in default, the holders of the Preference Stock are entitled to elect two directors until all dividends in arrears have been paid.

The shares of $8.64 Preferred Stock are entitled to a non-cumulative purchase fund under which the Company offers to repurchase annually up to 6,000 shares at not more than $100 per share. The shares of $8.375 Preferred Stock are subject to a cumulative sinking fund beginning with the year 1984 which will retire 12,000 shares on April 1 in each year at $100 per share. The Company may on a non-cumulative basis retire an additional 12,000 shares in each such year. The Preferred Stock is entitled to quarterly cumulative dividends. In the event that four quarterly dividends on any series of Preferred Stock are in default, the holders of the Preferred Stock are entitled to elect a majority of the Board of Directors until all dividends in arrears and current dividends have been paid.

The combined aggregate sinking fund and mandatory purchase requirements for the next five years as of December 31, 1981 are as follows:

Year Ending December 31,	Sinking Fund and Mandatory Purchase Requirements
1982	$1,902,500
1983	3,275,000
1984	7,805,000
1985	7,805,000
1986	7,805,000

The following summary indicates the changes in the number of shares of Redeemable and Non-redeemable Preferred and Preference Stock outstanding during 1981, 1980 and 1979:

	Year Ended December 31, 1981	1980	1979
Preference Stock:			
Shares outstanding at beginning of year	**3,678,650**	3,751,360	3,788,600
Issuances —$9.125 Series	**—**	—	85,000
Purchases and redemptions —$2.75 Series	**(103,750)**	(61,150)	(110,000)
—$7.50 Series	**(9,680)**	(11,560)	(12,240)
Shares outstanding at end of year	**3,565,220**	3,678,650	3,751,360
Preferred Stock:			
Shares outstanding at beginning of year	**2,144,841**	2,150,841	2,156,841
Purchases—$8.64 Series	**(6,000)**	(6,000)	(6,000)
Shares outstanding at end of year	**2,138,841**	2,144,841	2,150,841

Indebtedness:

First Mortgage Bonds (amount authorized is unlimited by indenture):

	December 31, 1981	1980
Series due September 1, 1982 (3¼%)	**$ 14,000,000**	$ 14,000,000
Series due September 1, 1983 (3⅝%)	**12,000,000**	12,000,000
Series due July 1, 1984 (3⅛%)	**16,000,000**	16,000,000
Series due April 1, 1986 (3½%)	**20,000,000**	20,000,000
Series due April 1, 1988 (3¾%)	**15,000,000**	15,000,000
Series due March 1, 1989 (4¼%)	**10,000,000**	10,000,000
Series due February 1, 1996 (5⅛%)	**25,000,000**	25,000,000
Series due February 1, 1997 (5¼%)	**25,000,000**	25,000,000
Series due February 1, 1998 (6⅜%)	**35,000,000**	35,000,000
Series due January 1, 1999 (7%)	**30,000,000**	30,000,000
Series due July 1, 1999 (7¾%)	**30,000,000**	30,000,000
Series due March 1, 2000 (8¾%)	**30,000,000**	30,000,000
Series due March 1, 2001 (7⅞%)	**35,000,000**	35,000,000
Series due December 1, 2001 (7½%)	**35,000,000**	35,000,000
Series due June 1, 2002 (7½%)	**35,000,000**	35,000,000
Series due January 1, 2003 (7¼%)	**40,000,000**	40,000,000
Series due July 1, 2003 (7¾%)	**35,000,000**	35,000,000
Series due April 1, 2004 (8⅝%)	**45,000,000**	45,000,000
Series due March 1, 2005 (9½%)	**50,000,000**	50,000,000
Series due June 1, 2006 (9%)	**80,000,000**	80,000,000
Series due April 1, 2007 (8⅜%)	**100,000,000**	100,000,000
Series due February 1, 2009 (10⅛%)	**100,000,000**	100,000,000
Series due January 1, 2010 (12¼%)	**60,000,000**	60,000,000
Series due September 1, 2010 (14¼%)	**50,000,000**	50,000,000
Series due June 1, 2011 (16%)	**80,000,000**	—
Total	**1,007,000,000**	927,000,000
Less:		
Current maturities—Series due September 1, 1982 (3¼%)	**14,000,000**	—
Current sinking fund requirements	**9,130,000**	8,770,000
First Mortgage Bonds (less sinking fund requirements and current maturities)	**$ 983,870,000**	$918,230,000
5% Sinking Fund Debentures (authorized $20,000,000) due March 1, 2010	**$ 10,682,000**	$ 10,981,000

Pollution Control Obligations:

Date of Issuance	Average Interest Rate	Serial Maturity or Mandatory Redemption Beginning	Final Maturity	December 31, 1981	1980
September 21, 1972	5.49%	1983	2002	**$ 24,000,000**	$ 24,000,000
June 21, 1973	5.685%	1984	2003	**12,000,000**	12,000,000
October 25, 1973	5.755%	1984	2003	**16,000,000**	16,000,000
August 13, 1974	7.97%	1989	2004	**14,000,000**	14,000,000
April 2, 1975	7.50%	1993	2005	**17,000,000**	17,000,000
October 29, 1975	8.40%	1991	2005	**18,000,000**	18,000,000
September 29, 1976	6.90%	1994	2011	**15,000,000**	15,000,000
March 24, 1981	12.00%	2002	2011	**50,000,000**	—
Total Pollution Control Obligations				**$166,000,000**	$116,000,000

Sinking fund requirements and maturities for the next five years for long-term debt outstanding as of December 31, 1981 are as follows:

Year Ending December 31,	Sinking Fund Requirements	Maturities
1982	$ 9,930,000	$14,000,000
1983	9,810,000	12,500,000
1984	10,257,000	16,700,000
1985	10,375,000	700,000
1986	10,200,000	20,700,000

The sinking fund requirements in each year relate primarily to the First Mortgage Bonds, which requirements may be satisfied by the certification of property additions at 166⅔% of the Bonds required to be redeemed, and the pollution control obligations. The remaining sinking fund requirement relates to the 5% Debentures. At December 31, 1981, sinking fund requirements for the 5% Debentures had been satisfied for 1982 and 1983, and the 1984 sinking fund requirement had been partially satisfied in the amount of $118,000.

The pollution control obligations arise from arrangements between the Company and two local industrial development authorities whereby the construction of certain pollution control facilities has been financed through the sale of bonds by those authorities, and the Company is obligated to pay to the authorities amounts equal to the principal of and interest on the authorities' bonds relating to such facilities.

The Company's Restated Articles restrict the payment of cash dividends on, or the purchase of, its capital stock ranking junior to its Preferred Stock. Under this restriction, no retained earnings were restricted at December 31, 1981.

E. SHORT-TERM BORROWING ARRANGEMENTS:

At December 31, 1981 the Company had lines of credit with banks totaling $75,000,000, all of which was unused. At December 31, 1980 and 1979 the Company had lines of credit with banks totaling $70,000,000, of which $63,500,000 was unused at December 31, 1980, and all of which was unused at December 31, 1979. The range of interest rates under the lines of credit are from prime rate less one half of one percent to 105 percent of prime rate. The notes payable-bank and commercial paper outstanding at December 31, 1980 and 1979 had a weighted average daily interest rate of 18.61% and 12.76%, respectively. During the years ended December 31, 1981, 1980 and 1979 the maximum amount of short-term borrowings outstanding was $80,140,000, $63,500,000 and $64,500,000, the average daily short-term borrowings outstanding were $28,341,000, $23,408,000 and $20,993,000 and the weighted average daily interest rate applicable to such short-term borrowings was 17.50%, 12.47% and 11.28%, respectively.

F. BUSINESS SEGMENT INFORMATION:

The Company operates predominantly in the electric utility industry. In 1981 and 1980 no one customer provided 10% of total operating revenues. During the year ended December 31, 1979, approximately 11% of total operating revenues was derived from one customer.

G. DEFERRED COAL COSTS

The Company and the other CAPCO companies have made long-term coal supply arrangements with Quarto Mining Company (Quarto), an unaffiliated company, to supply coal for the Bruce Mansfield Units. In December 1980 the Pennsylvania Public Utility Commission instituted an investigation into the reasonableness of the cost of coal supplied by Quarto. By Interim Order entered January 12, 1981 the Commission directed that, pending conclusion of the investigation or further order of the Commission, the Company limit its recovery of the cost of Quarto coal through its energy cost rate to approximately the prevailing market price of similar coal rather than the actual cost of Quarto coal. At December 31, 1981 the unrecovered cost of Quarto coal reflected in the Company's records was approximately $15.4 million. As required by the Interim Order, the Company is deferring the excess of the actual cost of Quarto coal over the cost allowed to be recovered through its energy cost rate until recovery of the actual cost is permitted by the Commission. If recovery of such excess is disallowed, the amount deferred would be charged to income in the year of disallowance. Thereafter, any excess of actual cost over the amount permitted to be

recovered would be charged to income on a current basis. Management of the Company believes that the costs being deferred were prudently incurred and that the eventual outcome of the Commission's investigation will not have a material effect on the Company's financial position or results of operations. The CAPCO companies are continuing to evaluate the economics of the Quarto arrangements and are considering various means for reducing production costs. See Note M to the financial statements.

The Commission in its February 20, 1981 Order, relating to the Company's rate request, placed restrictions on the Company's recovery of the cost of coal from its Warwick mine. The cost of Warwick coal in excess of the average market prices of similar quality coal purchased by Pennsylvania utilities in the open market may not be passed through the energy cost rate, but may be deferred and recovered to the extent that the cost of Warwick coal falls below such market price. Such deferred costs amounted to $308,000 at December 31, 1981. The Company expects to recover these deferred costs through the energy cost rate in 1982.

H. INCOME TAXES:

Total income taxes in 1981, 1980 and 1979 were comprised of the following components:

	1981	1980	1979
		(Thousands of Dollars)	
Included in operating expenses:			
Currently payable:			
Federal	**$19,878**	$12,627	$ 9,196
State	**13,642**	5,343	8,312
Income taxes deferred—net:			
Federal	**26,146**	17,125	8,339
State	**(1,057)**	7,582	2,440
Investment tax credit deferred—net	**13,016**	17,666	20,808
Total	**71,625**	60,343	49,095
Included in other income (income taxes—credit):			
Currently payable:			
Federal	**(11,372)**	(8,007)	(6,887)
State	**(2,900)**	(2,044)	(1,756)
Total income tax expense	**$57,353**	$50,292	$40,452
Taxes currently payable—federal and state	**$19,248**	$ 7,919	$ 8,865
Taxes deferred—net	**25,089**	24,707	10,779
Investment tax credit deferred—net	**13,016**	17,666	20,808
Total income tax expense	**$57,353**	$50,292	$40,452

Total income tax expense for 1979 is exclusive of $5,890,000 federal and $1,463,000 state income taxes applicable to the change in billing practice. See Note B to the financial statements.

Sources of income taxes deferred and the tax effects were:

	1981	1980	1979
Excess of tax over accounting depreciation	**$12,739**	$18,312	$19,171
Fuel costs expensed on tax return and deferred on books	**(3,062)**	5,526	(4,913)
Investment tax credit carryforward recognized against income taxes deferred—net	**16,932**	(13,844)	(3,088)
Cancellation costs expensed on tax return and deferred on books	**81**	13,894	—
Other	**(1,601)**	819	(391)
Total income taxes deferred—net	**$25,089**	$24,707	$10,779

Total income taxes were less than the amount computed by applying the statutory federal income tax rate of 46% to income before income taxes. The reasons for this difference in each year were as follows:

	1981	1980	1979
		(Thousands of Dollars)	
Computed federal income tax at statutory rate	**$76,463**	$65,897	$56,423
Increase (decrease) in taxes resulting from:			
Allowance for funds used during construction	**(16,547)**	(14,522)	(12,221)
Excess of tax over book depreciation	**(566)**	35	(1,116)
State income taxes, net of federal income tax benefit	**5,230**	5,875	4,840
Amortization of deferred investment tax credits	**(3,690)**	(3,117)	(2,718)
Other-net	**(3,537)**	(3,876)	(4,756)
Total income tax expense	**$57,353**	$50,292	$40,452

I. PRIOR YEARS' INCOME TAXES:

The Company's income tax returns are settled through 1970 with the exception of the percentage depletion issue discussed below. Income tax returns for 1971 through 1976 have been examined, the returns for 1977, 1978 and 1979 are being examined and the 1980 return is subject to review. The Internal Revenue Service assessed deficiencies regarding the Company's computation of percentage depletion on coal mined for 1956 through 1961 and proposed similar deficiencies for 1962 through 1972, as well as certain other issues of relatively minor importance for 1971 through 1976. The Company paid the assessments related to percentage depletion for the years 1956 through 1961 and instituted a suit for refund in Federal District Court. A recovery in 1979 of a major portion of such payment resulted in a net charge to retained earnings of $822,000. The proposed additional federal income taxes relating to percentage depletion for 1962 through 1972, together with interest and related state income tax effect, amount to $4,523,000 after deducting the related tax benefit of $1,780,000. The Company expects that the Court's decision in the 1956 through 1961 case will serve as the basis for settlement of the proposed deficiencies related to depletion for 1962 through 1972. Management of the Company believes that the settlement of federal and state taxes will not significantly affect the Company's financial position or results of operations.

J. EMPLOYEE BENEFITS:

The Company and its subsidiary have trusteed retirement plans to provide pensions for all employees, except coal mine employees who are covered under a plan administered by the United Mine Workers of America. Information concerning the plan covering coal mine employees is not determinable and is not included in the data below. Pension costs are funded as accrued and include amortization of prior service costs over 30 years. Pension costs charged to expense or construction for the years ended December 31, 1981, 1980 and 1979 were $10,083,000, $9,392,000 and $7,224,000, respectively. The increase in pension costs in 1981 and 1980 is principally due to a plan amendment, effective October 1, 1979, which moved forward the average salary period used in computing the past service portion of benefits and the date used in computing the future portion of benefits. The accumulated plan benefits and net assets available for benefits for the trusteed plans are presented as of the December 31 benefit information dates. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 5% for each year.

	December 31,		
	1980	1979	1978
	(Thousands of Dollars)		
Actuarial present value of accumulated plan benefits:			
Vested	**$135,345**	$126,308	$113,595
Nonvested	**10,750**	10,562	3,335
Total	**$146,095**	$136,870	$116,930
Net assets available for benefits (at market value)	**$107,798**	$ 91,167	$ 80,406

The Company is liable under the Federal Coal Mine Health and Safety Act, as amended, and similar state laws for the payment of benefits to coal mine employees disabled by black lung and to their survivors and dependents. The estimated costs of providing such benefits, including amortization of prior service costs over the remaining estimated life of the Warwick mine, are actuarially determined and accrued on the basis of mine payroll costs and are deposited with a trustee. Such costs were $1,524,000, $1,494,000 and $1,824,000 for the years ended December 31, 1981, 1980 and 1979, respectively. At July 31, 1981 (the date of the latest actuarial valuation), the unfunded prior service cost for these disability benefits was approximately $22,223,000.

K. JOINTLY-OWNED GENERATING UNITS:

The Company, together with other electric utilities, primarily the CAPCO companies, has an ownership interest in certain jointly-owned units. Information regarding the Company's share of such jointly-owned units as of December 31, 1981 is as follows (thousands of dollars):

	Company's Interest				
Unit	Utility Plant in Service	Accumulated Depreciation	Construction Work in Progress	Percentage Ownership	Megawatts
Fort Martin No. 1	$ 36,372	$12,161	$ 6,335	50.0	276
CAPCO Units:					
Eastlake No. 5	44,770	8,801	4,130	31.2	198
Sammis No. 7	40,358	10,107	9,999	31.2	187
Bruce Mansfield No. 1	72,074	10,934	188	29.3	228
Bruce Mansfield No. 2	20,155	2,362	94	8.0	62
Bruce Mansfield No. 3	70,968	2,732	63	13.74	110
Bruce Mansfield Common and Shared Facilities	55,953	8,920	3,653		
Beaver Valley No. 1	291,942	32,077	20,115	47.5	385
Beaver Valley No. 2	18	—	139,028	13.74	114
Beaver Valley Common Facilities	34,928	3,012	22,540		
Perry No. 1	—	—	143,248	13.74	165
Perry No. 2	—	—	128,848	13.74	165
Total	$667,538	$91,106	$478,241		

Under terms of the arrangements with the other owners of such jointly-owned units, the Company is required to provide its own share of financing the cost of such units. The Company's share of the direct expenses (fuel, maintenance and other operation expenses) of the jointly-owned units is included in the corresponding operating expenses in the Statement of Consolidated Income.

L. LEASES:

Rental payments in 1981, 1980 and 1979 amounted to $16,361,000, $10,383,000 and $9,844,000, respectively, of which $14,141,000, $4,772,000 and $6,049,000 were charged to operating expenses. The Company has an undivided interest in nuclear fuel lease agreements for three CAPCO generating units. Rental payments are made monthly during the terms of the leases based on the amount of nuclear fuel leased and the amount of nuclear fuel burned. The nuclear fuel leases may be terminated by the lessees or lessors with notice as defined in the agreements or by casualty or certain other contingencies, including default by the lessees. In certain situations involving a termination, the lessees may be required to purchase the leased nuclear fuel at the higher of fair market value or unamortized cost. At December 31, 1981, the Company's share of the lessor's unamortized cost of the leased nuclear fuel was $60,323,000 and the Company expects to lease an additional $13,171,000 of nuclear fuel under current leasing arrangements. The Company expects to finalize another nuclear fuel leasing arrangement early in 1982 which will provide an additional $75,000,000 of financing.

In 1982, the Company plans to move its corporate headquarters to One Oxford Centre under the terms of a twenty-year lease with options to renew for three additional five-year periods. The Company also has certain other buildings under lease, subject to purchase and renewal options.

At December 31, 1981 minimum rental payments, based principally on estimated usage of nuclear fuel under lease and building rentals, including the new One Oxford Centre lease, were as follows:

	(Thousands of Dollars)
1982	$ 16,293
1983	25,832
1984	30,632
1985	27,332
1986	21,331
1987-1991	55,583
After 1991	75,216
Total	$252,219

The Company accounts for all of its leases as operating leases in accordance with the manner in which the Company's rates have been established by the Pennsylvania Public Utility Commission. If the noncapitalized financing leases were capitalized as of December 31, 1981 and 1980, property plant and equipment-net would have been increased by $78,798,000 and $66,948,000, respectively, with related increases in current liabilities and long-term debt of $4,722,000 and $74,463,000, respectively, in 1981 and $5,386,000 and $61,869,000, respectively, in 1980. The impact on net income of capitalizing such leases in each year would not be material.

M. COMMITMENTS AND CONTINGENT LIABILITIES:

Construction

The Company's current estimate of construction expenditures during the period 1982 through 1986 amounts to approximately $1.2 billion, principally related to CAPCO generating units. See Note C for information regarding accumulated construction costs and contract termination charges which could be incurred as a result of the cancellation of construction of four CAPCO nuclear generating units.

Quarto Mining Company (Quarto)

The Company and the other CAPCO companies have made long-term coal supply arrangements with Quarto, an unaffiliated company, to supply coal for the Bruce Mansfield Units. As part of these arrangements the individual CAPCO companies are severally, and not jointly, guaranteeing their proportionate shares of Quarto's debt and lease obligations incurred in connection with the development, equipping and operation of two mines from which the coal is supplied. At December 31, 1981 the Company had guaranteed the obligations of Quarto with respect to approximately $56,047,000 of indebtedness and had guaranteed lease obligations relating to approximately $31,527,000 of capital equipment for the mines. The Company expects that by 1984 it will have made further substantial guarantees with respect to additional indebtedness and leased capital equipment the amount of which will depend on the actual costs of further development of the two mines. In general, it is contemplated that the purchase prices to be paid for the coal to be received under the foregoing arrangements will include amounts sufficient to service the obligations so guaranteed.

Under the terms of the coal supply contracts, which expire December 31, 1999, the CAPCO companies must reimburse Quarto for their share of the costs of operating the Quarto mines, including those costs associated with mine construction, whether or not they receive coal from Quarto. The Company's total payment under these contracts amounted to $28,603,000 for the year ended December 31, 1981.

The Company's estimate of future obligations for fixed costs associated with the Quarto coal supply arrangements are:

1982	$ 9,156,000
1983	8,950,000
1984	8,743,000
1985	8,536,000
1986	8,329,000
After 1986	98,200,000

The current price of Quarto coal to the CAPCO companies is based principally on the actual current production costs plus amortization of certain produc-

tion expenses which were not included in the price of coal to the CAPCO companies during the development period, which ended on May 31, 1980. The current price of Quarto coal exceeds the current prevailing market price of coal. See Note G to the financial statements.

Beaver Valley Replacement Power

In connection with the February 20, 1981 rate order, the Pennsylvania Public Utility Commission found that the Company had not proven that the costs of replacement power during a 1979 outage of Beaver Valley Unit No. 1 were prudently incurred and directed the Commission's Bureau of Audits to address the subject in an audit and make a recommendation as to the amount to be refunded to customers.

Subsequently, the Commission granted petitions filed by the Company, the City of Pittsburgh and the Pennsylvania Consumer Advocate seeking reconsideration of the Order with respect to, among other things, the appropriateness, amount and timing of replacement power cost refunds, but did not rule on the merits of such petitions. On November 20, 1981 the Commission ordered that further hearings be held before an administrative law judge on the issues of the portion of the outage period for which the Company would be held responsible, the amount of replacement power cost refunds allocable to such period, the period of time over which the refunds should be made to the Company's customers and whether the Company should be ordered to pay interest on the outage refund and, if so, at what rate. The Order determined that a refund of some amount was due the Company's customers and that the liability issue had been resolved. The Company and outside counsel do not agree with either of these conclusions, and no provision has been recorded by the Company for any such refunds. While the Company is unable to predict what action the Commission may ultimately take and although the amount of such refunds could be substantial, the management of the Company believes that the replacement power costs were prudently incurred and that the eventual outcome of this matter will not have a material effect on the Company's financial position or results of operations.

Rate Matters

The Pennsylvania Public Utility Commission on June 29, 1981 entered an Order granting the Company the option of placing a rate increase of approximately \$64.2 million into effect, of the \$100.4 million requested by the Company in an April 30, 1981 filing with the Commission. The Order also instituted an investigation into the rate request. On June 30, 1981, the Company filed a new rate schedule based on the \$64.2 million option which was approved by the Commission and became effective for service rendered on and after July 15, 1981. The new rates are, however, subject to refund with interest if the Commission's investigation results in approving a smaller increase. Revenues of \$26.8 million from this Order were recorded during 1981. The administrative law judge assigned to the proceeding has recommended that the \$64.2 million increase be approved, and management believes that the ultimate resolution of this rate matter will not have a material adverse effect on the Company's financial position or results of operations.

Other

The Company is involved in various other legal proceedings. In the opinion of management of the Company such legal proceedings will not have a material effect on the financial position or results of operations of the Company.

N. SUPPLEMENTARY INCOME STATEMENT INFORMATION:

	Year Ended December 31,		
	1981	1980	1979
	(Thousands of Dollars)		
Maintenance	**\$73,949**	\$72,549	\$62,699
Taxes other than payroll and income taxes:			
Gross receipts	**35,309**	30,464	28,059
Property	**12,641**	11,439	11,333
State capital stock	**6,313**	2,846	7,033

Under the system of accounting followed by the Company, a portion of maintenance expenses and of taxes other than payroll and income taxes represents amounts charged to coal inventories. The inventory accounts are relieved and operations expense charged as the coal is used.

Charges for depreciation and amortization of intangible assets, royalties and advertising costs have not been shown as the individual amounts do not exceed 1% of total revenues.

O. DISPOSITION OF SUBSIDIARY:

The Company's wholly-owned steam heating subsidiary has experienced losses in recent years. The losses were not material in relation to the Company's consolidated financial position or results of operations. On August 19, 1981 the subsidiary filed with the Pennsylvania Public Utility Commission an application for approval to abandon steam heating service in mid-1982. Several of the subsidiary's customers have filed protests to the application. The Company is also exploring the possibility of sale of the subsidiary's assets, other than certain real estate, for a nominal amount. If approval to abandon service should be granted or such assets sold, the unrecovered amount of the Company's investment, estimated to be approximately \$11 million net of related tax benefits at December 31, 1981, would be charged against earnings at that time.

P. QUARTERLY FINANCIAL INFORMATION (Unaudited):

Quarter Ended	Operating Revenues	Operating Income	Net Income	Earnings Per Share
	(Thousands of Dollars)			
March 31, 1980	$174,023	$35,232	$25,835	$.56
June 30, 1980	160,763	30,360	20,841	.40
September 30, 1980	177,274	32,436	23,218	.44
December 31, 1980	177,405	34,841	23,067	.43
March 31, 1981	**192,126**	**37,348**	**24,539**	**.46**
June 30, 1981	**185,814**	**34,747**	**20,980**	**.38**
September 30, 1981	**215,822**	**45,151**	**32,037**	**.64**
December 31, 1981	**203,085**	**43,100**	**31,316**	**.57**

Q. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (Unaudited):

The following supplementary information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices. This Statement requires adjustments to historical costs to estimate the effects that general inflation (constant dollar) and changes in specific prices (current cost) have had on the Company's results of operations. The data provided are not intended as a substitute for earnings reported on a historical basis, but offer some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES

For The Year Ended December 31, 1981
(Thousands of Dollars)

	Conventional Historical Cost	Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
Operating revenues	$796,847	$796,847	$796,847
Fuel	249,547	249,547	249,547
Purchased power	16,189	16,189	16,189
Other operation and maintenance expense	179,459	179,459	179,459
Depreciation expense	61,464	135,779	151,273
Taxes other than income taxes	58,218	58,218	58,218
Income taxes	71,625	71,625	71,265
Interest charges	92,968	92,968	92,968
Other income and deductions—net	(41,494)	(41,494)	(41,494)
	687,976	762,291	777,425
Net income (excluding reduction of property, plant and equipment to net recoverable cost)	$108,871	$ 34,556*	$ 19,422
Increase in specific prices (current cost) of property, plant and equipment held during the year**			$399,773
Reduction of property, plant and equipment to net recoverable cost		$(121,823)	(100,451)
Effect of increase in general price level			(405,651)
Excess of increase in general price level over increase in specific prices after reduction of property, plant and equipment to net recoverable cost			(106,329)
Gain from decline in purchasing power of net amounts owed		135,109	135,109
Net		$ 13,286	$ 28,780

*Including the reduction of property, plant and equipment to net recoverable cost, the net loss on a constant dollar basis would have been $87,267.

**At December 31, 1981, current cost of property, plant and equipment, net of accumulated depreciation, was $4,983,362, while historical cost or net cost recoverable through depreciation was $2,334,309.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In Thousands, Except Per Share Amounts)

	Year Ended December 31,				
	1981	1980	1979	1978	1977
Average 1981 dollars:					
Operating revenues	**$796,847**	$760,982	$779,678	$798,977	$729,766
Historical cost information adjusted for general inflation:					
Income before cumulative effect of accounting change (excluding reduction of property, plant and equipment to net recoverable cost)	**34,556**	37,082	40,156		
Income per common share before cumulative effect of accounting change (after dividend requirements on preferred and preference stock)	**$ .28**	$ .30	$ .33		
Net assets at year-end at net recoverable cost	**738,040**	730,483	744,457		
Current cost information:					
Income before cumulative effect of accounting change (excluding reduction of property, plant and equipment to net recoverable cost)	**19,422**	19,143	15,572		
Loss per common share before cumulative effect of accounting change (after dividend requirements on preferred and preference stock)	**$(.09)**	$(.18)	$(.44)		
Excess of increase in general price level over increase in specific prices after reduction of property, plant and equipment to net recoverable cost	**106,329**	189,650	216,907		
Net assets at year-end at net recoverable cost	**738,040**	730,483	744,457		
General information:					
Gain from decline in purchasing power of net amounts owed	**135,109**	188,667	216,763		
Cash dividends declared per common share	**$ 1.85**	$ 1.99	$ 2.21	$ 2.40	$ 2.58
Market price per common share at year-end	**$13.25**	$13.94	$17.06	$20.56	$28.71
Average consumer price index	**272.4**	246.8	217.5	195.4	181.5
Historical basis:					
Operating revenues	**$796,847**	$689,465	$622,540	$573,128	$486,243
Cash dividends declared per common share	**$ 1.85**	$ 1.80	$ 1.76	$ 1.72	$ 1.72
Market price per common share at year-end	**$13.25**	$12.63	$13.63	$14.75	$19.13
Proven and probable coal reserves at beginning of year (tons)	**28,100**	29,900	30,650	31,650	33,751
Tons of coal mined	**680**	875	928	699	728
Average cost per ton of mined coal	**$35.10**	$31.14	$28.71	$30.72	$27.45

Constant dollar amounts represent historical costs stated in terms of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of property, plant and equipment, which includes land, land rights, intangible plant, property held for future use, construction work in progress and nuclear fuel in process, represents the estimated cost of replacing existing plant assets and was primarily determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current cost of coal properties was determined by indexing coal reserves and machinery and equipment by the Marshall-Stevens Mining and Milling Index. The current year's provision for depreciation and depletion on the constant dollar and current cost amounts of property, plant and equipment was determined by applying the Company's depreciation and depletion rates to the indexed plant amounts.

Fuel inventories, the cost of fuel used in generation and purchased power have not been restated from their historical cost in nominal dollars. Rate regulation limits the recovery of fuel and purchased power costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in Statement 33, income taxes were not adjusted.

The regulatory process limits the Company to the recovery of the historical cost of service in its rates. Therefore, any excess of the value of plant under constant dollars or current cost must be reduced to the net recoverable cost, which is historical cost. The amount of this excess that accumulated as a result of inflation in the current year must be reduced to net recoverable cost.

The Company, by holding assets such as receivables, prepayments and inventory, suffers a loss of purchasing power during periods of inflation because the amount of cash received in the future for these items will purchase less. Conversely, by owing monetary liabilities, primarily long-term debt, the Company benefits because the payment in the future will be made with nominal dollars having less purchasing power. The Company has significant amounts of long-term debt outstanding which will be paid back in dollars having less purchasing power and, therefore, for purposes of these calculations, has a net gain from holding monetary liabilities in excess of monetary assets.

As allowed by Statement 33, items in the income statement, other than depreciation expense, were not adjusted. The cost of fuel used in electric production was not adjusted because the effect on earnings was not material due to the relatively short turnover period between incurring these costs and their recovery through the energy cost rate.

The regulatory process limits the amount of depreciation expense included in the Company's revenue allowance and limits utility plant in rate base to original cost. Such amounts produce cash flows which are inadequate to replace such property in the future or preserve the purchasing power of Common equity capital previously invested. While this effect is partially mitigated by the benefit derived from holding long-term debt, the Company has a net purchasing power loss which is experienced by the Common shareholder and can only be overcome by adequate rate relief. However, the Company expects that it will be able to establish rates which will recover the increased costs of new plant when such costs are incurred.

Duquesne Light Company

Selected Financial Data and Statistical Summary

(Thousands of Dollars, Except Per Share Amounts)

	1981	1980	1979	1978	1977	1971
SUMMARY RESULTS OF OPERATIONS						
Residential revenues	**223,146**	196,400	176,744	167,338	143,299	66,197
Commercial revenues	**243,304**	209,686	185,701	173,768	147,433	62,278
Industrial revenues	**300,066**	250,295	232,389	205,149	171,174	59,209
Street lighting and other revenues	**12,383**	11,052	10,370	9,942	8,286	3,965
Miscellaneous revenues	**7,116**	7,104	6,142	5,917	5,054	1,310
Total electric revenues	**786,015**	674,537	611,346	562,114	475,246	192,959
Steam heating revenues	**10,832**	14,928	11,194	11,014	10,997	3,751
Total operating revenues	**796,847**	689,465	622,540	573,128	486,243	196,710
Operation and maintenance expenses	**445,195**	393,998	362,987	338,922	249,223	92,468
Depreciation	**61,464**	53,897	48,450	45,660	43,185	19,170
Taxes other than income taxes	**58,218**	48,358	47,476	41,997	40,238	15,126
Income taxes	**57,353**	50,292	40,452	37,255	43,944	14,588
Interest charges, net of allowance for borrowed funds used during construction	**92,968**	75,630	65,415	60,614	58,684	22,879
Other income, principally allowance for equity funds used during construction	**27,222**	25,672	20,602	17,043	16,498	7,267
Income before cumulative effect of the change in billing practice	**108,871**	92,962	78,362	65,723	67,467	39,746
Net income	**108,871**	92,962	82,207†	65,723	67,467	39,746
Dividends on Preferred and Preference Stock	**22,976**	23,353	23,721	18,915	16,677	5,054
Earnings for Common Stock	**85,895**	69,609	58,486	46,808	50,790	34,692
Average number of common shares outstanding	**41,764**	38,267	32,239	31,464	29,000	15,820
Earnings per share of Common Stock	**2.06**	1.82	1.81†	1.49	1.75	2.19
Dividends declared on Common Stock	**1.85**	1.80	1.76	1.72	1.72	1.66
PLANT						
Property, plant and equipment	**2,809,753**	2,604,333	2,380,805	2,201,805	2,017,774	1,085,645
Accumulated depreciation	**477,009**	424,653	386,479	349,668	320,832	231,386
Net property, plant and equipment	**2,332,744**	2,179,680	1,994,326	1,852,137	1,696,942	854,259
TOTAL ASSETS	**2,668,577**	2,447,163	2,222,537	2,068,753	1,862,945	912,343
CAPITALIZATION						
Common Stock	**45,303**	40,166	35,550	31,750	29,000	16,650
Capital surplus	**550,244**	494,228	433,984	387,185	341,817	142,185
Retained earnings	**167,149**	158,546	158,772	158,035	166,551	105,992
Non-redeemable Preferred and Preference Stock	**156,137**	156,137	156,137	156,137	156,137	61,137
Redeemable Preferred and Preference Stock	**143,924**	146,867	149,998	154,572	79,062	29,985
First mortgage bonds (less sinking fund requirements and current maturities)	**983,870**	918,230	808,830	721,710	736,560	469,610
Sinking fund debentures	**10,682**	10,981	11,436	12,358	12,436	15,189
Pollution control obligations	**166,000**	116,000	116,000	116,000	116,000	—
Unamortized debt discount and premium—net	**(9,453)**	(7,161)	(5,770)	(4,977)	(5,138)	—
Total capitalization	**2,213,856**	2,033,994	1,864,937	1,732,770	1,632,425	840,748

†Includes cumulative effect to January 1, 1979 of the change in billing practice, net of income taxes, of $3,845 or $.12 per share.

	1981	1980	1979	1978	1977	1971
RESIDENTIAL SERVICES						
Average use per customer (kilowatt-hours)	**5,698**	5,770	5,629	5,765	5,786	5,142
Average revenue per kilowatt-hour	**7.806¢**	6.828¢	6.363¢	5.924¢	5.094¢	2.768¢
SALES OF ELECTRICITY (millions of kilowatt-hours)						
Residential	**2,858**	2,876	2,778	2,825	2,813	2,391
Commercial	**4,065**	4,020	3,866	3,782	3,909	3,333
Industrial	**6,582**	6,272	6,546	5,908	6,182	4,855
Street lighting and other	**125**	129	131	130	130	100
Total	**13,630**	13,297	13,321	12,645	13,034	10,679

ENERGY SUPPLY AND PRODUCTION DATA	1981	1980	1979	1978	1977	1971
Energy supply (millions of kilowatt-hours)						
Generated in system plants	**13,914**	13,485	13,884	12,252	13,798	11,151
Purchased and net interchange	**410**	541	125	1,089	(125)	232
Losses and company use	**(694)**	(729)	(688)	(696)	(639)	(704)
Total	**13,630**	13,297	13,321	12,645	13,034	10,679
Generating capability (thousands of kilowatts)	**3,177**	3,179	3,294	3,289	3,289	2,335
Peak load (thousands of kilowatts)	**2,522**	2,474	2,296	2,379	2,371	2,015
Cost of fuel per million BTU	**159.660¢**	149.768¢	131.779¢	125.349¢	100.696¢	33.946¢
BTU per kilowatt-hour generated	**10,931**	10,811	10,924	11,031	10,855	11,204
Average production cost per kilowatt-hour	**2.354¢**	2.202¢	1.913¢	1.919¢	1.393¢	0.515¢
NUMBER OF ELECTRIC CUSTOMERS— At End of Year						
Residential	**503,044**	500,466	496,005	491,698	487,474	466,099
Commercial	**48,857**	48,306	47,976	47,679	47,154	45,476
Industrial	**2,016**	2,005	1,975	1,932	1,889	1,723
Street lighting and other	**1,713**	1,725	1,746	1,747	1,768	1,821
Total	**555,630**	552,502	547,702	543,056	538,285	515,119

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

Capital Resources and Liquidity

Construction

During the five years ended December 31, 1981 gross additions to utility plant of the Company and its subsidiary aggregated approximately $1,022 million, exclusive of $31 million of accumulated construction costs applicable to cancelled generating units, and retirements were approximately $68 million. These additions represented a 51% net increase in utility plant.

As a result of the rate order entered on February 20, 1981 by the Pennsylvania Public Utility Commission, the Company reduced its original 1981 construction budget, exclusive of allowance for funds used during construction, from approximately $223 million to approximately $193 million. In October 1981 the Company further reduced its 1981 construction budget. Construction expenditures during 1981 were approximately $179 million, exclusive of allowance for funds used during construction. These expenditures were primarily for the construction of three CAPCO generating units in addition to improving and expanding production, transmission and distribution systems and pollution control equipment.

For planning purposes, the Company's current estimate of construction expenditures, exclusive of allowance for funds used during construction, is approximately $235, $248, $225, $250 and $225 million for each of the years 1982 through 1986, respectively. These estimates include an aggregate of approximately $293 million for the three jointly-owned generating units being constructed under the CAPCO arrangements, including related transmission facilities. See Note K to the financial statements. The balance of the estimated construction expenditures is for the improvement and expansion of production, transmission and distribution systems, for the addition of pollution control equipment at generating stations presently in operation and for new business construction and other projects. The foregoing estimates do not include the cost of nuclear fuel, which is expected to be leased rather than purchased. See Note L to the financial statements. Existing and anticipated lease agreements are expected to be sufficient to finance the cost of all nuclear fuel requirements through the third quarter of 1983, and the Company anticipates that the remaining nuclear fuel requirements will also be leased.

The amount which the Company must spend for its construction program is regularly under review and is subject to changes influenced by business and economic conditions and other factors, such as escalation of labor, material and equipment costs, rate of construction progress, the development of environmental and nuclear safety regulations, service reliability and system efficiencies. In addition, this review must also take into account difficulties in obtaining rate increases sufficient to generate adequate earnings, possible changes in load growth trends and, in the case of the CAPCO construction program, the ability of each of the CAPCO companies to finance its capital requirements.

Financing

The Company anticipates that funds required for planned construction expenditures in the next several years will be provided principally from the issuance of additional equity and debt securities and in part from cash becoming available from operations. On March 24, 1981, the Allegheny County Industrial Development Authority issued $50 million of pollution

control revenue bonds to reimburse the Company for the final portion of the cost of air pollution control facilities at the Company's Phillips and Elrama Power Stations. The bonds have an interest rate of 12%, and principal and interest on such bonds are funded by the Company. On June 25, 1981 the Company issued $80 million of First Mortgage Bonds with an interest rate of 16%. On September 29, 1981 the Company issued and sold 4,100,000 shares of Common Stock. Portions of the net proceeds from these three issues were used to pay short-term indebtedness incurred for construction purposes and the balance was or is being applied directly to construction expenditures. Outside financing provided approximately 54% of the funds required for construction expenditures during 1981 and the Company currently estimates that approximately 72% of funds required for its 1982 construction program will come from outside financing.

Interim financing will be through bank borrowings and sales of commercial paper. See Note E to the financial statements. Variable market and general economic conditions may affect the Company's selection of financing alternatives and adversely affect its ability to raise capital. In order to maintain earnings adequate to finance construction expenditures and refunding requirements, the Company requires rate increases sufficient to offset increased costs and provide a fair rate of return.

The Restated Articles of the Company require that for the issuance of Preferred Stock, earnings (after income taxes) available for interest charges be at least 1.5 times the sum of interest charges on all indebtedness and Preferred Stock dividend requirements. This restriction currently precludes the Company from issuing Preferred Stock. There is no similar restriction upon the issuance of the Company's Preference or Common Stock.

Rate Matters

On February 20, 1981 the Commission entered a final Order regarding the Company's $113 million rate increase filed in April 1980. The Order granted $47.5 million of which $38.8 million is reflected in the Company's 1981 revenues.

On April 30, 1981 the Company filed with the Pennsylvania Public Utility Commission a rate schedule requesting an annual increase of $100.4 million. On June 30, 1981 the Company filed a new rate schedule in accordance with an option granted by the Commission for a rate increase of $64.2 million annually pending the outcome of an investigation into the rate request. The Company's 1981 revenues increased by $26.8 million as a result of the Company accepting this option. See Note M to the financial statements. A final decision on the rate order for $64.2 million is expected early in 1982.

Effective May 1, 1981 the Company's energy cost rate was changed from a historical cost basis to a projected cost basis, with provisions for a subsequent adjustment to actual cost. This change reduces the time lag in the recovery of energy costs through revenues and thereby improves the Company's liquidity.

Cancelled Generating Units

In 1980 the CAPCO companies cancelled the construction of four nuclear generating units. The Company's share of the accumulated construction costs was $31.4 million at December 31, 1981. The Company has requested approval to amortize such costs over a 10-year period. Additional costs may be incurred due to termination claims which have been filed. See Note C to the financial statements. In its February 20, 1981 rate order the Pennsylvania Public Utility Commission deferred a decision on the Company's request to amortize and recover the accumulated construction costs from its customers pending the conclusion of a Commission investigation of the CAPCO construction program.

Deferred Coal Costs

The Commission also ordered that the Company's Warwick mine be excluded from rate base and placed restrictions on the Company's recovery of the cost of coal from that mine. See Note G to the financial statements. The Company expects to recover its Warwick coal production costs, including the balance of production costs deferred at December 31, 1981, and a partial return on its investment in the mine, through the energy cost rate in 1982.

In December 1980 the Commission ordered an investigation into the reasonableness of the costs of coal supplied by Quarto Mining Company. By Interim Order entered January 12, 1981 the Commission directed that the Company revert, pending completion of the Commission's investigation, to including in its energy cost rate the approximate prevailing market price of similar coal rather than the actual cost of Quarto coal. The Company is deferring the excess of the price of Quarto coal over market price until inclusion of the actual price of the Quarto coal in its energy cost rate is permitted by the Commission. If inclusion is disallowed, such difference would be charged to income in the year of disallowance. Such deferred costs amounted to approximately $15.4 million at December 31, 1981. See Note G to the financial statements. The cost of Quarto coal to be deferred in the future cannot currently be estimated because of uncertainties related to the rate and cost of future production and the prevailing market price of similar coal.

Other

The Economic Recovery Tax Act of 1981 provides federal income tax incentives for eligible individuals who participate in the dividend reinvestment plans of qualified public utilities. The Company's Dividend

Reinvestment Plan has been amended in accordance with the Act to provide eligible individual participants an election to exclude from current income for federal income tax purposes for each tax year from 1982 through 1985 up to $750 ($1,500 for spouses who file a joint return) of the dividends received in the form of the Company's Common Stock under the Plan. This provision is expected to encourage stockholders to reinvest dividends and thereby ease the cash requirements of the Company.

The Company has generated in each year funds from operations sufficient to meet its operating expenses, pay dividends and finance a portion of its capital needs. The demands and commitments detailed in Note M to the financial statements and those noted above are not expected to materially affect the Company's ability to finance its operations or its construction program.

Results of Operations

Operating revenues increased in the years 1979 through 1981 over the respective preceding years, for the following reasons:

	1981	1980	1979
	(Millions of Dollars)		
General rate increases	$ 65.6	$35.2	$25.4
Increase in electrical consumption	9.2	5.2	16.3
Energy cost rate revenues	31.2	23.1	17.4
State tax adjustment	1.5	2.5	2.1
Temporary surcharge	—	—	(12.2)
Other	(.1)	.9	.4
	$107.4	$66.9	$49.4

The operating revenues of the Company are based on rates authorized by the Pennsylvania Public Utility Commission. These rates are designed to recover the Company's operating expenses, plus a rate of return on the investment in utility rate base. The Company also has an energy cost rate which allows it to recover the difference between actual fuel costs and fuel costs included in base rates.

Operating expenses, other than income taxes, have increased substantially in all three years and continuing increases are expected in the cost of coal and oil and other operating expenses due to inflation and higher depreciation expense resulting from increases in utility plant and increased depreciation rates. In September 1980, the CAPCO companies placed Mansfield Unit No. 3 in full commercial operation, which increased the various operating expenses in 1981. Additionally, fuel expense increased in 1981 compared to 1980 due primarily to increased generation, higher fuel costs and increases in deferred energy expense. Purchased power expense decreased in 1981 compared to 1980 due primarily to increased sales of power to other utilities, the availability of Mansfield Unit No. 3 as noted above and the above average performance of the Beaver Valley Unit No. 1. These increases in available generation were partially offset by the United Mine Workers of America coal strike during the period March 27, 1981 to June 17, 1981. Other operation expenses increased in 1981 compared to 1980 due to expenses at Bruce Mansfield Unit No. 3, the effects of inflation and increased general and administrative expenses. Maintenance expenses increased substantially in 1980 compared to 1979 due primarily to modification work at the Beaver Valley Power Station, which was required by the Nuclear Regulatory Commission (the "NRC"), and increased distribution maintenance expenses related to storm damage. In late December 1981 Beaver Valley Unit No. 1 was removed from service for an estimated period of approximately five months for refueling and additional NRC required modifications. The Company is unable to predict the nature or the cost of additional modification work that will be required by the NRC in future years.

Taxes other than income taxes increased in each year primarily due to increased Pennsylvania gross receipts taxes, which vary in direct relationship to revenues and, additionally, in 1979 and 1981 as a result of increased capital stock tax expense. The effective income tax rate for the three years ended December 31, 1981, 1980 and 1979 was 35%, 35%, and 34%, respectively.

The increases in allowance for equity and borrowed funds used during construction (AFC) were primarily due to the increased cost of construction and an increase in the AFC rate from 7.0% in 1979 to 7.4% in 1980 and to 7.6% in 1981. Interest expense for each of the years 1981, 1980 and 1979 was higher than the prior year amount as a result of an increase in total short and long-term borrowings and higher average interest rates. The weighted average interest on all debt for 1981 was 8.8%, compared with 7.8% in 1980 and 7.6% in 1979. The increases in total borrowings were due to the issuance of additional debt to finance the Company's capital expenditures.

Earnings for Common Stock and earnings per share in 1979 include $3.8 million and $.12 per share, respectively, as a result of a nonrecurring change in billing practice. See Note B to the financial statements. Earnings per share of Common Stock for 1981, 1980 and 1979 were adversely affected by increases in the average number of shares outstanding, which reduced earnings per share by $.18, $.34 and $.05, respectively.

The Company has prepared information on the effects of inflation and changing prices in accordance with the Financial Accounting Standards Board's Statement No. 33. Such information is in Note Q to the financial statements.

Business of the Company

Duquesne Light Company is engaged principally in the production, transmission, distribution and sale of electric energy. The Company serves an area of approximately 800 square miles in Allegheny and Beaver Counties. This area, which includes the City of Pittsburgh, is located in Southwestern Pennsylvania and has a population of about 1,430,000. Allegheny County Steam Heating Company, a wholly-owned subsidiary of Duquesne Light Company, provides steam heating service in the principal business section of the City of Pittsburgh.

The executive offices of
Duquesne Light Company
are located at
435 Sixth Avenue,
Pittsburgh, Pennsylvania 15219.

Duquesne Light Company is an Equal Opportunity Employer.

Company Officers

John M. Arthur
Chairman of the Board and Chief Executive Officer

Stanley G. Schaffer
President

Charles M. Atkinson
Vice President—Fiscal

Roger D. Beck
Vice President—Engineering & Construction

John J. Carey
Vice President—Nuclear

Clifford N. Dunn
Vice President—Operations

William F. Gilfillan, Jr.
Vice President—Customer Services

George I. Rifendifer
Vice President—General Services

Earl J. Woolever
Vice President—Nuclear Construction

James O. Ellenberger
Controller

Ronald G. Males
Treasurer

Thomas Welfer, Jr.
Secretary

Richard J. Ciora
Assistant Treasurer

Lawrence P. Galie
Assistant Treasurer

Joan S. Senchyshyn
Assistant Secretary

Duquesne Light Company Service Area

Duquesne Light Company Service Area

Management Changes

New Divisions

On March 24, 1981, the Board of Directors authorized the formation of a new Nuclear Division and elected John J. Carey as Vice President-Nuclear. This new Division is responsible for nuclear operations, nuclear safety and licensing, nuclear support services and nuclear engineering.

On December 22, 1981, the Board of Directors authorized the formation of a new Nuclear Construction Division and elected Earl J. Woolever the Vice President. This new Division is responsible for the construction of Beaver Valley Unit No. 2.

New Vice President

At the January 1982 meeting of the Board of Directors, Roger D. Beck was elected Vice President—Engineering and Construction. Mr. Beck succeeded Earl J. Woolever. Since joining the Company in 1962, Mr. Beck has worked in the Engineering and Construction Division, Customer Services Division and the Public Information Department.

New Officers

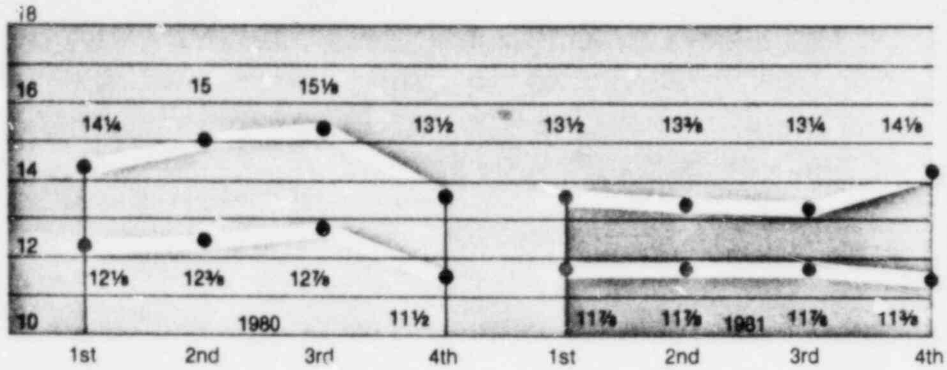
In addition, four other employees were elected officers in 1981 by the Board of Directors. They include James O. Ellenberger, Controller; Ronald G. Males, Treasurer; Richard J. Ciora, Assistant Treasurer; and Lawrence P. Galie, Assistant Treasurer.

1971-1981 Dimensions Magazine

In mid-year 1982, the Company plans to publish Duquesne Light *Dimensions* containing in-depth information concerning the Company. *Dimensions* will include an 11-year statistical review and discussion of some of the important issues affecting Duquesne Light Company. For a copy of Dimensions write:

Duquesne Light Company
Public Information Department
435 Sixth Avenue
Pittsburgh, PA 15219

HIGH/LOW COMMON STOCK



Common Stock Dividends

The Company has paid cash dividends on its Common Stock in each year since 1913 and on a regular quarterly basis (January 1, April 1, July 1 and October 1) in each year beginning in 1953 after becoming publicly owned. Quarterly dividends related to the four quarters of 1980 and the first two quarters of 1981 were paid at the rate of 45¢ per share. Commencing October 1, 1981 the quarterly dividend rate was increased to 47½¢ per share. Future dividends will depend upon future earnings, the cash position of the Company, construction requirements, rate regulation and other relevant factors. The Company currently expects that dividends will continue to be paid in the future.

Dividends may be paid on the Common Stock to the extent permitted by law and as declared by the Board of Directors, subject to the provisions of the Company's Restated Articles which restrict the payment of cash dividends or other distributions on, or the purchase of, its capital stock ranking junior to the Preferred Stock (collectively referred to as "junior stock payments"). No dividends or distributions may be made on the Common Stock if dividends or sinking or purchase fund obligations on the Preferred Stock or Preference Stock are accumulated and unpaid. Furthermore, the aggregate amount of junior stock payments which may be made in any 12-month period are in general limited to (i) 50% of consolidated net income for any period of 12 consecutive calendar months within the 15 preceding months if the effect of such payments would be to reduce the ratio of common stock equity to total capitalization to less than 20% or (ii) 75% of such consolidated net income if the effect would be to reduce such ratio to 20% or more but less than 25%. No portion of the retained earnings at December 31, 1981 was restricted by virtue of this provision. The approximate number of holders of Common Stock as of the February 26, 1982 record date for the 1982 Annual Meeting was 138,000.

Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 10 a.m., Pittsburgh time, on Tuesday, April 20, 1982 in the second floor ballroom of the Hyatt Hotel at Chatham Center, Pittsburgh, Pennsylvania.

Form 10-K Offer

If you are a holder or beneficial owner of any class of the Company's stock as of February 26, 1982, the record date for the 1982 Annual Meeting, the Company will send you, upon request and at no charge, a copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year 1981 (including a list of exhibits). All requests must be made in writing to the Secretary, Duquesne Light Company, 435 Sixth Avenue, Pittsburgh, PA 15219.

Transfer Agents and Registrars

Common, Preference and Preferred Stock
Pittsburgh National Bank, Pittsburgh
Chemical Bank, New York

CAPCO

In 1967, Duquesne Light joined with four other electric utilities to form the Central Area Power Coordination (CAPCO) group.

Prior to 1980, ten generating units were committed under the CAPCO arrangements which provided for joint ownership interests based on individual requirements. Duquesne Light shares in nine of these units. To date, seven are in service. The three remaining units are to be placed in service in 1984, 1986 and 1988.

Since 1980 each CAPCO company has been responsible for establishing its own level of reserve and its own generating capacity needs beyond the jointly-owned units still under construction. Duquesne Light is now in the process of developing a program to meet its future capacity requirements.

Duquesne Light Company

Beaver Valley #1
Nuclear—1976
Capacity: 810,000 KW
D.L. Ownership: 47.5%
D.L. Share: 384,750 KW

Beaver Valley #2
Nuclear—1986
Capacity: 833,000 KW
D.L. Ownership: 13.74%
D.L. Share: 114,454 KW

Pennsylvania Power Company

Mansfield #1
Coal—1976
Capacity: 780,000 KW
D.L. Ownership: 29.3%
D.L. Share: 228,540 KW

Mansfield #2
Coal—1977
Capacity: 780,000 KW
D.L. Ownership: 8.0%
D.L. Share: 62,400 KW

Mansfield #3
Coal—1980
Capacity: 800,000 KW
D.L. Ownership: 13.74%
D.L. Share: 109,920 KW

Ohio Edison Company

Sammis #7
Coal—1971
Capacity: 600,000 KW
D.L. Ownership: 31.2%
D.L. Share: 187,200 KW

The Cleveland Electric Illuminating Company

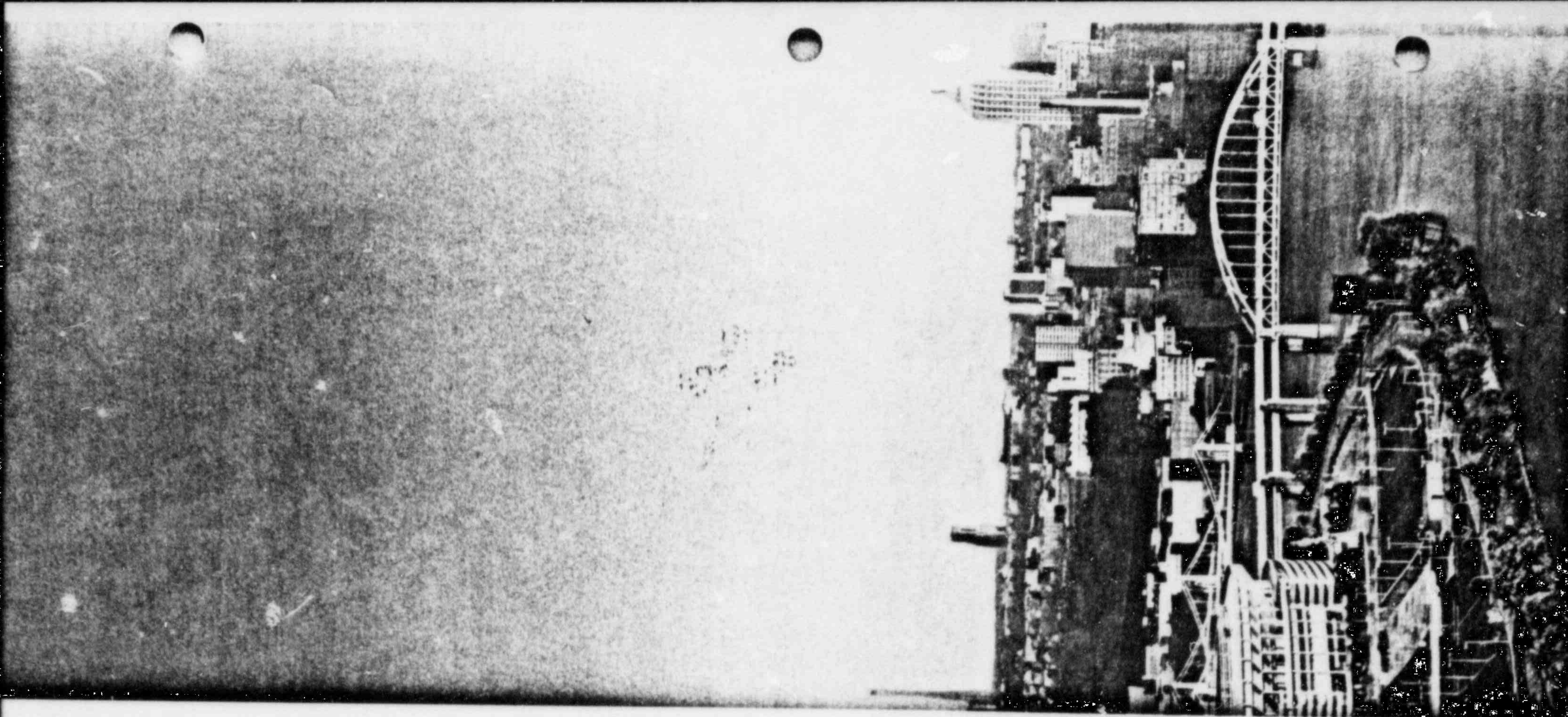
Perry #1
Nuclear—1984
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,567 KW

Perry #2
Nuclear—1988
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,567 KW

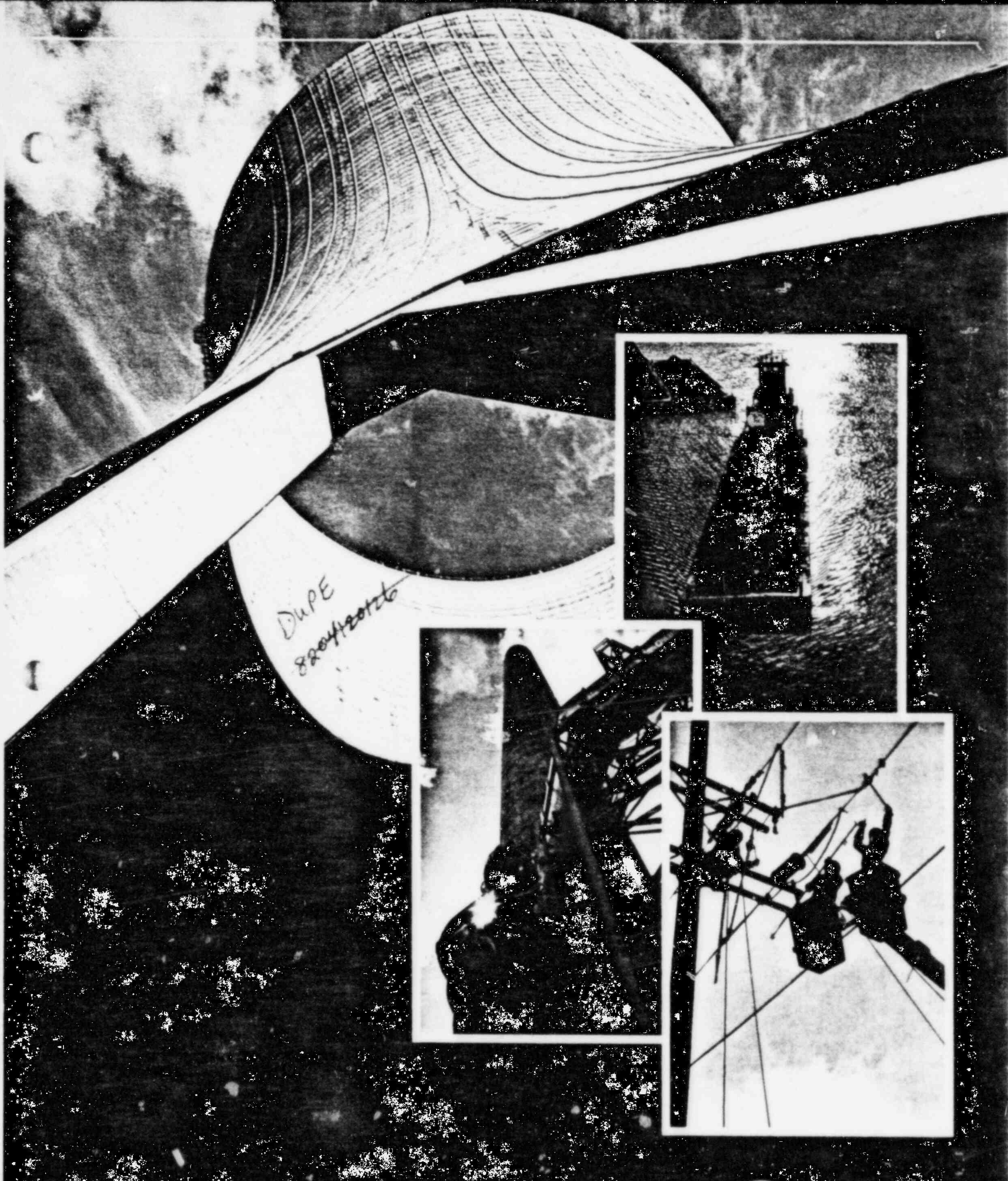
Eastlake #5
Coal—1972
Capacity: 635,000 KW
D.L. Ownership: 31.2%
D.L. Share: 198,120 KW

The Toledo Edison Company

Davis-Besse #1
Nuclear—1977
Capacity: 890,000 KW
D.L. Ownership: 0
D.L. Share: 0



Duquesne Light
435 Sixth Avenue
Pittsburgh, PA 15219



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OHIO EDISON
The Energy Makers

1981 Annual Report

Ohio Edison System

Ohio Edison Company, with its headquarters in Akron, Ohio, provides electric service to about 839,000 customers in an area of approximately 7,500 square miles in central and northeastern Ohio. The Company's wholly owned subsidiary, Pennsylvania Power Company, with its headquarters in New Castle, Pennsylvania, provides electric service to about 124,000 customers in an area of approximately 1,500 square miles in western Pennsylvania. Based on total kilowatt-hour sales, the Ohio Edison System is the 19th largest investor-owned electric system in the United States.

The Companies' electric service reaches an estimated 2.8 million people in 666 communities and rural areas and supplies power for resale by 26 municipal electric systems and 8 rural cooperatives. Also, Ohio Edison participates in the sale, purchase and interchange of power with other electric companies.

We own or share in the ownership of 11 plants comprising 44 generating units. In 1981, our total system power plant generating capacity of 5,686 megawatts included 86.3 percent (4,907 megawatts) coal-fired, 7.5 percent (425 megawatts) nuclear, and 6.2 percent (354 megawatts) oil-fired generation.

Table of Contents

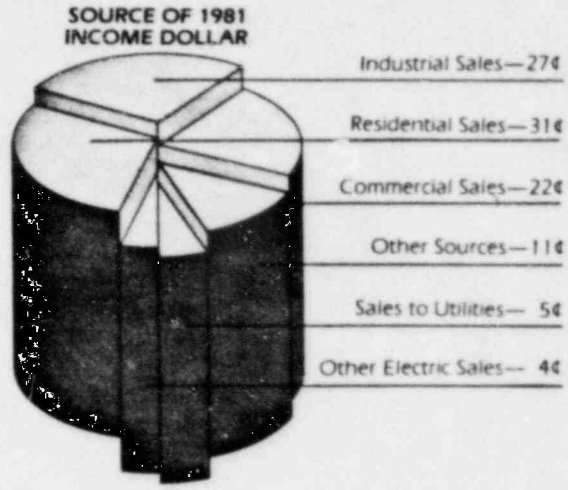
ABOUT THE COVER: The 502-foot cooling tower under construction at the Beaver Valley Unit 2 nuclear plant in Shippingport, Pennsylvania, will process 507,400 gallons of water every minute. It serves as a background to photographs showing three aspects of our power production. (Counterclockwise, top to bottom.) Delivered by barge, train or truck, the 10.1 million tons of coal burned represented 90 percent of our generation in 1981. Our plants (including ownership shares) produced 24.9 billion kilowatt-hours of electricity. The power produced was transmitted and distributed to customers through 32,000 miles of power lines.

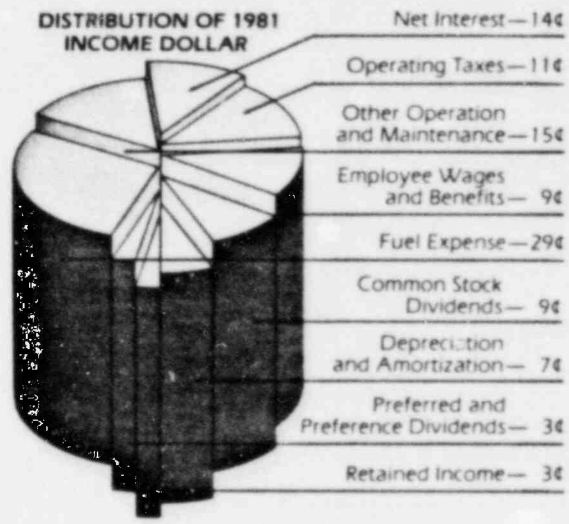
Ohio Edison's new identification symbol also appears on the cover. The design was chosen for its modern graphic appeal to reflect the Company's progressive attitude toward meeting the challenges of the future.

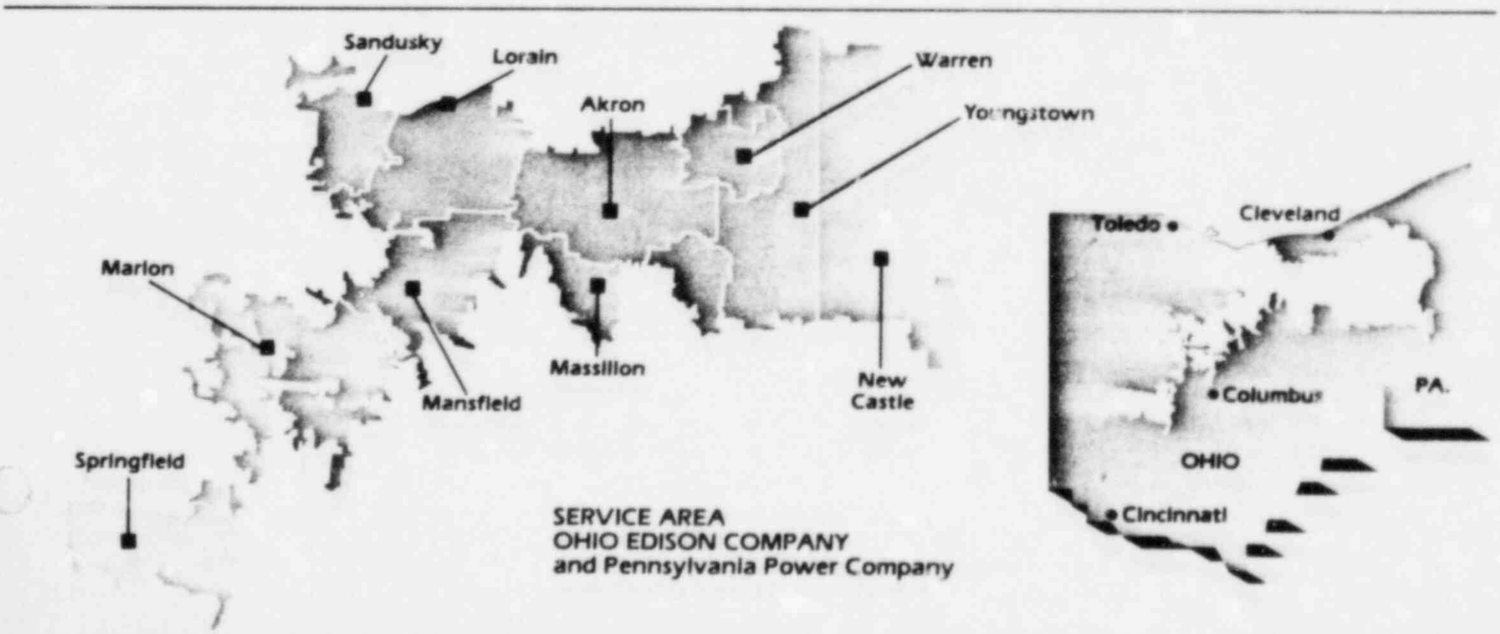
Financial Highlights

?rief Summary of Operations

For the Years Ended December 31	1981	1980	Change
Kilowatt-Hour Sales	**24.7 Billion**	22.4 Billion	+10.1%
Operating Revenues	**$ 1.3 Billion**	$ 1.1 Billion	+18.4%
Fuel Expense	**$413.7 Million**	$364.9 Million	+13.4%
Operating Income	**$252.4 Million**	$169.4 Million	+49.0%
Allowance for Funds Used During Construction	**$127.8 Million**	$106.5 Million	+20.0%
Interest Expense	**$267.5 Million**	$179.9 Million	+48.7%
Income Before Extraordinary Item	**$183.0 Million**	$135.2 Million	+35.4%
Net Income	**$197.1 Million**	$135.2 Million	+45.8%
Net Income for Common Stock	**$163.9 Million**	$101.4 Million	+61.6%
Earnings Per Common Share:			
Income Before Extraordinary Item	**$2.10**	$1.52	+38.2%
Net Income for Common Stock	**$2.30**	$1.52	+51.3%
Dividends Per Common Share	**$1.76**	$1.76	—
?apital Stock Dividends	**$159.2 Million**	$151.9 Million	+4.8%
?onstruction Expenditures	**$568.0 Million**	$515.0 Million	+10.3%
Net Financing Activities	**$385.6 Million**	$514.6 Million	-25.1%
Return on Average Common Equity	**14.6%**	**9.7%**	







SERVICE AREA
OHIO EDISON COMPANY
and Pennsylvania Power Company

President's Message

Justin T. Rogers, Jr.

The Companies achieved a marked improvement in 1981 earnings, despite a depressed economy that had adverse effects on us and the nation as a whole.

Rate increases received during the year, increased sales of electricity, and continued improvement in the major facets of our operations were the main contributing factors to this achievement. Operating results in 1981, compared to the previous year, show that:

- Operating revenues increased 18.4 percent to $1.3 billion;
- Operating income increased 49.0 percent to $252.4 million; and
- Earnings per share of common stock reached $2.30, an increase of 51.3 percent from the $1.52 earned in 1980. (Of the 1981 earnings, approximately 30 cents per share represented the combined effect of the gain on the purchase of Company bonds and settlement of a claimed tax liability.)

Rate increases totaling $199 million on an annual basis helped to bring our income closer to necessary levels. Also, in early 1982 Pennsylvania Power began collecting rates which will add nearly $27 million to our annual revenue. Yet, recognizing the need to keep pace with inflation, increased operating costs, and high interest rates, we continue our efforts to obtain rates that cover expenses and provide a fair rate of return to our stockholders. Applications for additional rate increases now pending before the various regulatory commissions total more than $131 million and are detailed in the "Electric Rates" section of this report.

Two things contributed to our 10.1 percent increase in 1981 total electric energy sales, which reached 24.7 billion kilowatt-hours. First, while residential sales were down 0.8 percent, sales to commercial and industrial customers were up 2.2 percent and 5.0 percent, respectively. Second, with the continued improvement in the performance and availability of our coal-fired generating units—76.3 percent compared to 72.1 percent in 1980—we sold $74 million worth of power to other electric companies. That gain marked the first time since the mid-1970s that we sold more power to other utilities than we bought for our own needs.

The improved availability of the Beaver Valley Power Station also contributed to our results and at the same time helped hold down the cost of fuel to our customers. The 810-megawatt nuclear generating unit had an equivalent availability rating of 73.6 percent in 1981—a noteworthy achievement in its sixth year of operation. Due in part to the availability of Beaver Valley, our use of more expensive oil- and coal-fired generation decreased from 99.3 percent of total generation in 1980 to 90.1 percent in 1981. We believe this trend will continue when Beaver Valley Unit 2 and Units 1 and 2 at the Perry Nuclear Plant assume more of our generating load after their scheduled completion in the mid- to late-1980s.

While 1981 was a good year, overall, it was not without problems:

In February 1981, The Public Utilities Commission of Ohio (PUCO) authorized us to begin recovering, through electric rates over a ten-year period, the preliminary costs for cancelled generating units. However, in July the Supreme Court of Ohio ruled, in a case involving The Cleveland Electric Illuminating Company (CEI), that the PUCO could not authorize recovery of these costs as service-related costs in retail rate cases and an appeal by CEI to the U.S. Supreme Court was denied in January 1982. Since that denial, CEI has appealed a subsequent order of the PUCO requiring the utility to reduce its rates to reflect the elimination of these costs. Although the outcome of this matter and its effect upon the Company are still uncertain, we face a possible after-tax write-off of about $48 million, or 67 cents per share of common stock, based on the average number of shares outstanding during 1981. Whether a write-off will occur, and if so, its timing, will depend upon a number of developments, including the outcome of the CEI appeal and possible future actions by the PUCO.

As a result of the Ohio Supreme Court decision, we were able to obtain, within two weeks of that decision, a $90 million rate increase (effective August 1) after reaching agreement with all the participants in our pending rate case. All parties agreed to the level and the timing of the increase. The Company also agreed, at the insistence of one of the parties, to a hearing to determine whether there should be a management audit of the Company. We agreed to the hearing in order to avoid any delay in receiving an immediate increase. However, in granting the

increase on an emergency basis, the Commission ordered a management audit, without the hearing to which the parties agreed.

The Commission selected Cresap, McCormick and Paget, Inc.—a nationally recognized management consulting firm—to conduct an audit of management and operations.

The audit, which began in January 1982, is nearing completion, and, according to the PUCO, we can expect a final report with recommendations later this spring or early summer. We will, of course, make maximum use of any recommendations which will benefit the Company and its stockholders, employees and customers.

Management audits are not new to us. In the mid-1970s we hired an outside consulting firm to conduct a management audit of Ohio Edison. While the firm did recommend changes which we implemented, on the whole they found that our management compared very well with other utilities, but that economic and regulatory obstacles already at work could cause problems for all electric companies in the future. Their findings were obviously on target.

The current business climate is one of those obstacles, causing a lower-than-forecasted rise in electric sales to customers, especially the auto and steel industries. We believe, however, that when the economy recovers, we will benefit from the increased use of new and recently expanded auto and steel manufacturing facilities in our service areas. Major industrial projects already underway in our service areas could, by the end of 1982, increase our annual operating revenues by some $28 million. In addition, we anticipate greater use of electricity in industrial processes as the decontrol of oil and the expected decontrol of natural gas restrict the use of those fossil fuels.

A winding down of our plant and environmental construction programs should also improve our financial future. Although we will need about $2.9 billion in capital during the next five years, 1982 will be our peak year in expenditures at $726 million, with a tapering off in the years that follow. By 1985, our plant construction program will be limited to two nuclear units scheduled for completion in 1986 and 1988. At that time, our major construction programs should be behind us until we are well into the 1990s.

In the regulatory area, which has a dramatic influence on our business, there is evidence that government agencies at both the state and federal levels are expressing concern for our industry's financial health. This concern is apparent in recent decisions by the PUCO, including: a quick response to our emergency rate increase request; the granting of higher rates of return on common equity investment, which are essential to a utility's economic stability; possible acceptance of a future test year concept in setting electric rates, which would more accurately reflect the real costs of providing electric service during the period that the rates are in effect; and a ruling that Ohio's electric utilities should not be drawn into the social welfare programs through the establishment of so-called "lifeline" electric rates.

Along with these encouraging developments, much of our optimism lies in the contributions of our employees. They continue to perform in an outstanding manner, as evidenced by the significant improvement in our sales to other utilities. Their skill and ingenuity, however, touch all aspects of our operations.

We hope you share our pride in what the employees have accomplished. Yet, while those accomplishments have been significant, they would not have been possible without your understanding and support, which is sincerely appreciated.

Justin T. Rogers Jr.

Justin T. Rogers, Jr.
President
March 16, 1982

Financial Review

Electric Sales and Revenues Increase

Ohio Edison and Pennsylvania Power sold 24.7 billion kilowatt-hours of electricity in 1981, 10.1 percent more than the amount sold in 1980. Led by a 10.6 percent increase in sales to the steel industry, kilowatt-hour sales to industrial customers increased 5.0 percent, and sales to commercial customers increased 2.2 percent. Sales to residential customers declined 0.8 percent from 1980 mainly because of a drop in home construction and moderate temperatures that resulted in less use of heating and air conditioning. Also, a major increase in sales to other utilities contributed 2.0 billion kilowatt-hours to the overall increase in sales.

This improvement in kilowatt-hour sales, combined with new rates, resulted in an 18.4 percent increase in operating revenues to $1.3 billion, compared to $1.1 billion in 1980.

Operating Expenses and Taxes

Operating expenses and taxes increased by $115.8 million, or 12.7 percent, from the 1980 amount of $911.5 million.

The purchase of fuel needed to generate electricity continued to be our largest operating expenditure, accounting for 32 cents of every revenue dollar received in 1981. These costs totaled $413.7 million—a 13.4 percent increase over 1980.

Net costs of power purchased and interchanged (exchanged with other electric companies) reflected an expense of $29.3 million in 1981, up 12.4 percent from $26.1 million in 1980 primarily because more power was delivered to other utilities as revenue sales in 1981, as opposed to interchange sales.

Other operation and maintenance costs for 1981 increased by $21.0 million, or 7.0 percent, to $319.3 million. These increases resulted mainly from increases in the cost of labor, materials, and services. The total increase was partially offset, however, because with the improved availability of our generating plants, maintenance costs were reduced by $3.7 million.

Taxes associated with utility operations increased to $165.1 million in 1981 from $136.7 million in 1980. Income taxes increased by $29.2 million in 1981, but general taxes decreased by $0.8 million because of a $14.4 million credit from the settlement of a Pennsylvania excise tax on gross receipts liability which had been established in prior years. Ten cents per share of 1981 earnings resulted from the settlement of this tax.

Construction Expenditures

Expenditures for environmental, plant, and other system improvement projects totaled $568.0 million in 1981, compared to $515.0 million in 1980. The Companies currently estimate that construction costs, including nuclear fuel costs, will total about $726 million in 1982 and $2.9 billion for 1982 through 1986. The five-year period reflects substantial expenditures for three nuclear generating units scheduled for completion between 1984 and 1988, and a large environmental program scheduled for completion in 1984. A significant portion of funds for these projects has and will come from the sale of securities.

Interest and Dividends

Net interest and other charges increased 52.7 percent to $200.2 million in 1981, compared to $131.1 million in 1980, because of increased long- and short-term debt borrowing and high interest rates.

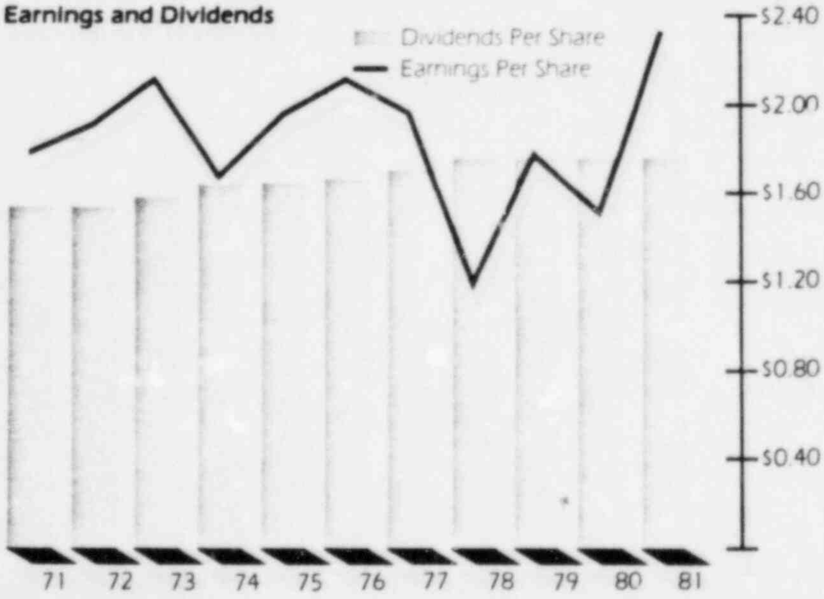
Preferred and preference stock dividend requirements decreased to $33.2 million in 1981, from $33.7 million in 1980 because of sinking fund transactions and other preferred stock repurchases during the year.

Net Income for Common Stock Increases

After allowance was made for payment of preferred and preference stock dividends, net income available for common stock was $163.9 million, compared to $101.4 million for 1980. With the November sale of 7 million new shares and the issuance of 3.1 million shares through the Dividend Reinvestment and Stock Purchase Plan, the weighted average number of shares of common stock outstanding increased during the year to 71.2 million from 66.7 million in 1980. On a per share basis, earnings were $2.30 in 1981, compared to $1.52 in 1980. However, 20 cents per share resulted from the Company's purchase of $65.8 million of its outstanding first mortgage bonds at market prices below their face value.

Dividends of 44 cents per share on the common stock of Ohio Edison Company were declared by the Company's Board of Directors for each quarter of 1981.

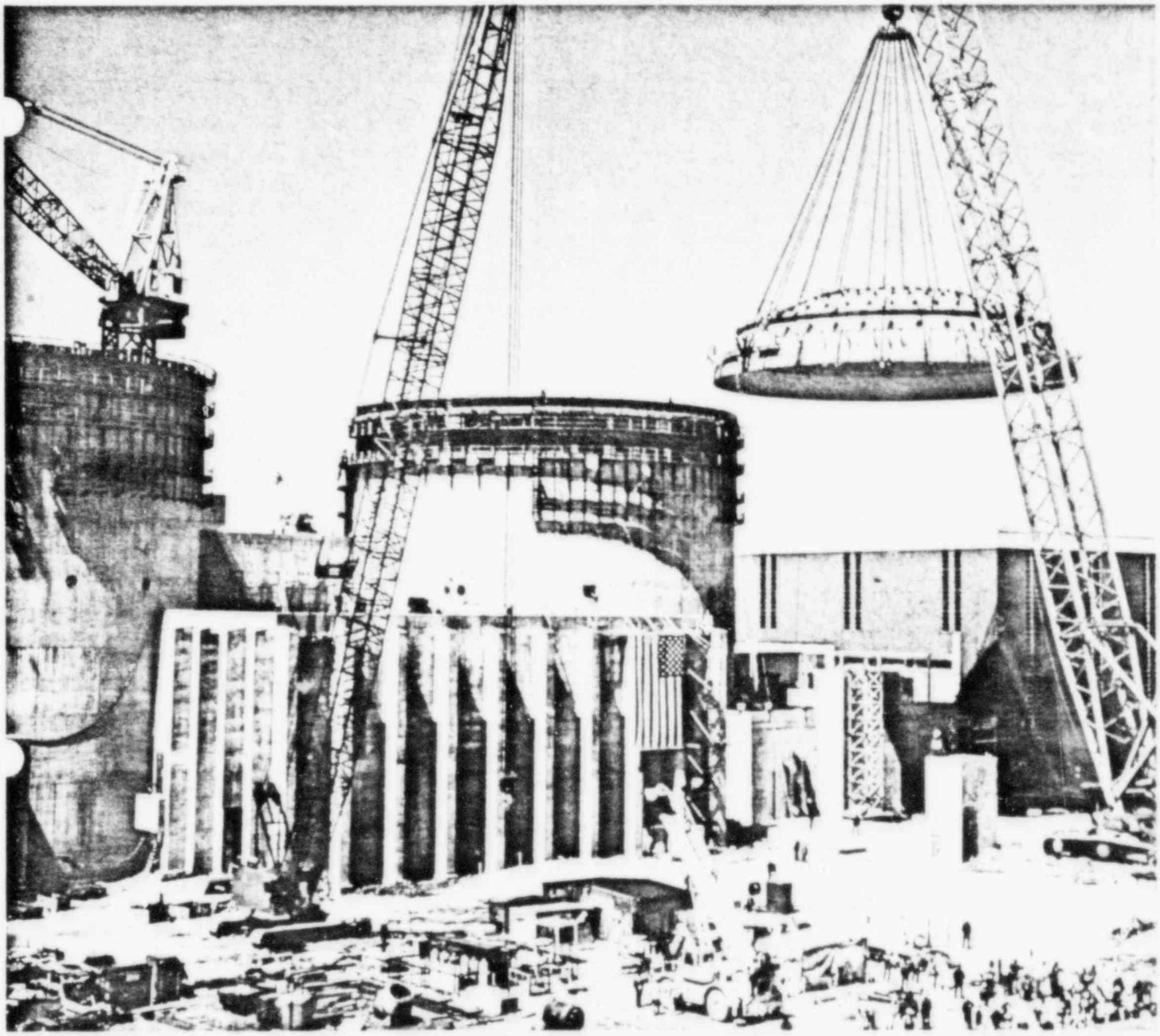
Earnings and Dividends

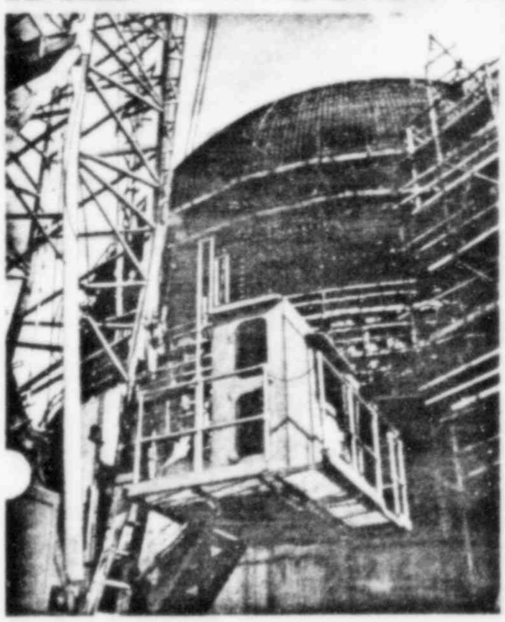


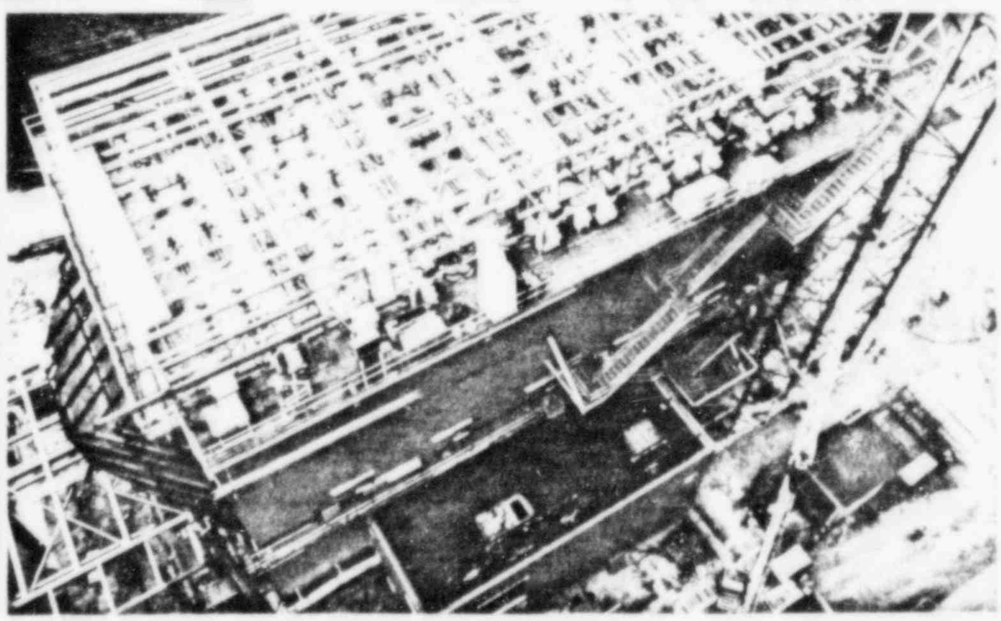
Top: A crane lifts the 700-ton dome onto the containment building of the Perry Nuclear Plant Unit 1 which is 80 percent complete and scheduled for operation in 1984.

Bottom Left: The Beaver Valley Unit 2 nuclear plant, scheduled for operation in 1986, is being financed, in part, by the innovative Ohio Edison Energy Trust.

Bottom Right: Installation of an electrostatic precipitator at the Edgewater Plant was part of our construction program to meet clean air standards, for which $119.4 million was spent in 1981.







System Operations

Generating Unit Availability

Our major commitment to improving power plant performance continued to be successful in 1981. Intensive maintenance programs and plant design modifications contributed significantly to achieving a generating unit equivalent availability of 76.3 percent in 1981. This was an improvement of 4 percentage points over 1980 and approximately 18 percentage points better than the same period in 1978 when we initiated our generating unit reliability program. The improved performance enabled us to sell 97.0 percent more power to other electric companies than in 1980. Also, our purchase of power to meet customer demand represented only 7.6 percent of total sales, compared to 11.0 percent in 1980.

Beaver Valley Unit 1

During 1981, Beaver Valley Unit 1 in Shippingport, Pennsylvania, with an availability of 73.6 percent, experienced its best year of performance since it began operation in 1976. We own 52.5 percent, or 425 megawatts of the 810-megawatt nuclear unit, which is operated by Duquesne Light Company of Pittsburgh, Pennsylvania.

On December 25, 1981, the unit was shut down for refueling and maintenance. During the scheduled 20-week shutdown, further modifications will be made to meet operating requirements which the Nuclear Regulatory Commission imposed on all nuclear plants after the Three Mile Island accident.

System Dispatching Center Nearing Completion

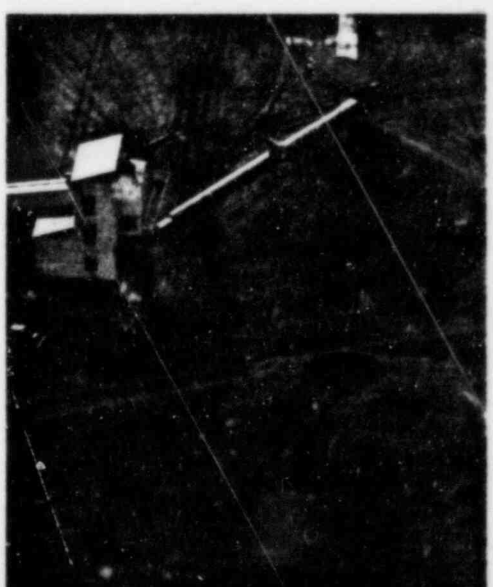
The $9.1 million System Dispatching Center, which will increase the operating efficiency of our transmission and distribution system, is scheduled for operation in late 1982. The structure has been completed and work is continuing in preparation for installation of the computer equipment. The center's computer will provide for more efficient use of the system's generating units, increase the operating security of the transmission system, and improve generating unit response to the minute-to-minute changes in customer demand for electricity.

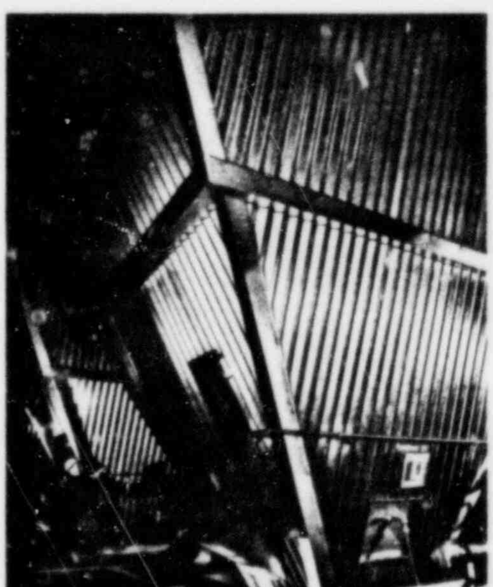
Youngstown Service Center Renovation Project Finished

A $5.1 million, nine-year renovation project at the Youngstown Service Center was completed in 1981. The three-phase project alleviated crowded conditions and improved the work environment. The first two phases were construction of a service garage and parking deck, plus yard improvements (completed in 1974) and construction of a storeroom and truck garage (completed in 1975). The final phase included renovation of the facilities and the purchase of a building to house the substation maintenance section.

Steam System Shut Down

With approval from the PUCO, the Company closed its last steam heating plant on May 1, 1981. The plant, in Springfield, Ohio, was shut down because of rising fuel costs, a declining number of customers, and the prospect of having to install costly equipment to meet stringent environmental regulations. Steam plants in Akron and Youngstown, Ohio, were sold in 1980.

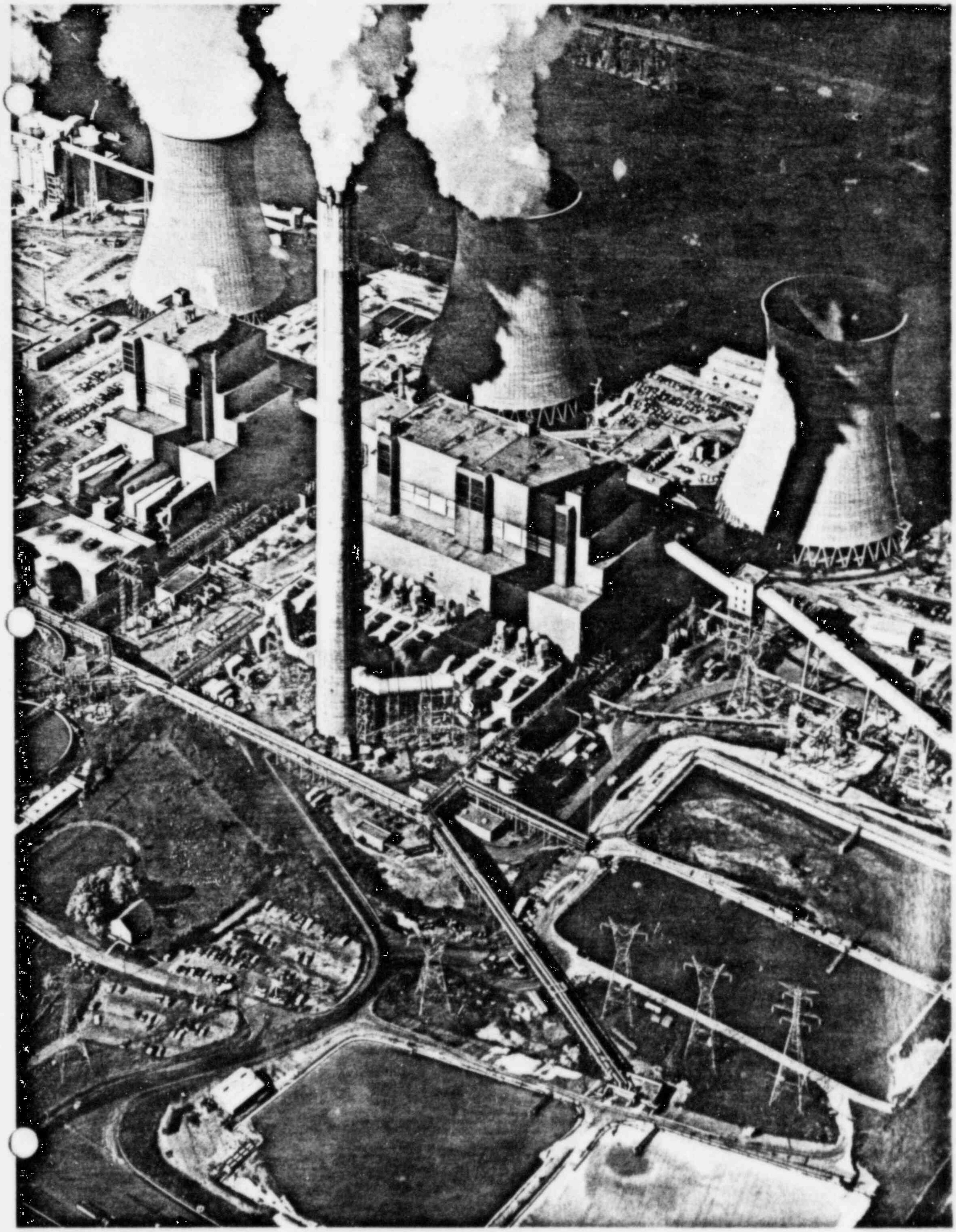


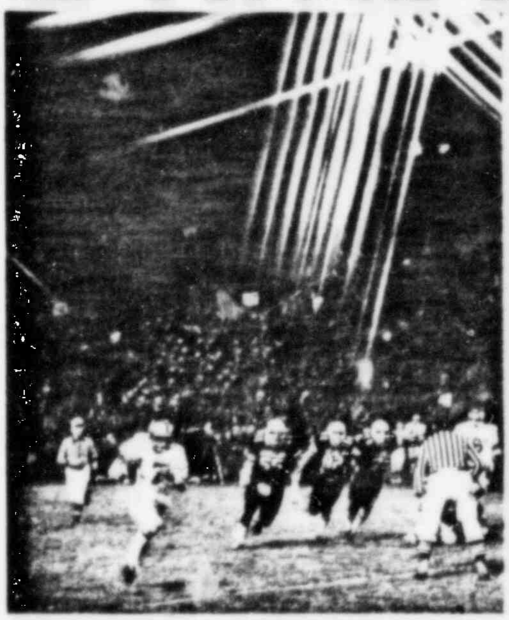


Far Left: At the R. E. Burger Plant, coal is piled above hoppers which empty onto an underground conveyor that carries the coal inside the plant where it is ground into powder, then fed into the Plant's boilers.

Left: Large hoppers of a new electrostatic precipitator collect more than 99 percent of the fly ash from emissions at the Niles Plant.

Right: The $1.3 billion coal-fired Bruce Mansfield Plant is equipped with the most sophisticated environmental control technology in the electric utility industry. What appears to be smoke coming from the cooling towers (background) and the chimney is actually water vapor – a by-product of the environmental systems.





Electric Rates and Regulatory Developments

Retail Rate Cases

In February, The Public Utilities Commission of Ohio (PUCO) granted a $91 million rate increase to Ohio Edison, which was subsequently increased to $98 million by the PUCO. This increase was the result of a $118.1 million request filed in May 1980.

The PUCO granted the Company an emergency rate increase of $90 million in August after an agreement was reached between principal parties on a $139.2 million retail rate increase request filed in March 1981 with the Commission.

The Company filed an application with the PUCO in January 1982 for a 9.8 percent rate increase, which is expected to become effective in late 1982. If granted in the full amount requested, the increase would result in approximately $117.7 million in additional revenue annually.

Also in January 1982, Pennsylvania Power was granted $24.9 million of the $32.7 million retail rate increase request filed with the Pennsylvania Public Utility Commission in April 1981.

Wholesale Rate Cases

In January 1981, the Federal Energy Regulatory Commission (FERC) authorized Ohio Edison to place into effect wholesale rates which would produce an additional $10.6 million in revenue annually. The increase, which is subject to refund, represents part of a $13.9 million request that was filed in June 1980 and is currently being collected from the Company's 21 municipal customers.

The Company filed an application with FERC in November for authority to increase wholesale rates in January 1982. The Commission has postponed the effective date of the increase until June 9, 1982. This proposed increase would produce an additional $14.2 million in revenue on an annual basis, compared to rates currently in effect.

Pennsylvania Power began collecting an additional $1.7 million in January 1982 from its five municipal resale customers as the result of a ruling by FERC on the first of a two-part request made in September 1981. In the request for a total increase of $2.3 million, Pennsylvania Power proposed that if, at the conclusion of hearings, FERC finds that more than the $1.7 million in additional revenue is warranted, the higher rates will be collected annually from the date of the decision.

Construction Allowance Upheld

A ruling by the Supreme Court of Ohio in May upheld a decision by the PUCO which allowed the Company to include $23.5 million in construction costs for Bruce Mansfield Unit 3 in our rate base prior to the unit's commercial operation. The recovery of costs (Construction Work in Progress) was allowed because the unit was 75 percent complete by March 31, 1979.

New Fuel Adjustment Used

In August, the Company changed its method of recovering fuel costs by using a new fuel adjustment procedure required by recent Ohio legislation. Under the new procedure, a flat rate is collected for six months, based on a predetermined fuel cost level. After that period, the difference between the amount collected for fuel costs and the actual fuel expenses is calculated and, with approval of the PUCO, is included as an adjustment in the fuel cost level for a subsequent six-month period.

Lifeline Rates

The PUCO ruled in November that Ohio electric utilities will not be required to implement so-called "lifeline" rates for which qualifying customers pay rates below the cost of service. The Commission said electric utility rates are not an appropriate or efficient method of providing financial assistance to low-income or elderly customers.

Future Test Year Concept Proposed

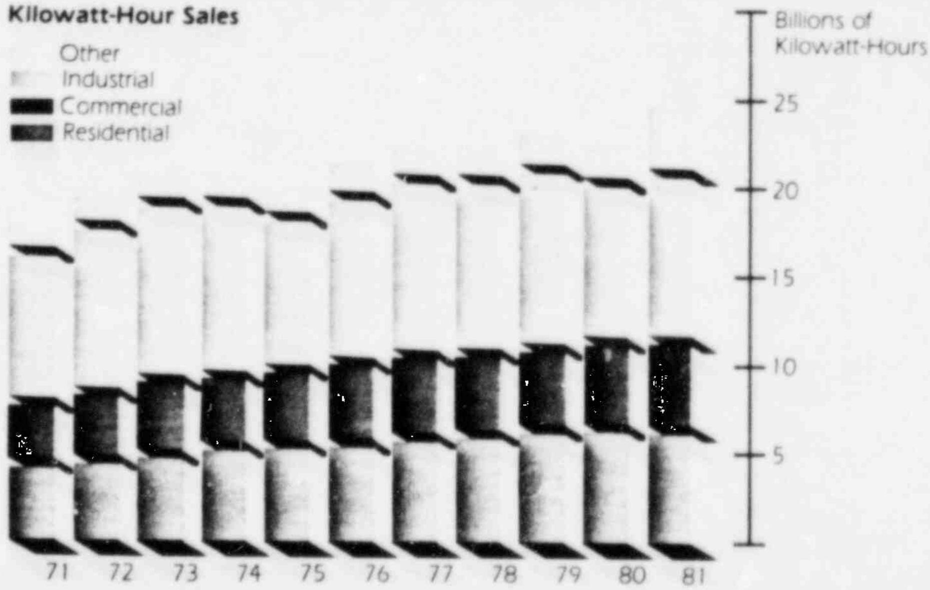
Last fall, the PUCO permitted the Company to include two test periods in determining its need for revenue in the January 1982 rate increase application. The normal test year is based on actual past levels of revenue and expenses for the first six months and on estimates for the second six months. The future test year is based entirely on estimates for the year after the normal test year. Use of the future test year concept should enable the Company to more accurately reflect the effects of inflation in its rates during the period that the rates are in effect. The PUCO will base its decision on one of the two test periods.

Top: Substations for transmission and distribution of power are an integral part of supplying adequate and reliable electric service to more than 960,000 customers.

Bottom Left: Brighter, energy-efficient lights provide better visibility and improve camera coverage for high school football fans at the Paul Brown Tiger Stadium in Massillon.

Bottom Right: In downtown Springfield, Ohio, major renovations have occurred in the Core Block area, represented by this nighttime scene. For its new ten-story office building (left), Credit Life Corporation is considering economical load management by shifting from gas heat during the day to electric heat during off-peak hours.

Kilowatt-Hour Sales



Financing

Security Sales

During 1981, the Companies raised $411 million in long-term capital to finance a major portion of the Companies' construction programs. The majority of proceeds from the sales of various securities were applied to reduce short-term debt incurred for the construction and acquisition of new facilities and other System improvements.

Common Stock

In November, the Company received approximately $85 million from the sale of seven million shares of common stock at $12.125 per share.

We also raised $35.9 million from the issuance of 3.1 million shares of common stock through our Dividend Reinvestment and Stock Purchase Plan.

First Mortgage Bonds

In June, Pennsylvania Power sold $20 million of bonds. This series, at 16-1/8 percent interest, will mature on June 1, 1989.

In a public offering in September, the Company issued $75 million of bonds, carrying an interest rate of 18-3/4 percent and a maturity date of October 1, 1991.

Pollution Control Bonds

In January, $4.6 million principal amount of Pollution Control Revenue Bonds, 1981 Series G, and $1 million principal amount of Environmental Improvement Revenue Bonds, 1981 Series A, were issued, on behalf of Pennsylvania Power, by the Beaver County Industrial Development Authority. On behalf of Ohio Edison, the Authority sold $14.3 million principal amount of Pollution Control Revenue Bonds, 1981 Series H. These series mature in 1983 and bear interest at 60 percent of the floating prime rate.

In April, on behalf of the Company, the Ohio Air Quality Development Authority sold $100 million of a new series of pollution control revenue bonds. The new bonds, 1981 Series A (Ohio Edison Company Project), carry an interest rate of 8-1/2 percent and mature in 1984 and are entitled to the benefit of a bank letter of credit.

Proceeds from the sale of these bonds by each Authority have been or will be used to finance the installation of air pollution control facilities at various coal-fired power plants in Ohio or at the Bruce Mansfield Plant in Shippingport, Pennsylvania.

International Financing

To expand our capital market opportunities, the Company established a subsidiary, Ohio Edison Finance N.V., in the Netherlands Antilles (West Indies), which enables the Company to obtain funds through the sale of notes to foreign investors. The interest on these notes is exempt from United States and Netherlands Antilles withholding taxes. The first offering made through the subsidiary was 17-1/2 percent Guaranteed Notes in the principal amount of $75 million. The sale of these notes, which will mature in 1988, was completed in October. The Company has guaranteed the payment of principal and interest of those notes and has secured its guaranty with a pledge of a new series of its First Mortgage Bonds.

Ohio Edison Energy Trust

In 1980, the Ohio Edison Energy Trust was established to make available up to $500 million to finance, in part, the construction of Beaver Valley Unit 2, an 833-megawatt nuclear generating unit being built in Shippingport, Pennsylvania. The Company's share of the estimated total construction cost of the unit is $1.07 billion. The Trust allows us to increase our financial flexibility by deferring a portion of the long-term financing requirements for the project until investment in the unit can be included in electric rates established by the regulatory commissions.

By the end of 1980, $265 million of the unit's construction costs had been financed through the Trust. In 1981, an additional $167.5 million was provided.

Tax Benefits Transferred

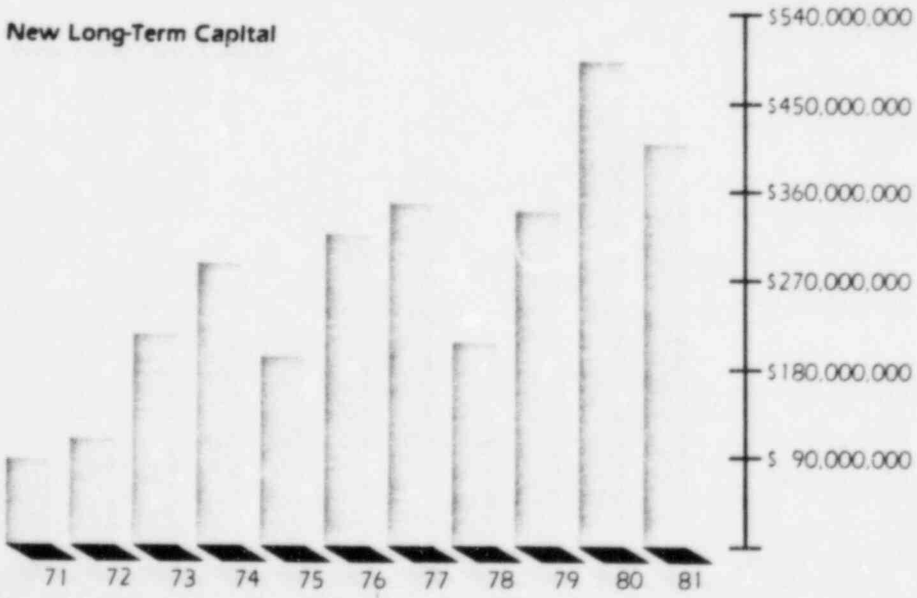
Through provisions of the Economic Recovery Tax Act of 1981, we were able to raise $37.5 million by transferring certain tax benefits related to facilities placed into service during the year.

The transaction enabled us to gain immediate benefit from investment tax credits and accelerated tax depreciation deductions that otherwise would not have been available for several years. Proceeds from the transfer were used to reduce short-term loans incurred for System improvements.

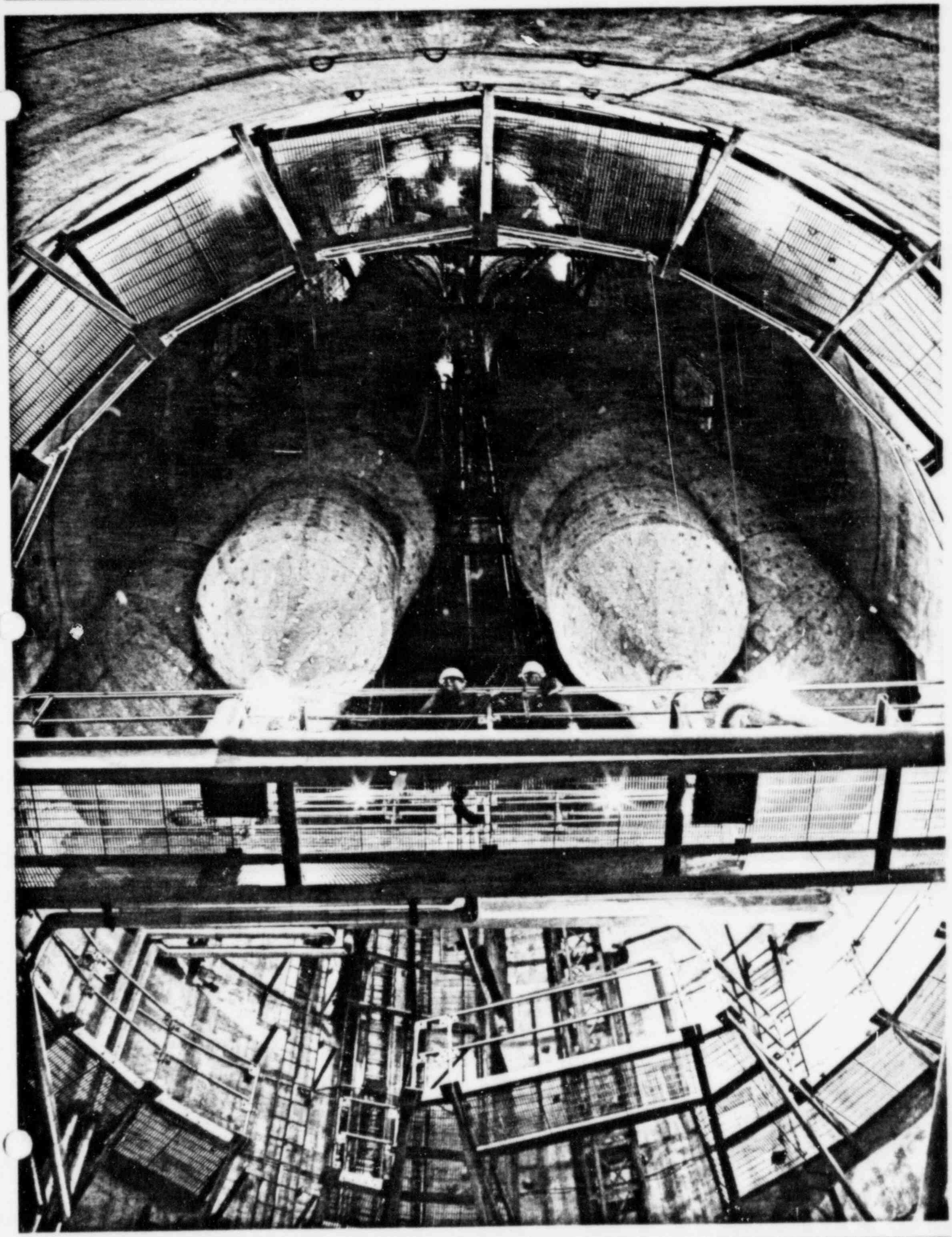
Securities Purchased

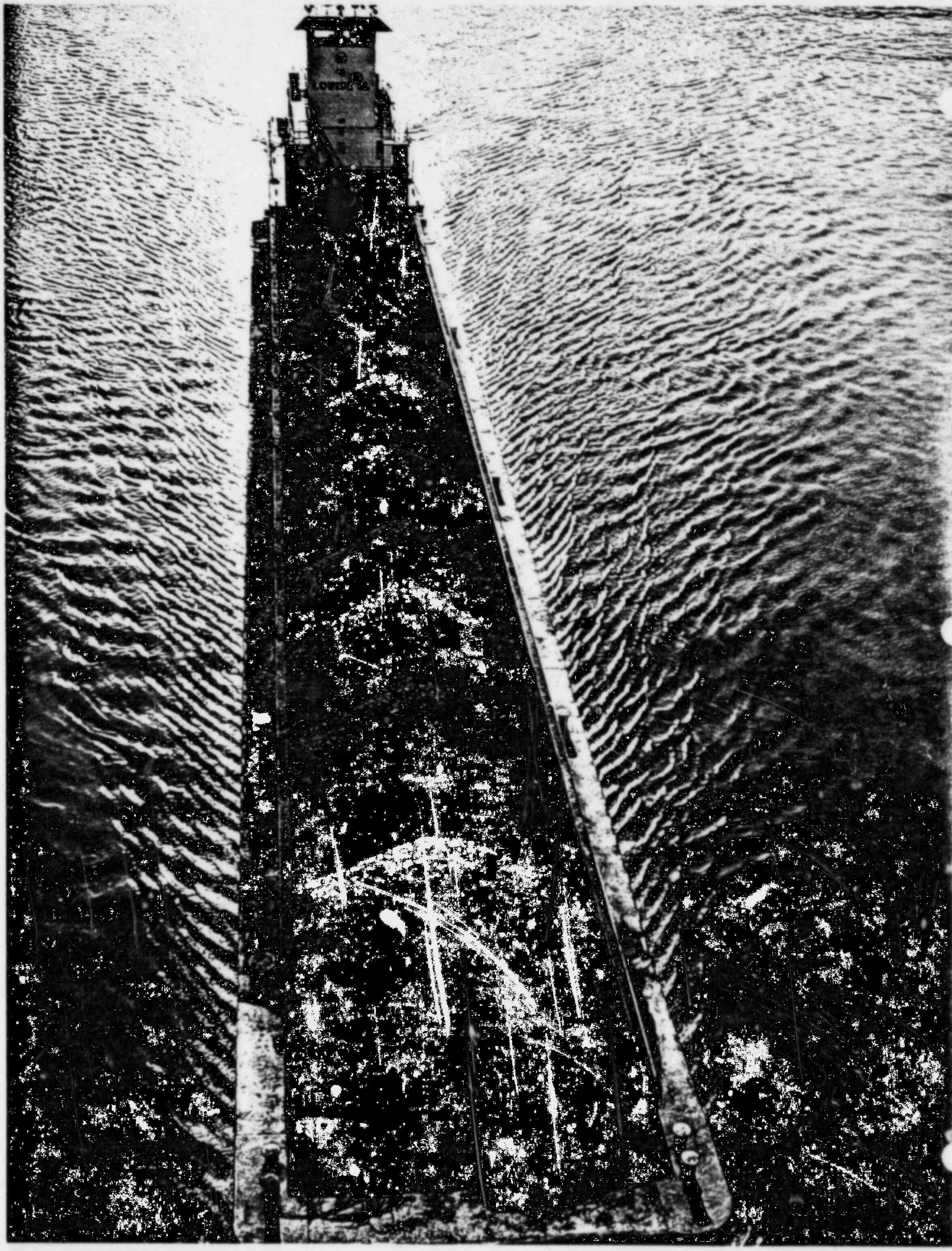
To strengthen the Company's common equity base and reduce long-term debt and preferred stock, in 1981 we purchased some outstanding first mortgage bond and preferred stock securities at prices below their face value. In total, $65.8 million of first mortgage bonds were purchased, which resulted in an extraordinary gain equivalent to approximately $14 million, or 20 cents per share of common stock. We also purchased approximately 27,000 shares of our preferred stock, $100 par value, further increasing common equity by approximately $1.8 million.

New Long-Term Capital



Right: Inside the Niles Plant chimney, flue gas which has passed through dust collection equipment is channeled upward through the new 393-foot structure.





Financing (Continued)

Nuclear Fuel Financing

To provide funds for financing the costs of nuclear fuel, the Company entered into an arrangement in December involving the formation of a special purpose corporation unrelated to the Company. The corporation will issue commercial paper or make bank borrowings to finance these costs and will lease the fuel to the Company. As the arrangement currently exists, up to $135 million is available. As of December 31, $15 million was financed through this arrangement. Pennsylvania Power expects to enter into a similar arrangement in early 1982 for $30 million to finance its nuclear fuel costs.

Securities Ratings Lowered

In July, two investor services lowered their ratings of the Company's securities, citing the Company's financial condition, high money costs and the continued high cash demands resulting from the construction program.

Moody's Investors Service, Inc., lowered ratings on our 19 series of publicly held first mortgage bonds from A to Baa and downgraded the rating on six series of pollution control revenue bonds from Baa to Ba. However, their ratings on our preferred and preference stock remained Baa and Ba, respectively.

Also, Standard and Poor's Corporation lowered our first mortgage bonds to Triple B-minus from Triple B-plus. The Company's pollution control revenue bonds were downgraded to Double B-plus from Triple B, preferred stock to Double B from Triple B and preference stock to Double B-minus from Double B.

Coal Supplies

Approximately 10.1 million tons of coal were burned at our nine coal-fired power plants in 1981. About half of our coal purchases are made through long-term contracts for supplies coming from southeastern Ohio and western Pennsylvania. The balance is purchased on the open market from the same region and from eastern Kentucky and West Virginia. Pennsylvania Power buys coal from central and western Pennsylvania.

Coal Quality Improved; By-Products Sold

During 1981, we continued to purchase better-quality coal for our power plants. In addition to higher heating values, the coal represented an approximately 22 percent decrease in ash and an 18 percent decrease in sulfur content compared to coal received in 1977. The higher heat content of coal resulted in higher boiler efficiency, less maintenance, and lower ash handling costs.

The Company has also continued to reduce its expenditures for ash disposal by finding buyers for some of its ash. The ash can be used as a partial replacement for portland cement in concrete and concrete products, in various construction applications such as a structural fill or a road base material, and for highway snow and ice control. The sale of coal ash in the last three years totaled approximately $236,000.

North American Coal Agreement Reached

As part of an agreement reached in March between Ohio Edison and the North American Coal Corporation, up to 1.2 million tons of coal per year will be delivered through November 1982 to the R. E. Burger Plant in Shadyside, Ohio. The coal will be washed and the resulting lower ash content will assist us in meeting environmental regulations at the plant.

This agreement resolved a lawsuit filed by North American in September 1980 involving a sales agreement to purchase a minimum of 1.6 million tons of coal per year from two of North American's southeastern Ohio mines. In June 1980, we notified North American of our intention to terminate the sales agreement because the mines were not producing coal in the quantity or quality specified in the agreement.

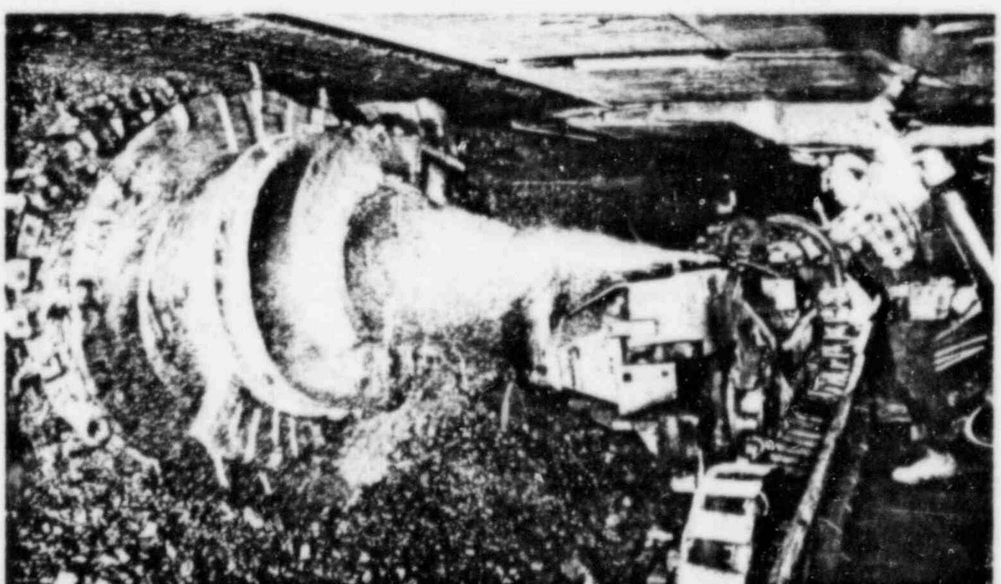
Also included in the agreement is a revised pricing arrangement that will initially save the Company approximately $3 per ton because it fixes the cost of coal at a level comparable to the average price for all coal we purchase.

Quarto Coal Contract Amended

To reduce overall coal costs for the Bruce Mansfield Plant, the Central Area Power Coordination Group (CAPCO), which includes Ohio Edison and Pennsylvania Power, reached agreement with the Quarto Mining Company to amend two coal sales contracts. The amendments allow CAPCO to specify tonnage requirements and approve mining plans for Quarto's three southeastern Ohio coal mines. Under the amendments, less Quarto coal will be bought, enabling CAPCO to buy a greater portion of coal from more economical sources that are now available. In a separate agreement with Quarto's parent company, the North American Coal Corporation, CAPCO was granted an open-end option to acquire Quarto

Left: A barge adds 1,500 tons of coal to the 4.8 million barge tons delivered in 1981 to four plants on the Ohio River — Burger, Mansfield, Sammis and Toronto.

Right: At an underground coal mine in southern Ohio, the rotating blades of shearing equipment mine coal which is shipped by barge to the Bruce Mansfield Plant.



Environmental Activities

Legislative Developments

With the Clean Air Act subject to review in 1981, we were in frequent contact with federal legislators and their staffs with our suggestions for improving the Act. These improvements would decrease the complexities and administrative burdens imposed by the current Act.

We are also working to discourage inappropriate legislation directed at the so-called "acid rain" problem in which precipitation is thought, by some people, to contain acidic materials introduced by the chemical transformation of industrial emissions. We believe that the level of scientific knowledge on "acid rain" is insufficient to justify enactment of legislation which could require utilities to spend billions of dollars on more air pollution control with no reasonable assurance that the theoretical effects of "acid rain" would be reduced.

Also, we are actively participating in the activities of the Coalition for Environmental-Energy Balance (CEEB). Made up of approximately 30 midwestern utilities and other industries, CEEB is working to improve the level of public and legislative understanding of energy-related issues such as the current "acid rain" controversy. The Coalition has commissioned a study to determine the cost-effectiveness of current and proposed environmental laws and regulations, and it has begun a series of advertisements in major newspapers in the Northeast to bring focus to the issue.

Air Quality Projects In Progress

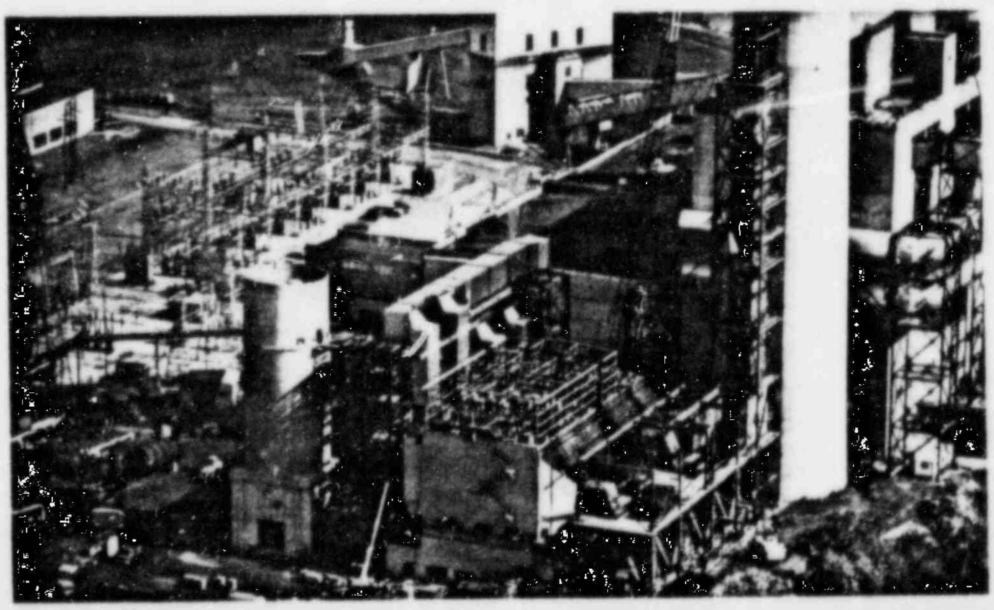
Retrofitting existing power plants to meet revised clean air standards will cost the Companies $464.8 million from 1981 through 1986, with $119.4 million of that amount spent in 1981.

Sammis Air Quality Control Project

The largest air quality control project is underway at the coal-fired W. H. Sammis Plant near Stratton, Ohio. The $450 million project, which is pictured on this page, is on schedule and planned for completion in August 1984. In November 1981, the bridge-like deck (140 feet wide and 915 feet long) needed to support pollution control equipment was completed. Constructed over a four-lane highway, the deck will support six large dust collectors which will replace existing equipment to control particulate emissions. A seventh dust collector will be constructed on the ground south of the plant. The project is about 25 percent complete.

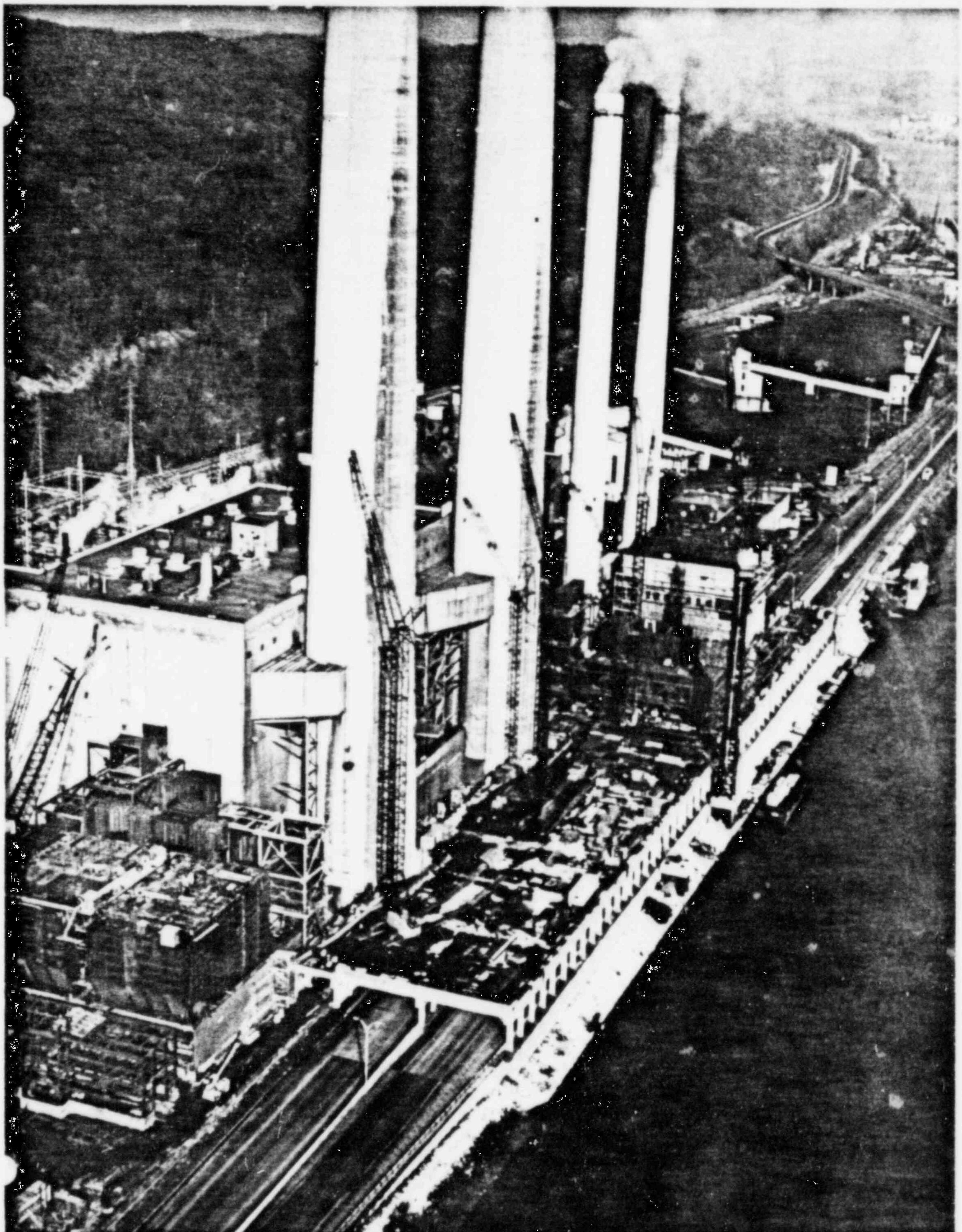
Additional Air Quality Control Projects

In July, we placed into service a $31.1 million installation of two electrostatic precipitators and a 393-foot chimney at the Niles Plant in Niles, Ohio. At the R. E. Burger Plant in Shadyside, Ohio, two electrostatic precipitators are being installed for two boilers at a cost of $45.3 million and are scheduled for completion in March 1982. Also scheduled for March 1982 completion is a $21.8 million electrostatic precipitator at the Edgewater Plant in Lorain, Ohio.



Left: At the R. E. Burger Plant, two electrostatic precipitators for Units 7 and 8 will begin operation in April 1982. The environmental project includes a silo (left) which will load trucks with fly ash for transportation to a landfill.

Right: Because of the lack of available space, a $28 million deck that is ten times the strength of a highway bridge will support replacement dust collectors for six units at the W. H. Sammis Plant. In the bottom left, the dust collector for Unit 7 is also under construction. The environmental project is scheduled for completion in 1984 at a cost of about $450 million.



Power Supply Planning

The projected rate of growth for customer demand is approximately 2 percent per year for the period 1982 through 1991. With the three nuclear generating units scheduled for commercial operation in the mid- to late-1980s, adequate generating capacity should be available to meet the energy demands of our customers with adequate reserve margins well into the 1990s.

Nuclear Plant Construction Proceeds

Construction is continuing on three nuclear-powered generating units being financed and built by the five CAPCO companies: Ohio Edison, Pennsylvania Power, The Cleveland Electric Illuminating Company, The Toledo Edison Company and Duquesne Light Company.

Construction that began in 1974 continues at the $4 billion Perry Nuclear Plant in North Perry, Ohio, which is being built and will be operated by The Cleveland Electric Illuminating Company. The 1,205-megawatt Unit 1 is now about 80 percent complete and scheduled for commercial operation in May 1984. The 1,205-megawatt Unit 2 is also progressing well and is scheduled for commercial operation in May 1988. Ohio Edison and Pennsylvania Power will own 35.24 percent, or 850 megawatts, of the total generating capacity from these nuclear units.

Beaver Valley Unit 2 at Shippingport, Pennsylvania, which is being built and will be operated by Duquesne Light Company, is about 50 percent complete. Construction began in May 1974 and commercial operation is scheduled for May 1986. The 833-megawatt unit, of which we will own 41.88 percent, or 349 megawatts, will cost an estimated $2.4 billion.

Coal Gasification Research Project

Along with the Allis-Chalmers Corporation, the state of Illinois, and a number of other utilities, we are participating in a $135 million coal gasification research project at Illinois Power's Wood River Plant near East Alton, Illinois. The project is intended to demonstrate the feasibility of converting a high-sulfur coal, like that found in Ohio, to a clean-burning gaseous fuel.

In October 1982, that plant is scheduled to begin 18 months of testing and demonstration. It will process 600 tons of coal per day for use in an existing 50-megawatt plant. In helping plants meet strict air pollution standards, the process will produce ash and solid sulfur by-products which will require minimal disposal. Following successful demonstration, larger capacity plants are expected to be built by Allis-Chalmers.

To date, we have contributed $2.3 million to the project, with $1.5 million more scheduled through 1984.

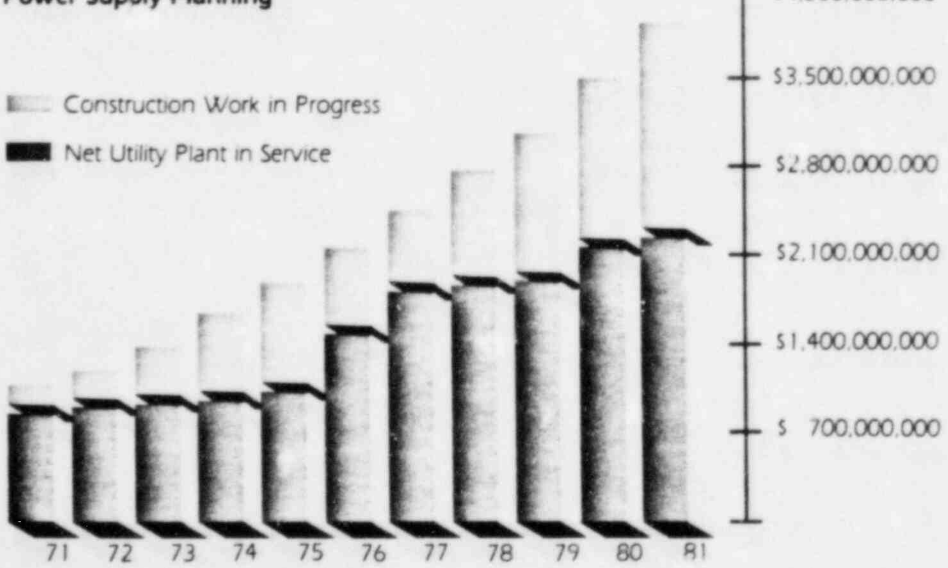
System Load Management Program Reduces Demands

Through our load management program, we are actively encouraging our customers to modify their time of electrical use—in effect, to shift their loads to off-peak periods so that system peak demand is reduced without adversely affecting electric revenues. The emphasis of this program is to either help customers shift existing loads or help to design new customer loads to operate at off-peak periods. Shifts to off-peak help reduce the need for costly new generating plants to meet peak demands and delay the time when we will have to finance and put those facilities into service.

In 1981, the program resulted in a reduction of 20 megawatts in average system peak demand. Over the five-year period beginning in 1977, we were able to reduce our customers' contribution to peak system demand by 132 megawatts.

Large industrial and commercial customers were primarily responsible for the results achieved. Residential customers are encouraged to install load control devices and change the time of use for major appliances.

Power Supply Planning



Right: The more than 7,600 men and women who make up Ohio Edison and Pennsylvania Power know the importance of providing customers with good service. Their skills and hard work are the primary reason that we deliver service which is 99.9 percent reliable.

Customer Relations

Customer Contact

Ohio Edison and Pennsylvania Power strive to maintain good customer relations. In 1981, over 300 employees attended the training program on "Handling Customer Inquiries and Complaints." Also, meetings have been held with customers to help them find ways to use electricity more efficiently and at less cost.

The Companies have maintained a program of monthly meetings, through divisions, with seven customer panels of 10 to 15 volunteers. These customer panel members relay our information to the organizations they represent, such as senior citizens, labor, minorities, and social service agencies. In addition, in 1981, Speakers Bureaus and Customer Services employees from both Companies gave energy-related talks to 4,755 groups which totaled 124,823 participants.

Statement Billing Instituted

In August, the Company replaced its postcard bills with statement bills mailed in envelopes. This new billing format will enable us to better meet mailing of information to customers frequently required by law and regulators, and at the same time provide the means for including other messages of customer interest.

Customer Attitudes

Periodically, we conduct surveys to determine customer attitude about our service and identify the subjects of their concern. Of 500 Ohio Edison customers surveyed in August, 93 percent of respondents considered electricity an average to above average value, and the same number indicated that we provide good service.

Management Changes

Board Members Retire

In 1982, three members of the Board of Directors will retire, following a 1980 Board resolution which makes members ineligible for nomination by the Board if they are 69 years or older. Accordingly, D. Bruce Mansfield, Fred H. Zuck, and John L. Feudner, Jr., will not be designated for reelection at the 1982 Annual Meeting of Stockholders. Mr. Mansfield, whose career with the Company spanned nearly 35 years, served as president of Ohio Edison and Chairman of the Board of Pennsylvania Power. He is widely recognized for his contributions to the electric utility industry and the community. Mr. Zuck, a director since 1960, was formerly Chairman of the Board at the Sandusky Foundry & Machine Company. Mr. Feudner, Executive Director of Akron Community Trusts, served as director since 1967.

We are grateful for the long and active service these men provided. Their leadership and wisdom will be missed.

New Board Members Elected

At the 1981 Annual Meeting of Stockholders in April, two new members were elected to the Board: Donald C. Blasius, president of The Tappan Company, Mansfield, Ohio, and Glenn H. Meadows, president of the McNeil Corporation, Akron, Ohio.

Employees

Employee Programs

On December 1, employees were mailed a statement listing their individual health, life, and pension benefits. Annually, a similar statement will be prepared and mailed to help maintain employee awareness of the value of benefits they receive.

In October, we established an Employee Suggestion System, which encourages employees to submit ideas for reducing operating costs and improving productivity.

Work has begun on a new $700,000 classroom facility at the Employee Training Center in Massillon, Ohio. The building, which is scheduled for 1982 completion, will include a high bay area with poles enabling trainees to learn climbing skills without weather interruption.

Also, through coordinating our management development activities with the University of Akron, 545 employees attended training courses designed to improve their managerial effectiveness.

Affirmative Action Promoted

Ohio Edison is committed to Equal Employment Opportunity and Affirmative Action Programs. This commitment is supported by participation in responsible programs to improve the employment opportunities of minorities, females, the handicapped, and veterans.

Ohio Edison Company Officers

Justin T. Rogers, Jr.
President

Victor A. Owoc
Executive Vice President

Douglas W. Tschappat
Executive Vice President

Lynn Firestone
Senior Vice President

Robert J. McWhorter
Senior Vice President

Robert G. Zimmerman
Senior Vice President

Russell J. Spetrino
Vice President and General Counsel

Frank E. Derry
Vice President

Clyde W. Frederickson
Vice President

Donald J. List
Vice President

William B. Marvin
Comptroller

Gregory F. LaFlame
Secretary

H. Peter Burg
Treasurer

Warren G. Fouch
Assistant Comptroller

Charles N. Glasgow
Assistant Secretary

Joanne Martin
Assistant Secretary

Mark T. Clark
Assistant Treasurer

Division Managers

David R. Gundry
Akron Division

Anthony N. Gorant
Bay Division

James E. Markle
Lake Erie Division

Malcolm E. Cash
Mansfield Division

Donald L. Rearick, Jr.
Marion Division

N. Rod Monahan
Springfield Division

Robert E. Dawson
Stark Division

David C. Bixler, Jr.
Warren Division

Peter A. Fetterolf
Youngstown Division

Board of Directors

Donald C. Blasius
President of The Tappan Company, Mansfield, Ohio, manufacturer of microwave ovens, appliances, kitchen cabinets and bathroom vanities. Member, Nominating Committee.

William A. Derrick
Independent Electrical and Mechanical Engineering Consultant, also President of Leisure Industries, Inc., Sandusky, Ohio, developer of real estate and residential building. Chairman, Salary Committee.

John L. Feudner, Jr.
Executive Director of Akron Community Trusts, Akron, Ohio. Chairman, Audit Committee. Member, Finance Committee.

Dr. Lucille G. Ford
Vice President and Dean of Business Administration, Economics, and Director, Gill Center for Business and Economic Education, Ashland College, Ashland, Ohio. Member, Nominating Committee, Finance Committee.

Robert L. Loughhead
President of Copperweld Steel Company, Warren, Ohio, manufacturer of carbon and alloy blooms, billets, and bars. Member, Salary Committee.

D. Bruce Mansfield
Retired—formerly President of this Company and Chairman of the Board of its subsidiary, Pennsylvania Power Company. Member, Audit Committee.

Glenn H. Meadows
President of McNeil Corporation, Akron, Ohio, manufacturer of industrial and automotive lubrication systems, pumps, systems for automated production and material handling, heating and air conditioning equipment, swimming pool chemicals and equipment, and automatic beverage dispensing/control systems. Member, Salary Committee.

Victor A. Owoc
Executive Vice President of this Company. Member, Finance Committee.

Justin T. Rogers, Jr.
President of this Company and Chairman of the Board of its subsidiary, Pennsylvania Power Company. Chairman, Finance Committee, Nominating Committee.

Douglas W. Tschappat
Executive Vice President of this Company.

Frank C. Watson
President of The Youngstown Welding and Engineering Company, Youngstown, Ohio, fabricator of non-ferrous alloys. Member, Nominating Committee, Audit Committee.

Robert G. Zimmerman
Senior Vice President of this Company. Member, Nominating Committee

Fred H. Zuck
Retired—formerly Chairman of the Board of Sandusky Foundry & Machine Company, Sandusky, Ohio, manufacturer of centrifugal castings.

Top Left: (rear) D. Bruce Mansfield, Fred H. Zuck, (front) Justin T. Rogers, Jr., and John L. Feudner, Jr.

Top Right: (left to right) Robert L. Loughhead, Robert G. Zimmerman, Glenn H. Meadows, and Douglas W. Tschappat.

Bottom: (left to right) Dr. Lucille G. Ford, Frank C. Watson, Donald C. Blasius, Victor A. Owoc, and William A. Derrick.



Consolidated Financial Information

Management Report

The consolidated financial statements were prepared by the management of Ohio Edison Company, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with generally accepted accounting principles and are consistent with other financial information appearing elsewhere in this report. Arthur Andersen & Co., independent public accountants, have expressed an opinion on the Company's financial statements, as shown on page 40.

The Company's internal auditors, who are responsible to the Audit Committee of the Board of Directors, review the results and performance of operating units within the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

The Audit Committee consists of three non-employee directors whose duties include: inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent public accountants and the internal auditors; the recommendation of independent accountants to conduct the normal annual audit and special purpose audits as may be required; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods, or procedures of the auditing functions. The Audit Committee held three meetings during 1981.

V. A. Owoc
Executive Vice President
Chief Financial Officer

W. B. Marvin
Comptroller

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

Results of Operations

Results of operations for 1981 showed a significant improvement over 1980 results with the Company achieving a rate of return on average common equity of 14.6% compared to 9.7% and 11.2% in 1980 and 1979, respectively. Two unusual factors were present in 1981 which helped to increase earnings. First, was an after-tax extraordinary gain of $14,042,000 applicable to the Company's purchase of $65,821,000 principal amount of its outstanding first mortgage bonds. This program is further described below. Second, was the successful settlement of a claimed Pennsylvania tax liability which the Company, along with other utilities, had disputed. The Company had made provision for possible payment of the tax from 1977 through 1979; this settlement resulted in an increase to 1981 net income of $7,012,000. Absent these two factors, the average return on common equity would have been 12.9% in 1981.

Rate increases implemented by the Companies in 1981 were the major factors toward the marked earnings improvement. Approximately two-thirds of the increase in operating revenues is a result of those rate increases. The remainder was due primarily to increased sales of short-term power to other utilities. In addition to the effect of rate increases in 1980, approximately one-fourth of the revenue increase in that year was due to increased fuel-related revenues. Kilowatt-hour sales to customers other than utilities increased 1.4% in 1981 after having decreased 2.8% in 1980. The 1981 increase was principally the result of a 5.0% increase in kilowatt-hour sales to industrial customers.

The price of fuel has been increasing from 1979 through 1981 but the increase in fuel costs in 1981 compared to 1980 is primarily due to greater quantities of fuel consumed. This was due to the combined effect of placing Bruce Mansfield Unit No. 3 into commercial operation in late September 1980 and the improved generating unit availability achieved in 1981 compared to 1980. Were it not for the deferral of Quarto coal costs, however, total fuel costs would have increased by approximately $43,200,000 more than the reported increase for 1981 (see below and Note 1 of Notes to Consolidated Financial Statements). Reduced dependence upon generation from more costly oil-fired units in 1980 held down the increase in total fuel costs by approximately $19,000,000 under the

amount that the continually increasing prices for coal and oil would have otherwise produced in that year.

The large reduction in purchased and interchanged power, net, in 1980 resulted primarily from improved generating unit performance compared to the prior year. The increase in 1981 reflects a reduction of power deliveries to other utilities classified as "interchange" power. Instead, the Company sold substantially more short-term power, which is included in operating revenues on the Statements of Consolidated Income, as discussed above. Comparing net power transactions with other utilities by combining the short-term sales and net purchased and interchanged power expense, the Companies moved from a "net buyer" position of $13,700,000 in 1980 to a "net seller" position of $44,600,000 in 1981.

Approximately one-third of the total increase in other operation expenses is attributable to the increased operation of Bruce Mansfield Unit No. 3 and Beaver Valley Unit No. 1 in 1981 compared to 1980. Correspondingly, substantially all of the decrease in 1981 maintenance expense was from the resulting reduced maintenance at Beaver Valley Unit No. 1. The Companies' maintenance costs had been rising substantially in prior years because of efforts toward enhancing the availability of their generating units, the results of which have been indicated above.

The significant increase in miscellaneous income included in other income and deductions is mainly attributable to interest earned on funds held in escrow for the construction of pollution control facilities at the Companies' generating units.

Increased interest costs of 53% and 28% in 1981 and 1980, respectively, reflect significantly increased interest rates and increased borrowings during both years. The Companies issued approximately $316,000,000 of new intermediate and long-term debt during 1981 having interest rates which range from 8-1/2% for unsecured pollution control notes to 18-3/4% for first mortgage bonds. In addition, $167,500,000 and $15,000,000 of financing was completed through the Ohio Edison Energy Trust and the Ohio Edison Fuel Corporation in 1981, respectively, at average costs of 18.7% and 13.9%, respectively (see below and Note 5 of Notes to Consolidated Financial Statements). Average short-term borrowings in 1981 were at approximately the same level as in 1980, however the average interest rate on those borrowings increased from 14.9% to 18.0%.

Information with respect to the estimated effects of inflation upon the Companies is given in Note 10 of Notes to Consolidated Financial Statements.

Capital Resources and Liquidity

The cost of the Companies' construction programs over the last five years was approximately $2,300,000,000, which required permanent financing (net of debt and preferred stock redemptions) of $1,400,000,000, in addition to the incurrence of long-term obligations of $447,500,000. The Companies expect to spend approximately $2,900,000,000 for new construction from 1982 through 1986. A major portion of this new construction will be funded through the issuance of additional securities. In addition, the Companies' debt maturities and preferred and preference stock sinking fund requirements amount to approximately $422,500,000 during this five-year period.

In order to strengthen its common equity base by taking advantage of existing favorable market conditions, the Company began a program of purchasing certain amounts of its outstanding first mortgage bonds and preferred stock during the first half of 1981. The purchase of $65,821,000 principal amount of first mortgage bonds and 26,650 shares of preferred stock under this program helped to increase the common equity ratio from 34.2% at December 31, 1980 to 35.7% at December 31, 1981.

New methods of financing initiated by the Company in 1981 included establishing a wholly-owned finance subsidiary, Ohio Edison Finance N.V. (Finance), and arrangements entered into with Ohio Edison Fuel Corportation (see Note 5 of Notes to Consolidated Financial Statements). Because of the effect of certain tax treaties, Finance is better able to attract funds available from European investors than the Company and has enhanced the Company's financing flexibility by allowing it to take advantage of lower-cost money which may exist from time to time in foreign money markets.

The Company took advantage of a provision of the Economic Recovery Tax Act of 1981 by selling tax benefits associated with property placed in service in 1981. The Company received approximately $37,500,000 from the sale. This transaction has greatly accelerated capital recovery associated with this property since available tax credits and depreciation deductions would probably have taken many years to realize in full.

The Companies have deferred approximately $63,400,000 in unrecovered costs applicable to Quarto coal, as discussed in Note 1 of Notes to Consolidated Financial Statements. The Company was granted an allowance in a 1981 rate order for the additional financing costs which result from the deferred recovery of the coal costs, but that allowance amounts to an annual return of only 4.3% based upon unrecovered costs as of December 31, 1981.

The Supreme Court of Ohio decision declaring the impropriety under Ohio law of recovering the costs of a terminated construction project through electric rates, as service related costs, had an impact on 1981 operations. As a result of that decision, the sale of common stock originally planned for August was delayed until November. Also, an offering for $75,000,000 principal amount of first mortgage bonds, which had been priced to carry an interest rate of 16-7/8%, was withdrawn in July after the Ohio Supreme Court decision. The bond sale was delayed until October at which time the interest rate was increased to 18-3/4%. That delay will increase the Company's total interest costs by over $14,000,000 until the bonds mature in 1991. However, in light of the Ohio Supreme Court decision, the Company made application for, and was granted, an emergency rate increase effective August 1, 1981, which is designed to provide additional annaul revenues of $90,000,000.

The Company filed an application with the PUCO for a rate increase in January 1982 which would increase annual revenues by approximately $117,700,000. This increase would take effect in the latter part of 1982. In a January 1982 decision, the PPUC granted Penn Power a rate increase which will add approximately $24,900,000 to its annual operating revenues.

Selected Financial Data

	1981	1980	1979	1978	1977
	(In thousands, except per share amounts)				
Operating Revenues	**$1,279,649**	$1,080,869	$ 994,585	$ 862,956	$ 796,289
Operating Income	**$ 252,381**	$ 169,383	$ 163,744	$ 123,945	$ 146,508
Income Before Extraordinary Item	**$ 183,020**	$ 135,150	$ 134,807	$ 86,030	$ 111,574
Net Income	**$ 197,062**	$ 135,150	$ 134,807	$ 86,030	$ 111,574
Net Income for Common Stock	**$ 163,892**	$ 101,403	$ 105,120	$ 61,259	$ 87,863
Earnings per Share of Common Stock: (based on weighted average number of shares outstanding during the year)					
Income Before Extraordinary Item	**$2.10**	$1.52	$1.80	$1.19	$1.97
Net Income for Common Stock	**$2.30**	$1.52	$1.80	$1.19	$1.97
Dividends Declared per Share of Common Stock	**$1.76**	$1.76	$1.76	$1.76	$1.715
Total Assets at December 31	**$4,456,130**	$3,979,965	$3,446,454	$3,010,914	$2,715,903
Preferred and Preference Stock Subject to Mandatory Redemption	**$ 151,141**	$ 156,450	$ 150,850	$ 98,000	$ 98,000
Long-Term Debt	**$1,759,771**	$1,594,384	$1,410,782	$1,343,195	$1,189,821
Energy Trust and Nuclear Fuel Obligations	**$ 447,484**	$ 265,000	$ —	$ —	$ —

Common Stock Data

The Company's Common Stock is listed on the New York and Midwest Stock Exchanges and is traded on other registered exchanges.

Price Range of Common Stock

	1981		1980	
First Quarter High-Low	**13**	**11-3/4**	15-1/4	11-3/4
Second Quarter High-Low	**13-1/2**	**11-7/8**	15	12
Third Quarter High-Low	**12-7/8**	**11**	14-7/8	12-1/2
Fourth Quarter High-Low	**13**	**11**	13-1/2	11-1/8
Yearly High-Low	**13**	**11**	15-1/4	11-1/8

Prices are as quoted on the New York Stock Exchange Composite Transactions.

Classification of Holders of Common Stock as of December 31, 1981

	Holders of Record		Shares Held	
	Number	%	Number	%
Individuals	161,551	88.4	41,689,691	53.0
Fiduciaries	16,853	9.2	3,568,427	4.5
Brokers	66	—	473,905	0.6
Nominees	995	0.6	30,415,022	38.7
Banks & Financial Institutions	50	—	104,404	0.1
Insurance Companies & Other Corporations	1,594	0.9	1,438,371	1.8
Charitable, Religious & Educational Institutions	552	0.3	441,873	0.6
Pensions, Profit Sharing & Other Investment Trusts	1,117	0.6	544,010	0.7
TOTAL	182,778	100.0	78,675,703	100.0

As of January 31, 1982, there were 183,434 holders of 78,774,178 shares of the Company's Common Stock.

Quarterly dividends of 44¢ per share were paid on the Company's Common Stock during 1981 and 1980. Information regarding retained earnings available for payment of cash dividends is given in Notes 2 and 4b.

Statements of Consolidated Income

For the Years Ended December 31	1981	1980	1979
	(In thousands, except per share amounts)		
OPERATING REVENUES	**$1,279,649**	$1,080,869	$994,585
OPERATING EXPENSES AND TAXES:			
Operation—			
Cost of fuel	**413,698**	364,894	316,536
Purchased and interchanged power, net	**29,321**	26,089	60,313
Other operation expenses	**195,075**	170,351	138,712
Total operation	**638,094**	561,334	515,561
Maintenance	**124,213**	127,935	102,936
Provision for depreciation	**95,830**	85,455	81,224
Amortization of terminated construction projects (Note 2)	**3,995**	—	—
General taxes	**84,316**	85,143	89,122
Income taxes	**80,820**	51,619	41,998
Total operating expenses and taxes	**1,027,268**	911,486	830,841
OPERATING INCOME	**252,381**	169,383	163,744
OTHER INCOME AND DEDUCTIONS:			
Allowance for equity funds used during construction	**60,421**	57,715	50,571
Miscellaneous, net	**17,021**	2,104	1,399
Income taxes—credit	**53,360**	37,017	21,189
Total other income and deductions	**130,802**	96,836	73,159
TOTAL INCOME	**383,183**	266,219	236,903
NET INTEREST AND OTHER CHARGES:			
Interest on long-term debt	**166,378**	147,290	108,401
Interest on long-term obligations (Note 5)	**69,183**	5,057	—
Allowance for borrowed funds used during construction, net of deferred income taxes	**(67,381)**	(48,814)	(29,388)
Other interest expense	**26,378**	22,304	18,423
Subsidiary's preferred stock dividend requirements	**5,605**	5,232	4,660
Net interest and other charges	**200,163**	131,069	102,096
INCOME BEFORE EXTRAORDINARY ITEM	**183,020**	135,150	134,807
EXTRAORDINARY ITEM—Gain on reacquisition of first mortgage bonds, net of related income taxes (Note 8)	**14,042**	—	—
NET INCOME	**197,062**	135,150	134,807
PREFERRED AND PREFERENCE STOCK DIVIDEND REQUIREMENTS	**33,170**	33,747	29,687
NET INCOME FOR COMMON STOCK	**$ 163,892**	$101,403	$105,120
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING	**71,180**	66,683	58,290
EARNINGS PER SHARE OF COMMON STOCK (based on weighted average number of shares outstanding during the year):			
Income before extraordinary item (after preferred and preference stock dividend requirements)	**$ 2.10**	$ 1.52	$ 1.80
Extraordinary item	**.20**	—	—
Net income for common stock	**$ 2.30**	$ 1.52	$ 1.80
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	**$ 1.76**	$ 1.76	$ 1.76

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

At December 31	1981	1980
ASSETS	(In Thousands)	
UTILITY PLANT:		
In service, at original cost	$3,160,271	$3,010,662
Less—Accumulated provision for depreciation	871,740	806,739
	2,288,531	2,203,923
Construction work in progress	1,112,810	948,228
Energy trust construction (Note 5)	434,412	270,057
Nuclear fuel in process (Note 5)	32,004	13,059
	3,867,757	3,435,267
OTHER PROPERTY AND INVESTMENTS	43,338	54,946
CURRENT ASSETS:		
Cash	11,746	12,924
Temporary cash investments, at cost, which approximates market value	4,300	—
Receivables—		
Customers (less accumulated provision of $1,863,000 and $1,247,000, respectively, for uncollectible accounts)	105,037	96,586
Other	26,809	37,975
Materials and supplies, at average cost—		
Fuel	84,503	93,861
Other	40,602	34,393
Prepayments and other	18,962	14,268
	291,959	290,007
DEFERRED DEBITS:		
Deferred fuel and energy costs	61,537	12,144
Property taxes applicable to subsequent period	41,450	38,772
Unamortized costs of terminated construction projects (Note 2)	96,489	99,997
Other	53,600	48,832
	253,076	199,745
	$4,456,130	$3,979,965
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See Statements of Consolidated Capitalization):		
Common stockholders' equity	$1,228,486	$1,066,957
Preferred stock—		
Not subject to mandatory redemption	262,851	265,525
Subject to mandatory redemption	68,000	72,000
Preference stock subject to mandatory redemption	56,843	57,250
Preferred stock of consolidated subsidiary—		
Not subject to mandatory redemption	41,947	41,947
Subject to mandatory redemption	26,298	27,200
Long-term debt	1,759,771	1,594,384
	3,444,196	3,125,263
LONG-TERM OBLIGATIONS (Note 5):		
Energy trust	432,500	265,000
Nuclear fuel	14,984	—
	447,484	265,000
CURRENT LIABILITIES:		
Current maturities of long-term debt and preferred stock	7,581	157,000
Notes payable to banks (Note 6)	74,400	41,482
Accounts payable	142,718	103,525
Accrued taxes	47,074	59,159
Accrued interest	39,982	39,697
Other	25,468	21,840
	337,223	422,703
DEFERRED CREDITS:		
Accumulated deferred income taxes	124,279	84,630
Accumulated deferred investment tax credits	40,646	28,743
Property taxes applicable to subsequent period	41,450	38,772
Other	20,852	14,854
	227,227	166,999
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Notes 2, 3 and 7)		
	$4,456,130	$3,979,965

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

Statements of Consolidated Capitalization

At December 31	Number of Shares Outstanding 1981	Number of Shares Outstanding 1980	Optional Redemption Price Per Share	Optional Redemption Price Aggregate (In Thousands)	1981 (In Thousands)	1980 (In Thousands)
COMMON STOCKHOLDERS' EQUITY:						
Common stock, $9 par value, authorized 100,000,000 shares—78,675,703 and 68,526,172 shares outstanding, respectively (Note 4a)					$ 708,081	$ 616,736
Other paid-in capital					349,214	316,629
Retained earnings (Notes 2 and 4b)					171,191	133,592
Total common stockholders' equity					1,228,486	1,066,957
PREFERRED STOCK (Note 4c):						
Cumulative, $100 par value—Authorized 6,000,000 shares						
NOT SUBJECT TO MANDATORY REDEMPTION:						
3.90%—7.24%	973,350	1,000,000	$103.375-108.000	$102,693	97,335	100,000
7.36%—8.20%	800,000	800,000	106.520-107.400	85,612	80,000	80,000
8.64%—9.12%	850,000	850,000	106.480-109.120	91,696	85,000	85,000
Premium	—	—	—	—	516	525
Total not subject to mandatory redemption	2,623,350	2,650,000		$280,001	262,851	265,525
SUBJECT TO MANDATORY REDEMPTION (Note 4d):						
10.48%—10.76%	692,760	740,000	$107.860-111.870	$ 76,085	69,276	74,000
Redemption within one year					(1,276)	(2,000)
Total subject to mandatory redemption					68,000	72,000
PREFERENCE STOCK (Note 4c):						
Cumulative, no par value—Authorized 4,000,000 shares						
SUBJECT TO MANDATORY REDEMPTION (Note 4e):						
$95.00—$102.50 Series	27,000	27,000	$1,095.000-1,102.500	$ 29,700	27,000	27,000
$1.80 Series	1,973,100	2,000,000	$16.025	31,619	29,843	30,250
Total subject to mandatory redemption	2,000,100	2,027,000		$ 61,319	56,843	57,250
PREFERRED STOCK OF CONSOLIDATED SUBSIDIARY (Note 4c):						
Cumulative, $100 par value—Authorized 740,000 shares						
NOT SUBJECT TO MANDATORY REDEMPTION:						
4.24%—9.16%	419,049	419,049	$102.980-107.320	$ 44,238	41,947	41,947
SUBJECT TO MANDATORY REDEMPTION (Note 4d):						
8.24%—11.00%	267,984	272,000	$108.240-112.110	$ 29,460	26,798	27,200
Redemption within one year					(500)	—
Total subject to mandatory redemption					26,298	27,200
LONG-TERM DEBT (Note 4f):						
First mortgage bonds:						
Ohio Edison Company—						
10% Series due 1981					—	150,000
3-1/4% Series due 1984 and 1985					50,491	50,491
4-1/4%—18-3/4% Series due 1986 through 2000					325,000	250,000
7-1/2%—9-1/4% Series due 1995 through 2003					280,798	325,000
8-3/8%—15-1/2% Series due 2006 through 2010					443,381	465,000
					1,099,670	1,240,491
Pennsylvania Power Company—						
3-1/4%—16-1/8% Series due 1981 through 2008					214,805	199,805
Total first mortgage bonds					1,314,475	1,440,296
Secured notes and obligations:						
Ohio Edison Company—						
1973 Series A, average interest rate 5.62%, due 1984 through 2008					35,000	35,000
1974 8%—8-3/8% Series A and B, due 1990 through 2004					30,453	30,453
1976 7-7/8% Series D, due 1992 through 2006					40,000	40,000
1978 7.30% Obligation, due 1988 through 2003					8,186	8,186
1979 7-5/8%—9.20% Series A, F and G, due 1995 through 2009					53,000	53,000
1980 10%—10-1/8% Series B, due 1990 through 2010					50,000	50,000
1981 Series H, 60% of floating prime, due 1983					14,275	—
					230,914	216,639
Ohio Edison Finance N.V.—						
1981 17-1/2% Guaranteed Notes, due 1988					75,000	—
Pennsylvania Power Company—						
1973—1981 5-3/4%—8-3/8% and 60% of floating prime, due 1983 through 2007					53,606	47,961
Total secured notes and obligations					359,520	264,600
Unsecured notes of Ohio Edison Company, 8-1/2%—13-13/16%, due 1984 through 1986					176,000	50,000
Less—Amount held by Trustee					75,686	—
Total unsecured notes of Ohio Edison Company (Note 4g)					100,314	50,000
Net unamortized discount on debt					(8,733)	(5,512)
Long-term debt due within one year					(5,805)	(155,000)
Total long-term debt					1,759,771	1,594,384
TOTAL CAPITALIZATION (Note 7)					$3,444,196	$3,125,263

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Statements of Consolidated Retained Earnings

For the Years Ended December 31	1981	1980	1979
		(In Thousands)	
Balance at beginning of period	**$133,592**	$150,552	$149,615
Net income	**197,062**	135,150	134,807
	330,654	285,702	284,[illegible]2
Deduct:			
Preferred and preference stock dividends	**33,160**	33,724	29,950
Common stock dividends	**126,030**	118,137	103,356
Capital stock issuance expense	**273**	249	564
	159,463	152,110	133,870
Balance at end of period (See Notes 2 and 4b for dividend restriction)	**$171,191**	$133,592	$150,552

Statements of Consolidated Capital Stock and Other Paid-In Capital

	Common Stock			Preferred and Preference Stock — Not Subject to Mandatory Redemption			Preferred and Preference Stock — Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Number of Shares	Par Value	Premium	Number of Shares	Par or Stated Value
				(Dollars in Thousands)				
Balance, January 1, 1979	52,120,230	$469,082	$232,422	3,069,049	$306,905	$ 567	980,000	$ 98,000
Sale of Common Stock	6,000,000	54,000	41,820	—	—	—	—	—
Dividend Reinvestment Plan	1,502,139	13,520	8,068	—	—	—	—	—
Sale of Preference Stock—								
$95.00 Series	—	—	—	—	—	—	9,000	9,000
$102.50 Series	—	—	—	—	—	—	18,000	18,000
$1.80 Series	—	—	—	—	—	—	2,000,000	30,250
Sinking Fund Redemption of 10.76% Series of Preferred Stock	—	—	79	—	—	—	(20,000)	(2,000)
Balance, December 31, 1979	59,622,369	536,602	282,389	3,069,049	306,905	567	2,987,000	153,250
Sale of Common Stock	6,500,000	58,500	25,805	—	—	—	—	—
Dividend Reinvestment Plan	2,403,803	21,634	7,979	—	—	—	—	—
Sale of 10.50% Series of Preferred Stock	—	—	—	—	—	—	100,000	10,000
Preferred Stock Sinking Fund Redemptions—								
10.48% Series	—	—	260	—	—	—	(20,000)	(2,000)
10.76% Series	—	—	175	—	—	—	(20,000)	(2,000)
11.00% Series	—	—	21	—	—	—	(8,000)	(800)
Balance, December 31, 1980	68,526,172	616,736	316,629	3,069,049	306,905	567	3,039,000	158,450
Sale of Common Stock	7,000,000	63,000	21,875	—	—	—	—	—
Dividend Reinvestment Plan	3,122,631	28,103	7,751	—	—	—	—	—
Preferred Stock Sinking Fund Redemptions—								
10.48% Series	—	—	585	—	—	—	(27,240)	(2,724)
10.76% Series	—	—	361	—	—	—	(20,000)	(2,000)
11.00% Series	—	—	53	—	—	—	(4,016)	(402)
Other Preferred Stock Redemptions—								
3.90% Series	—	—	271	(3,790)	(379)	—	—	—
4.40% Series	—	—	254	(3,720)	(372)	(3)	—	—
4.44% Series	—	—	902	(13,440)	(1,344)	(6)	—	—
4.56% Series	—	—	386	(5,700)	(570)	—	—	—
Conversion of $1.80 Preference Stock	26,900	242	147	—	—	—	(26,900)	(407)
Balance, December 31, 1981	78,675,703	$708,081	$349,214	3,042,399	$304,240	$ 558	2,960,844	$152,917

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Statements of Consolidated Sources of Funds for Gross Property Additions

Ohio Edison

For the Years Ended December 31	1981	1980	1979
		(In Thousands)	
SOURCES OF FUNDS:			
Income before extraordinary item	**$183,020**	$135,150	$134,807
Principal non-cash items—			
Depreciation and amortization—			
Charged to provision for depreciation	**95,830**	85,455	81,224
Charged to other accounts	**1,318**	1,282	1,596
Amortization of terminated construction projects	**3,995**	—	—
Deferred income taxes, net	**99,179**	83,536	18,921
Investment tax credits, net	**(772)**	(27,201)	13,815
Allowance for equity funds used during construction	**(60,421)**	(57,715)	(50,571)
Deferred fuel and energy costs, net	**(49,393)**	(9,114)	1,687
	272,756	211,393	201,479
Less—Dividends on common stock	**126,030**	118,137	103,356
Dividends on preferred and preference stock	**33,160**	33,724	29,950
Net funds from operating activities	**113,566**	59,532	68,173
Income from extraordinary item	**14,042**	—	—
Gain on reacquisition of first mortgage bonds, a non-cash item	**(26,276)**	—	—
Net funds from earning activities	**101,332**	59,532	68,173
Financing activities—			
Common stock	**120,729**	113,918	117,408
Preferred stock	**—**	10,000	—
Preference stock	**—**	—	57,250
First mortgage bonds	**95,000**	322,000	20,000
Secured notes and obligations	**94,920**	50,000	59,000
Unsecured long-term notes, net	**24,314**	—	80,000
Energy trust and nuclear fuel obligations	**182,484**	265,000	—
Retirement of long-term debt and preferred stock	**(202,336)**	(95,800)	(32,000)
Increase (decrease) in notes payable to banks	**32,918**	(150,517)	95,395
Sale of tax benefits	**37,531**	—	—
	385,560	514,601	397,053
Net change in current assets and current liabilities excluding notes payable to banks and current maturities of long-term debt and preferred stock—			
Temporary cash investments	**(4,300)**	—	—
Receivables	**2,715**	(29,171)	(13,235)
Materials and supplies	**3,149**	(33,843)	(12,075)
Accounts payable	**39,193**	1,474	6,500
Accrued taxes	**(12,085)**	(1,186)	13,734
Miscellaneous, net	**397**	12,323	(4,005)
	29,069	(50,403)	(9,081)
Other, net—			
Construction funds held in escrow, including accrued interest	**39,847**	(20,938)	(3,545)
Allowance for equity funds used during construction	**60,421**	57,715	50,571
Deferred income taxes on allowance for borrowed funds used during construction	**(59,530)**	(38,690)	(16,892)
Miscellaneous, net	**11,345**	(6,797)	(9,533)
	52,083	(8,710)	20,601
GROSS PROPERTY ADDITIONS	**$568,044**	$515,020	$476,746

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Statements of Consolidated Taxes

For the Years Ended December 31	1981	1980	1979
		(In Thousands)	
GENERAL TAXES			
Real and personal property	$ 39,193	$ 37,183	$ 41,042
State gross receipts (i)	34,144	38,753	41,127
Unemployment and old age benefits	8,010	6,408	5,569
Miscellaneous	2,969	2,799	1,384
Total general taxes	$ 84,316	$ 85,143	$ 89,122
PROVISION FOR INCOME TAXES			
Currently payable—			
Federal	$ 80	$ (3,043)	$ 3,731
State	678	—	1,234
Foreign	59	—	—
	817	(3,043)	4,965
Deferred, net (see below)—			
Federal	96,218	81,105	17,984
State	2,961	2,431	937
	99,179	83,536	18,921
Investment tax credits, net of amortization (ii)	(772)	(27,201)	13,815
Total provision for income taxes	$ 99,224	$ 53,292	$ 37,701
INCOME STATEMENT CLASSIFICATION OF PROVISION FOR INCOME TAXES			
Operating expenses	$ 80,820	$ 51,619	$ 41,998
Other income	(53,360)	(27,017)	(21,189)
Allowance for borrowed funds used during construction	59,530	38,690	16,892
Extraordinary item	12,234	—	—
Total provision for income taxes	$ 99,224	$ 53,292	$ 37,701
SOURCES OF DEFERRED TAX EXPENSE			
Cost of terminated construction projects, net (Note 2)	$ 5,197	$ 33,181	$ —
Deferred fuel and energy costs, net	12,308	4,210	(881)
Excess of tax depreciation allowed pursuant to the Class Life ADR and ACRS depreciation systems, net	13,669	9,334	5,345
Deferred interest on leased nuclear fuel, net	9,567	—	—
Other, net	(1,092)	(1,879)	(2,435)
	39,649	44,846	2,029
Allowance for borrowed funds used during construction, which is credited to plant	59,530	38,690	16,892
Total deferred tax expense, net	$ 99,179	$83,536	$ 18,921
RECONCILIATION OF FEDERAL INCOME TAX EXPENSE AT STATUTORY RATE TO TOTAL PROVISION FOR INCOME TAXES			
Book income before provision for income taxes	$296,286	$188,442	$172,508
Federal income tax expense at statutory rate	$136,292	$ 86,683	$ 79,354
Reductions in taxes resulting from:			
Allowance for funds used during construction, which does not constitute taxable income (iii)	(27,794)	(26,549)	(28,036)
Excess of tax over book depreciation	(2,422)	(5,874)	(9,918)
Other, net	(6,852)	(968)	(3,699)
Total provision for income taxes	$ 99,224	$ 53,292	$ 37,701

(i) Amount for 1981 includes a credit of $14,352,000 applicable to Pennsylvania Excise Tax on Gross Receipts accrued during the period January 1, 1977 through December 31, 1979. The tax, which was enacted in 1977, was repealed effective January 1, 1980 and had been the subject of litigation. A settlement was reached in December 1981 which provided for payment of approximately $1,596,000, representing 10% of the claimed tax liability.

(ii) Amount for 1980 reflects the reversal of previously recorded investment tax credits and related amortization, carried forward due to the carryback of tax net operating losses.

(iii) Represents the tax effects of the equity portion in 1981 and 1980, and the equity portion and 25% of the Company's debt portion in 1979.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

The consolidated financial statements include Ohio Edison Company (Company) and its wholly-owned subsidiaries Pennsylvania Power Company (Penn Power) and Ohio Edison Finance N.V. (Finance). All significant intercompany transactions have been eliminated. The Company and Penn Power (Companies) follow the accounting policies and practices prescribed by The Public Utilities Commission of Ohio (PUCO), the Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC). The more significant policies are summarized below.

Revenues

The Companies' residential and commercial customers are metered on a cycle basis. Revenue is recognized for electric service based on meters read through the end of the month.

Operating revenues and net income for 1981 include approximately $8,905,000 and $4,755,000 ($.07 per share of common stock), respectively, applicable to a wholesale rate increase requested by the Company and permitted by the FERC to become effective January 10, 1981, which is subject to possible refund. Management believes that any refunds which may be required in this case would not have a material effect on 1981 results of operations.

Deferred Fuel and Energy Costs

The Companies record the cost of fuel when it is consumed, except as discussed below.

Effective August 1, 1981, the Company replaced its fuel adjustment clause (FAC) with a new electric fuel component (EFC), in accordance with a PUCO order. The EFC is an estimated fixed rate per kilowatt-hour included on customer bills for a six-month period and is based upon fuel-related costs for the preceding six-month period. Any over or under collection resulting from the operation of the EFC will be included as an adjustment to the new EFC rate in a subsequent six-month period. Accordingly, in August 1981, the Company began deferring the difference between actual fuel-related costs incurred and the amounts recovered from its customers.

The PUCO has ordered that the Company defer and not include the cost of coal purchased from Quarto Mining Company (Quarto) (see Note 7) in the FAC and subsequent EFC at more than generally prevailing market prices without prior PUCO approval. At December 31, 1981 such deferred costs amounted to $57,935,000, of which $48,083,000 and $9,852,000 is applicable to 1981 and 1980, respectively. In its order, the PUCO stated that it will permit the Company to recover its actual Quarto costs, including the previously deferred costs, when the weighted average price of Quarto coal for six consecutive months approaches the level of 25% above the generally prevailing market price of comparable coal. The Company, in connection with its regular semiannual fuel hearing, requested that the PUCO modify its present method for recovery of these costs. Although the Company believes that the methods it proposed at the hearing for recovery of the cost of Quarto coal, including recovery of the deferred costs, are reasonable, the PUCO in its order resulting from that hearing issued January 27, 1982, deferred any action on the Company's request until its next such hearing. In the meantime the Company will continue to defer and accumulate the cost of Quarto coal in excess of generally prevailing market prices.

Prior to May 1, 1981, Penn Power deferred certain increased energy costs which it estimated would be billable to most customers in future periods, in accordance with the energy clause adopted by the PPUC. The energy clause provided for: 1) the recovery or refund, over a six-month period beginning two months after incurrence, of energy costs which differed from established base energy costs; and 2) an adjustment for any over or under collection resulting from the operation of the clause. Effective May 1, 1981, by order of the PPUC, a "levelized" energy cost rate (ECR) was initiated. The ECR in effect in 1981 was based upon the anticipated energy costs for the last eight months of 1981. A new ECR which includes adjustment for any over or under collection from customers will be recalculated each subsequent year in November with an effective date of January 1. Accordingly, Penn Power defers the difference between actual energy costs and the amounts recovered from its customers.

In January 1981, the PPUC ordered that Penn Power not include the cost of Quarto coal in its energy clause and subsequent ECR at more than generally prevailing market prices pending completion of a PPUC investigation to determine the reasonableness of the costs of Quarto coal. Penn Power has deferred $5,428,000 of such costs through December 31, 1981, of which $5,321,000 and $107,000 is applicable to 1981 and 1980, respectively.

Reference is made to Note 7 for a further discussion of the Quarto project.

Utility Plant and Depreciation

Utility plant reflects the original cost of construction, including payroll and related costs such as taxes, pensions and other fringe benefits, administrative and general costs and allowance for funds used during construction (see AFUDC).

The Companies provide for depreciation on a straight-line basis at various rates over the estimated lives of the property. The effective composite rate for electric plant was 3.3% in 1981, 1980 and 1979. The Company's depreciation rates include provisions for the estimated decommissioning costs for its only nuclear generating unit in service. Penn Power provides for the cost of decommissioning radioactive components only, in accordance with a PPUC rate order.

Common Ownership of Generating Facilities

The Companies and other Central Area Power Coordination Group (CAPCO) companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the costs of any jointly owned facility in the same proportion as its ownership interest. The Companies' portions of operating expenses associated with these jointly owned facilities are included in

the corresponding operating expenses on the Statements of Consolidated Income. The amounts reflected on the Consolidated Balance Sheet under utility plant at December 31, 1981 include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Utility Plant Under Construction	Companies' Ownership Interest
		(In Thousands)		
W. H. Sammis #7	$ 121,551	$ 22,853	$ 29,430	68.80%
Bruce Mansfield #1, #2 and #3	677,477	71,523	10,838	50.68%
Beaver Valley #1	383,137 (i)	55,468	46,286	52.50%
Beaver Valley #2	—	—	460,200	41.88% (ii)
Perry #1 and #2	—	—	786,557	35.24%
Total	$1,182,165	$149,844	$1,333,311	

(i) Includes common facilities applicable to Beaver Valley #2.
(ii) See Note 5.

All nuclear fuel in process relates to the CAPCO units but is not segregated among them.

Nuclear Fuel

The Companies charge the cost of nuclear fuel to fuel expense based on the rate of consumption. In addition, the Company includes in fuel expense the estimated spent nuclear fuel disposal costs which are being recovered from its customers. The storage of spent nuclear fuel is necessary until the manner of its disposal is determined, which may take many years. Penn Power received an allowance for the estimated permanent disposal costs in a January 1982 PPUC rate order.

Allowance for Funds Used During Construction (AFUDC)

AFUDC, a non-cash item charged to construction work in progress during the construction period, represents the net cost of borrowed funds and equity funds used for construction purposes. AFUDC varies according to changes in the level of construction work in progress and in the cost of capital. The Companies compute AFUDC utilizing a net of tax rate consistent with the rate treatment granted by the PUCO and the PPUC. The rates used by the Company were 9.84%, 10.14% and 8.75% during 1981, 1980 and 1979, respectively. Penn Power used rates of 8.50% in 1981 and 8.00% in 1980 and 1979. AFUDC applicable to long-term obligations is based on actual interest accrued during the period (see Note 5).

The Company's 1980 net of tax AFUDC rate reflects an adjustment in the FERC formula used to calculate the rate. The adjustment resulted from a Company study which found a significant undercapitalization of construction work in progress in 1980 as a result of the failure of the formula to give adequate effect to interest costs actually incurred in financing construction activities. This adjustment increased 1980 AFUDC by approximately $11,628,000, net of income tax effect. The Company received permission from the PUCO staff to record the additional AFUDC, subject to determination by the PUCO of its includability in future rate base. Management has no reason to believe that this amount will be disallowed in future PUCO rate proceedings.

Income Taxes

Details of the total provision for income taxes are shown on the Statements of Consolidated Taxes. Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and accounting purposes.

The Companies allocate the income tax credit resulting from interest expense related primarily to construction work in progress, to income taxes—credit included under other income and deductions on the Statements of Consolidated Income.

For income tax purposes, the Companies have claimed liberalized depreciation (double-declining balance, guideline lives, Class Life ADR System and Accelerated Cost Recovery System (ACRS) provision methods) and, consistent with the rate treatment, follow "normalization" accounting except as indicated on the Statements of Consolidated Taxes.

The Companies expect that deferred taxes not currently provided will be collected from their customers when the taxes become payable, based upon the established rate making practices of the PUCO, the PPUC and the FERC.

The Company received $37,531,000 in 1981 resulting from the sale of tax benefits applicable to property placed in service during 1981 in accordance with provisions of the Economic Recovery Tax Act of 1981. Of the total, $12,675,000 was recorded as additional deferred investment tax credits on the Company's Consolidated Balance Sheet and will be amortized over thirty years. The remaining $24,856,000 was recorded as a reduction to utility plant in service and will serve to reduce the total provision for depreciation over the life of the property.

The Companies defer investment tax credits utilized and amortize these credits to income over the estimated life of the related property. At December 31, 1981, approximately $91,000,000 of unused investment tax credits were available to offset future Federal income taxes payable. These credits expire at the end of the following years:

1991	$18,000,000
1992	20,000,000
1993	9,000,000
1994	7,000,000
1995	33,000,000
1996	4,000,000
	$91,000,000

In addition, the Companies had approximately $20,500,000 of tax net operating losses at December 31, 1981 available to carry forward until the end of 1995. Such tax net operating losses have been recognized by not providing deferred taxes of $3,500,000 and $5,700,000 in 1981 and 1980, respectively, which would otherwise have been provided.

Pensions

The Companies' trusteed, noncontributory pension plans cover almost all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. Pension costs for 1981, 1980 and 1979 were $15,311,000, $14,931,000 and $13,731,000, respectively. Of those amounts, $9,237,000,

$9,259,000 and $9,163,000, respectively, were charged to operating expenses. The balances were charged primarily to construction. Such costs include the amortization of past service costs on an actuarial basis over 30 years. The Companies fund pension costs accrued. A comparison of accumulated plan benefits and plan net assets from the two latest actuarial reports is as follows:

	June 30,	
	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	$144,407,000	$128,808,000
Nonvested	11,467,000	9,725,000
	$155,874,000	$138,533,000
Net assets available for benefits	$213,749,000	$191,678,000
Assumed rate of return for actuarial present value of accumulated plan benefits	8%	8%

Effective January 1, 1981 certain amendments were made to the plans relative to the calculation of benefit payments to retired members. The effect of these amendments increased the actuarial present value of accumulated plan benefits by approximately $5,018,000 through June 30, 1981.

The above total actuarial present value of accumulated plan benefits reflects pension benefits applicable to eligible employees based upon present salary levels and past years of service accumulated through the valuation date. This is the generally accepted reporting procedure set forth by the Financial Accounting Standards Board. The Companies' annual contributions to the plans, however, consider estimated ultimate salary increases due to inflation and other factors and the estimated total service expected to be accumulated by employees. This is a widely recognized funding technique and is consistent with the recommendation of the Companies' actuary. In addition, the actuary recommends, and the Companies utilize, a discount rate of 6% for funding purposes. Differences between funding bases and reporting requirements can have a significant effect on the comparisons above.

2. Terminated Construction Projects

In January 1980, the Companies and all other CAPCO companies terminated plans to construct the following four nuclear generating units—Davis-Besse No. 2 and No. 3, and Erie No. 1 and No. 2. Construction costs unrecovered by the Company and Penn Power as of December 31, 1981 applicable to these units amounted to $81,892,000 and $14,597,000, respectively. The PUCO had authorized recovery of the applicable portion of the Company's share of the construction costs from its PUCO jurisdictional customers over a ten-year period beginning in February 1981.

On July 15, 1981, the Supreme Court of Ohio ruled in a case involving another Ohio utility company (also a co-owner of the terminated units) that under existing statutes the PUCO had exceeded its authority in allowing these costs as service-related costs in that company's rate case, even though the decisions to construct and terminate were both, when made, prudent and reasonable. A subsequent appeal to the U.S. Supreme Court by that company was denied on January 25, 1982 because of the lack of a properly presented Federal question. That company has since taken further action which may still affect the ability of the Company to recover these costs and, in any event, further action by the PUCO is possible. The PUCO has in fact ordered the company that was a party to the Ohio Supreme Court case not to write off any of its unrecovered costs in the terminated units pending, among other things, such further action as the PUCO may take in that company's current rate case. Until an adequate resolution is reached of all uncertainties concerning the Company's ability to ultimately recover these costs, the Company believes a write-off of such costs would be premature. To the extent that it is ultimately determined that the Company can never recover these costs, the Company will be required to write them off. The unrecovered balance of such costs allocable to the Company's PUCO jurisdictional customers at December 31, 1981 approximated $77,612,000 ($47,742,000, net of income tax effect). Had the Company been required to write off the costs as of December 31, 1981, the Company would have had approximately $51,402,000 of consolidated retained earnings unrestricted for payment of cash dividends on the Company's Common Stock.

In light of the Ohio Supreme Court decision, the Company and all intervening parties reached a settlement in the Company's rate case which was pending at the time the decision was announced. The settlement will add approximately $90,000,000 to the Company's annual operating revenues, and was in lieu of the $139,000,000 increase previously sought by the Company. In order to make the settlement agreement effective with bills rendered on and after August 1, 1981, the Company made application for, and was granted, an emergency rate increase at the same $90,000,000 level. Neither the temporary emergency rates nor the permanent rate increase which is expected to supersede those emergency rates includes or will include provision for any continued amortization after July 31, 1981 of the costs applicable to the terminated units and thus the new rates will in no event be subject to further adjustment with respect to those costs. Accordingly, the Company discontinued amortization of those costs on August 1, 1981.

The Babcock & Wilcox Company, as supplier for the nuclear steam supply systems for the terminated units, has asserted claims in connection with delays in, and the termination of, the units. The Company's and Penn Power's shares of the claims are approximately $109,300,000 and $19,200,000, respectively, before the application of certain credits of undetermined amount. Representatives of Babcock & Wilcox and the owners of the terminated nuclear units, including the Companies, have been meeting to discuss the matter and the discussions have been proceeding in a manner that the Companies consider satisfactory. The Companies cannot predict at this time what, if

any, amounts they may ultimately pay in connection with these claims nor when such amounts might be paid, but believe any amounts they may pay in the future as a result of these claims will be substantially less than the amounts claimed. Depending on circumstances that exist at the time, any such payment allocable to the Company's retail customers may result in a write-off which would reduce net income for the then current period, the effect of which cannot be determined at this time.

The Companies are currently seeking approval from the FERC to recover the construction costs and any contractors' cancellation charges from FERC jurisdictional customers to the extent they are allocable to those customers. Penn Power requested recovery of the construction costs allocable to its PPUC jurisdictional customers in its recently concluded PPUC rate proceedings; the PPUC deferred its decision pending the outcome of a current investigation of the entire CAPCO construction program. The FERC gave the Companies permission, for accounting purposes only, to amortize these construction costs, plus contractors' cancellation charges, if any, over a ten-year period beginning with the date that rates in their next rate filings before such agencies which provide for recovery of the costs become effective. The Companies believe that the construction costs were prudently incurred and have no reason to believe that the PPUC and the FERC will not act favorably upon their requests.

[illegible]

The Companies lease nuclear fuel, certain transmission facilities, computer equipment, office space and other incidental property and equipment under cancelable and noncancelable leases. The total rental expenses included on the Statements of Consolidated Income for 1981, 1980 and 1979 were \$20,731,000, \$9,373,000 and \$10,356,000, respectively. The future minimum rental commitments as of December 31, 1981 for all noncancelable leases are:

1982	\$ 19,223,000
1983	18,638,000
1984	16,040,000
1985	10,812,000
1986	11,841,000
Years thereafter	311,356,000

If all noncapitalized financing leases had been capitalized, the effect on total assets, total liabilities and expenses would not be material.

[illegible]

(a) Common Stock

Through the Dividend Reinvestment and Stock Purchase Plan, holders of Common Stock and most of the Companies' full-time employees can acquire additional new shares of the Company's Common Stock by automatically reinvesting all or a portion of their Common Stock dividends and by making optional cash payments. Purchases made with reinvested Common Stock dividends are made at a price equal to 95% of the average of the high and low market prices on the investment dates, and purchases made with optional cash payments are made at a price equal to 97% of such average. The plan will be amended early in 1982 to include holders of shares of the Company's preferred and preference stock. The purchase of Common Stock made with reinvested cash dividends on preferred and preference stock will be at a price equal to 100% of the average market price. At December 31, 1981, the Company had 1,676,416 shares reserved for issuance under this plan and 1,973,100 shares of Common Stock reserved for possible conversion of the \$1.80 Preference Stock. The Company has filed a Registration Statement with the Securities and Exchange Commission to increase the number of shares available for issuance under the Dividend Reinvestment and Stock Purchase Plan by 6,000,000 shares.

(b) Retained Earnings

Under the Company's indenture, the Company's consolidated retained earnings unrestricted for payment of cash dividends on the Company's Common Stock were \$99,144,000 at December 31, 1981 (see Note 2). Under Penn Power's Charter, \$27,905,000 of retained earnings at December 31, 1981 were unrestricted for payment of cash dividends to the Company.

(c) Preferred and Preference Stock

The Company has 4,000,000 authorized and unissued shares of cumulative \$25 par value Class A Preferred Stock.

At the Companies' option, all preferred and preference stock may be redeemed in whole, or in part, at any time upon not less than 30 nor more than 60 days notice, unless otherwise noted. Redemption of all preferred and preference stock issued within the past five years is subject to certain restrictions regarding refunding operations. The optional redemption prices shown on the Statements of Consolidated Capitalization will decline to eventual minimums per share according to the Charter provisions establishing each series.

(d) Preferred Stock Subject to Mandatory Redemption

The Company's 10.48% Series and 10.76% Series each include provisions for a mandatory sinking fund to retire a minimum of 20,000 shares every year on December 1 and January 1, respectively, at \$100 per share plus accrued dividends. Penn Power's 11% Series includes a provision for a mandatory sinking fund to retire a minimum of 4,000 shares every year on January 1, at \$100 per share plus accrued dividends, and its 8.24% Series includes a provision for a mandatory sinking fund to retire a minimum of 5,000 shares on December 1 in each year beginning in 1982, at \$100 per share plus accrued dividends. Penn Power's 10.50% Series includes a provision for mandatory redemption of the entire series on April 1, 2040 at \$100 per share plus accrued dividends.

The sinking fund requirements are \$1,776,000 and \$4,898,000 for 1982 and 1983, respectively, and \$4,900,000 for each of the three years 1984 through 1986.

(e) Preference Stock Subject to Mandatory Redemption

The \$102.50 Series and the \$95.00 Series each include

provisions for a mandatory sinking fund to retire a minimum of 900 and 1,800 shares, respectively, on July 1 in each year beginning in 1984 and 1985, respectively, at $1,000 per share plus accrued dividends. The $1.80 Series includes a provision for a mandatory sinking fund to retire a minimum of 100,000 shares on October 1 in each year beginning in 1985, at $15.125 per share plus accrued dividends.

The sinking fund requirements will begin on July 1, 1984 and will amount to $900,000, $4,213,000 and $4,213,000 for 1984, 1985 and 1986, respectively.

The $1.80 Series is convertible at any time into Common Stock at a price of $15.125 per share. Holders will receive one share of Common Stock for each share of $1.80 Preference Stock converted, subject to adjustment under certain conditions.

(f) Long-Term Debt

The mortgages and their supplements, which secure all of the Companies' first mortgage bonds, serve as a direct first mortgage lien on substantially all property and franchises, other than specifically excepted property, owned by the respective Companies.

Based on the amount of bonds authenticated by the Trustees through December 31, 1981, the Companies' annual sinking and improvement fund requirements amount to $21,187,000. The Company contemplates that funds deposited in 1982 will be withdrawn upon the surrender for cancellation of a like principal amount of bonds, which are specifically authenticated for such purposes against unfunded property additions or against previously retired bonds. These methods can result in minor increases in the amount of the annual sinking fund requirements. Penn Power contemplates that its requirements will be satisfied in 1982 by permanently waiving its right to issue bonds against $2,439,000 of the $6,120,000 of retired bonds that are presently available for that purpose. Under its mortgage, Penn Power is also permitted to fulfill its requirements by the issuance of bonds against unfunded property additions in the same manner as described above for the Company.

As of December 31, 1981, the Companies' sinking and improvement fund requirements and maturing long-term debt for the next five years are:

1982	$ 26,992,000
1983	41,107,000
1984	148,013,000
1985	74,330,000
1986	107,265,000

(g) Unsecured Notes

Total unsecured notes outstanding at December 31, 1981 exclude $75,686,000 of pollution control notes, the proceeds of which were then in escrow pending their disbursement for construction of certain pollution control facilities. The pollution control revenue bonds to which these notes relate are entitled to the benefit of an irrevocable bank letter of credit of $106,375,000. To the extent that drawings are made under that letter of credit to pay principal of, or interest on, the pollution control revenue bonds, the Company is entitled to a credit on the notes. The Company pays an annual fee of 1/2% of the amount of the letter of credit to the issuing bank and is obligated to reimburse the bank for any drawings thereunder.

(h) Subsequent Financing

In January 1982, Penn Power sold $15,000,000 principal amount of first mortgage bonds, 15-3/4% Series due 1989, and in February 1982, the Company sold $75,000,000 principal amount of first mortgage bonds, 17% Series due 1992.

5 LONG-TERM OBLIGATIONS

Ohio Edison Energy Trust (Trust)

In November 1980, the Trust was created for financing part of the Company's investment in Beaver Valley Unit No. 2. The Trust has two lines of revolving credit available to it for $400,000,000 and $100,000,000. The latter credit also serves as a stand-by facility in connection with Trust commercial paper sales; total borrowings under that credit and commercial paper outstanding may not exceed $100,000,000 at any time.

The Company has transferred its interest in Beaver Valley Unit No. 2 (exclusive of common facilities and transmission facilities) to the Trust, where the assets are used to secure Trust borrowings. All Trust obligations will be assumed by the Company when they become due, but not later than December 31, 1986. At the Company's option, all obligations outstanding under the $400,000,000 revolving credit arrangement may be converted into a four-year term loan to the Company.

The Company accrues interest applicable to the Trust which is subsequently capitalized, net of income tax effect. Interest on borrowings under the $400,000,000 line of credit is computed at the applicable prevailing prime interest rate plus 1/4%, plus a commitment fee of 1/2% on the unused portion of this line. No direct borrowings are expected to be made against the $100,000,000 line of credit, but the Trust will issue and have outstanding commercial paper supported by this facility. To the extent that borrowings are less than the $100,000,000 available under this line of credit, the Company must pay a commitment fee of 1/2%. Under the stand-by support, an irrevocable bank letter of credit will be issued upon which the Trust will pay a fee of 1/8% of the amount of commercial paper notes outstanding. The average annual interest rate on Trust borrowings was 18.7% and 21.4% during 1981 and 1980, respectively. Of the $432,500,000 of Trust obligations outstanding at December 31, 1981, $100,000,000 relates to outstanding commercial paper and the balance to borrowings under the $400,000,000 line of credit.

Nuclear Fuel Financing

In December 1981, Ohio Edison Fuel Corporation and Pennsylvania Power Fuel Corporation (corporations in which the Companies have no ownership interest) were created to provide funds for the procurement of nuclear fuel. The fuel corporations will lease the fuel to the Companies under separate fuel leases which require lease payments sufficient to permit the fuel corporations to repay the

obligations. Under ordinary circumstances, the lease payments will be made at such time and in such amounts as will coincide with the burn-up of the nuclear fuel.

Financing on behalf of the Company of up to $135,000,000 is available through the Ohio Edison Fuel Corporation, either through revolving credit arrangements or the issuance of commercial paper which is supported by a bank letter of credit. The Company accrues interest applicable to the fuel corporation which is subsequently capitalized, net of income tax effect. Interest on bank borrowings is computed at 110% of the applicable prevailing prime interest rate, plus a commitment fee of 1/8% on the unused portion of the line of credit. The fuel corporation also pays a 5/8% letter of credit fee on the aggregate amount of outstanding borrowings. The average annual interest rate on outstanding borrowings in 1981 was 13.9%.

Pennsylvania Power Fuel Corporation did not make bank borrowings or issue commercial paper in 1981. Financing of up to $30,000,000 on behalf of Penn Power will be available in 1982 on terms similar to those of the Ohio Edison Fuel Corporation.

Notes Payable to Banks and Lines of Credit

The Companies have lines of credit with domestic banks that provide for borrowings of up to $287,000,000 at the prevailing prime interest rates. Short-term borrowings may be made under these lines of credit on the Companies' unsecured notes. All of the current lines expire December 31, 1982; however, all unused lines may be cancelled by the banks.

The Companies maintain cash balances on deposit with banks to provide operating funds, to assure availability of $207,264,000 of the lines of credit and for other banking arrangements. Such compensating balances, net of "float," are expected to be maintained at an average of approximately $5,000,000 and are not subject to any contractual restriction against withdrawal. Penn Power is required to pay commitment fees that vary from a flat rate of 1/2% to a variable rate of 8% of the applicable prime interest rate to assure the availability of $21,000,000 of the lines of credit.

The Company also has a $30,000,000, Eurodollar line of credit from a group of foreign banks. Amounts borrowed are for a period of one, three or six months, and are renewable at the Company's option. The interest rate is currently 5/8% above the London Interbank Offered Rate. The Company is also required to pay a commitment fee of 1/2% on the unused portion of this credit line. There were no borrowings under this credit arrangement at December 31, 1981 or 1980. The revolving credit facility expires in August 1982.

Commitments, Guarantees and Contingencies

Construction Program

The Companies expect to spend approximately $2,800,000,000 for property additions and improvements from 1982-1986, of which approximately $671,000,000 is applicable to 1982. In addition, the Companies expect to fund through the Ohio Edison and Pennsylvania Power Fuel Corporations approximately $150,000,000 for the procurement of nuclear fuel from 1982-1986, of which approximately $55,000,000 is applicable to 1982. The major portion of the Companies' construction activities during this five-year period relates to the CAPCO companies' program for the joint development of power generation and transmission facilities, and to bring the Companies' existing generating units into compliance with environmental regulations. The CAPCO companies have entered into other commitments (the Companies' share being $586,000,000) for the supply of nuclear fuel in connection with the future commercial operation of nuclear generating units.

The Companies' financing programs during 1982 through 1986 will include the sale or issuance, from time to time, of appropriate additional amounts of first mortgage bonds, secured or unsecured pollution control and environmental notes and obligations, unsecured long-term notes, preferred stock, preference stock, common stock and proceeds from other long-term financing arrangements (see Note 5). The Companies are limited by their respective indentures and Charters as to the amounts of additional first mortgage bonds and preferred stock they may issue.

Quarto Project

The Companies, together with the other CAPCO companies, have made long-term coal supply arrangements with Quarto. The CAPCO companies have agreed to severally, and not jointly, guarantee their proportionate shares of Quarto's debt and lease obligations incurred while developing and equipping the mines. The guarantees will remain even if environmental regulations prohibit the use of this coal. As of December 31, 1981, the Companies' share of the guarantee was $240,712,000 ($128,554,000 —long-term debt; $87,658,000—lease obligations; and $24,500,000— short-term bank credit). The guarantee is expected to increase to $250,000,000 based on budgeted mine construction costs of $431,000,000.

Under the terms of the coal supply contracts, which expire December 31, 1999, the Companies must reimburse Quarto for their share of the costs of operating the Quarto mines, including those costs associated with mine construction, whether or not they receive coal from Quarto. The Companies' total payments under these contracts amounted to $94,379,000 during 1981. The Companies' minimum payments under the coal supply contracts related to mine construction costs are:

1982	$ 26,306,000
1983	25,687,000
1984	25,069,000
1985	24,451,000
1986	23,833,000
Years thereafter	279,680,000

Based on recent studies concerning the economics of the Quarto project and the various alternatives available to provide the long-term fuel requirements of the Bruce

Mansfield Plant, the coal supply contracts were amended and changes were made in the mode of operation of the Quarto mines which have the effect of reducing the annual tonnage production of these mines. Additional coal requirements for the Bruce Mansfield Plant are currently being procured in the open market and the Company is presently continuing to evaluate the alternatives for making additional arrangements to fulfill, together with the use of coal from the Quarto project, the long-term fuel requirements of the Bruce Mansfield Plant. These changes are part of a fuel procurement strategy designed to reduce the weighted average price of coal used at the Bruce Mansfield Plant. The Company will continue to monitor the Quarto project and conduct such additional studies of the economics of the project as are deemed warranted by circumstances. Any action by the Company affecting the Quarto project as a result of such studies will now have to take into account the possible impact of the Ohio Supreme Court decision referred to in Note 2.

The current price of Quarto coal to the Companies is based on, among other things, the actual production costs plus amortization of certain production expenses which were not included in the price of coal to the Companies during the development period, which ended on May 31, 1980. The current price of Quarto coal exceeds the current generally prevailing market price of coal. Both the PUCO and the PPUC presently limit the recovery of the cost of Quarto coal to the generally prevailing market price of comparable coal. Reference is made to Note 1 for a discussion of PUCO and PPUC orders with respect to the cost of Quarto coal currently being recovered from customers. The Company believes that the present PUCO method for recovery of the costs of Quarto coal, including recovery of the deferred costs, may not be appropriate under the reduced mode of operation of the mines because this method is not consistent with the fuel procurement strategy for reducing the overall cost of coal for the Bruce Mansfield Plant and may result in further accumulation of deferred costs. Despite the delays in the final resolution of these matters by the PUCO and PPUC, the Company has no reason to believe that their ultimate disposition by the PUCO and PPUC will have a material adverse effect upon the Company's consolidated financial condition.

Environmental Matters

Various Federal, state and local authorities regulate the Companies with regard to air and water quality and other environmental matters. The Companies estimate that compliance requires capital expenditures of approximately $628,000,000 for projects remaining to be completed. Of this amount, approximately $193,000,000 was spent prior to 1982, and $435,000,000 is included in the above construction estimate for 1982 through 1986. Capital expenditures for environmental improvements amounted to $119,353,000 in 1981. If Penn Power is required to install off-stream cooling in connection with the operation of the New Castle Plant, costs estimated between $13,800,000 and $31,500,000, depending on the required thermal limitations, would be incurred. In addition, annual operating costs would increase substantially. Penn Power expects that the impact of any such capital and operating expenditures would eventually be reflected in its rate schedules.

On December 16, 1981, the United States Environmental Protection Agency (EPA) approved a change in the Pennsylvania State Implementation Plan (SIP) affecting Penn Power's New Castle Plant. The sulfur dioxide (SO_2) emission standard formerly in effect was shown to be more stringent than necessary to meet the Federal ambient air standards. This SIP revision enables the Plant to continue to burn the low sulfur coal it is now burning to meet the new SO_2 emission standard. The SIP revision was effective on January 15, 1982.

In a legal proceeding against Penn Power under the Clean Air Act, the Federal government is asking the court to assess civil penalties for alleged continuing violations of SO_2 emission regulations at Penn Power's New Castle Plant. The Clean Air Act Amendments, which became effective in August 1977, permit the imposition of civil penalties of up to $25,000 per day of violation. Because Penn Power is in compliance with the revised emission standard (as detailed above), it is expected that this legal proceeding will be terminated without the imposition of significant civil penalties or the necessity to shut down coal-fired capacity.

Final regulations implementing certain provisions of the Clean Air Act Amendments of 1977 have now been promulgated which provide for the imposition of noncompliance penalties based on any economic benefit realized by the operator of a pollution source as a result of failure to comply with pollution control laws and regulations after January 1, 1981. The Companies have filed Petitions for Review of these regulations. The Companies did not achieve compliance with all such regulations by January 1, 1981 so that such penalties could be sought against them, but the Companies cannot determine at this time whether they will be or, if they are, the amount of economic benefit that could be established. If sought and imposed, such penalties could be significant. However, the EPA has acknowledged in an earlier settlement of proceedings involving the Ohio Plants that its policy is to assign a low enforcement priority to companies in compliance with outstanding consent orders such as embodied in those settlements.

On December 19, 1980, the Commonwealth of Pennsylvania petitioned the EPA to make findings under Section 126 of the Clean Air Act. Section 126 provides a remedy for a downwind State that can show adverse impact because air pollution regulations in an upwind State cause nonattainment in the downwind State. Pennsylvania's petition complains of excessive particulate and SO_2 emissions from a number of sources in Ohio and West Virginia, including potentially all of the Companies' Ohio plants. The States of New York and Maine have filed similar petitions. The Section 126 proceeding could ultimately result in the revision of the particulate and SO_2 emission limitations for these plants, to make them more stringent. The Company is unable to predict the outcome of this proceeding.

Other Legal Actions and Complaints

In 1977, the Boroughs of Ellwood City and Grove City, Pennsylvania, filed a complaint against Penn Power, alleging that Penn Power, individually and in conspiracy with the Company and other CAPCO companies, has violated Sections 4 and 16 of the Clayton Act by restraining and monopolizing trade and commerce in alleged markets for electric power. Damages of $7,000,000 (to be trebled) and injunctions against the alleged unlawful acts are sought. In 1979, the Court granted summary judgment in favor of Penn Power as to certain allegations of the complaint. Management is unable to predict the ultimate outcome of this action.

The PPUC is investigating an outage of Beaver Valley Unit No. 1 which occurred during the period March-August 1979. The outage had been ordered by the Nuclear Regulatory Commission to analyze possible seismic deficiencies of safety-related piping and pipe supports in the Unit. The PPUC has ordered that the operating company of the Unit refund an as yet undetermined amount to that company's customers based upon expenditures for purchased replacement power during the outage. The PPUC is currently investigating Penn Power's liability for the outage and whether refunds are due to Penn Power's customers for purchased replacement power expenses incurred during the outage which were included in its energy clause. If Penn Power is required at some future time to make such a refund, it is not expected that the amount would be material to the Company's consolidated results of operations. In a separate investigation, the PPUC is considering whether additional construction costs which resulted from deferral of construction projects should be excluded from rate base in future rate proceedings.

8 Extraordinary Income

The Company purchased and subsequently retired $65,821,000 principal amount of its outstanding first mortgage bonds during 1981. This resulted in a gain of $26,276,000, which is included as an extraordinary item, net of related income taxes of $12,234,000, on the 1981 Statement of Consolidated Income.

9 Summary of Quarterly Financial Data

The following summarizes consolidated operating results for the four quarters of 1981 and 1980.

	Three Months Ended							
	March 31, 1981	June 30, 1981	September 30, 1981	December 31, 1981	March 31, 1980	June 30, 1980	September 30, 1980	December 31, 1980
	(In thousands, except per share amounts)							
Operating Revenues	$308,837	$293,500	$337,249	$340,063	$279,789	$252,808	$274,981	$273,291
Operating Expenses and Taxes	254,891	237,668	270,449	264,260	232,155	212,633	231,853	234,845
Operating Income (i)	53,946	55,832	66,800	75,803	47,634	40,175	43,128	38,446
Other Income and Deductions	27,994	29,212	35,860	37,736	23,023	23,147	25,189	25,477
Net Interest and Other Charges	44,729	49,225	51,049	55,160	28,732	32,272	36,307	33,758
Income Before Extraordinary Item	37,211	35,819	51,611	58,379	41,925	31,050	32,010	30,165
Extraordinary Item	9,516	4,526	—	—	—	—	—	—
Net Income	$ 46,727	$ 40,345	$ 51,611	$ 58,379	$ 41,925	$ 31,050	$ 32,010	$ 30,165
Net Income for Common Stock	$ 38,354	$ 32,042	$ 43,369	$ 50,127	$ 33,434	$ 22,590	$ 23,607	$ 21,772
Weighted Average Number of Shares of Common Stock Outstanding	68,844	69,585	70,410	75,881	64,227	66,897	67,462	68,145
Earnings per Share of Common Stock:								
Income Before Extraordinary Item (after preferred and preference stock dividend requirements) (i)	$ .42	$ .40	$ .62	$ .66	$ .52	$ .34	$ .35	$ .32
Extraordinary Item	.14	.06	—	—	—	—	—	—
Net Income for Common Stock	$ .56	$ .46	$ .62	$ .66	$ .52	$ .34	$ .35	$ .32

(i) Results for the three months ended December 31, 1981 include a credit of approximately $7,012,000 ($.09 per share of common stock), net of income taxes, applicable to the reversal of previously accrued Pennsylvania Excise Tax on Gross Receipts (see Statements of Consolidated Taxes).

10 Supplementary Financial Data—Financial Reporting and Changing Prices (Unaudited)

Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices" (SFAS No. 33), provides for the preparation of supplementary financial information to disclose the estimated effects of inflation and changes in prices on property, plant and equipment. This data is presented in accordance with SFAS No. 33, however, it is not intended as a substitute for earnings reported on a historical cost basis.

Adjusted for the Effects of Changing Prices For the Year Ended December 31, 1981 (In Thousands) (Unaudited)

	As Reported on the Primary Consolidated Statements	Adjusted for General Inflation	Adjusted for Change in Specific Prices (Current Cost)
		(Average 1981 Dollars)	
Operating Revenues	$1,279,649	$1,279,649	$1,279,649
Operating Expenses and Taxes:			
Operation and maintenance	762,307	762,307	762,307
Provision for depreciation and amortization	99,825	200,527	225,247
General taxes	84,316	84,316	84,316
Income taxes	80,820	80,820	80,820
Total operating expenses and taxes	1,027,268	1,127,970	1,152,690
Operating Income	252,381	151,679	126,959
Other Income and Deductions	130,802	130,802	130,802
Net Interest and Other Charges	200,163	200,163	200,163
Preferred and Preference Stock Dividend Requirements	33,170	33,170	33,170
Income from Continuing Operations (excluding reduction to net recoverable cost)	$ 149,850	$ 49,148 (i)	$ 24,428
Increase in specific prices (current cost) of property, plant and equipment held during the year (ii)			$ 562,450
Reduction to net recoverable cost		$ (210,755)	(149,213)
Effect of increase in the general price level on property, plant and equipment			(599,272)
Excess of increase in the general price level over increase in specific prices of property, plant and equipment after reduction to net recoverable cost			(186,035)
Advantage resulting from the decrease in purchasing power of net monetary liabilities		215,268	215,268
Net		$ 4,513	$ 29,233

(i) Including the reduction to net recoverable cost, the income (loss) from continuing operations adjusted for general inflation would have been $(161,607,000).
(ii) At December 31, 1981, property, plant and equipment, net of accumulated depreciation, adjusted for changes in specific prices (current cost) was $7,475,533,000, while historical cost (net recoverable cost) was $3,874,718,000.

Five-Year Comparison of Selected Supplementary Financial Data (Unaudited)

Adjusted for the Effects of Changing Prices

	Year Ended December 31,				
	1981	1980	1979	1978	1977
OPERATING REVENUES (In Thousands)					
As reported on the primary consolidated statements	$1,279,649	$1,080,869	$ 994,585	$ 862,956	$ 796,289
Adjusted to average 1981 dollars	$1,279,649	$1,192,985	$1,246,205	$1,203,015	$1,195,092
HISTORICAL COST INFORMATION ADJUSTED FOR GENERAL INFLATION (In Average 1981 Dollars)					
Income from continuing operations (excluding reduction to net recoverable cost) (In thousands)	$ 49,148	$ 23,064	$ 52,406		
Income from continuing operations per common share (excluding reduction to net recoverable cost)	$ .69	$ .35	$ .90		
CURRENT COST INFORMATION (In Average 1981 Dollars)					
Income (loss) from continuing operations (excluding reduction to net recoverable cost) (In thousands)	$ 24,428	$ (13,602)	$ 17,735		
Income (loss) from continuing operations per common share (excluding reduction to net recoverable cost)	$ .34	$(.20)	$ .30		
Excess of increase in the general price level over increase in specific prices of property, plant and equipment after reduction to net recoverable cost (In thousands)	$ (186,035)	$ (290,628)	$ (335,113)		
OTHER INFORMATION					
Common stockholders' equity at December 31 at net recoverable cost (In thousands of Average 1981 Dollars)	$1,190,126	$1,119,597	$1,151,691		
Advantage resulting from the decrease in purchasing power of net monetary liabilities (In thousands of Average 1981 Dollars)	$ 215,268	$ 279,494	$ 309,809		
Cash dividends declared per common share—					
As reported	$1.76	$1.76	$1.76	$1.76	$1.715
Adjusted to average 1981 dollars	$1.75	$1.92	$2.20	$2.43	$2.56
Market price per common share at December 31—					
As reported	$11.625	$11.875	$13.375	$14.875	$19.50
Adjusted to average 1981 dollars	$11.25	$12.52	$15.85	$19.98	$28.54
Average consumer price index	272.4	246.8	217.4	195.4	181.5

The Consumer Price Index for All Urban Consumers (CPI-U) was used for converting actual dollars spent for property, plant and equipment into average 1981 dollars. This adjustment illustrates the estimated effect that inflation has had upon the Companies' principal assets.

The Handy-Whitman Index of Public Utility Construction Costs for the North Central Division and the Bureau of Labor and Statistics engineering indices were used to calculate the current cost of property, plant and equipment, excluding land. These indices were applied to actual dollars spent on large construction projects according to the year of expenditure. Current cost of all other construction projects was based upon original cost in the year of its transfer to plant in service. The current cost of land is the same as the computed amount adjusted for general inflation. The current cost adjustment reflects the approximate dollars that would have to be spent today to acquire property, plant and equipment identical to assets currently owned.

Depreciation expense was determined using the same rates and methods under general inflation and changing prices as the provision for depreciation reported on the primary consolidated financial statements. The accumulated provision for depreciation was estimated by using the Handy-Whitman Index. A theoretical reserve balance was estimated for each class of property by year that the property was placed in service. The index was then applied to each reserve balance for the respective year to determine the composite current cost accumulated provision for depreciation.

The total provision for income taxes has not been adjusted for general inflation or changing prices, in conformity with the reporting requirements of SFAS No. 33.

The reduction to net recoverable cost arises because the current rate making policies to which the Companies are subject allow recovery through revenues of only the historical cost of utility property. During inflationary periods, however, the investment necessary to replace that property will be more than its original cost. In order to properly reflect property, plant and equipment at its economic value to the Companies, the adjustment for reduction to net recoverable cost must be made due to the additional constraints present in the rate making process.

Consolidated net monetary liabilities consist primarily of long-term debt and preferred stock. During inflationary periods, net monetary liabilities will be repaid with dollars having less purchasing power than dollars had when the liabilities were originally incurred. Adjustment for the advantage resulting from the decrease in purchasing power of net monetary liabilities is necessary to adequately reflect these differences and serves to partially offset the adverse inflationary effects of replacing the Companies' property, plant and equipment.

Auditors' Report

ARTHUR ANDERSEN & CO.
1345 Avenue of the Americas
New York, N.Y. 10105

To the Stockholders and Board of Directors of Ohio Edison Company:

We have examined the consolidated balance sheets and statements of consolidated capitalization of Ohio Edison Company (an Ohio corporation) and its subsidiary companies as of December 31, 1981, and 1980, and the related statements of consolidated income, retained earnings, capital stock and other paid-in capital, sources of funds for gross property additions and taxes 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 more fully in Note 2 to the consolidated financial statements, the Company has incurred construction costs related to four nuclear units which were terminated in early 1980. Pursuant to a Public Utilities Commission of Ohio (PUCO) order, the Company had been recovering these costs from its customers over a ten-year period. During 1981 the Ohio Supreme Court ruled in a case involving another Ohio utility company that the PUCO had exceeded its authority in allowing these costs as service related costs in that company's rate case. How that decision will affect the Company's recovery of these costs from its retail customers in future rate cases is uncertain at this time. In addition to the unamortized costs incurred by the Company, there are also asserted claims related to delays in, and the termination of the units, which may result in the incurrence of additional costs, the amount of which cannot be determined at this time.

In our opinion, subject to the effect of such adjustments, if any, that might have been required had the outcome of the matters referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Ohio Edison Company and its subsidiary companies as of December 31, 1981, and 1980, and the results of their operations and the sources of funds for gross property additions for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

February 12, 1982.

Consolidated Financial Statistics

General Financial Information	1981	1980	1979	1978	1977	1976	1971
Total Operating Revenues (000)	**$1,279,649**	$1,080,869	$ 994,585	$ 862,956	$ 796,289	$ 644,852	$ 308,82[illegible]
Operating Income (000)	**$ 252,381**	$ 169,383	$ 163,744	$ 123,945	$ 146,508	$ 122,217	$ 68,130
Net Income for Common Stock (000)	**$ 163,892**	$ 101,403	$ 105,120	$ 61,259	$ 87,863	$ 82,777	$ 45,778
Ratio of Net Income for Common Stock to Operating Revenues	**12.8%**	9.4%	10.6%	7.1%	11.0%	12.8%	14.8%
Times Interest Earned Before Income Tax	**2.11x**	2.05x	2.31x	1.67x	2.38x	2.22x	3.41x
Net Utility Plant at December 31 (000)	**$3,867,757**	$3,435,267	$3,012,197	$2,717,820	$2,403,810	$2,115,798	$1,047,217
Gross Property Additions (000)	**$ 568,044**	$ 515,020	$ 476,746	$ 395,162	$ 358,105	$ 325,553	$ 156,045
Capitalization at December 31: (000)							
Common Stockholders' Equity	**$1,228,486**	$1,066,957	$ 969,543	$ 851,119	$ 866,725	$ 634,707	$ 350,121
Preferred Stock Not Subject to Mandatory Redemption	**304,798**	307,472	307,472	307,472	262,472	262,472	83,803
Preferred Stock Subject to Mandatory Redemption	**94,298**	99,200	93,600	98,000	98,000	88,000	—
Preference Stock Subject to Mandatory Redemption	**56,843**	57,250	57,250	—	—	—	—
Long-Term Debt	**1,759,771**	1,594,384	1,410,782	1,343,195	1,189,821	1,087,755	557,140
Total Capitalization	**$3,444,196**	$3,125,263	$2,838,647	$2,599,786	$2,417,018	$2,072,934	$ 991,064
Capitalization Ratios at December 31:							
Common Stockholders' Equity	**35.7%**	34.2%	34.2%	32.7%	35.9%	30.6%	35.3%
Preferred Stock Not Subject to Mandatory Redemption	**8.8**	9.8	10.8	11.8	10.9	12.7	8.5
Preferred Stock Subject to Mandatory Redemption	**2.7**	3.2	3.3	3.8	4.0	4.2	—
Preference Stock Subject to Mandatory Redemption	**1.7**	1.8	2.0	—	—	—	—
Long-Term Debt	**51.1**	51.0	49.7	51.7	49.2	52.5	56.2
Total Capitalization	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Obligations at December 31 (000)	**$447,484**	$265,000	—	—	—	—	—
Cost of Preferred & Preference Stock Outstanding at December 31	**8.37%**	8.38%	8.36%	7.99%	7.85%	7.84%	4.94%
Cost of Long-Term Debt Outstanding at December 31	**9.99%**	9.16%	8.13%	7.71%	7.45%	7.47%	5.71%

Common Stock Data	1981	1980	1979	1978	1977	1976	1971
Earnings per Average Common Share	**$2.30**	$1.52	$1.80	$1.19	$1.97	$2.14	$1.78
Return on Average Common Equity	**14.6%**	9.7%	11.2%	7.1%	11.7%	13.9%	13.2%
Dividends Paid Per Share	**$1.76**	$1.76	$1.76	$1.76	$1.715	$1.67	$1.54
Common Stock Dividend Payout Ratio	**77%**	116%	98%	148%	87%	78%	87%
Common Stock Dividend Yield at December 31	**15.1%**	14.8%	13.2%	11.8%	9.0%	8.1%	6.3%
Price/Earnings Ratio at December 31	**5.1**	7.8	7.4	12.5	9.9	9.8	13.8
Shares of Common Stock Outstanding at December 31 (000)	**78,676**	68,526	59,622	52,120	51,207	39,856	25,695
Book Value per Common Share at December 31	**$15.61**	$15.57	$16.26	$16.33	$16.93	$15.93	$13.63
Market Price per Common Share at December 31	**$11.625**	$11.875	$13.375	$14.875	$19.50	$20.875	$24.50
Ratio of Market Price to Book Value per Share at December 31	**74%**	76%	82%	91%	115%	131%	180%

Consolidated Operating Statistics

	1981	1980	1979	1978	1977	1976	1971
Revenue From Electric Sales: (000)							
Residential	**$ 442,267**	$ 398,832	$360,273	$314,867	$284,512	$232,433	$114,081
Commercial	**308,599**	268,788	240,458	205,901	191,381	155,572	79,858
Industrial	**381,162**	330,717	315,185	258,767	236,434	195,311	92,692
Other	**53,993**	50,420	42,607	46,471	31,744	31,013	13,053
Sub-total	**1,186,021**	1,048,757	958,523	826,006	744,071	614,329	299,684
Sales to Utilities	**73,966**	12,381	10,185	9,346	7,825	6,749	2,281
Total	**$1,259,987**	$1,061,138	$968,708	$835,352	$751,896	$621,078	$301,965
Revenue From Electric Sales—%:							
Residential	**35.1%**	37.6%	37.2%	37.7%	37.8%	37.4%	37.8%
Commercial	**24.5**	25.3	24.8	24.6	25.5	25.1	26.4
Industrial	**30.2**	31.2	32.5	31.0	31.5	31.4	30.7
Other	**4.3**	4.7	4.4	5.6	4.2	5.0	4.3
Sub-total	**94.1**	98.8	98.9	98.9	99.0	98.9	99.2
Sales to Utilities	**5.9**	1.2	1.1	1.1	1.0	1.1	0.8
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Kilowatt-Hour Sales: (Millions)							
Residential	**6,747**	6,801	6,650	6,501	6,334	6,024	4,656
Commercial	**4,917**	4,812	4,693	4,470	4,549	4,358	3,421
Industrial	**9,352**	8,909	9,830	9,600	9,671	9,262	8,548
Other	**1,181**	1,370	1,346	1,309	1,253	1,171	933
Sub-total	**22,197**	21,892	22,519	21,880	21,807	20,815	17,558
Sales to Utilities	**2,465**	502	441	429	422	387	260
Total	**24,662**	22,394	22,960	22,309	22,229	21,202	17,818
Customers Served at December 31:							
Residential	**872,303**	867,447	861,196	848,268	836,500	824,851	743,532
Commercial	**89,231**	88,505	87,425	86,410	85,002	85,512	77,955
Industrial	**1,068**	1,059	1,161	1,160	1,147	1,111	1,094
Other	**711**	704	693	689	682	681	554
Total	**963,313**	957,715	950,475	936,527	923,331	912,155	823,135
Average Annual Residential KWH Usage	**7,760**	7,870	7,780	7,724	7,637	7,361	6,345
Average Residential Price Per KWH	**6.56¢**	5.86¢	5.42¢	4.84¢	4.49¢	3.86¢	2.45¢
Cost of Coal per Million BTU	**$1.81**	$1.50	$1.26	$1.16	$.96	$.93	$.29
Generating Capability at December 31: (Megawatts)							
Coal	**4,907**	4,899	4,861	4,861	4,861	4,481	3,793
Oil	**354**	364	423	423	423	423	6
Nuclear	**425**	425	425	420	420	190	—
Total	**5,686**	5,688	5,709	5,704	5,704	5,094	3,799
Sources of Electric Generation:							
Coal	**89.9%**	98.7%	93.9%	90.4%	90.0%	96.3%	100.0%
Oil	**0.2**	0.6	2.0	3.5	2.6	2.5	—
Nuclear	**9.9**	0.7	4.1	6.1	7.4	1.2	—
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Peak Load—Megawatts	**4,148**	4,210	4,105	4,038	4,134	3,817	3,307
Number of Employees at December 31	**7,669**	7,503	7,157	6,765	6,609	6,241	5,892

Stockholder Information

Stock Transfer and Registration Agents

Information and assistance pertaining to the transfer or registration of all classes of Company stock can be obtained by contacting one of the following Transfer Agents or Registrar of Ohio Edison Company:

Transfer Clerk
Ohio Edison Company
76 South Main Street
Akron, OH 44308

Continental Stock Transfer & Trust Company
19 Rector Street
New York, NY 10006

BancOhio National Bank
One Cascade Plaza
Akron, OH 44308

Stock Listing

At the end of 1981, the Company had 78,675,703 shares of common stock outstanding, owned by 182,778 holders of record.

The Company's common stock is listed on the New York and Midwest Stock Exchanges and traded on other registered exchanges under the ticker symbol OEC. Newspaper stock listings generally use the symbol Ohio Ed.

Annual Meeting of Stockholders

The 1982 Annual Meeting of Stockholders will be held on Thursday, April 29, at 1:30 p.m. at Ohio Edison's General Office in Akron, Ohio. Stockholders unable or choosing not to attend the meeting can vote on the items of business presented at the meeting by filling out and returning the proxy card that is mailed to each stockholder approximately 30 days prior to the meeting date.

Dividend Reinvestment and Stock Purchase Plan

The Ohio Edison Dividend Reinvestment and Stock Purchase Plan raised $35.9 million of new capital in 1981, up 21 percent over 1980.

A total of 37,278 participants, or 20 percent of Edison's common stockholders of record, had been enrolled in the Plan by the end of the year. By reinvesting their dividends totaling $22.8 million and making optional cash payments of $13.1 million, participants purchased 3,122,631 additional shares of common stock in 1981.

Stockholders may invest all or part of their quarterly dividends automatically in additional shares of common stock. The purchase price of common stock purchased with reinvested common stock dividends is a price equal to 95 percent of market value. Stockholders participating in the Plan may buy additional shares at a price equal to 97 percent of market value through optional cash payments of up to $40,000 per year.

The Plan is being amended so that, commencing in early 1982, preferred and preference stockholders will be eligible to participate. The purchase price of common stock purchased with reinvested preferred or preference stock dividends will be equal to 100 percent of market value.

An added benefit of the Plan may be available from 1982 through 1985. The Economic Recovery Tax Act of 1981 provides that participants of qualified dividend reinvestment plans, such as that offered by Ohio Edison, may elect to exclude up to $750 a year ($1,500 on a joint return) of dividends that are reinvested. The Company anticipates that a substantial portion of common stock dividends paid in 1982 will be a return of capital, and thus nontaxable wholly apart from the provisions of the Act. If any part of a dividend is determined to be a return of capital, participants should consult their own tax advisers on the extent to which the election to exclude dividends should be made.

In addition to the benefit of tax deferral, if certain requirements are met with respect to holding periods for the Company's common stock, the proceeds of a sale of stock purchased under the Plan may be eligible for long-term capital gain treatment. Stock purchased with reinvested dividends will have a zero tax basis to stockholders.

Additional information about the Plan and a Prospectus can be obtained by writing to Stockholder Services or by calling 1-216-384-5513.

Dividend Income Taxability

Common stock dividend payments during 1981 are 100 percent a return of capital and, therefore, nontaxable for federal income tax purposes. Preference stock dividends for 1981 are 81 percent return of capital and nontaxable for that portion. Preferred stock dividend payments during 1981 are 100 percent taxable.

These percentages are subject to final determination by the Internal Revenue Service. Stockholders will be notified promptly if the determination results in a significant change.

Availability of Form 10-K

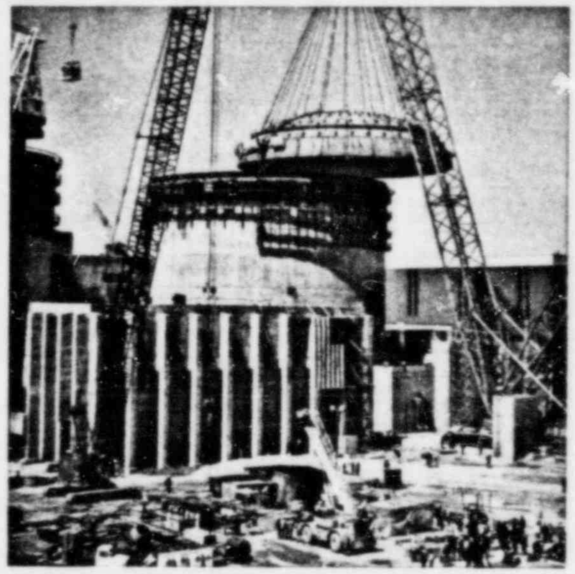
A copy of Ohio Edison's 1981 Annual Report to the Securities and Exchange Commission, Form 10-K, will be provided without charge to stockholders upon request. If you would like to receive a copy of this report, please write to Gregory F. LaFlame, Secretary, Ohio Edison Company, 76 South Main Street, Akron, Ohio 44308.

OHIO EDISON
The Energy Makers

76 South Main Street
Akron, Ohio 44308

1981 Annual Report

The Cleveland Electric Illuminating Company



1981 Annual Report

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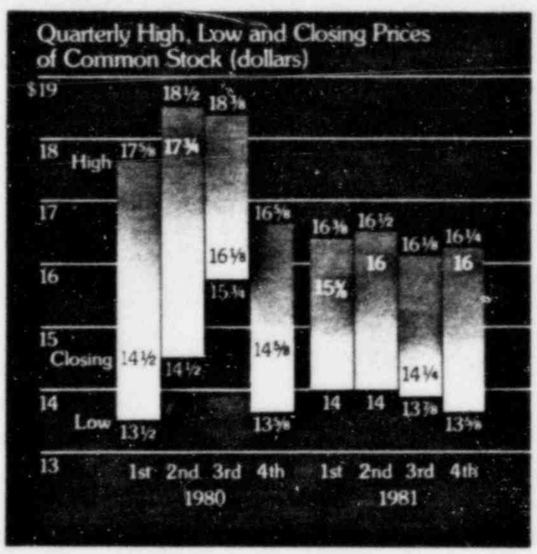
Our primary mission is to supply electric energy when and where it is needed to nearly three-quarters of a million customers in our 1,700-square-mile service area.

Over a 100-year span, our electricity powered the development of Northeastern Ohio's industrial might. Today, that strong industrial base, together with growing service and commercial business segments, promises economic vitality for our area for many years to come. Similarly, our residential customers have depended on us to light, heat and cool their homes...to cook their food...to wash and dry their clothes...to provide reliable electricity for a better living standard.

Because we are investor-owned, we are obligated to our share owners and bondholders whose investment makes our mission possible. These investors are entitled to a fair return on their investments. We strive to meet that obligation.

Contents



Cover:

The four environments in which the Company works today: a family enjoying the natural environment, construction of a power plant requires the raising of capital in the financial environment, a boiler operator in the operating environment and a hearing before The Public Utilities Commission of Ohio in the rate-setting environment.

Highlights

- Earnings per share were $2.52, up 11.5% from $2.26 in 1980.
- Common Stock dividends per share were increased 2¢ per quarter, effective with the February 15, 1982 payment, the 24th consecutive year of increase.
- In the retrial of the City of Cleveland's antitrust case against the Company, the jury found in favor of the Company; the City has appealed the decision.
- Annual operating revenues surpassed $1 billion for the first time.
- A $147.8 million (17%) rate increase became effective for retail electric customers.
- Hearings were completed before The Public Utilities Commission of Ohio for a $130 million (12%) increase in retail electric rates; notice of intent to file for a $221 million (17%) rate increase was announced.
- A record peak load of 3,362 megawatts was recorded in July.
- The 1982-1986 construction program is $1.8 billion.

Financial Summary

	1981	1980	Per Cent Change
Earnings Per Share of Common Stock	$ 2.52	$ 2.26	11.5
Dividends Paid Per Share of Common Stock	$ 2.08	$ 2.00	4.0
Book Value Per Share of Common Stock	$ 19.63	$ 19.72	(0.5)
Common Stock Share Owners	103,242	101,001	2.2
Operating Revenues (000)	$1,012,930	$893,566	13.4
Operating Expenses (000)	$ 820,226	$743,051	10.4
Net Income (000)	$ 155,734	$125,383	24.2
Earnings Available for Common Stock (000)	$ 120,817	$ 97,672	23.7
Kilowatthour Sales (Millions of Kilowatthours)			
Residential	4,376	4,463	(2.0)
Commercial	4,178	4,149	0.7
Industrial	8,280	8,062	2.7
Other	399	416	(3.8)
Sub-total	17,233	17,090	0.8
Sales to Utilities	275	1,070	(74.3)
Total	17,508	18,160	(3.6)

The nearly completed transmission yard at the Perry Nuclear Power Plant provides the background for (from left to right) R. M. Ginn, H. L. Williams and R. A. Miller.

Dear Share Owner:

One of our predecessors in the leadership of The Illuminating Company, a man of Swedish ancestry, frequently spurred us on with the challenge, "The North Wind made the Vikings great." That phrase is perhaps more appropriate today than ever before. We believe that the management of the Company today is responding to Elmer Lindseth's challenge. In spite of the adversity that has plagued our industry during the past several years, we believe fundamental improvement is under way.

In many ways 1981 was a watershed year for the industry and our Company. A new administration and Congress went to Washington with a pledge to end rampant inflation, to improve the productivity of American industry by encouraging capital formation and to break the regulatory log jam on energy, including nuclear power. That is a big order, and implementation will take time. So far, the steps taken in Washington, in Columbus and by our industry and our Company are positive. The results which are dis-

cussed in detail in this report are indicative of an improving trend.

While we experienced peaks and valleys, on balance, 1981 was an upbeat year for the Company's customers, employees and share owners.

Earnings per common share increased 11.5% from $2.26 to $2.52.

The improved earnings enabled the Board of Directors to increase dividends for the 24th straight year and to add one more to what is now 81 consecutive years of cash dividend payments.

Gross revenues exceeded one billion dollars for the first time, an event more attributable to the severe inflation that plagued the economy than results of operations. We would gladly have had lower revenues and less inflation.

The Public Utilities Commission of Ohio took an essential step toward meeting the need for revenues that cover our costs, including earnings to compensate common share owners for their investment, by approving a rate increase of $147.8 million in 1981. An Order deciding our pending $130 million rate increase application is expected soon. Since we have not caught up with cost increases, we continue to need regular increases in our prices — a situation that will be common to all businesses, including utilities, until inflation is licked.

Those who expected the new Administration's program to bring a strong economic recovery in 1981 were disappointed. Realistically, an immediate turnaround was too much to expect. However, our industrial sales, despite heavy reliance on autos and steel, increased by 2.7% over the 1980 total, notwithstanding the fourth quarter downturn. Residential and commercial sales were adversely impacted by very poor housing growth and unusually mild weather in 1981.

We raised about $275 million from outside financing despite a downrating of our bonds. The rating change reflects our need to continue to sell significant amounts of bonds to finance our construction program, rate increases which were perceived to be insufficient by the rating agencies and an adverse Ohio Supreme Court decision.

The Federal administration and Congress took two actions to help utilities and our Company raise capital less expensively. They will both improve our share owner position and hold down rates for customers. The first provides for tax reductions to encourage investment in new plant and equipment. These reductions can now be utilized by utility companies with low taxable incomes. The second is a benefit to utility share owners who reinvest their dividends in new common stock. The Company took advantage of the first action, and many of our share owners are taking advantage of the second.

The first Perry unit passed the 80% completion mark and continues on schedule, and on budget, toward its 1984 completion date. Our integrated organization of Company engineers, consultants and outside contractors appears to be producing an outstanding result.

As for the balance of our construction program, our engineering and operating organizations have reviewed every proposed capital expenditure. Their objective, which was met, was to limit new projects to those absolutely essential to provide adequate service and to complete those projects now under way most expeditiously and economically. As a result, our five-year cash budget for construction has been held to no increase, despite the obvious five-year inflation in cost which is a consequence of dropping 1981 expenditures and adding those planned for 1986. Share owners and customers benefit from this effective cost control.

Two major court decisions impacted the Company during 1981: one unfavorable; the other favorable.

The Ohio Supreme Court overruled the PUCO and disallowed the recovery through rates of the planning costs for four CAPCO generating unit projects which were terminated in 1980. The Court reached this decision despite concurring with the PUCO finding that the companies' decisions to construct the plants in the first instance, and later to terminate, were both prudent decisions. The Court decision, which is inconsistent with those in other jurisdictions including the Federal Energy Regulatory Commission, was appealed to the U.S. Supreme Court which so far has declined to review it on procedural grounds. We continue to pursue correction of what we consider bad law through regulatory and judicial actions.

In October 1981, a Federal court jury found for the Company in the six-year antitrust case with the City of Cleveland, after two days of deliberation. The City has appealed the case. When the appeal is concluded, and we do not believe the appeal will succeed, an era of distressed relations with the City of Cleveland will end. It is particularly important during these adverse economic times that the Company and the City direct their energies toward a more cooperative and constructive relationship.

The three of us, the rest of our management team and our 5,000 employees look to 1982 and the future with great enthusiasm. That North Wind is still blowing but we believe the improvement in earnings in 1981 was indicative of a lot of good things about your Company, now and in the future. We have provided reliable electric service to a great section of a great country for over 100 years. We will continue to do so.

Sincerely,

Robert M. Ginn

Robert M. Ginn, President

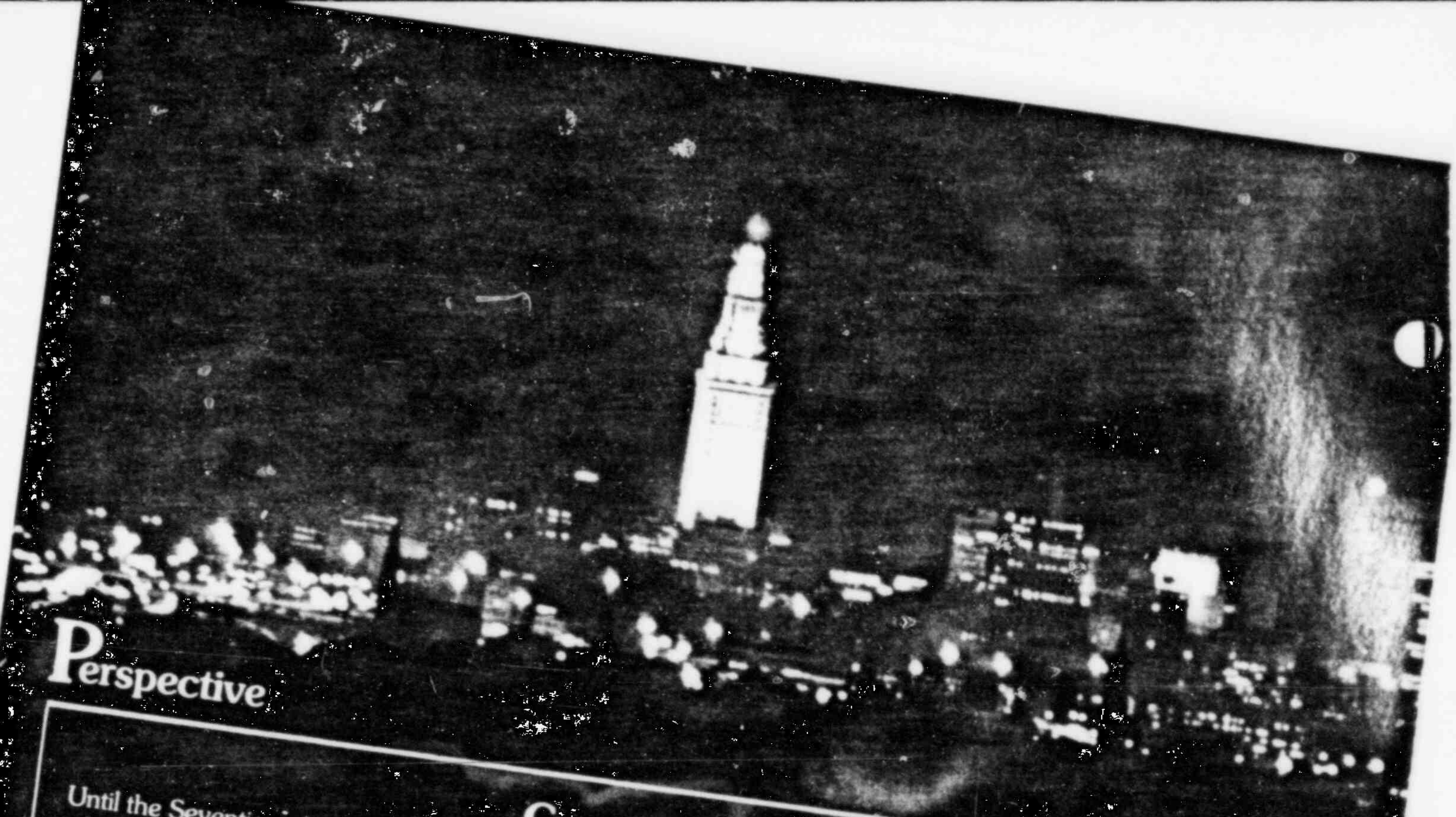
Richard A. Miller

Richard A. Miller, Executive Vice President

Harold L. Williams

Harold L. Williams, Executive Vice President

February 23, 1982



Perspective

Until the Seventies, electricity was taken for granted. It was plentiful and inexpensive. Since 1881, The Cleveland Electric Illuminating Company had worked hard to spread the convenience of electric service from a small area in Cleveland to the 1,700-square-mile area we serve today. In so doing, we made a significant contribution to the development of Northeastern Ohio's industrial base and helped create the jobs that made Greater Cleveland one of the most dynamic, productive areas in the nation.

Electricity changed our individual lives by allowing us to enjoy refrigerators and freezers, radios and televisions, clothes washers and dryers, dishwashers, hair dryers, stereos, shavers and air conditioning. Through those first 90 years of progress, we enjoyed a spirit of trust and partnership with our customers and the general public.

Change

Then came the Seventies, and America in general and the electric utility industry in particular were never to be the same again.

What happened?

For one thing, the basic economics of the utility industry were turned upside down. Rapid growth and improving technology had worked to reduce the cost of electricity. As recently as 1965, we actually *reduced* our rates by $3 million. With the Seventies came rampant inflation, towering interest rates and rising taxes. Since then, new generating capacity has been added at a higher cost per kilowatt than the average cost per kilowatt of existing capacity.

Throughout the Seventies, all Americans were saddled with higher costs of living and growing levels of taxation. In addition, American business, and utilities in particular, witnessed surging governmental regulation.

Taxes, inflation and the high cost of borrowing have hurt The Cleveland Electric Illuminating Company as well as the consumer.

We, however, are faced with a special dilemma. Individuals might try to deal with inflation by paring back on household budgets or postponing the purchase of costly items such as a home or a new car. But we can cut back in very few places because we are a public utility charged with meeting the energy needs of a service area that includes 650,000 residential customers, 80,000 commercial customers and more than 7,000 industrial firms. Preparing for the future energy requirements of Northeastern Ohio means we have to install facilities today so that there will be enough energy tomorrow. We cannot postpone meeting that obligation.

Environments

The Company is working today in four environments:

- a natural environment in which we must deal with the effects of our operations on water, air and working conditions;
- a financial environment involving our relationship with the financial community and others with whom we make our financial arrangements;

- an operating environment that is affected by each of the other environments, yet we must assure that electricity flows without interruption into each home, office and factory we serve; and
- a rate-setting environment in which we must deal with State and Federal agencies in establishing a fair price for our product.

Challenges

These four environments are proper concerns for the Company and have been for many years. Individually, each is difficult enough to work with because all four overlap in so many ways. They present constant and complex challenges.

Yet, the challenges are being met. Much has been accomplished in controlling emissions into the air and discharges into area rivers, streams and lakes, and this vital work goes on. Despite the vagaries of the financial markets, we are meeting our financial needs. We have built and maintained an energy system that has served well the people of Northeastern Ohio for more than 100 years. We are responsive and responsible in dealing with State and Federal rate regulators to the best long-term interests of our customers and investors.

Future

We will continue to work in those four environments with a determination to make each of them better.

We see more and more acceptance of the idea that there is a clear need for realistically conceived and defined environmental regulations by both the State and Federal EPAs.

As a nation, we are working hard for a fundamental improvement in our economic stability. We need a sound economy to improve our financial environment. Sound fiscal and monetary policy should bring down inflation and reduce interest rates. Tax incentives will encourage individual saving and investment and make available needed capital. More capital investment by industry, leading to greater productivity, will encourage the American public to respond with a renewed demand for products and services.

Nuclear energy will be a vital power source for our operations over the rest of this century. We are taking extraordinary precautions in building our nuclear generating plants. We must do all we can to contribute to an enlightened public understanding of the importance of nuclear energy.

The United States has the best electric energy system in the world. We are the only major world power whose electric power industry is largely free of nationalization, owned by millions of share owners. The unique American system works because the rate-setting environment which governs public utilities works to the best interests of all parties.

The text which follows is a factual account of how the Company is working in its four environments. It explains who we are, what we do and why we do it.

Natural

The natural environment — the air we breathe and the water we use for drinking and recreation — has been a concern of the Company from the time we became large enough to affect it. As our service area grew rapidly during the early 1900s, and as we built new coal-burning generating plants to meet that growth, we recognized as we do today that we had a responsibility to see that air and water quality was preserved.

Technology

As early as the 1920s, pollution control equipment was available in America. In 1926, we were the first utility in Ohio to install precipitators at our power stations. Similarly, we also monitored our waste water and treated it with the technology of the times.

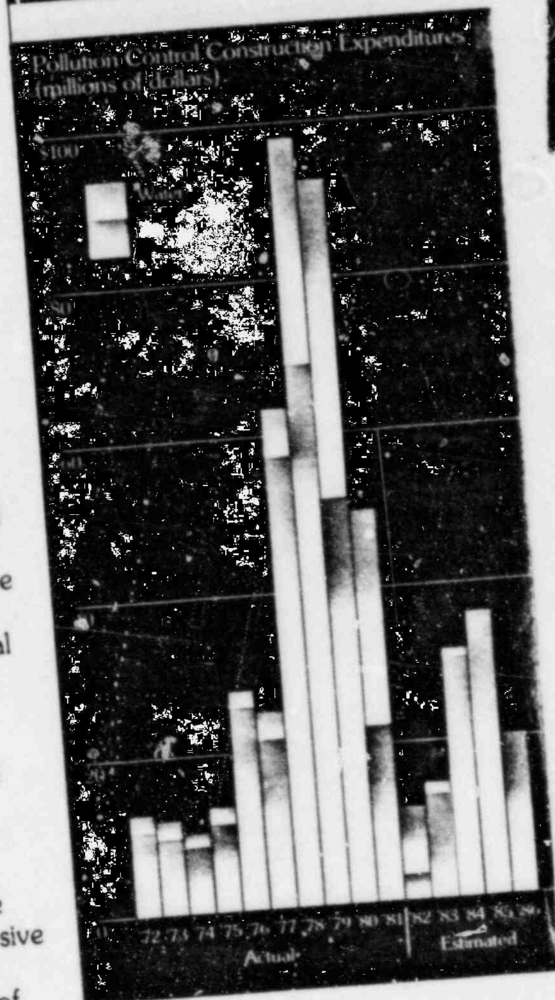
Our dedication over the years to clean air and water has not come cheaply. Progress in pollution control carries a stiff price, one borne by the Company, its customers and investors. In the past 10 years alone, we have spent more than $400 million to install water and air pollution control equipment in order to comply with State and Federal regulations. (See chart on this page.)

Complexity

Working in the natural environment has become very complex. It requires the interplay of many different academic disciplines, from engineering to chemistry to botany. It is legally and operationally complicated by new and changing regulations and policies emanating from Congress and various governmental agencies. To the complexities add uncertainty — uncertainty about future regulations and how they will affect us — and the natural environment clearly becomes a most difficult one in which to operate.

For example, the air quality controls and methods we use are designed to reduce two types of emissions from our coal-burning plants — sulfur dioxide and particulate matter (fly ash). Both of these pollutants come from the coal we burn — about six million tons per year — much of it from Ohio mines.

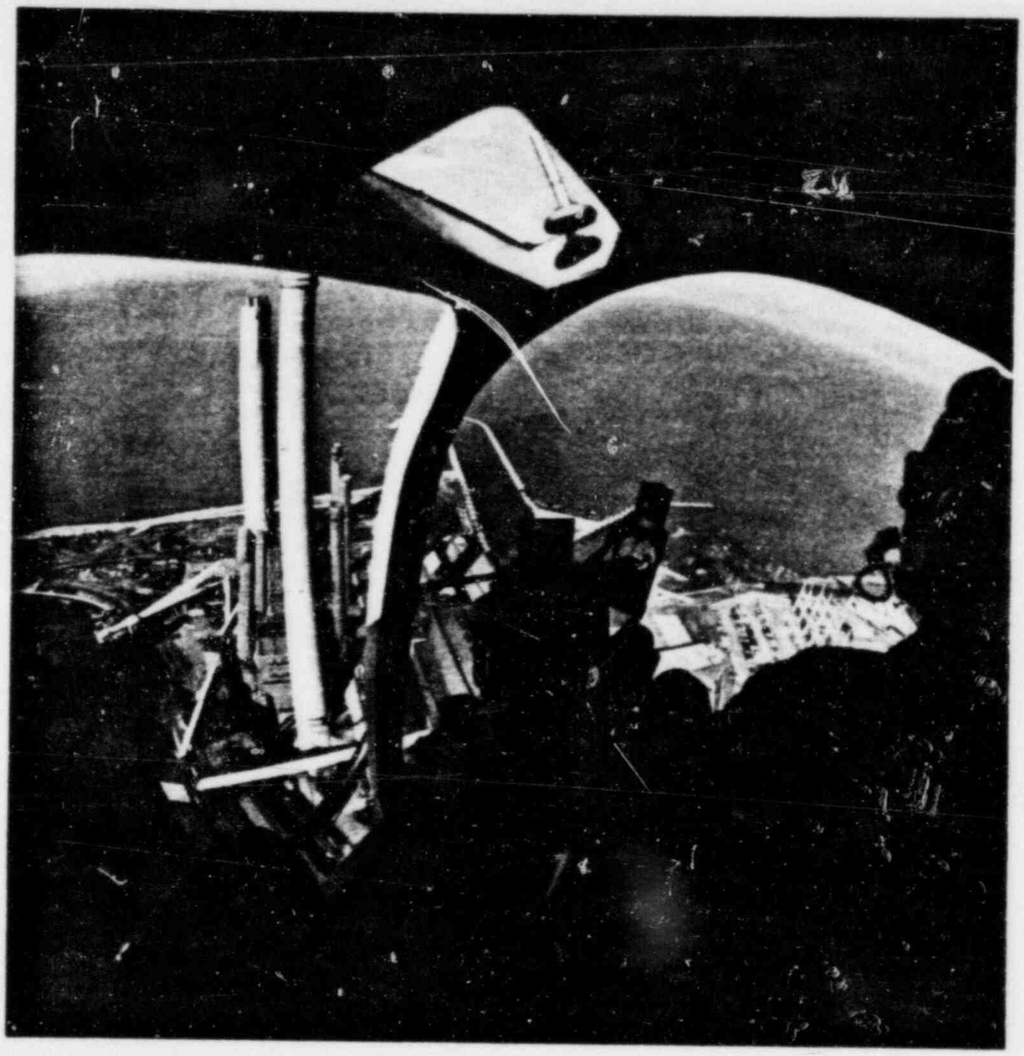
Ohio coal has a high sulfur content. Therefore, most of what we burn is washed to reduce its sulfur content prior to burning. Still, Ohio coal's sulfur content remains high enough to make it necessary for the Company to purchase some expensive low-sulfur coal from other eastern states. By burning these two kinds of coal in a balanced manner, we are able to keep sulfur dioxide emissions within the allowable limits.



Jim Pitts, Maintenance Supervisor at the Avon Lake Power Plant, and his family enjoy the beauty of Greater Cleveland's unique Metropark system, a part of Northeast Ohio's natural environment which the Company is committed to preserve.

To control fly ash emissions, we install electrostatic precipitators which are effective in limiting fly ash emissions from our stacks. These devices can collect anywhere from 95 to 99.6 per cent of fly ash, depending on the characteristics of the coal. Ironically, precipitators controlling fly ash emissions do not work as efficiently with low-sulfur coal as they do with high-sulfur coal.

Even solutions bring new problems. At our three Mansfield units where scrubbers remove substantially all of the sulfur dioxide from the stack emissions, approximately 2.75 million tons of useless sludge must be disposed of every year. Another problem is the approximately 950,000 tons of fly ash which must be removed from our plants and trucked to controlled land fill operations each year.



The clean air and water viewed from a helicopter over the Eastlake Power Plant is indicative of our 10-year, $400 million, system-wide investment in pollution control equipment.

During 1981, we completed a seven-year precipitator upgrading program at a cost of about $200 million to put in place 12 new, state-of-the-art precipitators at three of our plants.

Results

Since 1975, total sulfur dioxide emissions from our plants have been reduced by 33 per cent, while fly ash emissions from our stacks have been reduced by 75 per cent.

Our policy is to comply with all State and Federal air and water quality regulations. We have complied in ways that minimize the cost to our customers and investors. We are working with the various governmental agencies to see that sound cost/benefit economics are considered before greater financial burdens are imposed on our customers and ourselves.

New Issue

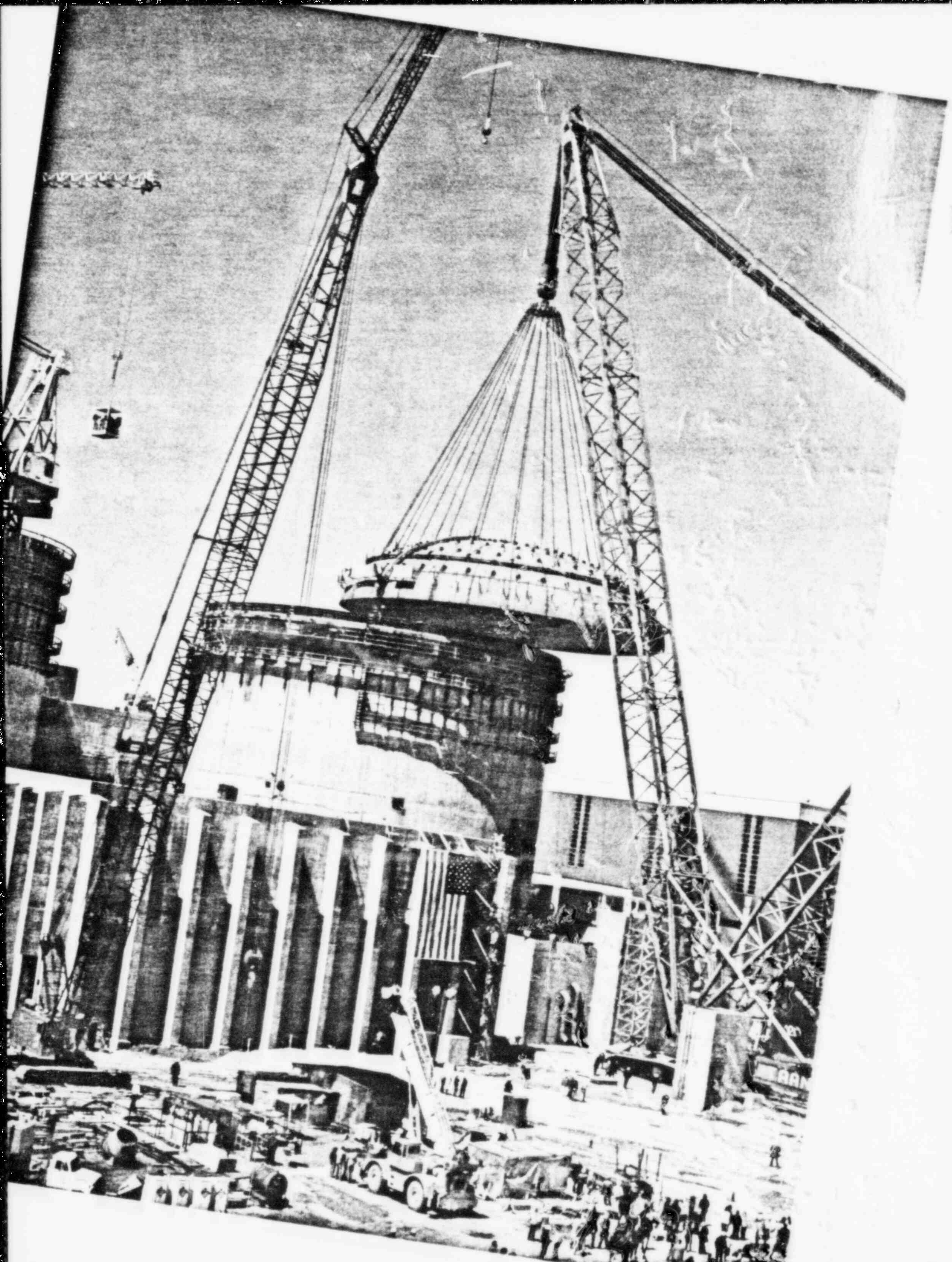
A new environmental issue has been raised by states to the east of Ohio and by the Canadian government: the acid rain phenomenon. Much has been written and said about acid rain with little basis in fact. The present need is thorough research and scientific evaluation to determine its causes and formulate solutions based on prudent cost/benefit judgments. The electric utility industry is sponsoring research in this field through the Electric Power Research Institute (EPRI), an industry-funded research and development organization. EPRI, the Environmental Protection Agency, universities and a host of others are spending millions of dollars in a search for the answers to the acid rain puzzle.

Our concern is that mounting pressures to "do something now" will result in bad legislation, hastily drawn regulations and standards that could be extremely costly to our customers without solving the problem. Congress should fully investigate the sources of acid rain and consider the cost to the consumer before enacting any legislation.

The Ashtabula Power Plant, equipped with new, state-of-the-art precipitators, operates in harmony with the environment—including a neighboring playground.

Commitment

Our stewardship of the natural environment in which we operate has been an ongoing commitment and responsibility. We are mindful that the present regulatory climate could change drastically. We have seen such changes before and know the stiff price that has been paid for improvements in air and water quality. Nevertheless, we will continue to cooperate with State and Federal authorities as we work to improve our natural environment.



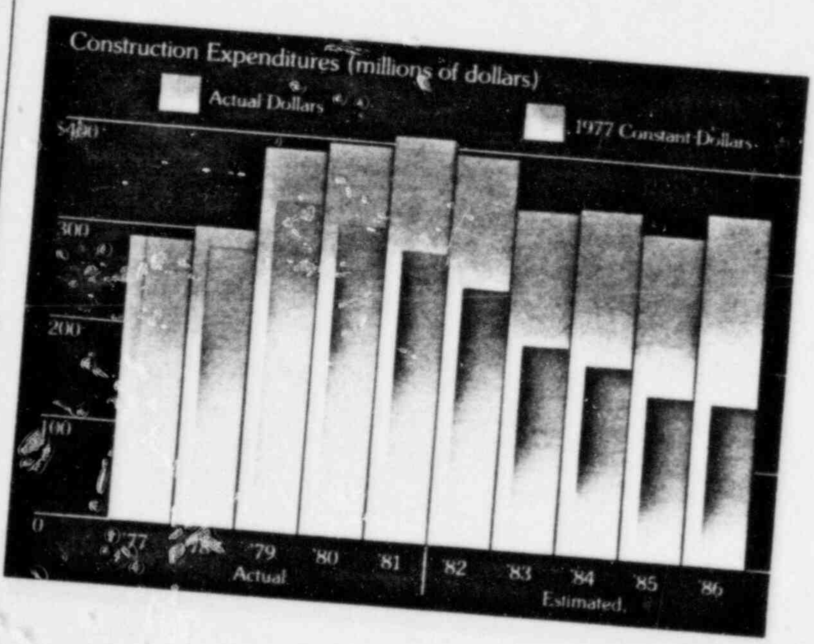
Financial

The financial environment in which we operate has been turbulent in recent years. High inflation and interest rates continue to increase the cost of doing business. Adequately compensating our investors, meeting our service obligations and securing new capital are more difficult than before.

Our objective is to arrange financing at the lowest possible cost, while maintaining a balanced capital structure and striving to improve our securities ratings.

Construction Budget

Regulatory lag, high interest rates and a tight money market hinder us from keeping pace with inflation and make the raising of funds for new construction more challenging. We plan to spend about $1.8 billion on construction over the next five years, about half of which will have to be raised in the capital markets.



The 580-ton steel dome is placed on the first of two reactor containment buildings at the Perry Nuclear Power Plant. The two Perry units are major items in the Company's $1.8 billion, five-year construction program.

The largest items in the budget are our shares of three nuclear generating units — Perry Units 1 and 2 and Beaver Valley Unit 2. Also included in the budget are pollution control equipment and transmission and distribution facilities.

Ratings

The cost of money for such construction depends, in part, on ratings assigned to Company securities by financial rating agencies. Standard & Poor's Corporation and Moody's Investors Service — two of the major rating agencies — lowered the Company's first mortgage bond ratings from "AA-" and "Aa," respectively, to "A." Standard & Poor's also reduced our preferred stock rating to "BBB" from "A-"; however, Moody's maintained its "a" rating.

WHO ARE THE BOND RATERS?

The foundation for the rating system now used to determine the risk level of stocks and bonds was laid in the 1850s by Henry Varnum Poor, a lawyer and magazine editor. Poor believed that investors were entitled to have access to company financial data — information that previously had not been made public. With the support of the New York Stock Exchange, he fought a long battle which eventually led to legislation requiring corporate financial reporting on a regular and uniform basis. In 1941, Standard Statistics Company merged with Poor's Publishing to form Standard & Poor's Corporation.

Moody's Investors Service, started by John Moody in 190[illegible], provides another source of business and financial data for investors.

Standard & Poor's and Moody's are today two of the major corporate rating services. Fitch Investors Service, Inc. and Duff & Phelps are other well-respected institutions which provide rating services. They all have built solid reputations for accuracy and objectivity. Their ratings have become the accepted standard in the evaluation of stocks and bonds.

The Company must compete successfully in the financial markets because of our continuing need to raise new capital. This requires adequate earnings.

In making their decisions, the agencies cited the Company's low ratio of income to interest charges and the low level of internal cash generation. A contributing factor was last year's Ohio Supreme Court decision not to allow the Company to recover in rates as an operating expense the costs of four terminated nuclear projects. (See Note F in "Notes to Consolidated Financial Statements.")

We are striving to restore our securities ratings to their former levels. In order to do this, we have become more vigorous in seeking rate increases. We have adjusted our capitalization goals for greater conservatism. At year end 1981, our capitalization structure was 37 per cent common equity, 48 per cent debt and 15 per cent preferred stock. Our long-term goal is a capitalization structure of 40 to 42 per cent common equity, 10 to 12 per cent preferred stock and a maximum of 48 per cent debt.

Financings

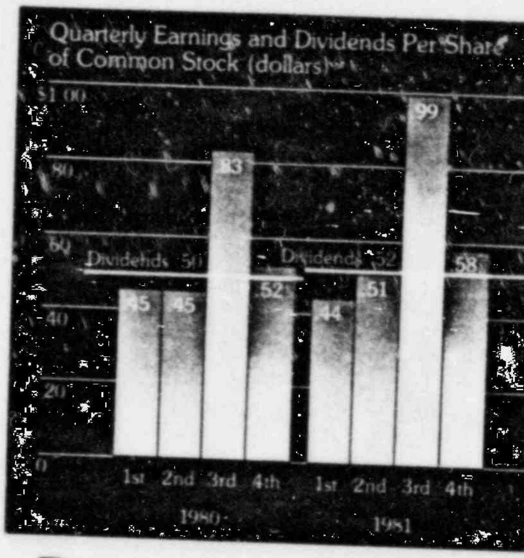
Financing activity in 1981 totaled about $275 million. Our major efforts included two private placements of

preferred stock totaling $70.5 million, the raising of $60 million through private placements of first mortgage bonds and a public offering of 3½ million common shares which raised $48.8 million. In addition, we raised $22.2 million from the proceeds of the sale of variable rate, tax-exempt pollution control revenue bonds. Also, we increased our term bank loans by $50 million.

Late in 1981, we were one of the few utilities which arranged sales of investment tax credits and accelerated cost recovery depreciation rights as provided for in The Economic Recovery Tax Act of 1981. We raised $25.4 million in two such transactions.

In January 1982, we sold four million shares of common stock to the public which raised $60.8 million. We also plan to raise $75 to $125 million through the public sale of first mortgage bonds in the first half of 1982 and another $200 million through additional debt and equity financings later in the year. We will continue to raise funds through the sale of common stock under the Company's employee stock purchase plans and our Share Owner Dividend Reinvestment and Stock Purchase Plan. We plan to reduce the average level of short-term debt to give us more financing flexibility.

The new tax law provides an incentive to reinvest dividends in new issue utility common stock through a dividend reinvestment plan so as to encourage capital formation. The income tax on dividends reinvested in our common stock is postponed and dividends are taxed at capital gain rates if the stock is held at least one year. As a result, participation in the Company's Dividend Reinvestment Plan surged about 22 per cent from November 1981 to mid-February 1982. Currently, 21 per cent of our common stock share owners are participating in the Plan. We expect participation to continue to grow throughout the year.



Dividend

The Board of Directors raised the quarterly dividend on common stock from 52 cents per share to 54 cents per share on January 5, 1982. It was the 24th consecutive year in which dividends have been increased and the 81st year of uninterrupted cash payments.

Violet Burden, a Company share owner, greets the postman as he delivers her quarterly review and dividend check. A great number of our 110,000 share owners depend on dividends to meet their living expenses. Approximately 78% of our share owners own less than 400 shares.

INFLATION HURTS US, TOO

The prices we pay for essential material and equipment have been rising right along with everything else in these years of high inflation. In an average year, we install some 8,600 light poles and about 275 miles of electric cable. Our fleet of vehicles and equipment consumes 1¾ million gallons of gasoline a year.

The following table shows how inflation has affected the costs of one kilowatthour of electricity and items we use:

	1971	1981	Per Cent Increase
1 kWh	2.64¢	7.12¢	170
Line truck	$38,130	$96,000	152
Cable/ft.	$ .66	$ 1.90	188
Pole	$ 153	$ 560	266
Coal/ton	$ 9	$ 46	411
Gas/gal.	$ .24	$ 1.32	450

As individuals and companies, inflation is the cruelest tax we pay.

Operating

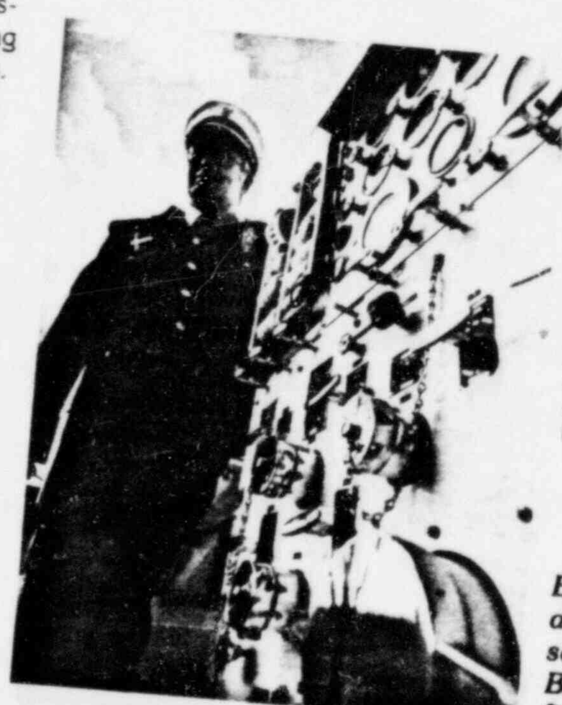
Operating an electric utility over the past 10 years has been a demanding task. The Company has prevailed in its purpose — to provide continuous electric service to all of its customers at the lowest possible price, consistent with reliability and safety. Elsewhere in this report, we discuss the major influences on our operations by focusing on the financial arena, the regulatory climate and natural environmental concerns. The operating environment in which we work is affected by what is happening in each of the others.

Construction

Our construction program is the most visible and costly part of our operating environment. Its progress is directly tied to our ability to raise the funds to pay for it. In addition, the Nuclear Regulatory Commission will have a decisive influence on when the nuclear units under construction are completed and when they may be operated. The Federal EPA's actions regarding emission limitations will determine the future availability of our coal-burning plants. The Ohio Power Siting Board will determine the route of future transmission lines and the sites of generating plants, significantly affecting their costs.

Our industrial sales are depressed during the current recession, but most economists predict a recovery during the second half of 1982. The current level of new construction and urban renewal in downtown Cleveland is good evidence that there is a resurging vitality here at the hub of our service area.

Over the longer term, we are planning for slightly more than a two per cent annual sales and load growth. Our construction program is designed to phase in new generating capacity at specific intervals during the Eighties to match this energy demand with adequate reserves. We are committed to coal and uranium as our primary fuel sources through the rest of this century.



Jim Pappas (left), Boiler Operator at the Eastlake Power Plant, symbolizes the operating environment. 1981 was an outstanding year from the standpoint of generating efficiency and service reliability.

Ed Plomske, supervisor of a line multi-crew unit, serves his community of Bainbridge as a volunteer fire chief.

THE ENERGY MAKERS COMMUNICATE

Our employees, the Energy Makers, were very active during the year communicating to improve understanding among the Company and its customers and the general public.

The job of our energy specialists is to counsel our industrial, commercial and residential customers in effective energy management and efficient energy use. During 1981, some 104,000 customers in all three categories were reached by our people. For example, our home economists made more than 300 presentations to more than 16,000 persons, advising them about the efficient use of home appliances and heating and cooling systems. More than 50 seminars on electric heating and proper insulation attracted thousands of people from the construction industry.

Energy specialists also met with customers attending trade shows, seminars and expositions stressing the efficient use of electricity.

Our Speakers Bureau, staffed with 51 volunteer employees, responded to more than 1,500 energy-related program opportunities — giving talks, showing films and slides and telling our story to over 50,000 persons in our service area.

Day in and day out our customer service employees work with individuals, answering questions and helping with problems. During 1981, approximately 740,000 phone calls were handled.

Beyond their job responsibilities, our employees invest freely of their own time in their communities. Many of our employees serve in various positions in local governments and many more work as volunteers in other activities ranging from Little League to Little Theater.

Nuclear

In spite of the unfounded claims of the anti-nuclear groups regarding nuclear safety, the fact remains — and it is indisputable — that America has had 500 reactor years of commercial nuclear power generation without a single nuclear-caused death or injury. We know of no other large-scale industry with such an enviable record of safeguarding the public. Despite the unfortunate consequences of the Three Mile Island (TMI) accident, the safety systems worked. No one died or was even injured. New information derived from a thorough examination of TMI has resulted in further refinements in nuclear technology which make all plants — existing ones and those under construction — even safer than before. The likelihood of financially debilitating shutdowns has also been significantly reduced.

We are committed to nuclear power. We have completed construction of 80 per cent of Perry Unit 1 while Perry Unit 2 is 40 per cent complete. Beaver Valley Unit 2, now 50 per cent complete, is being built by Duquesne Light Company, a CAPCO partner. (See Page 45 for information about CAPCO.) While the construction costs of nuclear plants are greater than those of coal-fired units, their long-term payoff for consumers comes from the much lower cost of nuclear fuel. The electricity we get from Davis-Besse is the lowest cost power in our system. Without Davis-Besse, our customers would have been charged more than $50 million in additional fuel costs in 1981. Compared with fossil-fueled units, nuclear generation will result in lower bills over the long run.

Our Perry construction project is currently on schedule and on budget. We realized at the time we contracted for the Perry Plant that we would be successful only if we became deeply involved in its construction on a day-to-day basis. Consequently, in the early Seventies, we created a management organization, which was unique in the industry at that time, to assume overall management responsibility for the construction of the Plant.

About 4,000 people are working at the Perry site — over 400 are Company employees and the remainder are consulting contractors and their craftsmen. We are leaving nothing to chance on this project — our own employees are in key positions to see that all work is done properly, safely and on time.

Performance

The year 1981 was an especially satisfactory operating year. The length of downtimes on generating units was considerably shortened from last year's experience.

Our generating units are complex machines, susceptible to breakdowns. We operate our system with reserve units ready to back up any that fail so that the customer is unaware of the outage. The more our better units run, the more efficient our overall operation. Moreover, the greater the "availability" (the percentage of time units are available), the less is the reserve capacity need in the long run. Overall, availability was improved to 74.8 per cent in 1981 compared with 71.0 per cent in 1980. The only extended equipment outages were those planned to take place during the installation of pollution control equipment.

Efficiency and availability are closely related. In 1981, improved efficiency of our fossil-fueled units reduced our fuel expense by $2.4 million from the 1980 level. As nuclear power becomes a larger part of our generation, we will be less dependent

Construction of major new office buildings in downtown Cleveland is illustrative of the vitality of our service area. Pictured here (left to right) are the 28-story Superior Square Office Tower, the 31-story Medical Mutual Center and the 16-story Ohio Bell General Office Building. These buildings, scheduled for completion in 1983, will provide more than 1.5 million square feet of new office space.

on some of our older, less efficient coal-burning plants, further improving our efficiency.

Reliability is the key measure of service from the customer's perspective. Last year our customers had electric service available on the average of 99.98 per cent of the time. This is typical of the United States where we have the best reliability in the world. Service interruptions experienced by our customers were reduced from the previous year. Average restoration time for those customers whose service was interrupted improved from 100 minutes in 1980 to 67 minutes in 1981, a 33 per cent improvement.

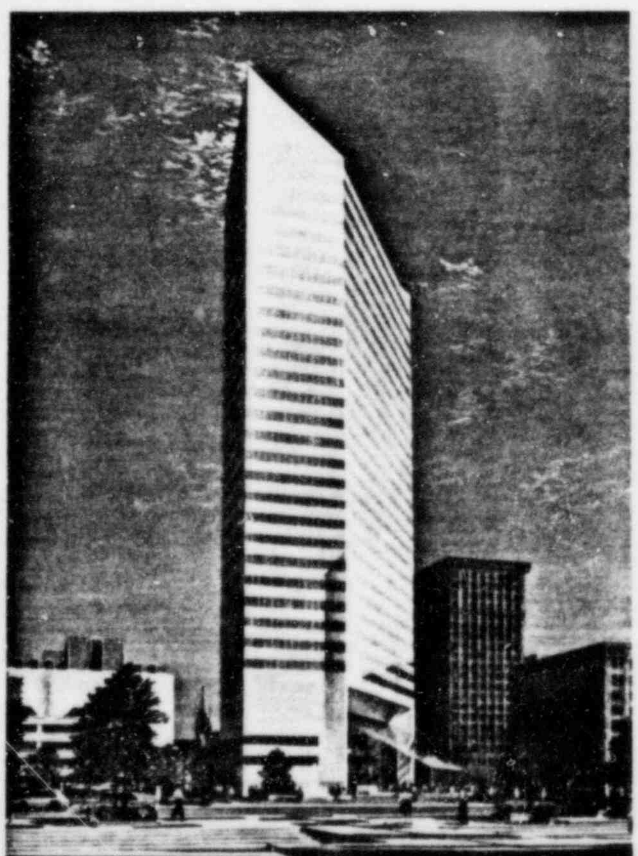
System Peak

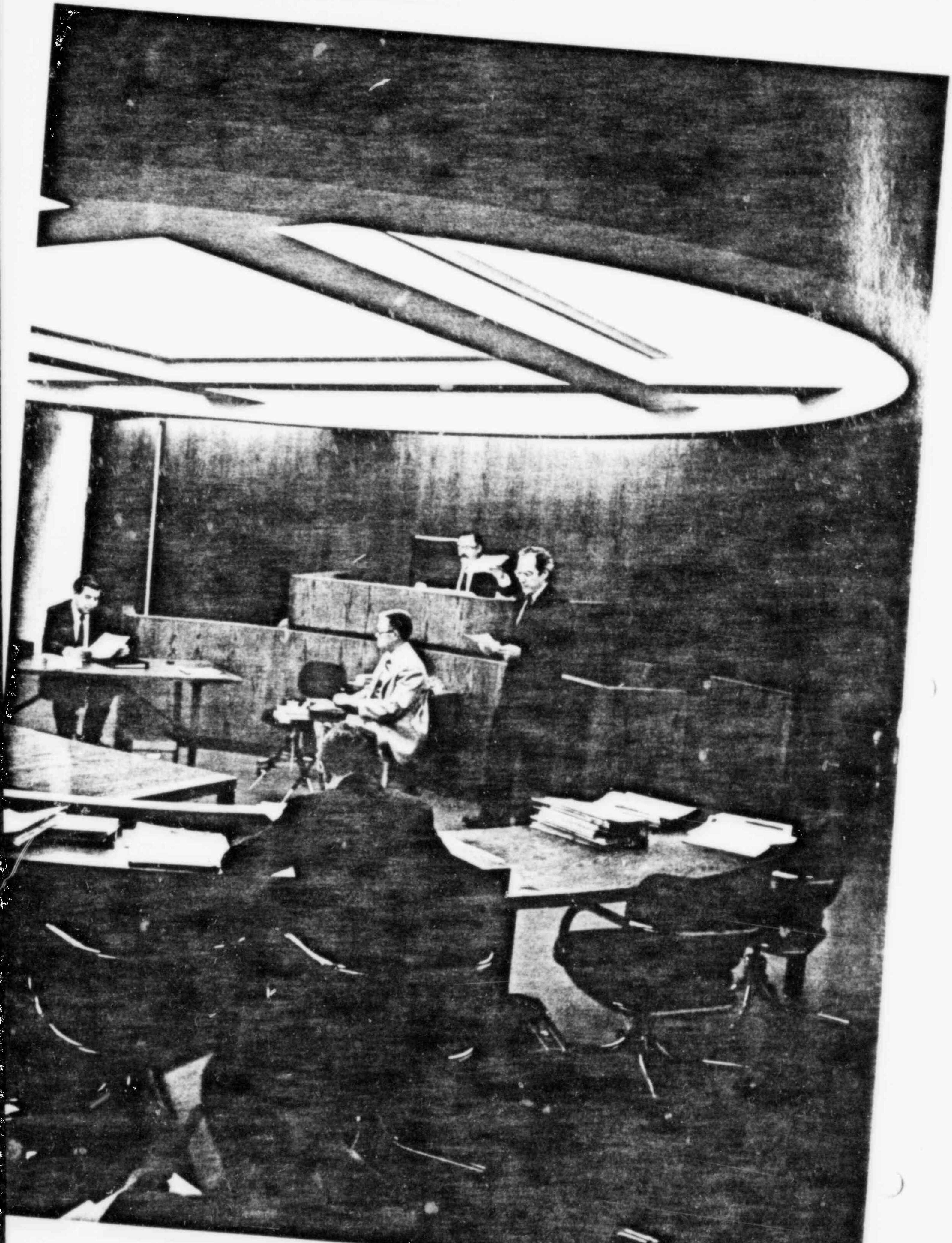
On July 9, our customers created a new 60-minute peak demand of 3,362 megawatts, up from 3,304 last year and 12 megawatts higher than the previous record set in 1977. This new high was set in a period of weak economic activity; we expect and must plan for higher peaks in the future.

Progress

Our performance in the 1981 operating environment made it our best year ever. Construction progress was on target. Availability, efficiency and reliability were improved. Costs were kept under tight control. We will continue to reinforce our system, improve our services and closely supervise our construction program.

It is a tribute to those who preceded us and a challenge to us today to note that The Cleveland Electric Illuminating Company has provided quality electric service for more than 100 years. We promise the same for the future.





Rate-setting

The extraordinary efficiency and reliability of the electric utility industry in America didn't just happen. It resulted from the flexibility and adaptability of investor ownership of the electric utilities. An essential ingredient in this process is governmental regulation. The regulation of rates — the price we receive for our product — is a decisive factor in our industry.

Regulation

Rate regulation makes us different from most other industries. This regulatory process has evolved at Federal and state levels from legislation, administrative practice and judicial review. Specifically, the primary rate-setting environment in which the Company operates today consists of laws passed by the Ohio General Assembly, the administration and application of these laws by The Public Utilities Commission of Ohio (PUCO) and rulings by the Ohio Supreme Court and the U.S. Supreme Court. When our costs increase and we need a higher price for our electricity, we must seek PUCO approval which involves a rate-setting process that takes months to complete. (See story on next page.)

The amount we ask for is what we believe we need to keep the Company financially healthy. This includes a fair return to our investors consistent with the commitment we made to them when they invested their capital with us. We must also provide reliable electric service by maintaining and expanding our generation, transmission and distribution system.

Charles C. Chopp (seated left), Company Controller, is testifying before The Public Utilities Commission of Ohio in connection with a Company rate increase application.

Rates

At least 90 days prior to a formal filing of a new rate case, we must file with the PUCO a "notice of intent" to file for an increase in rates. This is followed by the formal, detailed request for the rate increase.

Each step in a single rate case — a 12-month process which includes notice of intent, formal filing, staff report, public hearings and PUCO decision — is widely reported. The public often hears, reads and sees several media stories and does not realize they are all related to different time frames.

On May 4, 1981, we were granted a 17 per cent, \$144.1 million (later increased to \$147.8 million) electric rate increase based on a request submitted in July 1980. On May 5, 1981, we filed an application for a 12 per cent, \$130 million rate increase which will be settled early in 1982. Then in November, we filed a notice of intent for an increase of 17 per cent, or \$221 million, which will set rates for 1983.

THE PUCO COMMISSIONERS

More than 100 years ago, the Ohio General Assembly recognized that, in the public interest, certain services should be provided by regulated monopolies. In 1867, the General Assembly singled out railroads and telephone companies and formed an agency to regulate them. It wasn't until 1911 that electric, gas, water and steam heating utilities came under State regulation through the Public Services Commission of Ohio — later renamed The Public Utilities Commission of Ohio (PUCO).

The current commissioners of the PUCO, two Republicans and one Democrat, are appointees of Governor James A. Rhodes.

Jon F. Kelly, 30, (R), is Chairman of the PUCO and was appointed in July 1981. Kelly had been the Governor's legislative liaison to the Ohio General Assembly and had worked closely with the PUCO in coordinating legislative programs involving energy matters. A native Ohioan, he is a graduate of American University, Washington, D.C., and earned his law degree from Capital University in Columbus, Ohio.

Michael Del Bane, 63, (D), a former State representative from Mahoning County, was appointed to the PUCO in February 1979. He resigned from the State legislature, where he was chairman of the House State Government Committee, to accept the appointment. Del Bane served 10 years in the Ohio House, from 1969 to 1978.

Dennis Pines, 38, (R), was appointed in January 1981. Before his appointment, Pines was legal director of the PUCO where he has served since 1976. He also had experience at Union Carbide and General Electric before joining the PUCO. A native of New York City, Pines earned a degree in chemistry at Case Western Reserve University in Cleveland and a law degree from Capital University.

We believe the public would better understand the need for rate increases if our rates, as are prices charged by other businesses, were based on current costs. We have asked the PUCO to consider expenses incurred in a current, or matching, test year (rather than historic) which would promptly recognize the effects of inflation on our operations. Thus, 1982 rates would then be based on 1982 costs.

While our electricity sales are our major revenue source, our steam heating business accounted for more than $15 million in revenues in 1981. A $7 million rate request filed in April was granted early in 1982. We filed a request for an additional $2.4 million in February 1982.

In addition, we have an application for a rate increase covering sales for resale to the Cleveland municipal electric system pending with the Federal Energy Regulatory Commission. We began collecting this $2.3 million increase in September 1981, subject to refund depending upon the outcome of formal hearings.

Our industry and its regulatory process has been the subject of intense public dialogue. Yet, under regulation, the investor-owned electric utility industry in this country has become the most efficient and dependable in the world. To maintain this unique status, our regulatory process must continue to be responsive to changing economic conditions. This requires prompt and adequate rate increases which provide both full recovery of current costs and competitive compensation to investors.

WHAT'S A RATE CASE?

Physically, a rate case is impressive. It stands 18 inches tall, is made up of some 4,500 sheets of paper and weighs about 45 pounds. That's just our direct testimony in the formal filing.

The process by which a rate case is conducted is lengthy and typically consumes about 20,000 manhours of Company staff time. Once a case is filed with the PUCO, the PUCO staff takes about five months examining it. Then, the PUCO staff issues a "Staff Report" which makes a preliminary judgment about how much of the requested rate increase they think should be granted.

Written objections to the Staff Report by the Company and by intervenors frame the issues which are addressed in public hearings. Hearings usually begin about seven months after the initial filing. The hearings, presided over by an examiner who works for the PUCO, take about four to six weeks. During this time, as many as 40 witnesses might be heard. The Company, intervenors and the PUCO staff all may present witnesses. Intervenors may include municipal governments, organizations representing all classes of customers and other special interest groups.

After the hearings, each party to the case writes a brief and submits it to the hearing examiner. Subsequently, the hearing examiner drafts an "Opinion and Order." He submits it to the PUCO commissioners who make the final judgment on the issues and set the amount of the rate increase to be granted.

Barbara Luethjohn, Treasury Department, stands beside the stack of direct Company testimony required for formal filing of a rate case.

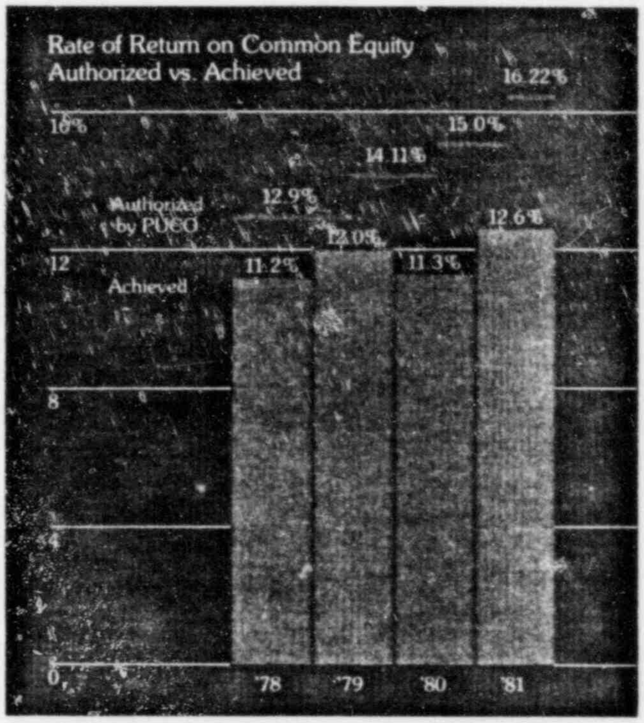
Management's discussion and analysis of financial condition and results of operations

Capital Resources and Liquidity

We are carrying on a construction program under which new facilities are being built to meet the anticipated growth in demand for electricity in our service area. We also are building facilities needed to comply with pollution control regulations. During the years 1979-1981, we spent approximately $1.2 billion on our construction program. This amount includes an allowance for funds used during construction which is explained in Note A of "Notes to Consolidated Financial Statements". We estimate that the cost of the program for the next five years (1982-1986) will be about $1.8 billion. The details on the construction program are described elsewhere in this Annual Report. At December 31, 1981, our purchase commitments totaled $303,522,000 which relate mainly to the construction program.

After paying our expenses, taxes, interest and dividends, our business does not currently generate all of the funds needed for our construction program. Accordingly, we must raise additional money from investors. In the last three years, about 70% of the money used for construction was raised from sales of securities, such as notes, first mortgage bonds and preferred and common stock, and from bank borrowings. The cost of these funds has been high and the common stock was sold at prices below book value. We also raised funds from two sales of the Federal income tax benefits related to equipment placed in service in 1981. These sales were made possible by changes in the tax treatment of equipment leasing rules contained in The Economic Recovery Tax Act of 1981. We expect to raise approximately one-half of 1982-1986 construction program funds by selling various securities and by borrowing.

In order to be able to attract money from investors on the best terms, we must receive sufficient and timely rate increases to enable us to pay them the return on investment they demand in the form of interest, dividends and increased net worth. The Public Utilities Commission of Ohio ("PUCO") has granted us the following retail electric rate increases in the last three years—9.2% (1979), 9.0% (1980) and 17% (1981). We also received various increases in steam, wholesale power and street lighting rates in the three-year period. These rate increases and higher allowances for funds used during construction offset effects of inflation on operating expenses, higher interest expense, stock sales and the delay between the time our costs go up and the time we receive a rate increase to cover these increased costs ("regulatory lag"). Consequently, earnings per share have improved slightly since 1979 although the ratio of earnings to fixed charges declined (2.67, 2.33 and 2.37 in 1979, 1980 and 1981, respectively).



We have attempted to minimize the effect of regulatory lag by filing for rate increases as often as allowed by law. In addition, we have asked for rates to be based on costs expected to prevail during the period when the new rates would be in effect rather than on historical costs. Details on rate matters are discussed elsewhere in this Annual Report.

In 1981, ratings on our first mortgage bonds were lowered to "A" by both Moody's Investors Service and Standard & Poor's Corporation. Previously, the bonds were rated "Aa" by Moody's and "AA-" by Standard & Poor's. Our preferred stock rating was maintained at "a" by Moody's, but was dropped to "BBB" from "A-" by Standard & Poor's.

We will continue to be vigorous in seeking fair rate levels in order to maintain as strong a financial position as possible. Without needed rate increases it would be impossible to earn a fair return for our common stock share owners in an inflationary economy. This also could result in further lowering of our securities ratings, thereby increasing the cost of raising money from outside sources. Our rate increase requests and future financing plans are designed to prevent further lowering of our ratings

while maintaining a balanced capital structure of 40-42% common equity, 10-12% preferred and preference stock and a maximum of 48% debt. At year end 1981, our capitalization structure was 37% common equity, 15% preferred and preference stock and 48% debt. Specific financing plans are discussed elsewhere in this Annual Report.

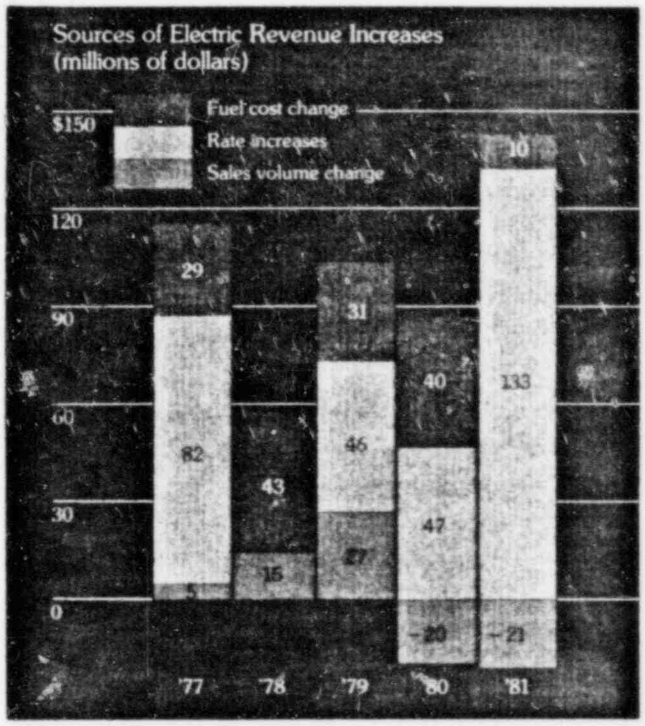
Over the 1982-1986 period, we must refinance $398,364,000 of maturing debt and preferred stock which was outstanding at December 31, 1981. In addition, we are required to offer to redeem $19,400,000 of preferred and preference stock in both 1984 and 1985 and $36,067,000 in 1986. Some of our debt which matures in the five-year period has very low interest rates. Refinancing of this debt will probably be done at much higher rates, thereby increasing our cost of capital.

The amount of First Mortgage Bonds the Company can issue is governed by our Mortgage and Deed of Trust. At December 31, 1981, we had the ability to issue approximately $646,000,000 of additional first mortgage bonds. This amount fluctuates as new property is acquired and interest rates and earnings change. There are no restrictions on issuing additional authorized preferred stock and preference stock.

We use short-term financing, such as bank lines of credit and the sale of commercial paper, to give us flexibility in timing our long-term financings. Money raised through these means is primarily used to finance temporarily our construction program. We have a total short-term borrowing capability of $240,000,000 in the form of bank lines of credit and revolving loan commitments. In accordance with customary industry practice, part of these lines are held in reserve to ensure that we will be able to pay off commercial paper when it is due. Our commercial paper has the highest rating given by Moody's. Standard & Poor's rates our commercial paper in the second highest category. Note L of "Notes to Consolidated Financial Statements" gives the details of our credit arrangements. The Balance Sheet shows the amount of short-term debt which is outstanding. At year end 1981, we had on deposit with trustees $36,337,000 to finance pollution control facilities under construction.

Results of Operations

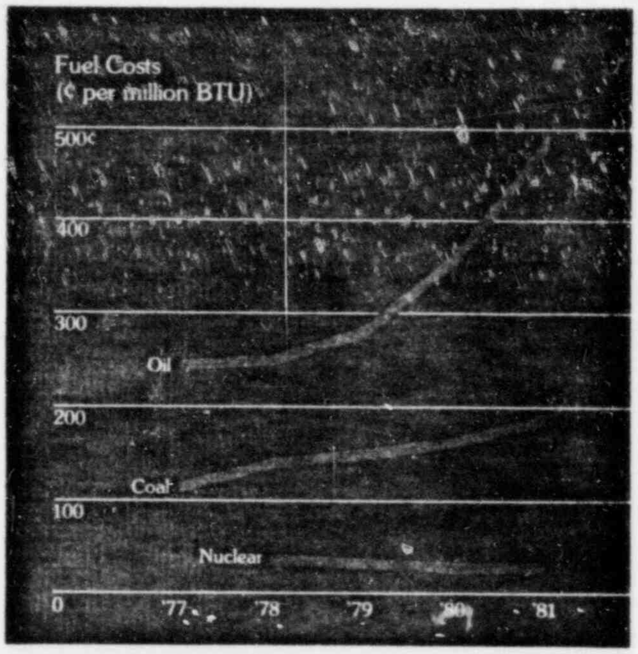
The chart below sets forth the factors which caused our electric revenues to increase in each of the last five years.



In the last three years, the most significant factor affecting kilowatthour sales was the recession which began in 1980. Sales to industrial customers were down 13% in 1980 from 1979. The decline was due primarily to lower sales to automobile and steel manufacturers. In 1981, industrial sales recovered strongly in the first nine months. However, a 12% decline in the fourth quarter resulted in industrial sales increasing only 2.7% in 1981. Economic conditions as well as milder weather were the major factors affecting sales to commercial customers in 1981. As a result, commercial sales increased only 0.7% in 1981, down from the 2.7% increases in both 1979 and 1980. Residential sales were down 2.0% in 1981 after moderate gains in 1979 and 1980. The decrease was due primarily to milder weather. Our sales to other utilities showed a significant decrease relative to 1980 because a sales agreement with another utility was not renewed in 1981. Overall, sales declined 4.6% in 1980 and 3.6% in 1981.

Fuel and purchased power expense is the largest part of our operating expenses. The amount of purchased power varies from year to year depending

upon the availability of our power plants, the energy demands of our customers and the price of electricity available from other utilities. In 1981, we generated more of our energy needs at our plants than in 1980, primarily because of the greater availability of the Davis-Besse Nuclear Power Station. Accordingly, purchased power expense decreased sharply from the preceding year.



Total fuel and purchased power expense increased over the 1979-1981 period despite the decrease in total kilowatthour sales. This increase occurred because of sharply higher prices of coal and oil. Substantial use of nuclear generation, which has a low, relatively stable cost of fuel, partially offset the increases in coal and oil costs. Nuclear generation accounted for 9%, 7% and 13% of our total electric generation in 1979, 1980 and 1981, respectively.

Other significant items affecting earnings per share were increased payments of interest and preferred stock dividends and a greater number of outstanding common shares resulting from additional external financing and higher interest and preferred dividend rates. The impact of the increases in these items was only partially offset by related increases in the amount of the allowance for funds used during construction.

The significant increase in deferred fuel expense is discussed in Note B of "Notes to Consolidated Financial Statements".

For a discussion of how we are affected by inflation, see "Supplementary Information Concerning the Effects of Inflation".

We could be affected in the future by the resolution of legal proceedings regarding recovery of our investment in generating unit projects which were terminated in January 1980 as described in Note F of "Notes to Consolidated Financial Statements" and the timing of recovery in rates of the cost of coal obtained from the Quarto Mining Company as described in Note B of "Notes to Consolidated Financial Statements." The retrial of the antitrust suit brought by the City of Cleveland against the Company was completed in October 1981. The jury unanimously found in favor of the Company. The City had presented evidence claiming treble damages of about $160,000,000. On December 2, 1981, the City appealed the decision to the United States Court of Appeals for the Sixth Circuit.

The Company believes that the ultimate resolution of these three matters should not have a material adverse effect upon its financial position, although an adverse final determination in any of them could have a material effect on income for the period in which it occurs.

Management's statement of responsibility for financial statements

The management of The Cleveland Electric Illuminating Company is responsible for the consolidated financial statements which appear in this Annual Report. The statements were prepared in accordance with generally accepted accounting principles which are appropriate in the circumstances. These principles require that certain amounts must be recorded based on estimates. Such estimates are based on an analysis of the best information available regarding the amount to be estimated.

We maintain a system of internal accounting controls. The control procedures used are designed to assure that our financial records are reasonably complete and accurate. They also are designed to help protect the assets and their related records. We make an effort to ensure that the costs of our control procedures do not exceed the benefits.

We have an internal audit program which monitors the internal accounting controls. This program is designed to examine whether the controls are adequate and effective. Also, an examination of the financial statements is conducted by Price Waterhouse, independent accountants, whose opinion appears below.

The Board of Directors of the Company is responsible for determining whether management and the independent accountants are carrying out their responsibilities. The Board has established an Audit Committee comprised entirely of outside directors. The responsibilities of the Audit Committee are described elsewhere in this Annual Report.

Report of independent accountants

Price Waterhouse

1900 CENTRAL NATIONAL BANK BUILDING
CLEVELAND, OH 44114
216 781-3700

To the Board of Directors and the Share Owners of
The Cleveland Electric Illuminating Company:

We have examined the consolidated balance sheet and the consolidated statement of capitalization of The Cleveland Electric Illuminating Company and its subsidiaries as of December 31, 1981 and 1980, and the related consolidated statements of income, retained earnings, and changes in financial position 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 more fully described in Note C to the financial statements, the method of computing depreciation for the Davis-Besse Nuclear Power Station was changed in 1979.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of The Cleveland Electric Illuminating Company and its subsidiaries at December 31, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles consistently applied during the period except for the change in the method of computing depreciation for the Davis-Besse Nuclear Power Station, with which we concur, referred to in the preceding paragraph.

February 12, 1982

Price Waterhouse

Income statement

The Cleveland Electric Illuminating Company and Subsidiaries

	For the Year Ended December 31, 1981	1980	1979
	(Thousands of Dollars)		
OPERATING REVENUES			
Electric	$1,000,734	$878,501	$811,219
Steam	12,196	15,065	13,048
Total Operating Revenues	1,012,930	893,566	824,267
OPERATING EXPENSES			
Operation			
Fuel	332,837	268,096	272,599
Deferred fuel	(10,683)	959	959
Purchased power	29,256	91,292	75,469
Other	149,374	127,823	108,873
	500,784	488,170	457,900
Maintenance	74,925	67,058	53,763
Depreciation and amortization	85,294	64,619	59,443
Taxes, other than Federal income tax	91,648	81,630	79,455
Federal income tax	67,575	41,574	38,227
Total Operating Expenses	820,226	743,051	688,788
NET OPERATING INCOME	192,704	150,515	135,479
NONOPERATING INCOME			
Allowance for equity funds used during construction	48,970	40,873	33,432
Other income and deductions, net	10,617	7,605	4,889
Federal income tax -- credit	16,125	13,962	9,300
Total Nonoperating Income	75,712	62,440	47,621
INCOME BEFORE INTEREST CHARGES	268,416	212,955	183,100
INTEREST CHARGES			
Long-term debt	121,040	95,085	79,534
Short-term bank loans, commercial paper and other	25,672	17,538	5,765
Allowance for borrowed funds used during construction	(34,030)	(25,051)	(15,733)
Total Interest Charges	112,682	87,572	69,566
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	155,734	125,383	113,534
Cumulative effect of change in depreciation method on periods prior to January 1, 1979	—	—	4,125
NET INCOME	155,734	125,383	117,659
Dividend requirements on preferred and preference stock	34,917	27,711	25,587
EARNINGS AVAILABLE FOR COMMON STOCK	$ 120,817	$ 97,672	$ 92,072
EARNINGS PER COMMON SHARE			
Before cumulative effect of accounting change	$ 2.52	$ 2.26	$ 2.31
Cumulative effect of change in depreciation method on periods prior to January 1, 1979	—	—	.11
Total	$ 2.52	$ 2.26	$ 2.42
DIVIDENDS DECLARED PER COMMON SHARE	$ 2.08	$ 2.00	$ 1.92

Retained earnings statement

	For the Year Ended December 31, 1981	1980	1979
	(Thousands of Dollars)		
BALANCE AT BEGINNING OF YEAR	$ 258,432	$245,716	$225,950
ADDITIONS			
Net income	155,734	125,383	117,659
DEDUCTIONS			
Dividends declared			
Preferred stock	29,762	22,949	21,010
Preference stock	4,417	4,417	4,417
Common stock	99,134	85,296	71,842
Costs of issuing equity securities	568	5	624
Total Deductions	133,881	112,667	97,893
BALANCE AT END OF YEAR	$ 280,285	$258,432	$245,716

The accompanying notes are an integral part of these financial statements.

Balance sheet at December 31 The Cleveland Electric Illuminating Company and Subsidiaries

Assets

	1981	1980
	(Thousands of Dollars)	
PROPERTY AND PLANT		
Utility plant		
Electric in service	$2,585,892	$2,372,851
Steam in service	38,546	31,404
	2,624,438	2,404,255
Less accumulated depreciation and amortization	621,353	557,859
	2,003,085	1,846,396
Construction work in progress	986,457	811,084
	2,989,542	2,657,480
Other property, less accumulated depreciation	23,870	21,137
	3,013,412	2,678,617
POLLUTION CONTROL CONSTRUCTION FUNDS — unexpended	36,337	71,943
CURRENT ASSETS		
Cash	6,946	9,124
Temporary investments, at cost	17,750	—
Amounts due from customers and others, net	94,407	104,883
Materials and supplies, at average cost	25,640	24,545
Fossil fuel inventory, at average cost	68,773	67,467
Taxes applicable to succeeding years	63,610	58,111
Other	1,786	1,481
	278,912	265,611
DEFERRED CHARGES		
Unamortized costs of terminated projects	49,598	54,244
Deferred fuel	11,642	959
Other	16,174	23,088
	77,414	78,291
	$3,406,075	$3,094,462

Capitalization and Liabilities

	1981	1980
CAPITALIZATION (See statement of Capitalization)		
Long-term debt	$1,328,404	$1,211,528
Serial preferred stock		
With mandatory redemption provisions	271,000	203,500
Without mandatory redemption provisions	95,071	95,071
Serial preference stock with mandatory redemption provisions	57,000	57,000
Common stock equity	1,002,206	912,731
	2,753,681	2,479,830
CURRENT LIABILITIES		
Current portion of long-term debt	20,145	10,148
Notes payable to banks and others	94,963	166,937
Accounts payable	105,302	91,081
Accrued payroll and vacations	13,353	11,466
Federal income taxes	8,300	4,070
Other taxes	103,631	102,415
Interest	27,491	21,205
Other	5,286	5,235
	378,471	41[illegible],557
DEFERRED CREDITS		
Unamortized investment tax credits	102,438	84,798
Accumulated deferred Federal income taxes	134,043	107,654
Unamortized tax benefits sold to others	25,101	—
Other	12,341	9,623
	273,923	202,075
COMMITMENTS AND CONTINGENCIES — See Note M		
	$3,406,075	$3,094,462

The accompanying notes are an integral part of these financial statements.

Capitalization at December 31

The Cleveland Electric Illuminating Company and Subsidiaries

	1981 (Thousands of Dollars)	1980 (Thousands of Dollars)	1981 (Per Cent of Capitalization)	1980 (Per Cent of Capitalization)
LONG-TERM DEBT (a)				
First Mortgage Bonds — maturing through 2013 at rates of 2¾% to 15¼% (Less $20,000,000 in 1981 classified as current)	$1,092,291	$1,030,091		
Collateral Pledge Notes — maturing in 2010 at semiannual equivalent rates of 11.75% to 15.17%	23,900	19,100		
Term Bank Loans (b) — maturing 1984-1988 at 100% to 105% of prime rate	134,000	84,000		
Promissory Notes — maturing in 1983 at a rate of 14% (Less $10,000,000 in 1980 at a rate of 15¼% classified as current)	20,000	20,000		
Pollution Control Notes — maturing through 2012 at rates of 5.6% to 6.7% (Less $105,000 in 1981 and 1980 classified as current)	57,945	58,050		
Other — net	268	287		
Total Long-term Debt	1,328,404	1,211,528	48.2	48.9

SERIAL PREFERRED AND PREFERENCE STOCK — cumulative, without par value, 4,000,000 and 3,000,000 authorized shares, respectively

Preferred Stock without mandatory redemption provisions

Series	Annual Dividend Rate	Shares	1981	1980
A	$7.40	500,000	50,000	50,000
B	$7.56	450,000	45,071	45,071
			95,071	95,071

Preferred Stock with mandatory redemption provisions

Series	Annual Dividend Rate	Shares	Mandatory Redemption Price	1981	1980
C	$ 7.35	250,000	$ 100	25,000	25,000
E	$ 88.00	57,000	$1,000	57,000	60,000
F	$ 75.00	50,000	$1,000	50,000	50,000
G	$ 80.00	40,000	$1,000	40,000	40,000
H	$145.00	28,500	$1,000	28,500	28,500
I	$145.00	31,500	$1,000	31,500	—
J	$113.50	29,000	$1,000	29,000	—
K	$113.50	10,000	$1,000	10,000	—
				271,000	203,500

Preference Stock with mandatory redemption provisions

Series	Annual Dividend Rate	Shares	Mandatory Redemption Price	1981	1980	1981 %	1980 %
1	$77.50	57,000	$1,000	57,000	57,000		
Total Preferred and Preference Stock				423,071	355,571	15.4	14.3

	1981	1980	1981 %	1980 %
COMMON STOCK EQUITY				
Common shares, without par value — 85,000,000 authorized; 51,054,503 and 46,288,629 outstanding in 1981 and 1980, respectively	721,921	654,299		
Retained earnings	280,285	258,432		
Total Common Stock Equity	1,002,206	912,731	36.4	36.8
TOTAL CAPITALIZATION	$2,753,681	$2,479,830	100.0	100.0

(a) Long-term debt matures during the next five years as follows: $20,105,000 in 1982 (classified as a current liability on the consolidated Balance Sheet); $144,805,000 in 1983; $82,210,000 in 1984; $70,501,000 in 1985 and $57,210,000 in 1986.

(b) The repayment provisions of the Company's term loans outstanding on December 31, 1980 were amended in 1981. The effect of the amendment was to spread over the years 1984-1988 the repayment of the $84,000,000 due under these loans. Overall interest rates under these loans also were reduced.

The accompanying notes are an integral part of these financial statements.

Changes in financial position

The Cleveland Electric Illuminating Company and Subsidiaries

	1981	1980	1979
	For the Year Ended December 31,		
	(Thousands of Dollars)		
FINANCIAL RESOURCES PROVIDED			
Income before cumulative effect of accounting change	$155,734	$125,383	$113,534
Items not affecting working capital			
Depreciation and amortization	85,325	64,640	59,459
Deferred Federal income tax	43,931	30,330	21,445
Allowance for equity funds used during construction	(48,970)	(40,873)	(33,432)
Other	1,910	1,636	1,245
Total financial resources provided from operations	237,930	181,116	162,251
Cumulative effect of accounting change	—	—	4,125
Sales of securities			
First mortgage bonds	82,200	171,591	52,000
Preferred stock	70,500	28,500	—
Common stock	67,622	79,604	91,762
Total sales of securities	220,322	279,695	143,762
Term bank loans	50,000	—	60,000
Promissory notes	—	30,000	—
Collateral pledge notes	4,800	19,100	—
Sale of tax benefits to others	25,199	—	—
Pollution control funds expended	57,805	95,255	72,405
Increase in short-term debt and other borrowings	—	80,431	63,327
Working capital decrease (a)	14,591	—	6,077
Other	1,451	—	—
Total Financial Resources Provided	$612,098	$685,597	$511,947
FINANCIAL RESOURCES USED			
Additions to utility plant	$409,277	$398,088	$385,892
Allowance for equity funds used during construction	(48,970)	(40,873)	(33,432)
	360,307	357,215	352,460
Retirement of first mortgage bonds	—	31,831	—
Retirement of preferred stock	3,000	—	—
Retirement of promissory note	10,000	—	—
Dividends	133,312	112,662	97,269
Pollution control construction funds deposited	22,200	123,300	52,000
Deferred fuel costs	11,642	—	—
Decrease in short-term debt and other borrowings	71,637	—	—
Working capital increase (a)	—	51,715	—
Other	—	8,874	10,218
Total Financial Resources Used	$612,098	$685,597	$511,947
SUMMARY OF CHANGES IN WORKING CAPITAL (a)			
Temporary investments	$ 17,750	$ (4,300)	$ 4,300
Amounts due from customers and others, net	(10,477)	26,572	9,784
Fossil fuel inventory	1,306	11,912	15,632
Accounts payable and accrued payroll and vacations	(16,108)	9,634	(23,215)
Federal income and other taxes payable	(5,446)	120	(14,408)
Other	(1,616)	7,777	1,830
Change in Working Capital (a)	$ (14,591)	$ 51,715	$ (6,077)

(a) Other than short-term borrowings and current portion of long-term debt.

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Note A Summary of Significant Accounting Principles

We are required to follow the accounting principles set by The Public Utilities Commission of Ohio (PUCO) and the Federal Energy Regulatory Commission (FERC). A description of our significant accounting principles follows.

Consolidation

Our financial statements include the accounts of two minor subsidiaries. We own all of the stock of both. One subsidiary is The CEICO Company which owns nonutility land and provides certain submetering services. The other is CCO Company which coordinates the operation of a five company power pool (which includes the Company) called the Central Area Power Coordination Group (CAPCO). The costs of CCO are shared by all the CAPCO companies.

Property and Plant

The electric property we own is stated in the financial statements at the cost incurred when first devoted to public utility service. Steam property is stated at the price we paid for it. The cost of making repairs is deducted from revenues in the income statement as maintenance. The cost of replacing or improving property is added to Property and Plant after deducting (retiring) the cost of the replaced property. When we retire property, there is also a reduction in the depreciation reserve (which is labeled "Accumulated Depreciation and Amortization").

Depreciation

We show depreciation expense as a current cost of doing business to account for the using up of our property. Depreciation is recorded equally over the estimated useful life of the property. For example, if we estimate that an item will be useful for 10 years, we charge one-tenth of its value to depreciation expense each year.

An exception to this principle is the Davis-Besse Nuclear Power Station (Davis-Besse). Davis-Besse depreciation is based on the relationship of the amount of electric energy it produces in the accounting period to the total expected production over its useful life (see Note C).

Amortization of Terminated Projects

In January 1980, CAPCO decided not to build four planned nuclear generating units. Before that decision was made, considerable planning, engineering and design work was done for these units. As described in Note F, a portion of these costs has been amortized and recovered in rates pursuant to a PUCO order. Recovery of the remainder has been deferred pending the ultimate outcome of our efforts to obtain relief from an Ohio Supreme Court decision denying us the right to recover and amortize such costs. Our share of the unrecovered costs is included in deferred charges on our balance sheet as Unamortized Costs of Terminated Projects.

Allowance for Funds Used During Construction

We pay interest and dividends to our investors for the use of their money. This is called the "cost of money." The PUCO and FERC allow us to include a portion of the cost of money as part of the total cost of constructing new assets. Such cost of money is recorded as the Allowance for Funds Used During Construction (AFUDC).

The amount of AFUDC for an accounting period is determined by applying a rate of AFUDC to the accumulated construction costs. The annual AFUDC percentage rate is determined by a formula set by FERC. The rate represents an average of the cost of money we are using for construction costs. The rate is compounded semiannually. The part of the rate which represents interest is reduced to recognize that interest is tax deductible.

The amount of AFUDC appears on our income statement in two places: under Nonoperating Income as the "Allowance for Equity Funds Used During Construction" and under Interest Charges as "Allowance for Borrowed Funds Used During Construction." On the balance sheet, the AFUDC becomes part of "Construction Work in Progress."

When construction is completed, we stop recording AFUDC. At this point, the total cost of the new asset, including AFUDC, is used to determine the rate we charge our customers for service. Since the rates we charge for our product include all these costs, we are being allowed to recover in cash all costs of the property including AFUDC.

The amount of AFUDC recorded in each accounting period varies. The variation occurs because of (1) the number of dollars being spent on construction, (2) the length of the construction period and (3) the rate used in computing AFUDC. In 1979, the rate was 8%; in 1980, the rate was 8.75%; and in 1981, the rate was 10.17%.

Federal Income Tax

The depreciation expense reported on our income statement is different from the depreciation expense we use to calculate Federal income tax. There are several reasons for the difference. First, the Internal Revenue Service (IRS) does not allow us to include AFUDC and certain overheads in the cost of assets which we depreciate for tax purposes. However, these costs are included in the cost of assets used to determine the depreciation shown on our income statement. Second, the period of time over which the IRS allows the cost of assets to be depreciated is shorter than the period of time (useful life) we use. Finally, the IRS allows some of the depreciation we are entitled to in future years to be used early. (This difference is called liberalized depreciation and accelerated amortization.) For income statement purposes, the tax reductions resulting from the use of liberalized depreciation and accelerated amortization are not recognized in the periods in which we obtain them. They are deferred to the periods in which we normally would have obtained them. The deferred amounts are allocated to income over the useful life of property through a procedure called normalization.

When we filed our Federal income tax return for 1980, the costs of our terminated nuclear projects were deducted as an expense. However, on our income statement, these termination costs were amortized over 10

Notes to Consolidated Financial Statements

years. In order to match the costs with their related Federal income tax effects, the tax savings were deferred and were to be recognized in the income statement over a 10-year period. However, the PUCO issued an order in October 1981 telling us to stop recovering termination costs in rates. We were also told to stop recording the deferred tax (see Note F).

When we place new property in service during the year, the IRS allows us a credit against the tax due. This is called an investment tax credit. We record Federal income tax on our income statement as though it were not reduced by this credit. We recognize the tax savings from this credit over the life of the property involved through the practice of normalization.

The Economic Recovery Tax Act of 1981 allows us to sell to others the tax benefits related to property placed in service on and after January 1, 1981. Monies received from any such sales are being recognized in the income statement as a reduction in taxes over the estimated useful life of the property involved.

Our Federal income taxes are lower because we can deduct our interest charges from income. This reduction of taxes is split between "operating income" and "nonoperating income." The tax reductions resulting from interest on funds which are used on assets currently being constructed are allocated to "nonoperating income." The tax reductions resulting from interest paid on all other funds are allocated to "operating income."

Revenues

Once a month, we either read each customer's meter or estimate his usage and then bill him. We record revenues on the income statement for the month the meter was read or usage estimated, regardless of when the bill is issued or paid.

The rates we charge customers for electricity and steam have been made up of two parts. These parts are a "base rate" and a "fuel rate." Each month, the steam "fuel rate" is based on what we paid for fuel in that month. Prior to September 1, 1981, each month's electric "fuel rate" was based on what we paid for fuel one month earlier.

Ohio law requiring a monthly electric fuel rate has been changed. We were required to comply with this new law on September 1, 1981 (see Note B). The new law requires a fuel factor to be included in base rates. The fuel factor is changed every six months after a hearing before the PUCO.

Fuel

When we make a payment for coal or oil, it is recorded on the balance sheet as "Fossil Fuel Inventory." When we make a lease payment for nuclear fuel, we record it on the balance sheet as "Deferred Charges — Other." As the fuel is used, we transfer the cost to the income statement as fuel expense.

Note B Deferred Fuel

We receive coal supplies for Mansfield Units 1, 2 and 3 from the Quarto Mining Company (Quarto). Since May 31, 1980, when the development period of the Quarto mines ended, the price of Quarto coal has included full production costs and deferred development period costs. Quarto coal has been substantially more expensive than comparable coal available in the market.

In January 1981, the PUCO ordered us to eliminate from our fuel factor charged to customers the portion of the cost of Quarto coal which is above the general market price for comparable coal. Since we were not recovering all these costs through revenues, the PUCO also ordered us not to include the unrecovered amount in current operating expense. Accordingly, that portion of fuel expense was deferred. During 1981, about $21,700,000 of such costs were deferred from expenses and not recovered through rates. This did not result in any change in net income or earnings per share.

The PUCO stated in its order that it would allow recovery of actual Quarto coal costs, including any previously deferred amounts, when the price of Quarto coal for a six-month period drops to about 25% above prevailing market prices for comparable coal. Steps are being taken in an effort to reduce the cost of Quarto coal. The PUCO stated that it would consider in May of 1982 whether to continue in effect, modify or terminate its cost recovery formula.

As described in Note A — Revenues, since September 1, 1981 our rates are adjusted every six months to reflect changes in fuel costs. Under the new law, the differences between the cost of fuel actually used and the costs included in the bills to customers are deferred. The deferred amount is considered in the fuel factor in a subsequent six-month period. We were not allowed to defer such costs (except for the cost of Quarto coal mentioned above) under the previous monthly fuel adjustment method. Since the new fuel recovery method came into effect, actual fuel costs have been below the amount billed. The result was to reduce deferred fuel expense in 1981 by approximately $10,000,000.

Note C Depreciation

We calculate depreciation for our electric property by multiplying our depreciable property by a composite depreciation rate. The composite rate is one based on the average life of all our assets. The rate also includes a factor for the money expected to be received when we dispose of the property (salvage) and the cost of dismantling and removing it (removal cost). The composite rate used in 1979 was 3.3%. Since January 1980, the rate used has been 3.4%. The change to a higher rate in 1980 did not result in a material difference in our 1980 reported net income.

Hydroelectric plant and plant held for future use have their own separate depreciation rates. Rates ranging from

1.8% to 8.33% are used for hydroelectric property. A rate of 3.75% is used for plant held for future use.

In 1979, the PUCO allowed us to change the way we calculate depreciation for Davis-Besse. We had been recording depreciation on the plant based on its useful life. Under the new method, we depreciate Davis-Besse in the proportion of the electricity it produced during the accounting period to the total it is expected to produce over its useful life.

By using the new method, our net income and earnings per share were increased $5,089,000 and 13¢, respectively, in 1979. If we had used the new method before 1979, the net income for prior years would have been higher by $4,125,000. We added this amount to net income in 1979 as the "cumulative effect of change in depreciation method on periods prior to January 1, 1979." This amount increased 1979 earnings per share by 11¢.

When a nuclear plant is retired from service, we will have additional costs to shut it down. These costs are called decommissioning costs. From 1979 through 1981, the depreciation recorded for Davis-Besse included a factor for these costs. The factor was determined in 1979 and 1980 estimating that the decommissioning costs would be $20,000,000 in current dollars. The factor used in 1981 was based on an estimate of $27,000,000.

We calculate depreciation for our steam property by multiplying our depreciable property by a depreciation rate for each individual steam account. The depreciation rates used range from 2.22% to 3.42%.

Note D Federal Income Tax

Federal income tax, computed by multiplying the income before taxes by the statutory rate of 46%, is reconciled to the amount provided as follows:

	1981 (Thousands of Dollars)	% of Pre-Tax Income	1980 (Thousands of Dollars)	% of Pre-Tax Income	1979 (Thousands of Dollars)	% of Pre-Tax Income
Book income before Federal income tax and cumulative effect of accounting change	$207,184		$152,995		$142,461	
Tax on book income computed at statutory rate	$ 95,285	46.0	$ 70,358	46.0	$ 65,513	46.0
Decreases in tax due to:						
Excess of tax depreciation over book depreciation	(2,508)	(1.1)	4,201	2.8	4,377	3.1
Allowance for funds used during construction	38,180	18.4	30,325	19.8	22,616	15.9
Certain overheads capitalized on the books	2,526	1.2	2,267	1.5	3,738	2.6
Other items	5,637	2.7	5,953	3.9	5,855	4.1
	43,835	21.2	42,746	28.0	36,586	25.7
Total Federal income tax expense	$ 51,450	24.8	$ 27,612	18.0	$ 28,927	20.3

Federal income tax expense is shown in the income statement as follows:

	1981 (Thousands of Dollars)	1980 (Thousands of Dollars)	1979 (Thousands of Dollars)
Operating Expenses			
Current tax provision	$ 23,668	$ 11,244	$ 16,783
Changes in accumulated deferred Federal income tax:			
Liberalized depreciation and accelerated amortization	19,747	16,106	12,460
Terminated projects	(1,841)	21,944	—
Other items	8,361	(254)	(2,098)
Investment tax credit deferred, less amounts amortized	1[illegible],640	(7,466)	11,082
Total charged to operating expenses	67,575	41,574	38,227
Nonoperating Income			
Current tax provision	(16,125)	(13,962)	(9,300)
Total Federal income tax expense	$ 51,450	$ 27,612	$ 28,927

Notes to Consolidated Financial Statements

In 1980, we had a loss for Federal income tax purposes. This happened principally because we deducted from taxable income the cost of four nuclear projects which were terminated in January 1980. The resulting loss we had that year was applied against taxable income in prior years.

The income tax we paid in 1979 and 1981 was reduced by investment tax credits of $13,907,000 and $22,094,000, respectively. Since we had a loss in 1980, we could not use any investment tax credit in that year. Investment tax credits which are available to the Company and have not been used amount to $70,274,000. We can use these amounts to reduce tax liability through 1996.

Note E Average Shares Outstanding

The number of outstanding shares of common stock of the Company changes during the year. We calculate earnings per share based on the average number of shares outstanding throughout the year. The weighted average shares outstanding in each of the last three years were:

1979	38,109,004
1980	43,300,451
1981	48,004,081

Note F Terminated Projects

As stated in Note A, in 1980 the CAPCO companies terminated their plans to construct four nuclear generating units. The amount spent on these projects through December 31, 1981 was $56,861,000. The PUCO allowed us to recover almost all of these costs through rates charged to customers over a 10-year period beginning late in July 1980. They also directed us to deduct these costs in the income statement as an operating expense over the same 10-year period (amortization). The portion of the termination costs which have not yet been amortized in the income statement is carried on our balance sheet as "Deferred Charges — Unamortized Costs of Terminated Projects."

In July 1981, the Ohio Supreme Court ruled that the PUCO did not have authority under Ohio law to authorize the Company to recover these costs through rates as an operating expense. As a result, in October 1981, the PUCO ordered us to discontinue amortization of the costs and to reduce our rates accordingly, but not to write off the unamortized amount without further order. Therefore, for service provided on and after October 27, 1981, the Company reduced its rates about 0.7% resulting in an estimated $6,700,000 reduction in annual revenues. We also stopped amortizing the termination costs. This did not result in any change in net income or earnings per share.

The Company appealed the Ohio Supreme Court ruling to the United States Supreme Court. In January 1982, that Court refused on procedural grounds to hear our appeal. The Company is continuing in the proceedings described below to seek authorization to recover the unamortized termination costs through rates. We intend to raise the issue again in appeals to the United States Supreme Court, if necessary.

In January 1982, the Company appealed the PUCO's October 1981 order to the Ohio Supreme Court and raised again the issue of recovery of the termination costs. We also have raised this issue in the first of the two rate cases described in the second paragraph of Note N.

At December 31, 1981, $7,263,000 had been recovered through rates and recorded in the income statement as amortization expense. Accordingly, at that date, $49,598,000 of termination costs were unrecovered. As stated in Note D, the termination costs were deducted on our 1980 Federal income tax return. When the resulting tax reduction is offset against the termination costs, the net unrecovered amount is reduced to $30,200,000.

A contractor who worked on these projects has claimed that we owe him $75,000,000 for costs he incurred. We are negotiating with the contractor to try to settle this matter. We have already paid more than $15,000,000 towards the claim and this amount is included in the $56,861,000 mentioned above. We believe that if we owe any additional money, it would be substantially less than the amount claimed after credit for payments already made.

We believe, based on the opinion of our counsel, that ultimately we should not have to write off in one year the unamortized costs. However, if it becomes unlikely that relief can be obtained, then we would have to write off all the unamortized costs (net of tax). Any amount determined to be due the contractor on his claim would similarly have to be written off. A write-off in one year of the unrecovered termination costs (net of tax) would have a material adverse effect on earnings in the year it is made, but would not have a material adverse effect on the financial condition of the Company.

Note G First Mortgage Bonds

Series Due	Issued	Interest Rate	At December 31, 1981	1980
			(Thousands of Dollars)	
1982	1947	3%	$ 20,000	$ 20,000
1983	1975	8.85%	50,000	50,000
1983-A	1980	9¼%	74,700	74,700
1984	1977	7.55%	25,000	25,000
1984-A	1980	12¼%	30,000	30,000
1985	1950	2¾%	25,000	25,000
1985-A	1980	11½%	18,291	18,291
1986	1951	3⅜%	25,000	25,000
1986-A	1976	5¼%	4,000	4,000
1986-B	1976	5¼%	1,000	1,000
1989	1954	3%	20,000	20,000
1989-A	1981	15¼%	40,000	—
1990	1969	7⅞%	60,000	60,000
1991	1969	8⅞%	35,000	35,000
1992	1981	15¼%	20,000	—
1993	1958	3⅞%	30,000	30,000
1994	1959	4⅜%	25,000	25,000
2005	1970	8¾%	75,000	75,000
2006-A	1976	7%	14,000	14,000
2009	1974	9¼%	50,000	50,000
2009-A	1979	7%	50,000	50,000
2009-B	1979	7%	1,000	1,000
2009-C	1979	7%	1,000	1,000
2010	1975	9.85%	100,000	100,000
2011	1976	8⅞%	125,000	125,000
2011-A	1980	(a)	48,600	48,600
2011-B	1981	(b)	22,200	—
2012	1977	8⅞%	75,000	75,000
2013	1978	6.20%	47,500	47,500
			1,112,291	1,030,091
Less amounts classified as current			20,000	—
			$1,092,291	$1,030,091

(a) The interest paid on these bonds is at a variable rate. That rate can be no lower than 6% and no higher than 12%. The average rates in 1980 and 1981 were 10.03% and 9.99%, respectively.

(b) The interest paid on these bonds is at a variable rate. That rate can be no lower than 6% and no higher than 14%. The average rate in 1981 was 10.40%.

First Mortgage Bonds are issued under our Mortgage. That Mortgage creates a direct lien on almost all the property we own and franchises we hold.

The Collateral Pledge Notes included in the Statement of Capitalization were issued under an agreement signed in 1980. The agreement lets us borrow up to $60,000,000 over a two-year period. The interest rate on any of the borrowings cannot be higher than 15⅞%. We have delivered $60,000,000 of our First Mortgage Bonds as security for our obligation to pay the Collateral Pledge Notes issued under this agreement. These bonds are not considered to be outstanding on our books. However, they are outstanding under our Mortgage.

Note H Leases

As part of our operations, we have entered into the following leases:

Type	Remaining Terms
Nuclear fuel	(a)
Unit trains	5-9 years (b)
Office space	6 years (b)
Data processing and office equipment	Mostly short-term leases having a fixed noncancelable term of less than one year
Construction and maintenance equipment	Mostly short-term leases having a fixed noncancelable term of less than one year

(a) We had a lease for the first core of fuel at Davis-Besse through the middle of 1981. The lease for reload fuel will last as long as it takes us to burn the fuel. For the reload lease, we pay rent whenever the fuel is burned and we pay a monthly interest charge on the value of the fuel we haven't used.

(b) Unit train leases include renewal options through 2011. The lease for office space can be renewed for two five-year periods.

When the PUCO determines what rates are to be charged to our customers, it includes the rents on all of the above leases as an operating expense. Accordingly, we record those rents on our income statement as operating expenses. Financial Accounting Standard No. 13 would treat our leased nuclear fuel and unit train coal delivery equipment as though we owned it. This would require us to record the properties being leased as assets which would be depreciated. Also, we would have to record a long-term debt for the promises to make lease payments. If this accounting treatment were followed, it would not result in any material changes in our balance sheet or our income statement.

All the payments we make for nuclear fuel and unit trains are recorded in balance sheet fuel accounts. The costs in these accounts are transferred to fuel expense on the income statement (see Note A—Fuel) when the fuel is used. We paid $7,925,000 in 1981, $7,240,000 in 1980 and $8,932,000 in 1979 for nuclear fuel and unit train leases. Lease payments under all other leases were not material.

Some of our leases have noncancelable terms of more than one year. We have to make the following payments for these leases after December 31, 1981:

Year	Amount
	(Thousands of Dollars)
1982	$ 2,839
1983	2,839
1984	2,601
1985	2,344
1986	1,818
Later Years	3,642
Total	$16,083

We did not include in the above table the payments we must make on our Davis-Besse nuclear fuel reload lease. Since payments are made when fuel is used, we don't know when we will have to make payments. However, we do know we must pay the lessor a remaining total of $6,694,000 for rent.

Notes to Consolidated Financial Statements

Note I Serial Preferred and Preference Stock with Mandatory Redemption Provisions

Some of the Serial Preferred Stock we have issued is subject to mandatory redemption. These provisions require us to buy back and retire outstanding shares on certain dates. The table below lists those redemption obligations:

Series	Shares to be Redeemed Annually	Beginning On	Redemption Prices (a)
C	10,000	8-1-84	$ 100
E	3,000	6-1-81	$1,000
H	1,782	6-1-85	$1,000
I	1,969	6-1-86	$1,000

(a) Plus dividends accrued to the redemption date

The total amount to be paid for these redeemed shares in each of the next five years is:

1982	$3,000,000
1983	$3,000,000
1984	$4,000,000
1985	$5,782,000
1986	$7,751,000

If for some reason we cannot buy back the shares, the unredeemed shares would be added to the next year's redemption obligation. This would continue to be done until the total obligation to redeem is met.

Some of the Serial Preferred and Preference Stock we have issued includes a provision which requires us to ask the owners of that Stock whether they want us to buy back their shares, as follows:

	Shares Subject to Purchase Annually	Offer Beginning on	Purchase Prices
Preferred Series F	[illegible]	11-1-85	$1,000
Preferred Series G	[illegible]	8-1-84	$1,000
Preference Series 1	11,400	4-1-84	$1,000

If the owners decide to sell, we must redeem the shares four months after the date we offer to buy. If they decide to sell all the shares which we must offer to buy over the next five years, we would have to pay for those shares $19,400,000 in both 1984 and 1985 and $36,067,000 in 1986.

We have assured the owners of our Series F stock a minimum return on their investment of 6.96% after deducting their Federal income tax on the dividends received on the stock. If certain income tax laws are changed such that their after-tax return is lower, we would have the option to do one of two things. We could buy back the Series F at $1,000 per share plus accrued dividends or we could exchange Series F for a new preferred stock. The new stock would have a dividend rate high enough to provide a 6.96% after-tax return.

We have the right to buy back and retire at certain times shares of Serial Preferred and Preference Stock which have mandatory redemption provisions. The times when this may be done and the prices we would have to pay (plus dividends accrued to the redemption dates) are as follows:

Series	Date	Redemption Prices
Preferred C	July 31, 1983 and prior	$110.00
	August 1, 1983 and thereafter	$103.00 - $101.00
Preferred E	May 31, 1986 and prior	$1,088.00
	June 1, 1986 and thereafter	$1,049.74 - $1,000.00
Preferred F	February 28, 1982 and prior	$1,055.00
	March 1, 1982 and thereafter	$1,035.00 - $1,000.00
Preferred G	December 1, 1983 through November 30, 1984	$1,035.56
	December 1, 1984 and thereafter	$1,026.67 - $1,000.00
Preferred H	June 1, 1990 through May 31, 1991	$1,068.68
	June 1, 1991 and thereafter	$1,061.05 - $1,000.00
Preferred I	June 1, 1991 through May 31, 1992	$1,068.68
	June 1, 1992 and thereafter	$1,061.05 - $1,000.00
Preferred J	June 1, 1981 through May 31, 1987	$1,050.44
	June 1, 1987 and thereafter	$1,037.83 - $1,000.00
Preference 1	August 1, 1981 through July 31, 1982	$1,038.75
	August 1, 1982 and thereafter	$1,032.29 - $1,000.00

We can buy back Series E before June 1, 1986 and Series F before March 1, 1982 only under certain conditions. Any borrowed money we use to buy back the shares cannot be borrowed at an effective interest cost of less than 8.8% for Series E and 7.5% for Series F. Also, we may not use money from the sale of other preferred stock or stock ranking higher than Serial Preferred Stock if its effective dividend cost is less than 8.8% in the case of Series E and 7.5% in the case of Series F. Finally, we may not use money raised through the sale of stock which is junior to the Series E or F.

Sales and retirements of Serial Preferred Stock with mandatory redemption provisions during the three years ended December 31, 1981 were as follows:

	Shares Sold (Retired)		
Year	Series	Prices	Shares
1980	Preferred H	$1,000	28,500
1981	Preferred I	$1,000	31,500
	Preferred J	$1,000	29,000
	Preferred K	$1,000	10,000
	Preferred E	$1,000	(3,000)

Note J Serial Preferred Stock Without Mandatory Redemption Provisions

During the last three years, we did not sell or buy back any shares of our Serial Preferred Stock which did not have mandatory redemption provisions. However, we have the right to buy back and retire this Stock. The times when this may be done and the prices (plus dividends accrued to the redemption dates) are as follows:

Series	Date	Redemption Prices
Preferred A	December 1, 1981 and thereafter	$102.50 - $101.00
Preferred B	July 31, 1982 and prior	$106.35
	August 1, 1982 and thereafter	$103.78 - $102.26

Note K Common Shares Issued and Reserved for Issue

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

	1981	1980	1979
Public Sale	3,500,000	4,000,000	4,500,000
Share Owner Dividend Reinvestment and Stock Purchase Plan	926,542	733,188	557,139
Employee Savings Plan	264,605	218,902	164,988
Employee Thrift Plan	74,727	64,496	50,236
Key Employee Incentive Stock Plan	–	469	3,846
Total	4,765,874	5,017,055	5,276,209

In January 1982, the Company sold an additional 4,000,000 shares of Common Stock to the public.

At December 31, 1981, we had five stock purchase plans available for our employees and share owners. The common shares which are set aside to be used for these plans (including unused stock options) are as follows:

Employee Savings Plan	115,981
Employee Thrift Plan	604,102
Share Owner Dividend Reinvestment and Stock Purchase Plan	641,512
Key Employee Incentive Stock Plan	550,250 (a)
1978 Key Employee Stock Option Plan	600,000
	2,511,845

The Company plans to take action, including share owner approval at the April 1982 Annual Meeting, to make an additional 3,000,000 shares available for sale under the Employee Savings Plan.

Stock options held by employees to purchase unissued shares of Common Stock under the Key Employee Incentive Stock Plan and the 1978 Key Employee Stock Option Plan are granted at 100% of the fair market value on the date of the grant. The shares which were actually bought during the three years ended December 31, 1981 were sold at option prices ranging from $17.63 to $18.59. Shares under outstanding options held by employees were as follows:

Key Employee Incentive Stock Plan (a)	1981	1980	1979
Options Outstanding at December 31			
Shares	150,095	154,148	166,849
Option Price	$17.63 to $22.43	$17.63 to $22.43	$17.63 to $22.43

1978 Key Employee Stock Option Plan	1981	1980	1979
Options Outstanding at December 31			
Shares	244,425	251,375	202,775
Option Price	$16.94 to $20.25	$16.94 to $20.25	$17.88 to $20.25

(a) Under the terms of the Key Employee Incentive Stock Plan, no further options may be granted. Accordingly, only those shares relating to options outstanding at December 31, 1981 may be issued.

Note L Short-Term Borrowing Arrangements

Notes payable to banks and others were as follows:

Type	At December 31, 1981	1980
	(Thousands of Dollars)	
Bank Loans	$19,400	$ 17,087
Commercial Paper	75,900	149,850
	$95,300	$166,937

Available bank credit arrangements are as follows:

Type	At December 31, 1981	1980
	(Thousands of Dollars)	
Bank lines of credit (borrowings at or near prime interest rate)	$209,600	$169,600
Eurodollar revolving credit agreement	$30,000	$30,000
Variable interest note agreements	$20,000	$20,000

All borrowings under the Eurodollar agreement are made and paid back in U.S. dollars. There are no requirements that minimum cash balances (compensating balances) be maintained at the banks involved. However, a fee of ¼% to ⅜% per year is paid on any unused part of this borrowing agreement. The interest rate on borrowings is ⅜% above the rate which specified banks pay for Eurodollar deposits in the London interbank market.

Borrowings under the variable interest rate agree-

ment must be paid back whenever the bank requests such repayment. Interest is based on the rate for high quality commercial paper in the 30-180 day maturity range.

Commercial paper and variable interest notes outstanding are backed by no less than an equal amount of unused bank lines of credit to ensure the Company's ability to repay them.

The unused portion of the above credit arrangements, after deducting bank lines held to cover outstanding commercial paper and variable interest notes, amounted to $144,300,000 at December 31, 1981.

The average daily cash balance in bank accounts was $5,700,000 in 1981 and $5,700,000 in 1980. This balance satisfied informal compensating balance arrangements under which we maintain balances at banks of $3,000,000 to $6,000,000, depending on the amount we borrow.

Note M Commitments and Contingencies

We plan to add $1.8 billion of new plant and equipment over the next five years. Some of the material and services needed to build new plant and equipment must be ordered now so it will be ready to be used when needed. At December 31, 1981, such commitments amounted to:

Construction Program	$206,000,000
Nuclear Fuel Enrichment Services	$ 97,522,000

Advance orders are necessary in our business. Usually we can cancel orders but we must often pay the manufacturers for what they have already spent for labor and materials and sometimes a penalty.

We have agreements to lease nuclear fuel we expect to need in the future for up to approximately $213,000,000. The cost which the lessor has already invested in nuclear material was $91,667,000 at December 31, 1981.

Under two long-term coal purchase arrangements, we have agreed to guarantee the mining companies' loan and lease obligations. At December 31, 1981, the principal amount of the mining companies' loan and lease obligations was $86,916,000. Under one of these arrangements, we are required to pay the mining company any actual out-of-pocket idle-mine expenses, as advance payments for coal, when the mines are idle for reasons beyond the control of the mining company.

Several lawsuits and government actions are pending against the Company. We believe, based on the opinion of our counsel, that the ultimate disposition of these matters should not have a material adverse effect on our financial condition, although an adverse final decision in certain instances could have a material effect on income for the period in which it occurs.

Note N Rate Matters

The PUCO allowed us to raise electric rates by 9.2% on May 8, 1979, by 9% on July 14, 1980 and by 17% on May 6, 1981. Because of these increases, we charged customers an additional $46,000,000 in 1979, $47,000,000 in 1980 and $133,300,000 in 1981.

In 1981, we asked the PUCO for another $130,000,000 increase. The PUCO completed public hearings early in 1982. Any increase granted would begin to be collected in the first quarter of 1982. We have also informed the PUCO that we will be seeking an increase of another $221,000,000. Any increase granted would go into effect early in 1983.

On January 1, 1979, the PUCO allowed us to increase steam rates by 25%. On January 1, 1980, it allowed us another 5% increase in these rates. Because of these increases, we charged customers an additional $2,300,000 in 1979 and another $400,000 in 1980. In January 1982, the PUCO approved another 47% increase which amounts to approximately $7,000,000. In February 1982, we filed an application for an additional annual increase in steam rates of approximately $2,400,000. Any increase granted will go into effect late in 1982.

In addition to the above, we have an application for a rate increase covering sales for resale to the Cleveland municipal electric system pending with the FERC. We began collecting the requested $2,300,000 increase in September 1981 subject to refund, dependent on the outcome of formal hearings.

Note O Property Owned with Other Utilities

Some of the generating units which we own or are building are owned with other utilities. Each company owns an undivided share in the entire unit. All the owners are "tenants in common." Each company has the right to a percentage of the generating capability of each unit equal to his ownership share. We are obligated to pay for our share of the construction and operating costs of each unit. We are not responsible for the other owners' shares.

Utility Plant at December 31, 1981 includes the following facilities owned as tenants in common with other utilities:

	Company Ownership		
Facility	Per Cent	Electric in Service	Construction Work in Progress
		(Thousands of Dollars)	
Davis-Besse	51.38	$392,446	$ 18,171
Bruce Mansfield 1	6.50	24,503	546
Bruce Mansfield 2	28.60	110,676	2,241
Bruce Mansfield 3	24.47	155,373	911
Beaver Valley 2	24.47	—	279,888
Perry 1	31.11	—	304,703
Perry 2	31.11	—	261,152
Eastlake 5	68.80	109,105	1,236
Seneca Pumped Storage Hydroelectric Plant	80.00	54,704	44
		$846,807	$868,892

Separate depreciation records are kept for Davis-Besse property and Seneca property. The accumulated depreciation

for Davis-Besse at December 31 1981 was $30,923,000. The accumulated depreciation for Seneca at December 31, 1981 was $10,354,000. Depreciation on all other property owned with other utilities has been accumulated on a composite basis along with all other depreciable electric property rather than by specific units of depreciable property. Our share of the operating expense of properties owned with others is included in our income statement.

Note P Pensions

We pay the full cost of a pension plan for our employees. Under this plan, full-time employees who have worked at the Company at least five years and retire between ages 55 and 70 receive pension payments from the pension fund. The employee's pension payments depend on how long he worked with the Company and how much he earned. However, as permitted under The Age Discrimination in Employment Act Amendments of 1978, an employee who works past age 65 does not earn extra credit for that time. If he retires before age 62, his payments are reduced. The plan also pays benefits when an employee dies or is disabled.

We deposit money into the plan to cover the benefits the employees earn currently. We also deposit money to cover the benefits arising from amendments to the plan and adjustments for the investment performance of the pension fund. In 1979, our total payment into the pension fund was about $8,600,000. We deposited another $9,300,000 in 1980 and $10,200,000 in 1981. Of these amounts, we recorded on the income statement as an operating expense $5,687,000 in 1979, $6,132,000 in 1980 and $6,659,000 in 1981. The remainder was recorded in the balance sheet mostly as construction costs.

The amount we put into the pension plan is based on an actuarial formula called entry age normal. Many private pension plans use this method. This method takes into account changes in an employee's future earnings. It results in an orderly way to try to assure that adequate funds will be available to pay future benefits. By using this method, the assets in the plan at January 1, 1981 were about equal to our total future liabilities under the plan at today's value.

Statement of Financial Accounting Standards No. 36 (FAS-36) requires us to disclose future liabilities ignoring increases in employees' future earnings. Therefore, the disclosures below, required by FAS-36, compare assets accumulated on one basis and liabilities determined on a different basis. We and our external pension consultants believe that the FAS-36 disclosures are misleading because they understate the amount which ultimately will be needed to pay all of the plans' benefits. We are making the following disclosures only because we are required to do so.

	At January 1	
	1981	1980
	(millions of dollars)	
Actuarial Present Value of Accumulated Plan Benefits:		
Benefits which are vested	$122	$110
Benefits which are not vested	12	4
	$134	$114
Value of assets held in Plan	$193	$163

Under both methods, the one which we use and the FAS-36 method, the expected return on the assets in the plan needed to pay all future benefits was 5% in 1979 and 6½% in 1980 and 1981.

Note Q Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1981.

	Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Thousands, except per share amounts)			
1980				
Total operating revenues	$217,433	$198,767	$247,326	$230,039
Net operating income	$ 30,047	$ 30,873	$ 49,440	$ 40,154
Net income	$ 24,913	$ 25,052	$ 43,830	$ 31,587
Earnings available for common stock	$ 18,516	$ 18,598	$ 36,400	$ 24,157
Average common shares	41,398	41,645	43,860	46,147
Earnings per common share	$ .45	$ .45	$ .83	$ .52
1981				
Total operating revenues	$229,625	$237,320	$297,783	$248,203
Net operating income	$ 38,930	$ 41,822	$ 67,759	$ 44,189
Net income	$ 27,801	$ 32,117	$ 56,872	$ 38,944
Earnings available for common stock	$ 20,371	$ 23,682	$ 47,432	$ 29,332
Average common shares	46,445	46,777	47,959	50,914
Earnings per common share	$ .44	$ .51	$ .99	$ .58

Financial and Statistical Review 1971-1981

Income Statement
(Thousands of Dollars)

	1981	1980	1979
TOTAL OPERATING REVENUES	1,012,930	893,566	824,2[illegible]
Residential	310,409	268,787	[illegible]
Commercial	263,608	220,677	[illegible]
Industrial	386,805	323,764	322,90
Other Electric (Includes Sales for Resale)	39,912	63,273	59,79
Steam Heating	12,196	15,065	13,04
TOTAL OPERATING EXPENSES	820,226	743,051	688,[illegible]
Fuel and Purchased Power	362,093	359,388	348,06
Other Operating Expenses	213,616	195,340	163,59
Depreciation and Amortization	85,[illegible]94	64,619	59,44
Taxes Other Than Federal Income Taxes	91,648	81,630	79,45
Federal Income Taxes	67,575	41,574	38,22
NET OPERATING INCOME	[illegible]92,704	150,515	135,47
NONOPERATING INCOME	75,712	62,440	47,62
Allowance for Equity Funds Used During Construction	48,970	40,873	33,43
Other Income and Deductions	26,742	21,567	14,18
INCOME BEFORE INTEREST CHARGES	268,416	212,9[illegible]	1[illegible]3,10
INTEREST	112,682	87,572	69,56
Long and Short-term Interest	146,712	112,628	85,29
Allowance for Borrowed Funds Used During Construction	(34,030)	(25,0[illegible])	(15,73
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	155,734	125,383	113,53
Cumulative Effect of Change in Depreciation Method on Periods Prior to January 1, 1979	—	—	4,12
NET INCOME (a)	155,734	125,383	117,65
PREFERRED AND PREFERENCE DIVIDEND REQUIREMENTS	34,917	27,711	25,58
EARNINGS AVAILABLE FOR COMMON STOCK	120,817	97,672	92,07
EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$ 2.52	$ 2.26	$ [illegible]3
CUMULATIVE EFFECT PRIOR TO JANUARY 1, 1979	—	—	1
TOTAL EARNINGS PER SHARE (a) (b)	$ 2.52	$ 2.26	$ 2.4
DIVIDENDS PER SHARE (b)	$ 2.08	$ 2.00	$ 1.9

Balance Sheet
Year end
(Thousands of Dollars)

	1981	1980	1979
TOTAL ASSETS	3,406,0[illegible]	3,094,462	2,678,78
Utility Plant — Total	3,61[illegible],895	3,215,339	2,842,25
Accumulated Utility Plant Depreciation and Amortization	(621,353)	(557,859)	(521,17
Other Property	23,870	21,137	[illegible]
Current and Other Assets	392,663	415,845	3[illegible]
TOTAL CAPITALIZATION AND LIABILITIES	3,40[illegible],075	3,094,462	2,678,78
Long-term Debt	1,328,404	1,211,528	973,99
Preferred and Preference Stock:			
With Mandatory Redemption Provisions	328,000	260,500	232,00
Without Mandatory Redemption Provisions	[illegible]	95,071	95,07
Common Stock Equity	1,00[illegible]	912,731	820,41
Deferred Federal Income Taxes	236,481	192,452	162,12
Current Liabilities and Other Credits	415,913	422,180	395,19
UTILITY PLANT ADDITIONS (c)	409,2[illegible]7	398,[illegible]	3[illegible],86
UTILITY PLANT RETIREMENTS	13,[illegible]	25,002	[illegible],61
NUMBER OF COMMON SHARES (b)	51,054,503	46,28[illegible],629	41,2[illegible],57

Operating Statistics

	1981	1980	1979
KWHR SALES (Thousands)	17,507,864	18,159,754	19,[illegible]30,45
Residential	4,375,732	4,463,147	4,352,98
Commercial	4,178,459	4,148,990	4,041,1[illegible]
Industrial	8,279,700	8,062,172	9,268,60
Other (Includes Sales for Resale)	673,973	1,485,445	1,367,73
ELECTRIC CUSTOMERS — YEAR END	[illegible]11,325	710,557	708,21
Residential	642,925	642,845	641,85
Commercial	60,714	60,070	58,69
Industrial	7,261	7,210	7,23
Other	425	432	44
RESIDENTIAL SALES DATA			
Average Kwhr per Customer	6,548	6,686	6,55
Average Revenue per Customer	$ 466.55	$ 405.09	$ 357.8
Average Revenue per Kwhr	7.12¢	6.05¢	5.4
ELECTRIC PRODUCTION			
Net Available for Service Area (Thousands)	18,936,567	18,722,616	19,645,0[illegible]
Net Generation	17,297,523	15,325,948	17,069,91
Net Received from Others	1,639,044	3,396,668	2,575,0[illegible]
BTU per Kwhr of Net Output	10,58[illegible]	10,635	[illegible],63
Fuel Cost per Million BTU	175.14¢	156.92¢	142.5
Coal Cost per Ton	$ 46.70	$ 39.31	$ 35.2
Annual Net 60-Min. Max. Load-KW-Excl. Interruptibles	3,362,000	3,[illegible]4,000	3,097,[illegible]
Net System Capability — KW — Year End	4,624,000	4,[illegible]8,000	4,56[illegible]
STEAM HEATING			
Sales — Pounds (Thousands)	1,612,151	1,979,397	2,0[illegible]
Customers — Year End	337	348	[illegible]
EMPLOYEES — YEAR END	5,189	4,991	4,96

(a) The 1978 net income and earnings per share calculated on a pro forma basis to reflect the units-of-production method of depreciatic are $102,942,503 and $2.31, respectively. The pro forma effect of the adoption of this depreciation method on 1977 was not mater

1978	1977	1976	1975	1974	1973	1972	1971
717,092	659,290	543,148	523,165	463,937	328,768	293,343	270,721
3,520	200,765	160,015	154,020	140,030	104,379	98,891	93,131
72,251	165,049	129,286	121,653	109,185	80,756	74,992	70,216
278,40[illegible]	251,181	197,189	180,890	177,246	119,964	99,926	92,519
42,831	31,611	45,730	55,679	29,946	17,832	13,966	10,709
[illegible]0,085	10,684	10,928	10,923	7,530	5,837	5,568	4,146
599,289	542,871	441,401	433,614	375,159	255,276	224,473	208,397
306,036	259,707	231,564	243,369	218,648	100,450	75,199	69,698
142,389	133,394	105,337	98,154	65,836	72,795	71,722	66,002
56,774	43,307	35,874	33,046	31,632	30,965	27,336	25,433
68,756	58,807	51,925	48,735	43,653	40,906	36,203	32,556
25,334	47,656	16,701	10,310	15,390	10,160	14,013	14,708
117,803	116,419	101,747	89,551	88,778	73,492	68,870	62,324
42,226	49,484	26,346	17,681	8,472	7,642	5,567	4,023
29,890	35,265	24,706	16,983	7,854	6,363	5,958	3,908
12,336	14,219	1,640	698	618	1,279	(391)	115
160,029	165,903	128,093	107,232	97,250	81,134	74,437	66,347
61,016	54,175	46,413	42,464	36,509	31,720	25,365	24,684
72,071	67,889	56,750	50,511	44,717	35,161	27,907	26,697
(11,055)	(13,714)	(10,337)	(8,047)	(8,208)	(3,441)	(2,542)	(2,013)
99,013	111,728	81,680	64,768	60,741	49,414	49,072	41,663
—	—	—	—	—	—	—	—
99,013	111,728	81,680	64,768	60,741	49,414	49,072	41,663
23,575	22,907	18,005	14,696	10,067	7,658	5,118	175
75,438	88,821	63,675	50,072	50,674	41,756	43,954	41,488
$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45	$ 2.03	$ 2.15	$ 2.04
—	—	—	—	—	—	—	—
$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45	$ 2.03	$ 2.15	$ 2.04
$ 1.84	$ 1.76	$ 1.71	$ 1.65	$ 1.60	$ 1.55	$ 1.52	$ 1.49
2,331,541	2,117,135	1,842,999	1,513,247	1,354,065	1,152,335	1,057,091	895,641
2,523,996	2,232,111	1,955,701	1,693,614	1,526,659	1,364,122	1,228,840	1,106,797
(476,983)	(429,150)	(396,338)	(373,851)	(355,841)	(334,071)	(313,109)	(297,385)
15,034	13,753	12,849	9,942	7,433	5,331	5,340	4,418
9,494	300,421	270,787	183,542	175,814	116,953	136,020	81,811
2,331,541	2,117,135	1,842,999	1,513,247	1,354,065	1,152,335	1,057,091	895,641
920,973	885,899	747,392	673,003	553,144	502,800	491,304	391,750
232,000	185,000	135,000	75,000	63,000	25,000	—	—
95,071	95,071	95,071	95,071	95,071	95,071	95,071	50,000
708,883	633,744	511,333	419,990	346,756	326,947	314,542	299,539
140,677	119,299	72,318	63,267	43,348	34,312	34,444	30,479
233,937	198,122	281,885	186,916	252,766	168,205	121,730	123,873
300,765	286,739	275,524	181,673	173,899	145,470	134,893	123,241
8,880	10,329	13,437	14,718	11,362	10,188	12,850	12,062
35,995,365	32,388,055	28,347,544	24,351,499	20,748,110	20,611,034	20,499,420	20,400,326
18,364,437	18,066,428	18,070,291	18,133,826	17,601,686	17,747,663	15,173,048	14,064,775
4,288,865	4,200,116	4,045,158	3,984,004	3,830,305	3,910,018	3,730,365	3,530,655
3,933,586	4,007,123	3,808,897	3,685,878	3,527,382	3,569,689	3,356,419	3,144,640
8,992,919	8,874,796	8,475,983	7,822,419	8,819,205	9,103,173	7,298,700	6,813,918
1,149,067	984,393	1,740,253	2,641,525	1,424,794	1,164,783	787,564	575,562
702,538	696,547	693,425	689,133	684,728	678,426	672,165	663,749
637,609	632,740	630,581	627,719	623,988	618,266	612,845	605,889
57,3[illegible]0	56,241	55,178	53,765	53,070	52,291	51,645	50,285
7,167	7,112	7,206	7,190	7,212	7,415	7,222	7,122
452	454	460	459	458	454	453	453
6,517	6,412	6,187	6,116	5,914	6,098	5,864	5,604
$ 324.91	$ 307.11	$ 245.16	$ 237.02	$ 216.69	$ 162.69	$ 155.45	$ 147.89
5.00¢	4.80¢	3.97¢	3.88¢	3.67¢	2.67¢	2.65¢	2.64¢
19,254,857	19,098,231	18,331,384	17,271,169	17,817,763	18,257,155	16,101,689	15,114,965
16,882,669	18,123,528	16,747,626	16,213,012	18,040,100	17,326,640	15,404,233	14,953,520
2,372,188	974,703	1,583,758	1,058,157	(222,337)	930,515	697,456	161,445
10,536	10,401	10,322	10,454	10,569	10,382	10,172	10,256
131.80¢	117.50¢	105.55¢	111.14¢	102.26¢	48.40¢	42.86¢	40.51¢
30.73	$ 25.72	$ 23.98	$ 24.93	$ 21.53	$ 11.05	$ 9.94	$ 9.03
3,249,000	3,350,000	3,065,000	2,937,000	2,934,000	3,119,000	2,822,000	2,750,000
4,566,000	4,386,000	3,906,000	3,615,000	3,764,000	3,769,000	3,775,000	3,400,000
[illegible],886	2,374,510	2,359,677	2,263,645	2,274,925	2,154,390	2,450,656	2,390,495
369	372	385	399	406	416	427	450
4,831	4,790	4,840	4,947	4,982	4,853	4,898	4,972

(b) Adjusted for the 3-for-2 stock split, effective December 16, 1977.
(c) Excludes $5[illegible],022,606 of terminated projects reclassified to Deferred Charges in 1979.

The Cleveland Electric Illuminating Company and Subsidiaries

Statement of income from continuing operations adjusted for changing prices for the year ended December 31, 1981 (Unaudited)

	Conventional Historical Cost	Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
		(Thousands of Dollars)	
Revenue	$1,012,930	$1,012,930	$1,012,930
Operation expense	500,784	500,784	500,784
Maintenance expense	74,925	74,925	74,925
Depreciation and amortization	85,294	171,699	198,005
Taxes other than Federal income tax	91,648	91,648	91,648
Federal income tax	67,575	67,575	67,575
Nonoperating income	(75,712)	(75,712)	(75,712)
Interest expense	112,682	112,682	112,682
	857,196	943,601	969,907
Net income — continuing operations	$ 155,734	$ 69,329 (a)	$ 43,023 (a)
Increase in specific prices of property and plant (b)			$ 309,198
Reduction to net recoverable cost		$ (149,290)	(148,734)
Increase in general prices			(283,448)
Increase in general prices in excess of increase in specific prices after the reduction to net recoverable cost			(122,984)
Gain from decline in purchasing power of net amounts owed		158,775	158,775
Net price level adjustment		$ 9,485	$ 35,791

(a) Including the reduction to net recoverable cost, net income (loss) for 1981 would have been $(79,961,000) in constant dollars and $(105,711,000) in current cost dollars.

(b) At December 31, 1981, the current cost of property, plant and equipment net of accumulated depreciation was $5,038,126,000 while original (net recoverable) cost was $2,989,542,000.

Supplementary information concerning the effects of inflation

As prescribed by Statement of Financial Accounting Standards No. 33, we have prepared information on the effects of inflation on operations. The methods used to compute this data are experimental and subject to change by the Financial Accounting Standards Board. These data do not reflect the "current value" of our assets. They do not measure all the effects of inflation on our operations or predict our future cash requirements. The effects described herein are not recognized for income tax or ratemaking purposes.

General

Historical costs adjusted for general inflation are referred to as "constant dollars." The original cost of utility plant and certain other items was converted to constant dollars by applying the Consumer Price Index for All Urban Consumers to the cost of these assets.

Current cost data reflects the cost of current replacement of existing assets. The current cost of assets was estimated by applying the Handy-Whitman Index of Public Utility Construction Costs to the original cost of structures and equipment. Original cost of land was trended using the Consumer Price Index for All Urban Consumers. Certain other property was trended to current cost using other industry indices.

Current cost data differ from constant dollar data mainly because the prices of assets have increased at rates different from the rate of general inflation.

Revenues and Expenses

Revenues and expenses (except for depreciation) were assumed to accumulate evenly throughout the year. No adjustments were made to the figures reported in the primary financial statements. No adjustments were made to Federal income tax expense.

Depreciation

The constant dollar and current cost estimates of property and plant were determined by applying the indices noted to original cost. Restated depreciation reserves were used to compute property and plant net of depreciation. They were obtained by applying current depreciation rates by account to restated property and plant figures by vintage year. The depreciation provisions were obtained by applying current depreciation rates to the average of beginning and end-of-year estimated depreciable property.

Materials and Supplies

Balance sheet items such as fuel in stock, materials and supplies were treated as cash type items. Fuel inventory is

The Cleveland Electric Illuminating Company and Subsidiaries

Five-year comparison of selected supplementary financial data adjusted for effects of changing prices (Unaudited)

(Average 1981 Dollars)

	1981	1980	1979	1978	1977
	Year Ended December 31, (Thousands, except per share amounts)				
Revenue					
as reported	$1,012,930	$893,566	$ 824,267	$717,092	$659,290
in 1981 constant dollars	$1,012,930	$986,254	$1,032,798	$999,671	$989,480
Net Income					
as reported — continuing operations	$ 155,734	$125,383	$ 113,534		
in 1981 constant dollars	$ 69,329	$ 57,352	$ 72,182		
in 1981 current cost dollars	$ 43,023	$ 26,808	$ 38,154		
Income (Loss) per Common Share					
as reported — continuing operations	$ 2.52	$ 2.26	$ 2.31		
in 1981 constant dollars	$ 0.72	$ 0.62	$ 1.05		
in 1981 current cost dollars	$ 0.17	$ (0.09)	$ 0.16		
Net Assets at Year End					
as reported	$1,002,206	$912,731	$ 820,411		
at net recoverable cost	$ 969,808	$962,183	$ 972,075		
Increase in general prices in excess of increase in specific prices after reduction to net recoverable cost	$ 122,984	$208,409	$ 237,690		
Gain from decline in purchasing power of net amounts owed	$ 158,775	$208,206	$ 222,056		
Cash Dividends Declared per Common Share					
as reported	$ 2.08	$ 2.00	$ 1.92	$ 1.84	$ 1.76
in 1981 constant dollars	$ 2.08	$ 2.21	$ 2.41	$ 2.57	$ 2.64
Market Price per Common Share at Year End					
as reported	$ 16.00	$ 14.63	$ 16.25	$ 16.88	$ 22.50
in 1981 constant dollars	$ 15.48	$ 15.42	$ 19.25	$ 22.66	$ 32.93
Average Consumer Price Index	272.4	246.8	217.4	195.4	181.5

subject to rapid turnover. As such, we believe the original cost of this item fairly represents its current cost.

Reduction to Net Recoverable Cost

Under Ohio law, we can recover only what we paid for plant and equipment, so the values of these items under both constant dollar and current cost methods were reduced to the lower original cost amount.

Increase in General Prices in Excess of Increase in Specific Prices After Reduction to Net Recoverable Cost

The overall increase in prices of our property and plant exceeded the increase in general prices as measured by the Consumer Price Index for All Urban Consumers during 1981. However, when the current cost of plant was reduced to the lower original cost amount, this "gain" from specific price increases was more than offset.

Gain from Decline in Purchasing Power of Net Amounts Owed

With inflation, holding cash type assets such as money and receivables results in a loss in purchasing power. Holding cash type liabilities such as long-term debt results in a gain in purchasing power. Preferred stock and deferred tax balances were treated as cash type liabilities for this computation.

Effects of Inflation on the Company

Our 1981 revenues increased despite the decline in unit sales of electricity, but revenues in constant dollars remained about the same as in prior years. This shows that inflation reflected in rates by the increasing cost of service was mainly responsible for revenue growth.

Net income from operations increased in 1981 on both constant dollar and current cost bases. The differences between these measures and income as reported occurs because we are not permitted to recover current cost measures of depreciation through rates. Ohio law restricts recovery of investment through depreciation charges to the original cost of plant. The part of current cost we couldn't recover was only partially offset by the gain from holding cash type liabilities.

We have to raise new capital to meet growth needs at inflated costs of construction and to replace worn-out items at higher replacement costs. If rate adjustments fail to compensate for the cost of new capital, especially during times of high inflation, a regular erosion of the return on equity will occur. As a result, there will be a regular need for rate relief.

We continue to seek proper and timely rate increases and a regulatory environment which is responsive to the effects of inflation on our investors.

Board of Directors

Leigh Carter (56)
Chairman, President and Chief Executive Officer of Tremco, Inc., manufacturer of specialty chemical products and a wholly owned subsidiary of The B.F. Goodrich Company

Robert M. Ginn (58)
President of the Company

Roy H. Holdt (61)
Chairman and Chief Executive Officer of White Consolidated Industries, Inc., manufacturer of products for the home, principally major appliances, and machinery and equipment for industry

John Lansdale, Jr. (70)
Partner in the law firm of Squire, Sanders & Dempsey

Richard A. Miller (55)
Executive Vice President of the Company

Karl H. Rudolph (67)
Chairman of the Executive Committee and retired Chairman and Chief Executive Officer of the Company

Craig R. Smith (56)
President of the Industrial Group of Bendix Corporation. The Industrial Group is a producer of machines and accessories for the metalworking industry. Also Chairman, President and Chief Executive Officer of The Warner & Swasey Company, a wholly owned subsidiary of Bendix Corporation

Charles E. Spahr (68)
Director of several companies and retired Chairman and Chief Executive Officer of The Standard Oil Company (Ohio), manufacturer of petroleum products, chemicals and plastics and supplier of coal

Herbert E. Strawbridge (64)
Chairman and Chief Executive Officer of The Higbee Company, a department store

Richard B. Tullis (68)
Chairman of the Executive Committee and retired Chairman and Chief Executive Officer of Harris Corporation, manufacturer of communication and information processing equipment

Harold L. Williams (55)
Executive Vice President of the Company

( ) indicates age

Ralph M. Besse
Chairman Emeritus of the Board of Directors

Elmer L. Lindseth
Chairman Emeritus of the Board of Directors

Principal Officers and Executives

Robert M. Ginn (58) President

Richard A. Miller (55) Executive Vice President

Harold L. Williams (55) Executive Vice President

Dalwyn R. Davidson (63) Vice President-System Engineering & Construction

John W. Fenker (55) Vice President-Power Supply

Robert J. Farling (45) Vice President-Administrative Services

Frank A. Kender (54) Vice President-Energy Application Services

Edgar H. Maugans (47) Vice President-Finance

John J. Misic (60) Vice President-Distribution & Services

Alan D. Wright (52) Vice President-Public Affairs & Legal

Clement T. Loshing (58) Treasurer

Charles C. Chopp (46) Controller

Andrew R. Felmer (58) Secretary

Newton D. Flack (56) Division Manager-Steam Power Division

Committees of the Board of Directors

Audit Committee The Audit Committee recommends to the Board the firm of independent accountants to be retained for the ensuing year and reviews the results of the independent accountants' examination of the Company's financial statements and the audit practices employed by the accountants and the Company. The Committee oversees the establishment and administration by management of effective internal accounting controls and an accounting system designed to produce financial statements which present fairly the financial position of the Company.

C.R. Smith (Chairman), C.E. Spahr, H.E. Strawbridge, R.B. Tullis

Compensation Committee The Compensation Committee reviews and approves the Company's overall Compensation Plan, including the pension and employee stock plans, and, in particular, fixes the remuneration of the Chairman (if any), President and all Vice Presidents.

H.E. Strawbridge (Chairman), L. Carter, R.H. Holdt, C.R. Smith, C.E. Spahr, R.B. Tullis

Executive Committee The Executive Committee acts on behalf of the Board at times other than regular Board meetings when it is impracticable to call together the entire Board. The Committee has the same authority as the Board, except that it may not elect officers (other than assistant secretaries and assistant treasurers), fill vacancies on the Board or on the Executive Committee or authorize the issuance of first mortgage bonds.

K.H. Rudolph (Chairman), L. Carter, R.M. Ginn, C.E. Spahr

Finance Committee The Finance Committee reviews and recommends long-range financial policies and objectives and specific actions to achieve those objectives. The Committee, acting for the Company as administrator of the Company's Pension Plan and Investment Program of the Employee Savings Plan, also reviews the investment performance of the pension fund trustee, other pension fund investment managers and the Employee Savings Plan trustee and establishes objectives for the investment of Pension Plan and Employee Savings Plan assets.

R.A. Miller (Chairman), R.M. Ginn, R.H. Holdt, K.H. Rudolph, C.E. Spahr, R.B. Tullis

Nominating Committee The Nominating Committee recommends to the Board candidates to be nominated for election as directors at the annual meeting and to fill any vacancies on the Board. When reviewing potential candidates, the Committee considers suggestions made by share owners.

R.H. Holdt (Chairman), L. Carter, J. Lansdale, Jr., K.H. Rudolph, C.R. Smith, C.E. Spahr, H.E. Strawbridge, R.B. Tullis

Planning Committee The Planning Committee was formed in 1981 to advise and consult with management and the Board on long-range strategic planning. Responsibilities of the Committee include recommending long-range objectives and the strategies, manpower and overall corporate organization appropriate to meet those objectives.

R.M. Ginn (Chairman), L. Carter, R.A. Miller, R.B. Tullis, H.L. Williams

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
P.O. Box 5000 • Cleveland, Ohio 44101

The Toledo Edison Company

1981 Annual Report

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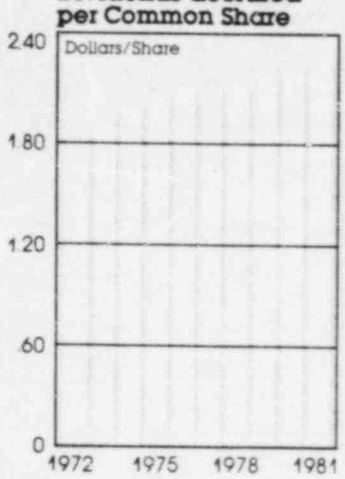
Toledo Edison

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

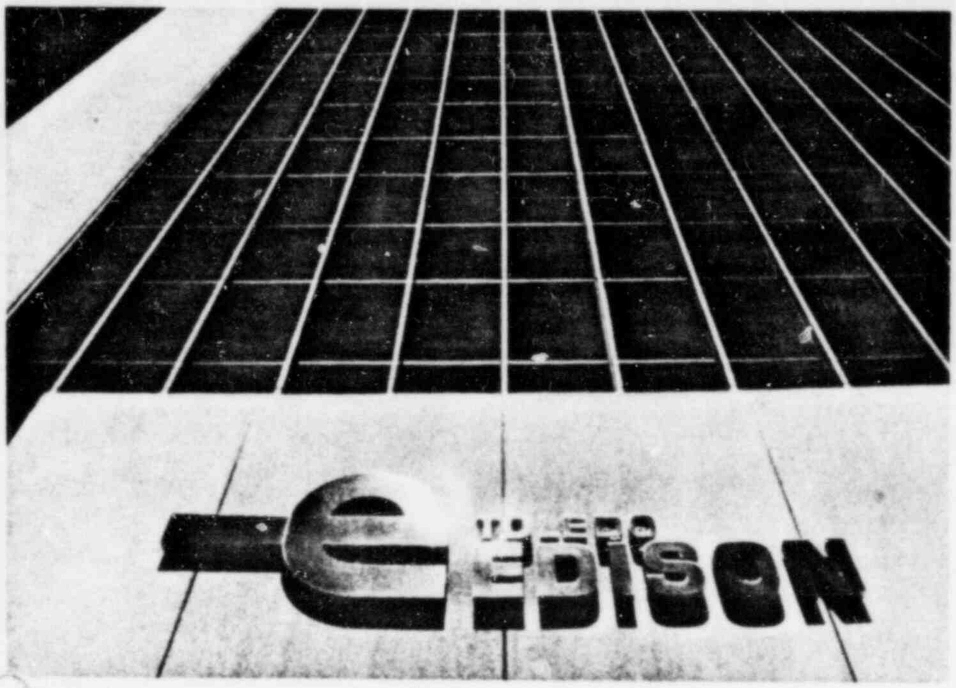
*The dividend paid in January, 1982 was increased to $.59 per share.

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,

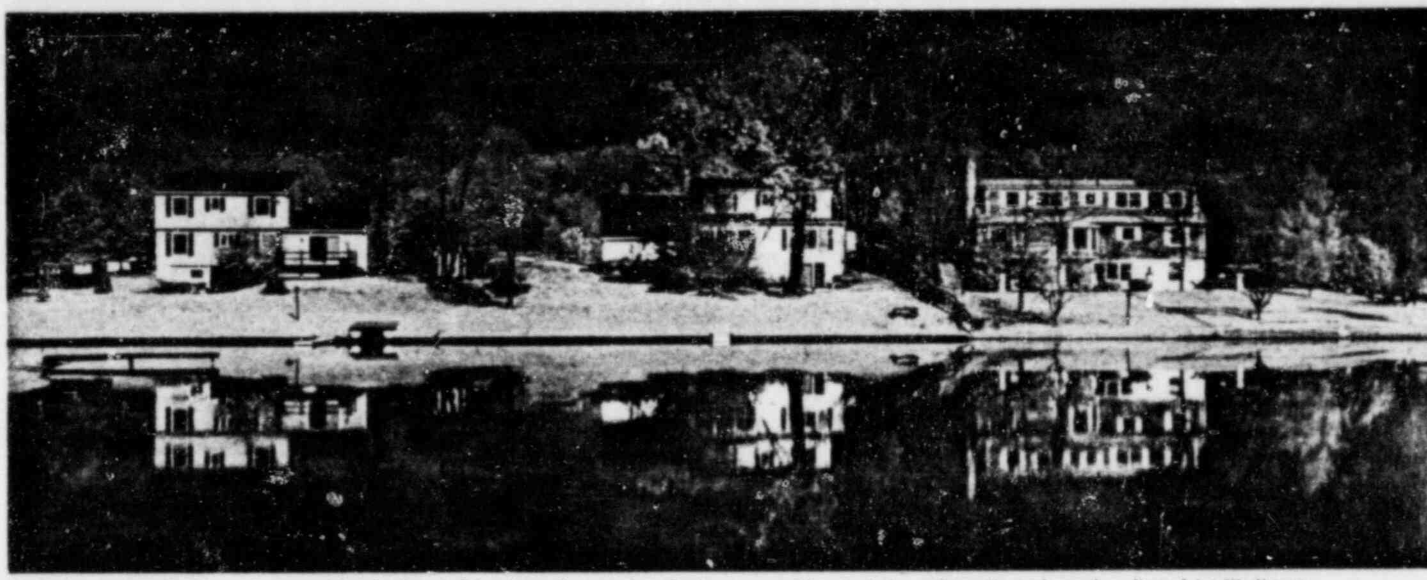
John P. Williamson

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.

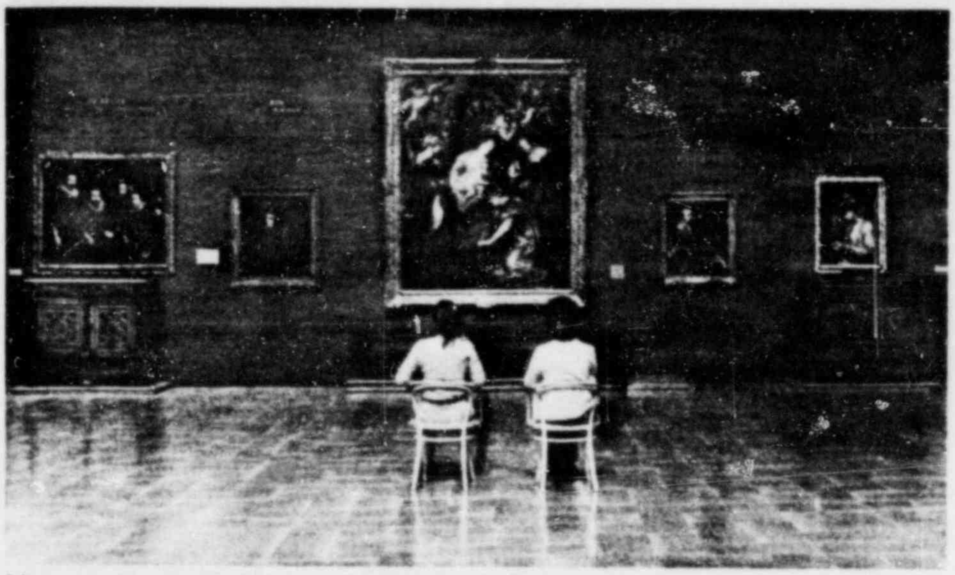
The history of Toledo is the story of the Maumee River and the Great Lakes, but modern life demands more than geographic advantage. It requires stable, progressive citizens who understand the challenges of tomorrow while venerating the institutions of the past.

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.

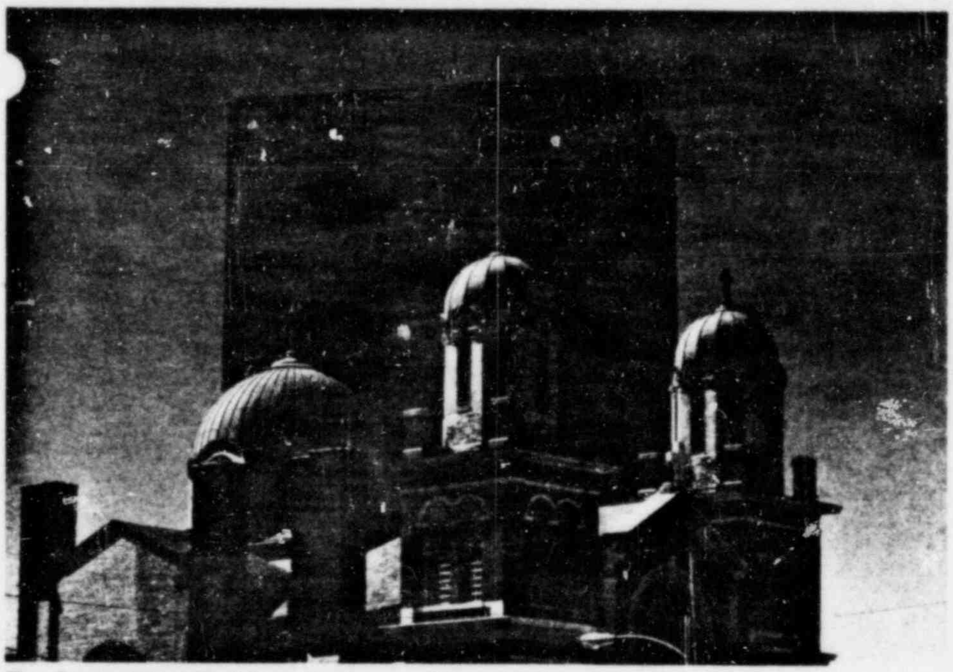
Toledo is world famous as The Glass City, and the 5,000-piece display in the Toledo Museum of Art chronicles the city's heritage as the pre-eminent producer of industrial and artistic glass. The museum's Peristyle is one of the nation's oustanding concert halls. Tours and classes at the museum, in conjunction 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.

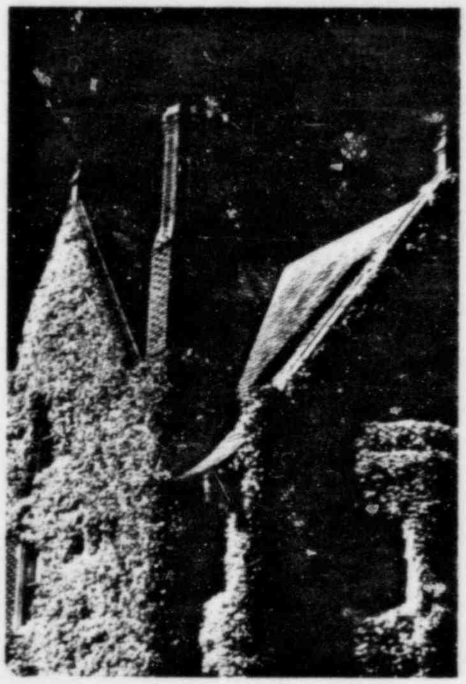
American Gothic homes bring small-town New England reminiscences.

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.

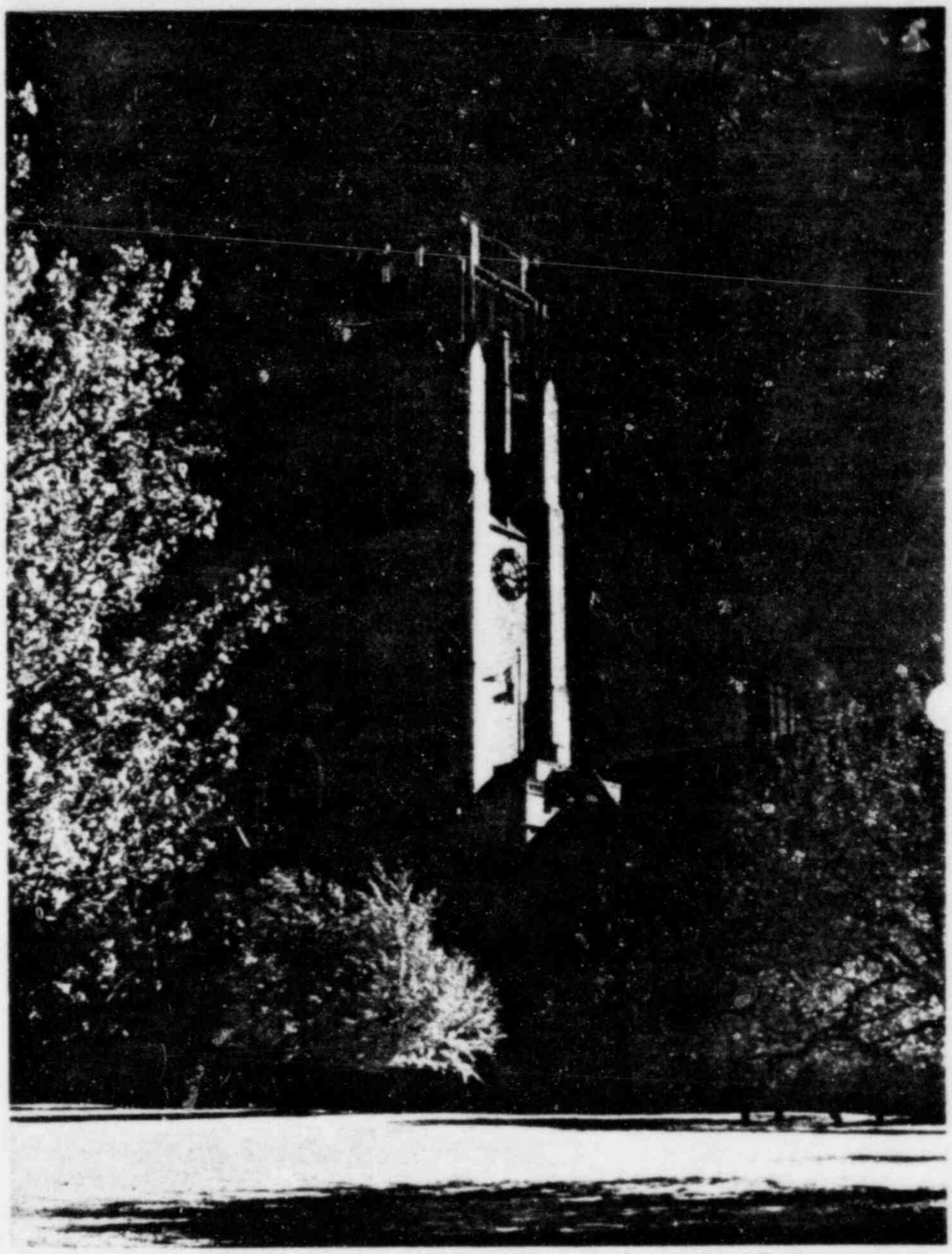
A key part of the quality of life in the Toledo area is the availability of the Metropark system. This network of nine outdoor facilities spanning some 6,000 acres around the metropolitan area puts the great outdoors within easy reach of most city residents. To single out an example, few parks anywhere 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 University Hall Tower—a dominant landmark on the University of Toledo campus.

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.

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

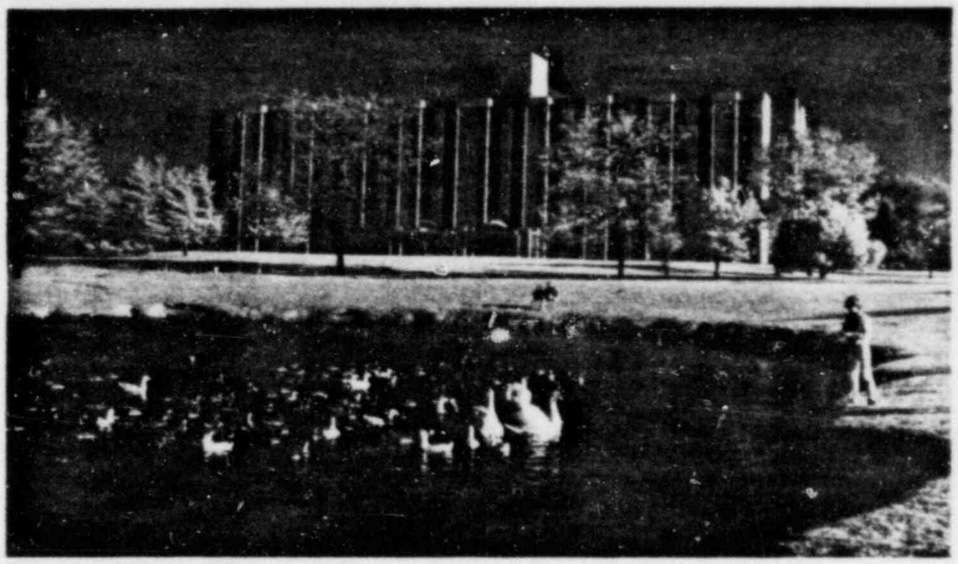
prominent are Wayne State and the University of Detroit, both in Detroit, and Defiance College, 50 miles southwest of Toledo.

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. 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.



Flower Hospital in Sylvania.

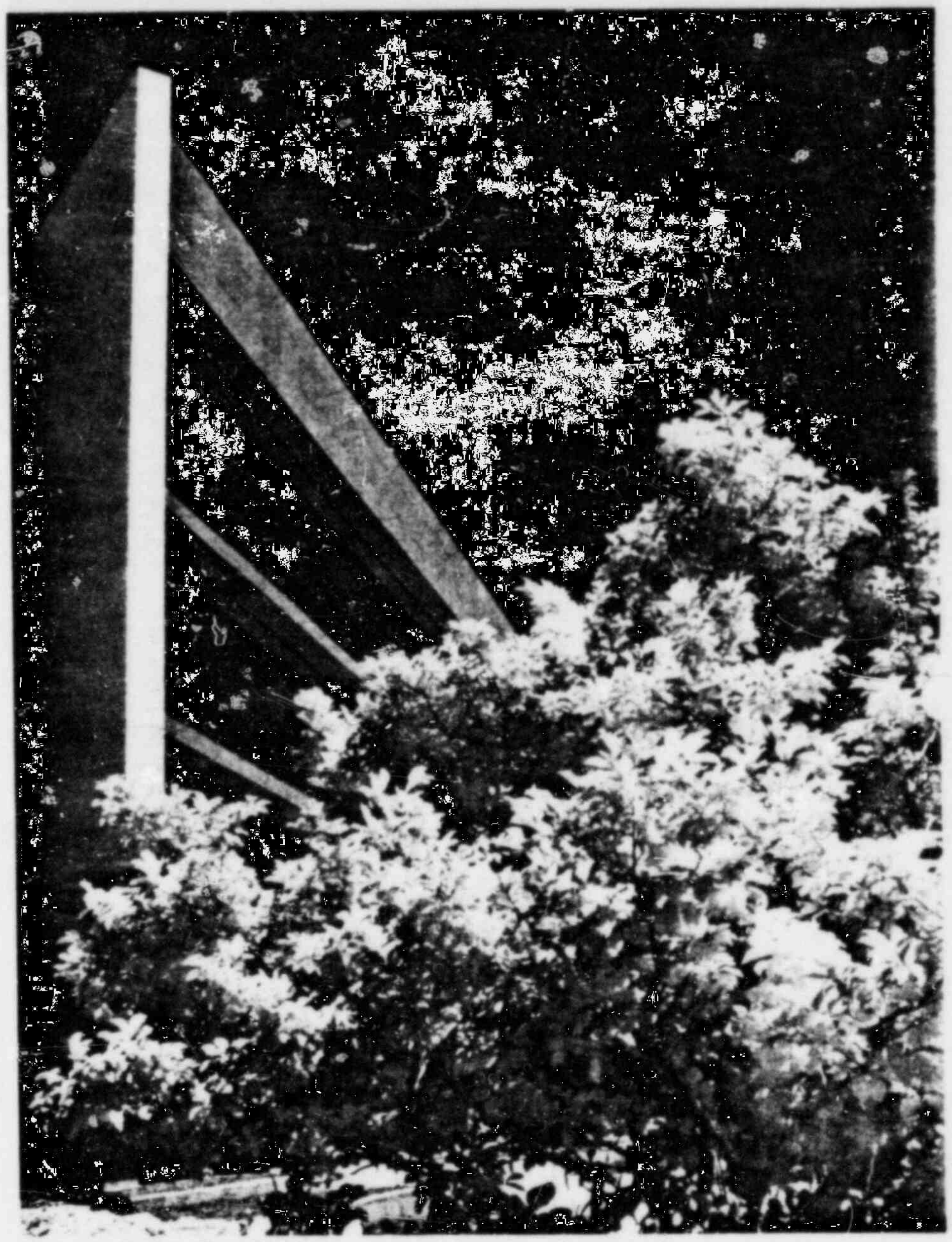
The Medical College of Ohio.

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

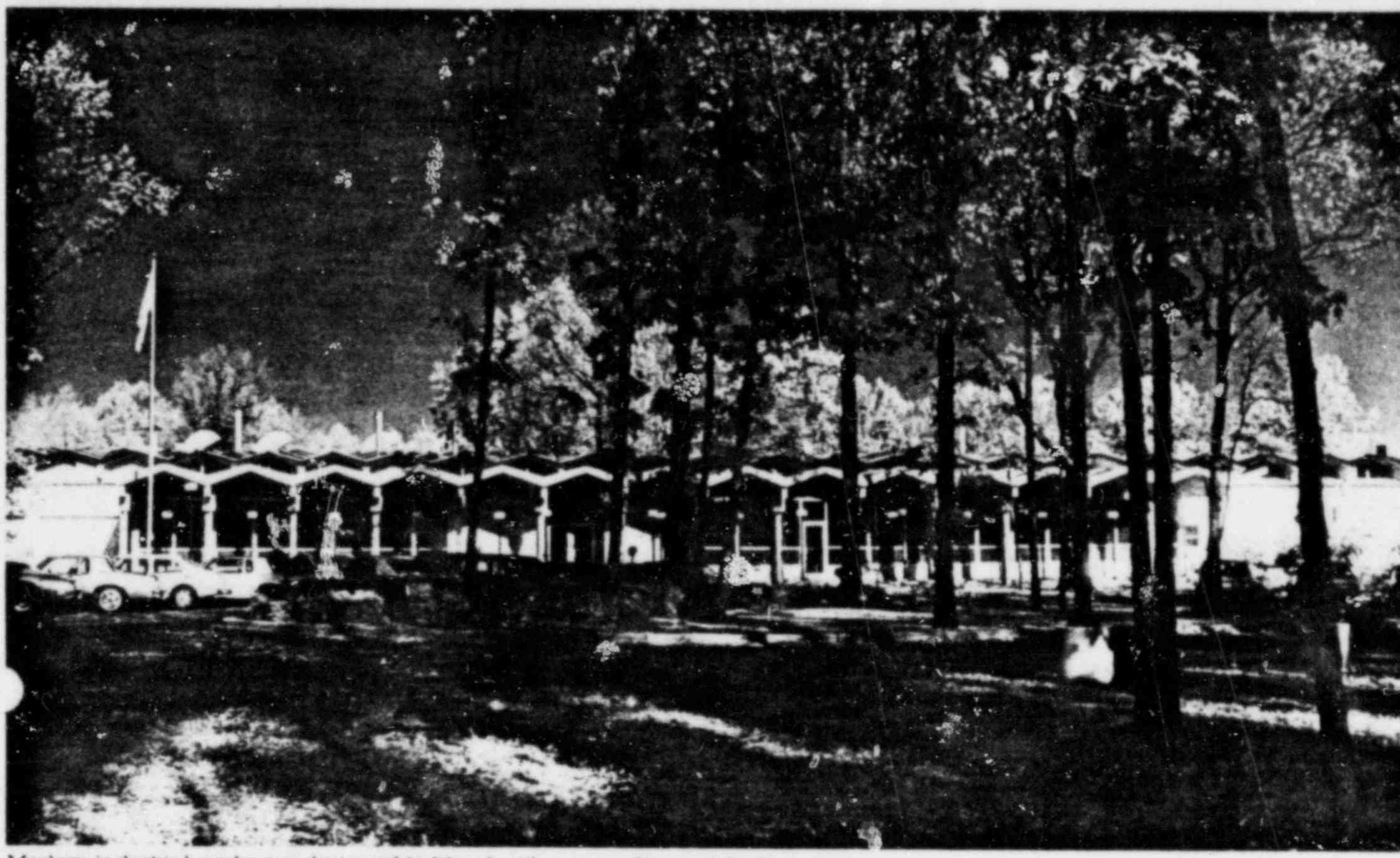


The new Toledo Trust Building, a sign of downtown's renewal.

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.

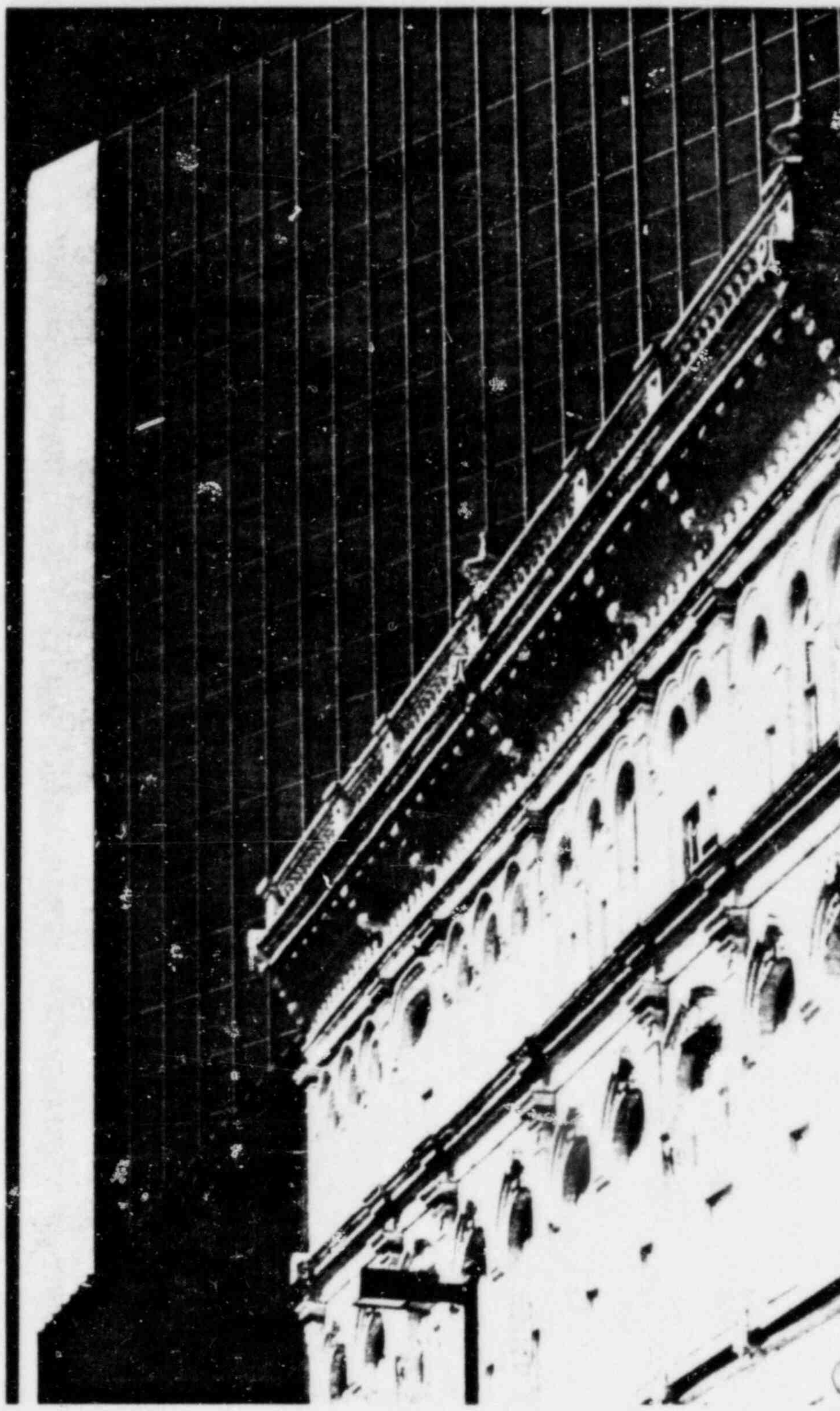
The Uncommon City

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.

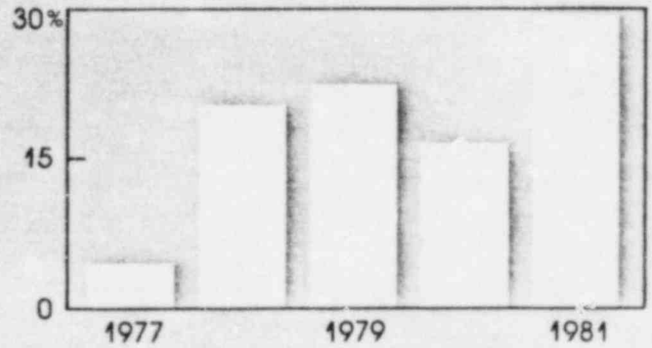
A request for an increase in rates for natural gas service in the communities of Defiance and Delta was approved by both communities on November 3, 1981 and went into effect December 4, 1981. It will produce $209,000 of additional revenue on an annual basis.

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.

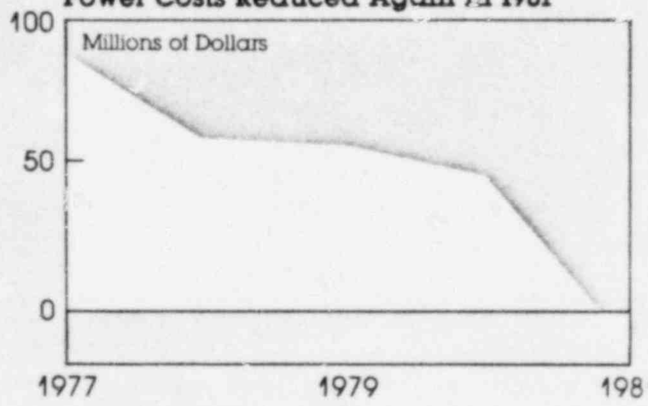
The efficient operation of Company-owned generating stations, particularly Bay Shore, Davis-Besse Unit No. 1 and Bruce Mansfield Unit No. 3 contributed to the overall improved operating performance of the Company in 1981. Bay Shore Station contributed approximately 51 percent of the Company's total generation 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 kilowatthours 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 mllion 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 70[illegible]
Gas and steam heating	7 431	6 982	6 41[illegible]
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 59[illegible]
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	Shares outstanding (Thousands) 1981	Shares outstanding (Thousands) 1980	Redemption price Current	Redemption price Through	Redemption price Eventual minimum	December 31, 1981		December 31, 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									
$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	67 478	58 59[illegible]
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

For The Years Ended December 31,	1981	1980	1979
	(thousands of dollars)		
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 49[illegible]
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
9⅞%	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 9⅝% series may not be redeemed prior to June 1, 1984.

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 9⅝% 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
9⅝%	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 nontaxable 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	(thousands of dollars) Plant In-Service	Accumulated Depreciation	Construction Work in Progress
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	30.0[illegible]	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 0[illegible]
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)	10[illegible]
Income before interest charges	153 956	122 896	101 188	90 105	65 110	24 0[illegible]
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(21)
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

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 [illegible] 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.

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