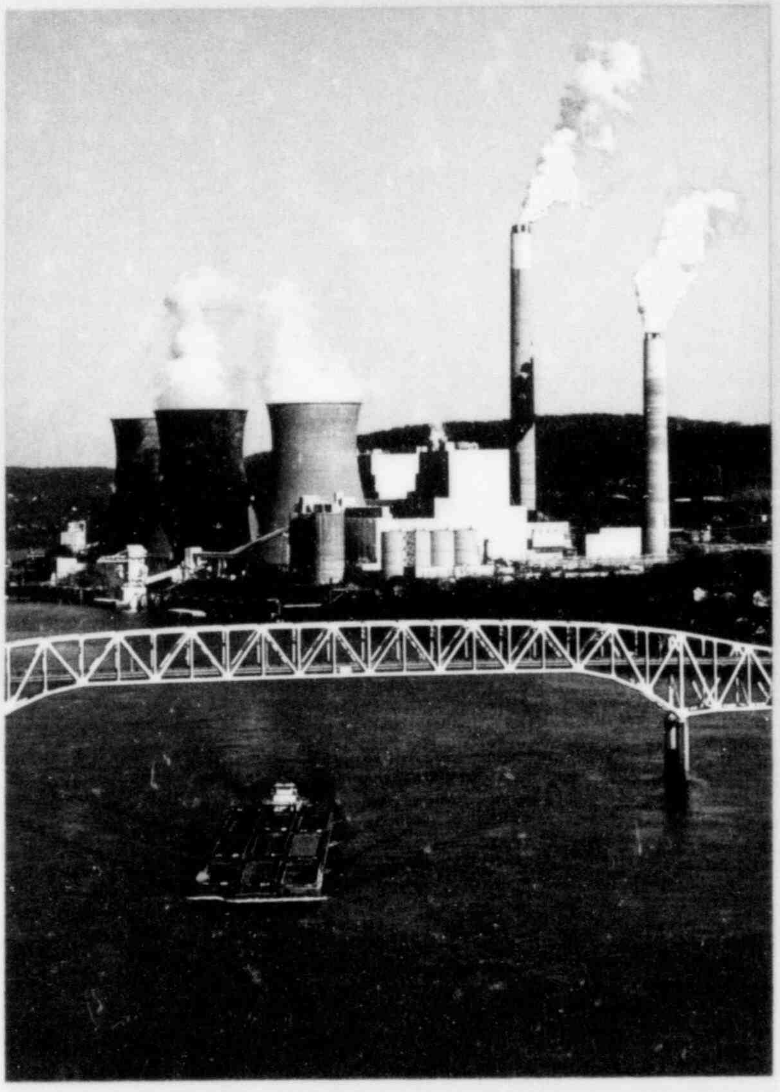
OHIO**EDISON** **Annual Report**

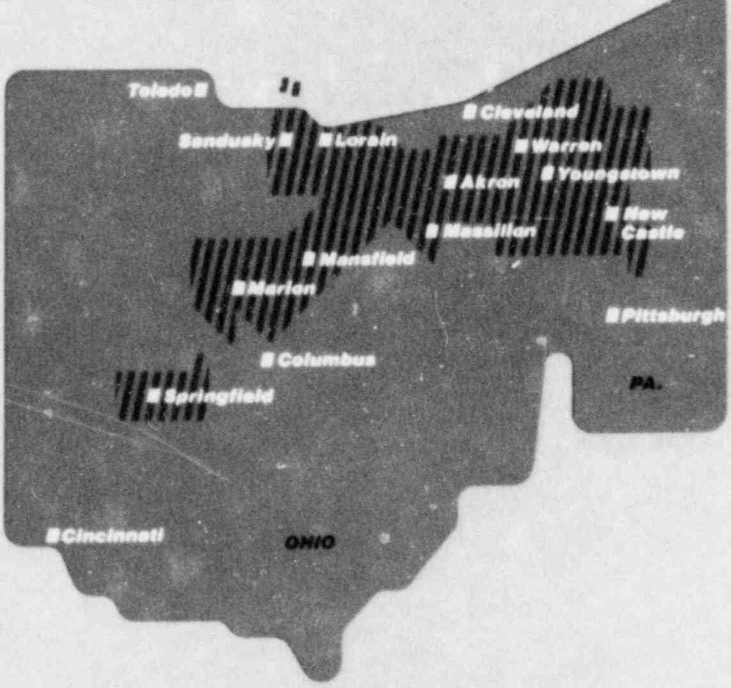


Ohio Edison System

The Ohio Edison System is the 17th largest investor-owned electric system in the United States, based on total kilowatt-hour sales, and consists of Ohio Edison Company and its wholly owned subsidiary, Pennsylvania Power Company. Ohio Edison, headquartered in Akron, Ohio, provides electric service to about 840,000 customers. Penn Power, in New Castle, Pennsylvania, serves about 125,000 customers. The System's service area covers approximately 9,000 square miles and includes several of the most highly industrialized cities and agriculturally productive regions in Ohio and Pennsylvania. Ohio Edison has a second wholly owned subsidiary, Ohio Edison Finance N.V., a Netherlands Antilles (West Indies) corporation which was established in 1981 to expand the Company's capital market access to foreign investors.

Service Area

Ohio Edison Company and Pennsylvania Power Company

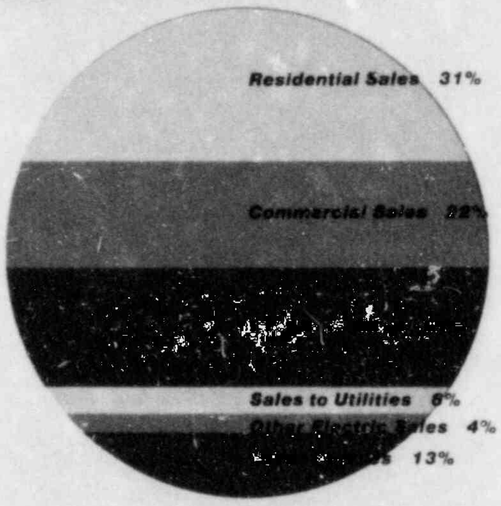


Financial Highlights

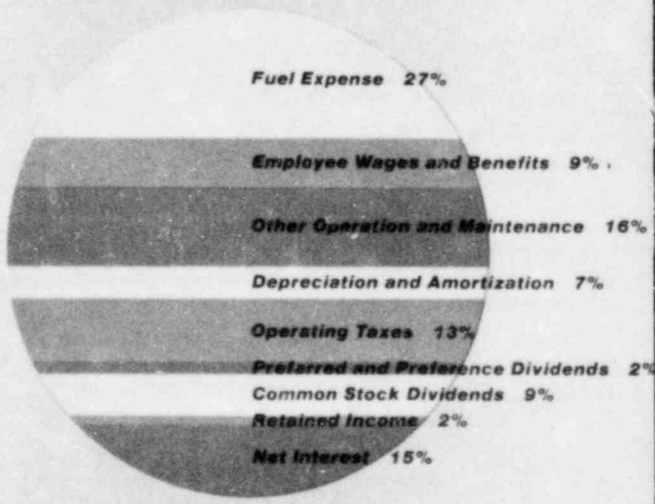
For the Years Ended December 31	**1982**	1981	Change
	(In millions, except per share amounts)		
Kilowatt-Hour Sales	**24,025.5**	24,662.2	−2.6%
Operating Revenues	**$1,429.6**	$1,279.6	+11.7%
Fuel Expense	**432.7**	413.7	+4.6%
Operating Income	**269.6**	252.4	+6.8%
Allowance for Funds Used During Construction, Net	**160.3**	127.8	+25.4%
Interest and Other Charges	**310.4**	267.5	+16.0%
Income Before Extraordinary Items	**195.6**	183.0	+6.9%
Net Income	**215.7**	197.1	+9.5%
Earnings on Common Stock	**181.5**	163.9	+10.7%
Earnings Per Common Share:			
Before Extraordinary Items	**$1.89**	$2.10	−10.0%
Earnings on Common Stock	**2.13**	2.30	−7.4%
Dividends Per Common Share*	**$1.76**	$1.76	—
Dividends on Capital Stock	**$185.8**	$159.2	+16.7%
Construction Expenditures:			
Construction of Facilities	**649.9**	549.1	
Nuclear Fuel	**124.3**	18.9	
Total	**$774.2**	$568.0	+36.3%
Net Financing Activities	**683.5**	385.6	+77.3%
Return on Average Common Equity	**13.5%**	14.6%	

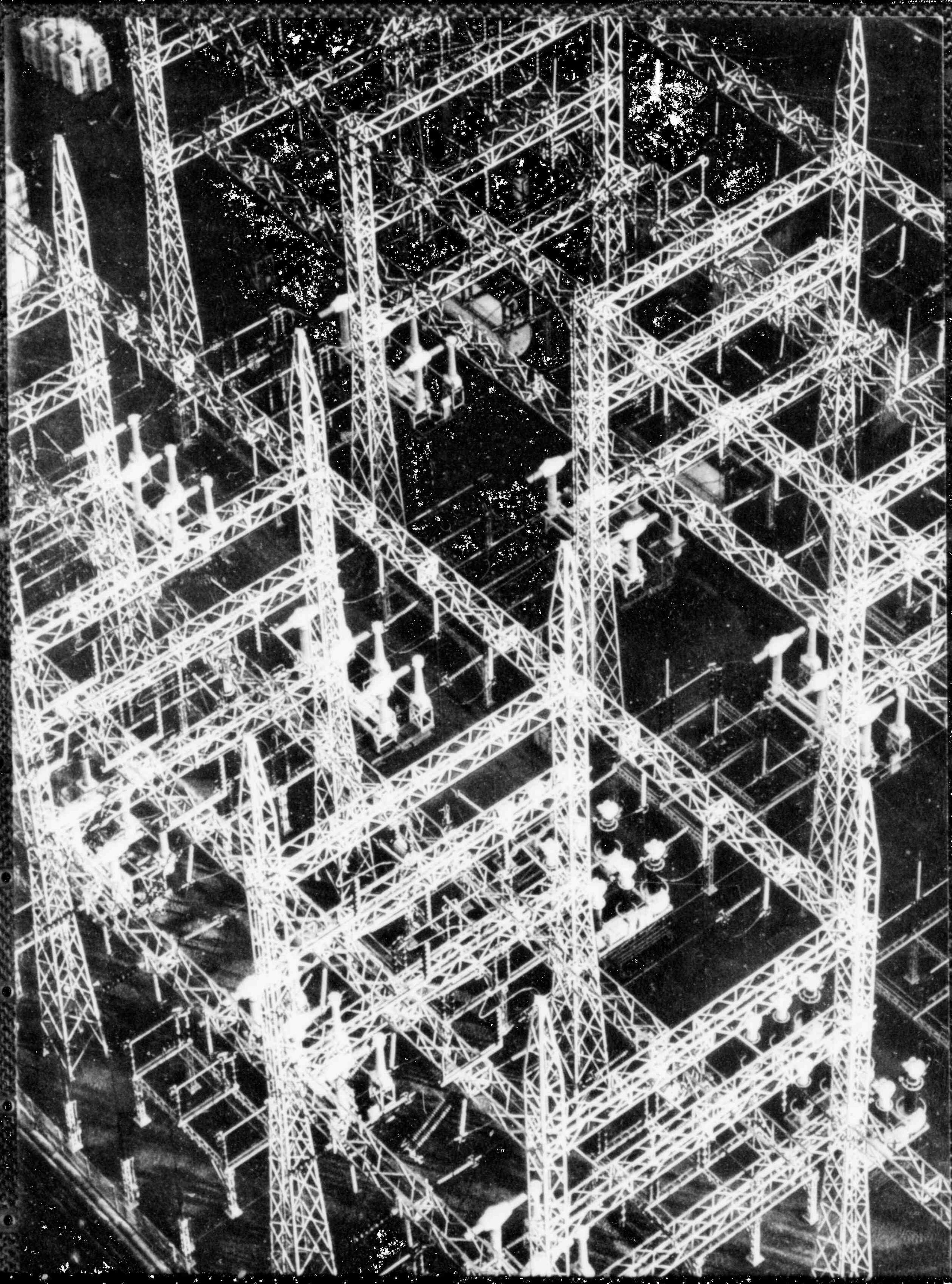
**The quarterly dividend was increased to 45 cents per share ($1.80 on an annual basis) effective with the March 31, 1983, dividend.*

Source of 1982 Income



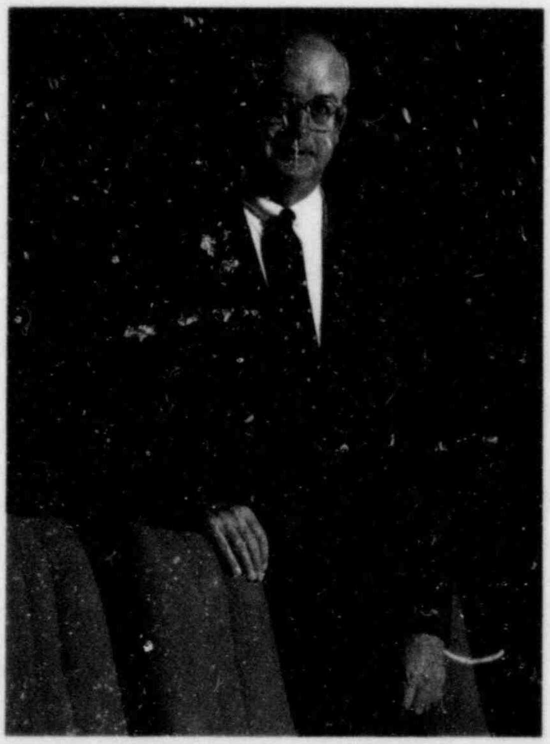
Distribution of 1982 Income





The year 1982 will be remembered as a difficult one for Ohio Edison, its stockholders and customers.

For the Company, it meant taking advantage of every opportunity that would help offset the effects of a continuing business slump that gripped the entire nation. With the economy shrinking our customers' demand for electricity, for example, we increased our efforts to sell available generating capacity to other utilities. Despite intense competition from many companies faced with the same need to sell power, our efforts met with considerable success. Kilowatt-hour sales to other utilities were up 36.3 percent over 1981.



Justin T. Rogers, Jr.
President

While these record sales of bulk power added $101.7 million to total revenues, they didn't make up for a 6.9 percent decrease in kilowatt-hour sales to our own customers. This drop in sales, combined with an increase in the number of shares of common stock during the year, were the principal reasons common stock earnings were down 17 cents from 1981, to $2.13 per share.

We did, however, receive favorable treatment on several rate issues, which carried with them an improvement in our financial outlook. The Public Utilities Commission of Ohio (PUCO) in July provided us with a means to begin recovering $71 million in fuel expenses which had previously been deferred. In our most recent rate case, the 13.02 percent rate of return granted by the Commission was designed to permit amortization of $54 million in after-tax costs for four nuclear units canceled in 1980. In a related development, the Pennsylvania Public Utility Commission ruled that our subsidiary, Pennsylvania Power, will be able to recover its $10 million after-tax share of the costs of those units through rates over a ten-year period.

The Ohio Commission also approved our accounting treatment of an equity-for-debt exchange that took place in May when we acquired several series of our discounted first mortgage bonds in exchange for 2.7 million shares of common stock. This exchange is particularly significant because it added an

extraordinary gain of 24 cents per share, or $20.2 million, to 1982 earnings; and it eliminated $53.4 million in long-term debt, thereby reducing future interest charges and strengthening our capital structure.

The Companies also were granted new rates during the year that should add about $135 million to annual revenues. However, this amount is 27.3 percent less than the $185.8 million we needed to meet our increasing costs and provide a fair return on stockholder investment.

As you may recall, the PUCO late in 1981 ordered an independent management study of Ohio Edison. On January 11, 1982, the Commission-appointed consultants undertook a five-month review of the Company's management and operations. In their final report to the PUCO, the consultants found the Company to be a "well-managed utility enterprise." They noted that while the Company "confronts an unusually complex array of strategic challenges... management has recognized the dimensions of these challenges and has developed appropriate strategic approaches to them." The consultants also offered some recommendations they felt could further strengthen operations. These have either already been implemented or are undergoing further study to determine whether they are practical and cost-effective.

We are proud of our achievements and confident in our proven ability to continue moving the Company forward. As we look ahead, we see four areas that could have important effects on our Company's future and will require our concentrated attention: changes in utility regulation; financing to complete construction projects; new and more costly environmental regulations; and the general economy of our service area.

- We witnessed some major changes in utility regulation in 1982. The most significant was a new Ohio law that changes the process of selecting PUCO commissioners and establishes specific qualifications for commissioners. Also, a new law in Pennsylvania prevents utilities such as Penn Power from including plant construction costs in rates until a project is complete. The result will be higher and sharper customer rate increases when a plant is placed into service. We cannot yet fully assess how these and other changes will affect our future earnings, but we will adjust our strategies to deal with these changes.

  Fortunately, we won't have to deal with the politics of elected PUCO commissioners because Ohio voters overwhelmingly defeated such a proposal on the ballot last fall. We are deeply indebted to our many Ohio stockholders and employees who helped defeat this proposal, which would have eventually resulted in higher costs to consumers.

- Completing our plant and environmental construction program will require us to raise about $1.4 billion over the next six years. Acquiring these funds will be a very demanding task, especially in the current economic and regulatory climate —but it is achievable, We will continue to develop the necessary methods to finance these projects as economically as possible.

- Even though our current environmental program will be completed in 1984, at a total cost of more than $511 million, new federal legislation already being considered could cost coal-burning utilities billions of dollars more to comply with so-called "acid rain" standards. We must in good conscience oppose any "quick-fix" legislation directed at correcting an environmental phenomenon about which too little is known. Sufficient research must be conducted to identify the true causes of acidic precipitation and the most cost-effective remedies. Again, we gratefully acknowledge the support we've received from our stockholders and employees in bringing our concerns about this matter to the attention of lawmakers in Washington.

- The national economy will continue to impede our financial performance in 1983, but we do see some early signs that the economy is headed toward improvement. Two of the most important signs, especially for us, are the sharp drop in inflation and the steady decline in interest rates to more reasonable levels. For a capital intensive industry like ours, these current trends will help us hold down operating and financing costs and will ultimately benefit our stockholders and customers.

  With respect to long-term economic growth, we are encouraged by the 65 new or expanding commercial and industrial projects underway in our service area that will eventually result in more jobs and sales of electricity. Industry continues to benefit from the area's many important assets, including skilled labor, geographic location, transportation and others—not least of which is a reliable supply of reasonably priced electricity.

Like our service area, we, too, have the assets that can help assure our success and growth. We have a solid management team, an efficient operation and much-appreciated stockholder support. These strengths, combined with the continuing dedication of employees, will not only enable us to continue providing customers with high-quality electric service, but also to protect and improve your investment in the Company.

Justin T. Rogers, Jr.

Justin T. Rogers, Jr.
President
March 1, 1983

Plant Reliability Remains High

Power plant reliability is important to us because our customers and stockholders benefit from the most efficient use of our facilities. For the third consecutive year, an average of more than 70 percent of our fossil-fired generating capacity was available to produce electricity. This relatively high equivalent availability was possible because of a major availability improvement program begun in 1978, plus thorough and timely maintenance.

With high plant availability and low customer demand, we took extra measures to improve the cost-effectiveness of operations. For example, by extending some of our normal maintenance outages, we were able to reduce costly overtime work. And even though our maintenance activities were intensified to further assure the reliability of equipment for years to come, maintenance costs were held to below the authorized operating budgets. In addition, five generating units at the Mad River and West Lorain power plants were taken out of service in December 1982 and January 1983 because of reduced electric sales. However, the units will be maintained and available in the future when they are needed.

▲*With the help of microcomputers, meter readers are improving the way meter information is collected and processed, saving both time and money. Use of these electronic Porta-Processors will become System-wide in 1983.*

Record Year in Bulk Power Sales

The combination of high plant performance and aggressive sales efforts resulted in more bulk sales of power in 1982 than ever before. In a highly competitive market for electric power, System sales to other utilities were 3.4 million megawatt-hours, 36.3 percent more than in 1981. The highest monthlong record was 575,832 megawatt-hours in August, when sales more than doubled from the same month in 1981. Representing 14 percent of our total kilowatt-hour sales, these bulk sales contributed $101.7 million to our revenue and helped offset reduced sales to our own customers.

Beaver Valley Unit Performs Well

From July through December, the Beaver Valley Power Station's 810-megawatt nuclear unit 1 achieved 86.8 percent operating availability. As a result, it reduced our need for more expensive coal-fired generation during that period by approximately 12 percent. Prior to those six months, the unit underwent a scheduled refueling during which various systems were modified to further improve its performance. Additional safety requirements were also fulfilled as specified by the Nuclear Regulatory Commission (NRC) for all nuclear plants. The Companies own 52.5 percent of this unit, operated by the Duquesne Light Company of Pittsburgh, Pennsylvania.

Quarto Fuel Cost Recovery

In July, The Public Utilities Commission of Ohio (PUCO) resolved a major issue concerning Ohio Edison's recovery of the cost of contract coal delivered to the Bruce Mansfield Plant from the Quarto Mining Company. Previously, we were permitted to recover through the fuel component of our rates only a portion of the coal's cost. The unrecovered costs were deferred and, as of July 31, 1982, had accumulated to approximately $71 million. After comprehensive studies, we concluded that the best method of reducing the average cost of coal to the Mansfield Plant was to work with the coal company to improve production efficiency and to purchase more lower-cost coal from other sources. The PUCO agreed with our approach and provided us with a method that should help recover the Quarto coal costs and the

▲ *Inside a baghouse at the W. H. Sammis Plant, fabric bags 34 feet long are designed to filter over 99 percent of the dust from boiler flue gas. It is one of four at the Plant that were recently completed and made operational.*

▶ *Leaving a pattern of mounds, an average of 250 truck loads of coal per day are delivered to the W. H. Sammis Plant. We have capitalized on current market conditions to hold down the average cost of coal, which is our largest single expense item.*

deferred coal costs, depending on future market prices of coal. As a result of the PUCO decision, the Company reduced the deferred coal costs to $63 million by December 31, 1982.

Cost-Effective Environmental Control

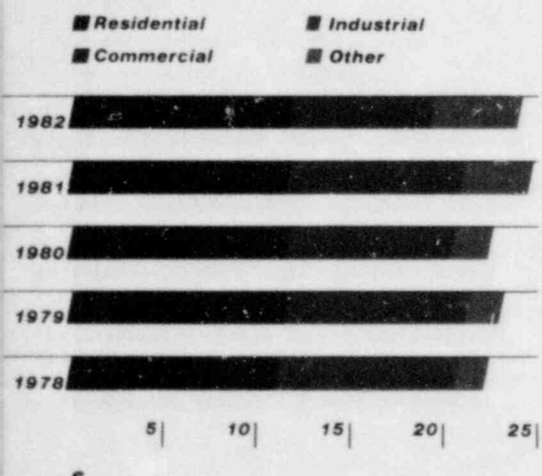
We have the responsibility of producing reasonably priced electricity in an environmentally acceptable manner, and we seek the most cost-effective ways of doing so. For example, while we added large dust collection facilities at a number of generating units, we were also able to comply with current air quality regulations at some units without adding major new equipment. By improving the combustion efficiency of these units, modernizing system controls and using cleaner burning coal, we were able to avoid the need to install nearly $150 million in air quality control equipment.

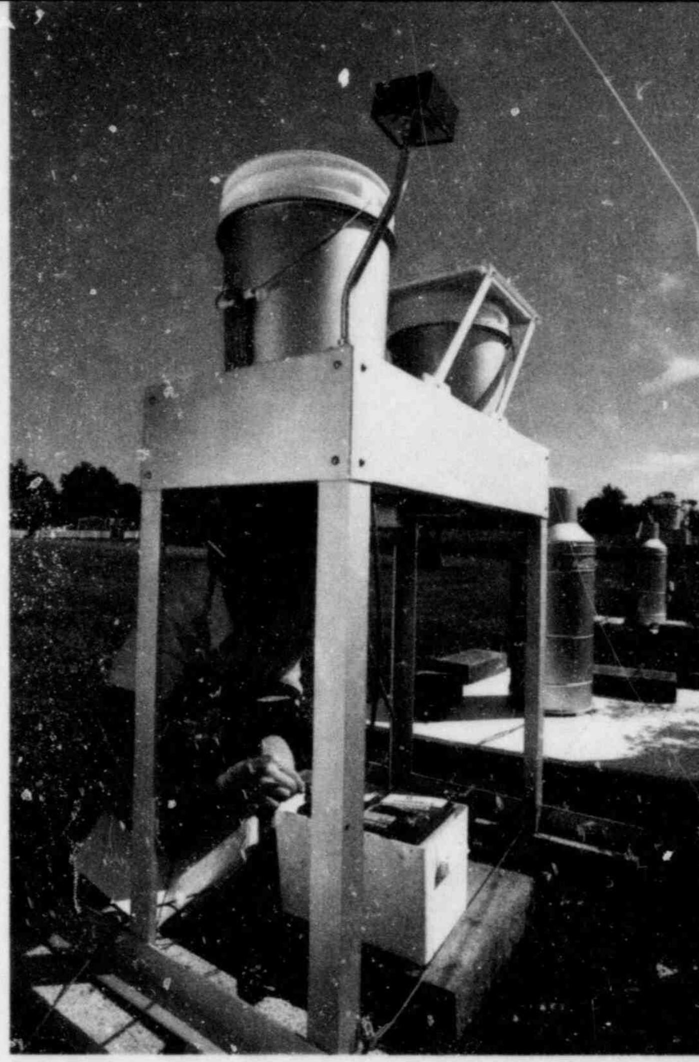
Environmental Research

In anticipation of ever-changing regulations, the Companies spent $2.9 million in 1982 for air and water quality research. For example, to promote deeper investigation of the so-called "acid rain" theory, several major research projects are being conducted or supported by the Companies. These studies include monitoring of rainfall and attempts to track the sources of acidic rainfall. Studies on the local impact of emissions are underway, such as a project begun in 1982 at the Sammis Plant that incorporates data from sound waves, weather balloons, a network of monitoring stations and aircraft to follow the flow of emissions from the Plant's chimneys. These and other efforts are directed at finding a way to comply with emission regulations and yet fuel power plants with less-expensive, high-sulfur coal from local markets.

Kilowatt-Hour Sales

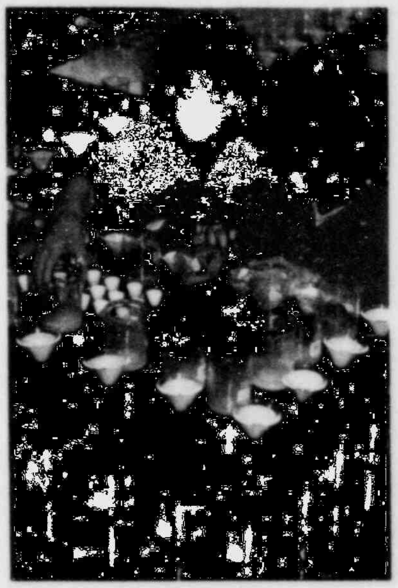
In Billions

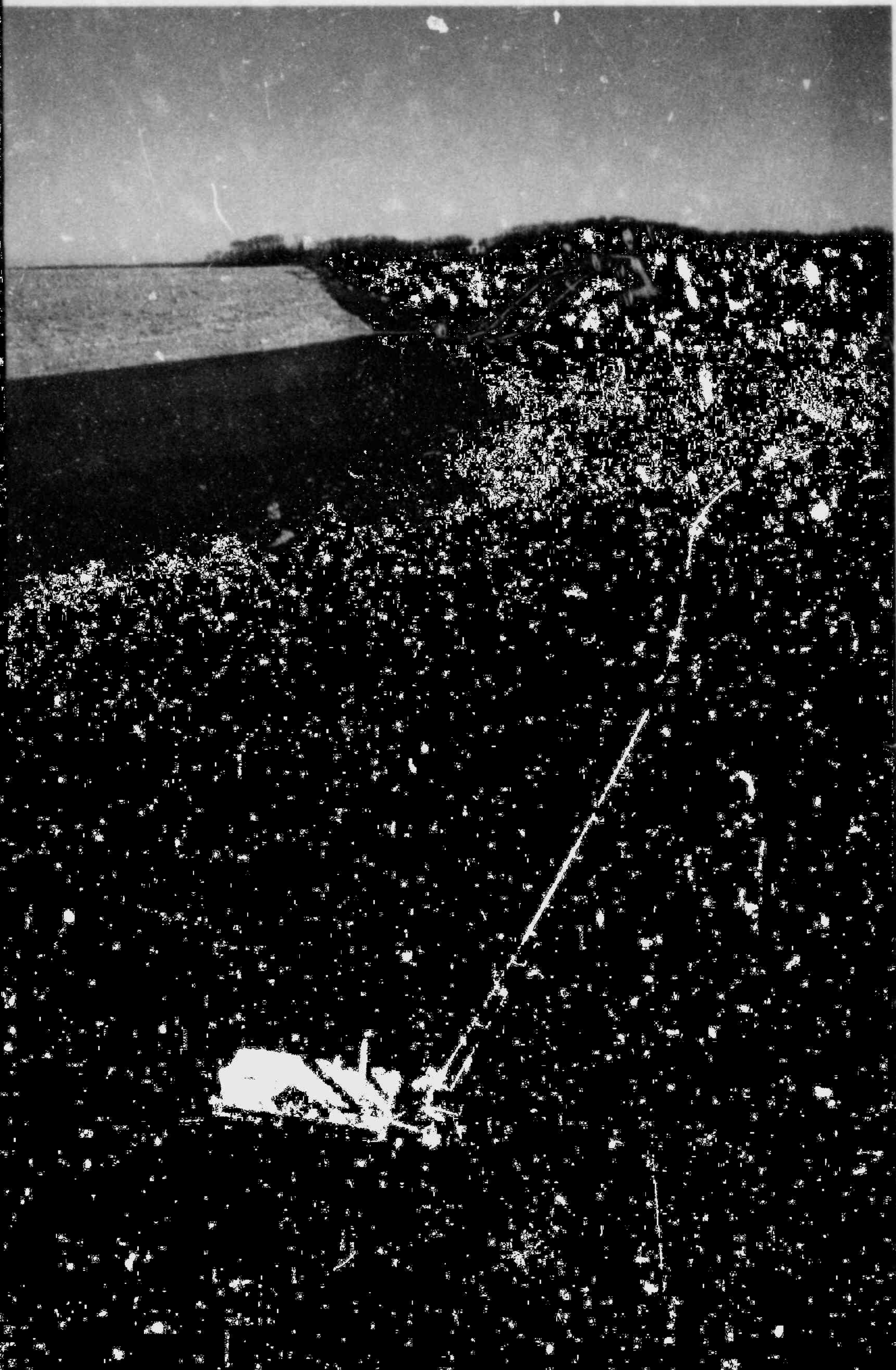




▲ An employee checks equipment at an "acid rain" monitoring station that separately collects rain and dry deposits from the air. Samples are analyzed regularly to determine changes in acidity levels of rainfall.

▶ To create a reservoir where sludge from the Bruce Mansfield Plant's air quality control system could be safely deposited, the largest earth- and rock-fill embankment dam in the eastern U.S. was built about seven miles from the Plant.





▲ *Laboratory workers test samples of coal from our generating plants to accurately determine coal quality. Moving this work from the plants to a centralized laboratory has cut costs and improved the consistency of analysis and results.*

New Rates Granted

Unlike most industries, the prices we charge are subject to regulatory approval. We must, therefore, continually assess our needs and request new rates as necessary to meet the increasing costs we face in producing the electricity customers need. During the year, the Companies were granted $135 million in rate increases, either on a permanent basis or an interim basis, by federal and state regulatory commissions. Ohio Edison has also filed for an increase which should become effective in the early fall of 1983 and, if granted in the full amount requested, would add $171.3 million to annual revenues.

In our most recent rate case, the PUCO granted a 13.02 percent rate of return, which included an allowance intended to provide Ohio Edison with a basis for amortizing the expenses associated with four nuclear units that were terminated in January 1980. (See Note 2 to the Consolidated Financial Statements.) The Company's after-tax share of those expenses was approximately $54 million. Also, in January 1983, the Pennsylvania Public Utility Commission said that Penn Power will be permitted to recover its $10 million after-tax share of costs of the units through electric rates. The recovery will take place over a ten-year period beginning with the effective date of Penn Power's next rate increase.

PUCO Structure Revised

A new Ohio law which affects several aspects of state utility regulation was enacted during the summer and became effective January 11, 1983. The PUCO commissioners will now be appointed by the Governor from a list of candidates nominated by a 12-member council representing consumers, regulated utilities, senior citizens, business, labor and other groups. The law also expands the Commission from three to five members; prohibits the use of a fully projected test year for rate-making purposes; and imposes time limits, in certain circumstances, on filing rate increase requests.

Diverse Sources of Capital

While raising the necessary funds for construction, we have been very successful in diversifying sources of funding and thus lowering overall financing costs. The July sale of Eurobonds to foreign investors through our Ohio Edison Finance N.V. subsidiary tapped an alternative capital market when domestic market conditions were less favorable. Also, when two issues of pollution control revenue bonds were sold in April and September, arrangements were made to secure each issue with a bank letter of credit. In doing so, Standard and Poor's Corporation gave those issues its highest rating (AAA), enabling us to save millions of dollars in interest charges over the life of those securities. And at the end of 1981 and in 1982, arrangements were made to reduce the financing costs of nuclear fuel through the formation of two special corporations, unrelated to the Companies. These corporations will finance a portion of the Companies' nuclear fuel requirements and lease the fuel to us.

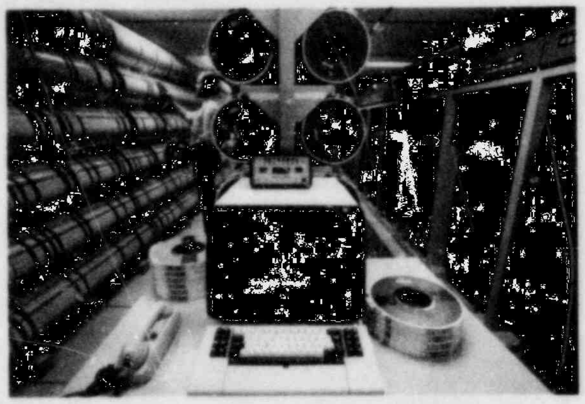
In addition to the public sale of 10 million shares of common stock, 2.7 million shares were exchanged for $53.4 million principal amount of outstanding Ohio Edison first mortgage bonds. The exchange resulted in an extraordinary gain of $20.2 million in 1982 earnings, and more importantly, improved our capital structure ratios

1982 Security Sales

Closing Date	Ohio Edison	Year of Maturity	Net* Proceeds
Feb. 25	First mortgage bonds at 17% interest	1992	$74.4 million
April 14	Pollution control revenue bonds (Ohio Air Quality Development Authority) at 11.75% interest	1992	$48.9 million
June 10	Reacquisition of first mortgage bonds in exchange for approximately 2.7 million shares of common stock	—	$20.2 million**
July 8	Guaranteed notes through Ohio Edison Finance N.V. at 17.25% interest	1987	$73.7 million
Aug. 5	6 million shares of common stock	—	$73.8 million
Sept. 22	Pollution control revenue bonds (Ohio Air Quality Development Authority) at 8.125% interest	2012	$49.2 million
Oct. 13	2 million shares of $3.22 preference stock	—	$52.9 million
Dec. 7	4 million shares of common stock	—	$58.2 million
Jan. 1-Dec. 31	4.6 million shares of common stock issued through the Dividend Reinvestment and Stock Purchase Plan	—	$59.4 million
	Penn Power		
Jan. 14	First mortgage bonds at 15.75% interest	1989	$15.0 million
July 23	80,000 shares of 15% preferred stock (with sinking fund provisions to retire the issue by 2012)	—	$ 8.0 million
Aug. 3	Pollution control revenue bonds (Ohio Air Quality Development Authority) at 13.75% interest	2002	$14.3 million
Dec. 15	First mortgage bonds at 13.50% interest	1992	$15.0 million

*Except for the equity-for-debt exchange, these are proceeds realized before issuance expenses.

**Represents the excess of the principal amount of acquired first mortgage bonds over the value of the stock exchanged, rather than a cash receipt, and recorded as a nontaxable extraordinary gain for the second quarter.



◀ A library with more than 20 million feet of computer tape retains customer and stockholder information, planning and statistical data and daily records on various aspects of operations.

▼ The new Customer Information System will further automate billing and shorten the billing process. Also, Customers Accounting employees will have easier, quicker access to information needed in answering inquiries.

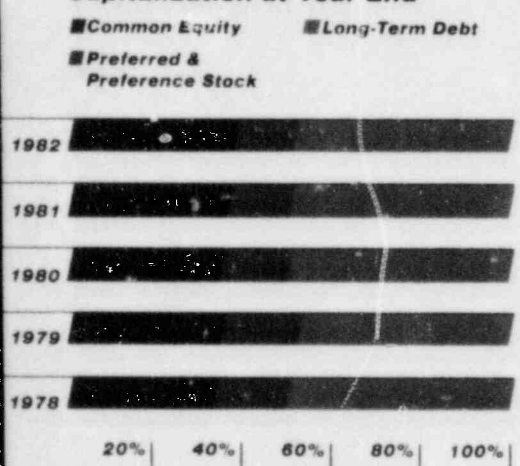
and the book value of common stock, reduced debt and eliminated future interest payments on that debt.

Billing Process Improves Cash Flow

Numerous refinements have been made to Ohio Edison's billing process to increase the availability of cash and reduce operating expenses. One recent program reduced the period between reading a meter and mailing the bill from six days in 1980 to four days by the end of 1982. The resulting improved cash flow will save an estimated $400,000. In December, the Company began to centralize the receiving and processing of payments by 4,500 large industrial and commercial customers, with potential savings of $275,000. We will realize additional savings in the second half of 1983 when we centralize the processing of payments from all other customers.

Two new programs will reduce the billing process by two more days and accelerate cash receipts by approximately $500,000. A hand-held electronic meter reading device, which underwent testing late in the year, will improve billing accuracy and shorten the time it takes to render bills. Our new Customer Information System will utilize a network of computer terminals to simplify reporting, improve response time to customer inquiries and allow bulk processing of meter readings.

Capitalization at Year End



▶ *With the process of obtaining an operating license well underway, unit 1 of the Perry Nuclear Plant is scheduled for start up in 1984. Unit 2 is scheduled for operation in 1988.*

Plant Construction Progresses

Three nuclear generating units are being built and financed by the companies in the Central Area Power Coordination Group (CAPCO): Ohio Edison, Penn Power, The Cleveland Electric Illuminating Company (CEI), Duquesne Light Company and The Toledo Edison Company.

For unit 1 of the Perry Nuclear Plant, under construction for the CAPCO Group by CEI, 1982 was a particularly good year in licensing progress. Early in the year, an NRC licensing study found that the unit poses no adverse effects on the environment. In July, the NRC's Advisory Committee on Reactor Safeguards recommended that the 1,205-megawatt unit be licensed to operate at full capacity. At the end of the year, the unit was 89.1 percent complete and on schedule for operation in 1984. The reactor of the 1,205-megawatt unit 2 was fully enclosed during the summer when its dome was placed. Scheduled for operation in 1988, the unit was 47.5 percent complete by December 31. Ohio Edison and Penn Power will own 35.24 percent, or 850 megawatts, of total generation from both units.

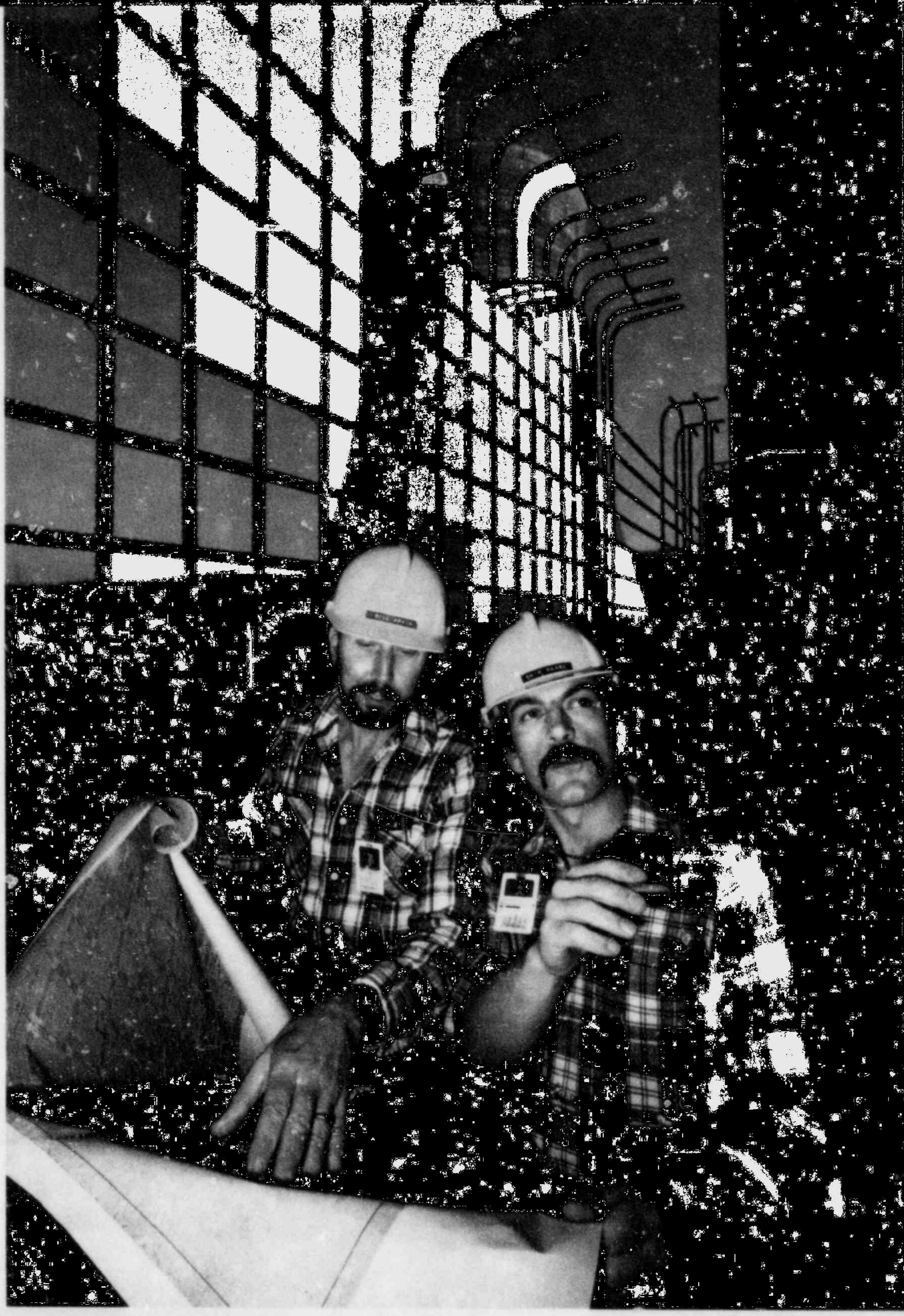
Unit 2 of the Beaver Valley Power Station was 58.1 percent complete at the end of the year. The 833-megawatt unit's rate of construction progress doubled in 1982 from the previous year. Although Duquesne Light Company is building the unit for CAPCO, Ohio Edison is helping to keep costs and construction schedules on target by providing personnel to assist in project management, engineering, construction and licensing. The Company will own 41.88 percent (349 megawatts) of the unit, which is scheduled for commercial operation in 1986.

Alternative Generation Studied

The three generating units under construction should provide needed capacity with adequate reserve margins through the 1990s. But because of long lead times to build new power plants, the Companies continue to investigate, in addition to conventional technologies, alternative technologies for potential generation beyond the 1990s.

Regarding alternative technologies, Ohio Edison studied the potential for three small hydroelectric plants at existing locks and dams along the Ohio River through permits granted in 1980 by the Federal Energy Regulatory Commission (FERC). Our study showed that the plants would not be economically attractive to us and the Company relinquished those permits in 1982.

▲The unique $440 million W. H. Sammis Plant Air Quality Control Project, most of which spans a four-lane highway, is our last remaining environmental facility under construction to comply with existing regulations. This project is scheduled for completion in 1984.



◀ *At the Beaver Valley Power Station (foreground), where the unit 1 nuclear generator has been operating since 1976, unit 2 is [illegible]8.1 percent complete and scheduled for operation in 1986. The coal-fired Bruce Mansfield Plant is in the background.*

▲ *Several Ohio Edison employees are working closely with Beaver Valley's builder and operator, Duquesne Light Company, to help ensure timely completion of unit 2 construction. We will own 41.88 percent of the unit's 833-megawatt capacity.*

We are participating in a $155 million cooperative project at Illinois Power's Wood River Station to determine the feasibility of converting high-sulfur coal, such as that found in Ohio, to a clean-burning gaseous fuel. Construction is well underway, with testing and demonstration to be completed by mid-1984.

In addition, we are monitoring and evaluating new technologies resulting from the research and development efforts of others, including the Electric Power Research Institute.

Air Quality Control Program Nears Completion

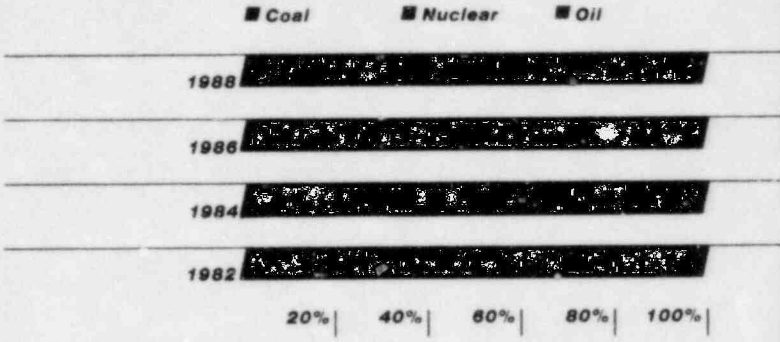
Our current $511 million environmental construction program to replace existing dust collectors with more efficient systems for meeting clean air standards is steadily moving toward completion. Five new electrostatic precipitators that remove particulates (fly ash) from power plant emissions and one new chimney were completed between July 1981 and March 1982 at the R. E. Burger, Edgewater, and Niles plants. Through effective project management, we built them at $4 million under budget; by completing them on or ahead of schedules imposed by the U.S. Environmental Protection Agency (EPA), we also avoided costly penalties.

Our only remaining environmental construction is the $440 million W. H. Sammis Plant Project where, to date, all EPA milestones have been met. Fabric filters, also known as baghouses, were completed in 1982 for Units 2, 3 and 4, and underwent testing for compliance with environmental standards. Unit 1 will also have a fabric filter, while Units 5 through 7 will utilize electrostatic precipitators. Overall, construction was 65 percent complete by December 31, 1982, and project completion is scheduled for December 1984.

Continuing System Improvements

Numerous other projects are underway to maintain the reliability of our service to customers. The Company's $9.9 million System Dispatching Center, scheduled for operation in April 1983, will expedite the response of generating plants to customer demand for electricity and improve the overall operating efficiency of our transmission network. In addition, a number of transmission projects were completed or in progress in 1982 to serve the growing electric loads of several industrial customers in Ohio and Pennsylvania and to strengthen our transmission system.

Sources of Generation



Along a new transmission line, installed to further strengthen our transmission and distribution network, guy wires are carefully secured to support a large pole. Nearly 29,000 miles of lines now cover our System.

Developing Future Sales

Ohio Edison and Penn Power provide extensive training and support to help communities be more competitive in attracting industrial growth. Through our "Minutemen" program, workshops are used for teaching communities how to persuade new industries to locate in the area and to encourage existing industries to remain and expand their operations. While boosting the vitality of a community, this growth is also a source of additional electric sales.

With existing commercial and industrial customers, we promote energy efficiency through more cost-effective uses of electricity. We reached more than 2,800 large customers during the year through Energy Teamwork Conferences to discuss, among other things, how they can substitute electricity for gas and oil to reduce their overall energy costs. In addition, our load management program offers customers the option to shift a portion of their consumption to more economical off-peak hours, which also allows us to better utilize power plants. Since the program began in 1977, our peak demand has been reduced by 166 megawatts—55 percent of our goal to date.

Customer Assistance and Information Programs

In November, we sent all residential customers a brochure outlining various Company and government assistance programs that are designed especially to help customers facing financial or medical difficulties. These programs include a budget payment plan, third party notification and the public Home Energy Assistance Program (HEAP). The Companies also continued their Residential Conservation Service programs, which are available to all residential heating customers. At the customer's request, an energy auditor inspects the home, recommends conservation measures and estimates energy savings.

We have many communications programs to meet the information needs of our customers. From special messages included in monthly bills to advisory panels made up of consumer representatives, these programs contribute to better customer management of their electric use and to their understanding of utility and energy issues.

During the year, Speakers Bureau members and Customer Services employees gave presentations to 122,356 people. Audiences included service clubs, senior citizens, schools and builders, with topics covering load and energy management, home insulation and weatherization, applications of energy-efficient equipment, electric rates, environmental protection and other energy-related issues.

Favorable Customer Attitudes Maintained

Favorable attitudes among customers about their electric service results in a better operating environment for the Companies. In a December survey of 500 Ohio Edison customers, 89 percent of the respondents considered electricity average to above average in value and 94 percent indicated that service was satisfactory.

A variety of information programs help reinforce those attitudes, but the least expensive is through advertising in local media. The Companies' present cam-

◀ *For the past 12 years, Ohio Edison has cosponsored a locally televised quiz program that promotes academic achievement among high school students in the Company's service area. It is representative of our many youth educational and energy awareness activities.*

◀ Participants in a Company-sponsored Consumer Advisory Panel discuss how "hardship customers" can be helped with bill-payment problems. There are currently seven regional panels throughout the System, each meeting about ten times a year.

▼ Valley Mould in our Youngstown Division opened its new metal melting shop with three electric furnaces which are energy efficient and environmentally clean. At full operation, the furnaces should add about $4.5 million to our annual electric sales.

paign centers on the award-winning "Energy Makers" series which gives credit to individual employee effort in helping to provide customers dependable electricity around the clock.

Employee Training and Safety Programs

Enhancing learning opportunities and improving our training facilities are important parts of the Company's expanding employee development program. In 1982, more than 450 employees received classroom instruction that prepared them to more effectively respond to customer inquiries. In addition, 213 management group employees participated in business, management and supervisory seminars and conferences designed to improve their skills in these areas.

At our employee training center, the first phase of the $700,000 skills training building has been completed. It includes a large indoor area where pole climbing skills can be taught. Another area is specially suited for maintenance training on large electrical equipment. Additional classroom facilities are included in the second phase of the project, which is scheduled for completion by mid-1983.

The Company worked closely with union representatives from the R. E. Burger, Edgewater, W. H. Sammis and Toronto plants to produce an Accident Prevention Handbook. It established guidelines for safe work procedures for approximately 1,700 power plant employees. This handbook, along with our other safety awareness programs, including defensive driving courses, fire safety training, rescue training and first aid, helped us to achieve a 6 percent reduction in System-wide accidents.

▶ ***International Harvester Company recently consolidated its U.S. truck-manufacturing operations at a more modern and efficient plant in Springfield, Ohio. This assembly plant is our largest industrial customer in the Springfield Division.***

Financial Review

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

Results of Operations

Results of operations in 1982 continued to improve from the prior year with the Company experiencing increases of 6.9%, 9.5% and 10.7% in income before extraordinary items, net income and earnings on common stock, respectively. However, due to the increased number of shares of common stock outstanding during the year, earnings per share fell by 10.0% and 7.4% before and after extraordinary items, respectively. The Company achieved a rate of return on average common equity in 1982 of 13.5% compared to 1981's 14.6%. Excluding the effect of extraordinary gains in both years and the settlement of a claimed Pennsylvania tax liability in 1981, the rate of return on average common equity would have been 12.3% and 12.9% in 1982 and 1981, respectively, compared to 9.7% for 1980.

Rate increases received by the Companies in 1982, amounting to $135,000,000 on an annual basis, accounted for approximately 90% of the increase in operating revenues for the year. Increased fuel-related revenues and short-term power sales to other utilities contributed the remainder of the increase. Adversely affecting 1982 revenues was a decline of approximately 18% in kilowatt-hour sales to industrial customers, reflecting the depressed economic conditions in the Companies' service territories. In 1981, as in 1982, increased rates were the major factor in the increase in operating revenues, accounting for approximately two-thirds of the total increase. The remainder was due primarily to increased sales of short-term power to other utilities.

The effect of deferral accounting, which matches fuel expense with the amount recovered in revenues, was the prime factor in the reported fuel expense increase for 1982. Substantially offsetting this increase were decreased quantities of fuel consumed and decreased coal prices. The increase in fuel expense for 1981 was primarily due to greater quantities of fuel consumed, but also was affected by fuel price increases. In that year, the effect of the Companies' deferral accounting served to reduce total fuel costs.

Power purchases which were made in order to sell short-term power to other utilities accounted for a substantial portion of the increases in purchased and interchanged power, net, in 1982 and 1981. Increased purchases of low-cost power resulting from the Companies' contractual obligations to Ohio Valley Electric Corporation were also responsible for the 1982 increase. Combining short-term sales to other utilities (which are reported in operating revenues as described above) with net purchased and interchanged power, resulted in net power deliveries of approximately $49,100,000 and $44,600,000 in 1982 and 1981, respectively.

The scheduled outage of Beaver Valley Unit No. 1 during the first half of 1982 for refueling and certain modifications was responsible for approximately two-fifths of the increase in 1982 maintenance expenses. However, in 1981, substantially all of the decrease in maintenance expense was attributable to that unit.

Interest costs continued to rise in 1982, although at a much slower pace than in recent years. The Companies issued $320,500,000 principal amount of new long-term debt in 1982, which have interest rates ranging from 8⅛% to 17¼%, while $59,237,000 principal amount of first mortgage bonds with rates of 3¼% to 9½% were retired. In addition, long-term obligations rose by approximately $209,200,000 at an average cost of 14.3% in 1982, compared with 18.5% in 1981 (see below and Note 5 of Notes to Consolidated Financial Statements). In contrast to the rising long-term borrowings, average short-term debt outstanding during the year decreased from approximately $133,100,000 in 1981 to $45,400,000 in 1982; the average cost of that debt showed a significant decline from 18.0% to 14.9%.

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

Over the last five years, the cost of the Companies' construction programs was approximately $2,700,000,000, of which $1,600,000,000 was raised through permanent financing (net of debt and preferred stock redemptions), in addition to $656,700,000 financed through the incurrence of long-term obligations. Approximately $2,700,000,000 is currently budgeted to be spent from 1983 through 1987; the issuance of additional securities will be necessary to fund a significant portion of this new construction, including additional amounts of common stock. During this five-year period, the Companies will have additional cash outflows of approximately $457,600,000 for debt maturities and preferred and preference stock sinking fund requirements.

The Company continued to strengthen its common equity base in 1982. During the second quarter of 1982, the Company exchanged 2,650,600 shares of its common stock for $53,432,000 principal amount of its outstanding first mortgage bonds which were subsequently retired. This exchange played a significant role toward increasing the common equity ratio to 37.2% at the end of 1982 from 35.7% at the end of 1981.

The Companies had $61,500,000 of temporary cash investments at the end of 1982, primarily due to the sale of 4,000,000 shares of common stock in December 1982. This financing was planned for early 1983, but was accelerated due to existing favorable market conditions. Proceeds from that common stock sale will be used to fund a portion of the Company's 1983 construction program.

The Companies continued to pursue non-traditional forms of financing during 1982. The Company tapped alternative capital markets by issuing debt through its foreign subsidiary, Ohio Edison Finance N.V. In addition, the Companies began participating in arrangements with the other CAPCO companies to finance the acquisition of nuclear fuel through the Central Area Energy Trust. (See Note 5 of Notes to Consolidated Financial Statements for a more complete description of this arrangement.) The Company also received $10,480,000 from the sale of tax benefits associated with property placed in service during 1982, in accordance with a provision of the Economic Recovery Tax Act of 1981. The Tax Equity and Fiscal Responsibility Act of 1982 now denies utilities from taking advantage of this mechanism for accelerated capital recovery.

In July 1982, The Public Utilities Commission of Ohio modified the method for recovering the costs of Quarto coal, as discussed in Note 1 of Notes to Consolidated Financial Statements. During the last five months of 1982, the Company's balance of deferred Quarto coal costs was reduced by approximately $7,300,000, indicating recovery of a greater portion of these costs from its customers.

The Company has a rate case pending with The Public Utilities Commission of Ohio which, if granted in full, would produce additional annual revenues of approximately $171,300,000. A decision is expected in this case during the second half of 1983.

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 37.

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 four non-employee directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; 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 1982.

V. A. Owoc
W. A. Daniels

V. A. Owoc
Executive Vice President
Chief Financial Officer

W. A. Daniels
Comptroller

Selected Financial Data

	1982	1981	1980	1979	1978
		(In thousands, except per share amounts)			
Operating Revenues	**$1,429,626**	$1,279,649	$1,080,869	$ 994,585	$ 862,956
Operating Income	**269,640**	252,381	169,383	163,744	123,945
Income Before Extraordinary Items	**195,571**	183,020	135,150	134,807	86,030
Net Income	**215,729**	197,062	135,150	134,807	86,030
Earnings on Common Stock	**181,496**	163,892	101,403	105,120	61,259
Earnings per Share of Common Stock (based on weighted average number of shares outstanding during the year):					
Before Extraordinary Items	**1.89**	2.10	1.52	1.80	1.19
Earnings on Common Stock	**2.13**	2.30	1.52	1.80	1.19
Dividends Declared per Share of Common Stock	**1.76**	1.76	1.76	1.76	1.76
Total Assets at December 31	**5,247,138**	4,460,274	3,979,965	3,446,454	3,010,914
Preferred and Preference Stock Subject to Mandatory Redemption	**152,560**	151,141	156,450	150,850	98,000
Long-Term Debt	**2,005,436**	1,759,771	1,594,384	1,410,782	1,343,195
Construction Energy Trust and Nuclear Fuel Obligations	**656,655**	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	**1982**		1981	
First Quarter High-Low	**13-1/8**	**11-3/8**	13	11-3/4
Second Quarter High-Low	**14-1/8**	**12-3/8**	13-1/2	11-7/8
Third Quarter High-Low	**14-3/8**	**12-1/4**	12-7/8	11
Fourth Quarter High-Low	**15-1/8**	**13-1/4**	13	11
Yearly High-Low	**15-1/8**	**11-3/8**	13	11

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

Classification of Holders of Common Stock as of December 31, 1982

	Holders of Record		Shares Held	
	Number	%	Number	%
Individuals	172,878	88.7	48,279,403	50.2
Fiduciaries	17,924	9.2	3,987,788	4.2
Brokers	70	—	727,927	0.8
Nominees	765	0.4	40,387,291	42.0
Banks & Financial Institutions	39	—	69,252	0.1
Insurance Companies & Other Corporations	1,558	0.8	1,648,846	1.7
Charitable, Religious & Educational Institutions	547	0.3	375,138	0.4
Pensions, Profit Sharing & Other Investment Trusts	1,096	0.6	606,199	0.6
Total	194,877	100.0	96,081,844	100.0

As of January 31, 1983, there were 195,443 holders of 96,259,665 shares of the Company's Common Stock.

Quarterly dividends of 44¢ per share were paid on the Company's Common Stock during 1982 and 1981. Information regarding retained earnings available for payment of cash dividends is given in Note 4b.

Statements of Consolidated Income

For the Years Ended December 31	1982	1981	1980
	(In thousands, except per share amounts)		
Operating Revenues	**$1,429,626**	$1,279,649	$1,080,869
Operating Expenses and Taxes:			
Operation—			
Cost of fuel	**432,749**	413,698	364,894
Purchased and interchanged power, net	**52,607**	29,321	26,089
Other operation expenses	**221,129**	195,075	170,351
Total operation	**706,485**	638,094	561,334
Maintenance	**139,615**	124,213	127,935
Provision for depreciation	**103,206**	95,830	85,455
Amortization of terminated construction project costs (Note 2)	**1,866**	3,995	—
General taxes	**114,569**	84,316	85,143
Income taxes	**94,245**	80,820	51,619
Total operating expenses and taxes	**1,159,986**	1,027,268	911,486
Operating Income	**269,640**	252,381	169,383
Other Income and Deductions:			
Allowance for equity funds used during construction	**84,210**	60,421	57,715
Miscellaneous, net	**16,871**	17,021	2,104
Income taxes—credit	**59,166**	53,360	37,017
Total other income and deductions	**160,247**	130,802	96,836
Total Income	**429,887**	383,183	266,219
Net Interest and Other Charges:			
Interest on long-term debt	**211,765**	166,378	147,290
Interest on long-term obligations	**80,092**	69,183	5,057
Allowance for borrowed funds used during construction, net of deferred income taxes	**(76,088)**	(67,381)	(48,814)
Other interest expense	**12,449**	26,378	22,304
Subsidiary's preferred stock dividend requirements	**6,098**	5,605	5,232
Net interest and other charges	**234,316**	200,163	131,069
Income Before Extraordinary Items	**195,571**	183,020	135,150
Extraordinary Items (Note 8):			
Gain on reacquisition of first mortgage bonds, net of related income taxes	**—**	14,042	—
Gain on exchange of common stock for first mortgage bonds	**20,158**	—	—
Net Income	**215,729**	197,062	135,150
Preferred and Preference Stock Dividend Requirements	**34,233**	33,170	33,747
Earnings on Common Stock	**$ 181,496**	$ 163,892	$ 101,403
Weighted Average Number of Shares of Common Stock Outstanding	**85,241**	71,180	66,633
Earnings Per Share of Common Stock (based on weighted average number of shares outstanding during the year):			
Before extraordinary items (after preferred and preference stock dividend requirements)	**$1.89**	$2.10	$1.52
Extraordinary items	**.24**	.20	—
Earnings on common stock	**$2.13**	$2.30	$1.52
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	1982	1981
	(In Thousands)	
Assets		
Utility Plant:		
In service, at original cost	**$3,417,669**	$3,160,271
Less—Accumulated provision for depreciation	**953,541**	871,740
	2,464,128	2,288,531
Construction work in progress	**1,344,161**	1,112,810
Construction work in progress—energy trust (Note 5)	**558,149**	434,412
Nuclear fuel in process (Note 5)	**156,295**	32,004
	4,522,733	3,867,757
Other Property and Investments	**69,626**	43,338
Current Assets:		
Cash	**2,812**	11,746
Temporary cash investments, at cost, which approximates market value	**61,500**	4,300
Receivables—		
Customers (less accumulated provision of $1,844,000 and $1,863,000, respectively, for uncollectible accounts)	**116,054**	105,037
Other	**24,855**	26,609
Materials and supplies, at average cost—		
Fuel	**92,684**	84,503
Other	**44,466**	40,602
Prepayments and other	**35,966**	18,962
	378,337	291,959
Deferred Charges:		
Deferred Quarto coal costs (Note 7)	**71,346**	63,363
Deferred energy costs	**—**	2,318
Property taxes	**50,527**	41,450
Unamortized costs of terminated construction projects (Note 2)	**103,835**	96,489
Other	**50,734**	53,600
	276,442	257,220
	$5,247,138	$4,460,274
Capitalization and Liabilities		
Capitalization (See Statements of Consolidated Capitalization):		
Common stockholders' equity	**$1,488,371**	$1,229,044
Preferred stock—		
Not subject to mandatory redemption	**262,335**	262,335
Subject to mandatory redemption	**64,000**	68,000
Preference stock—		
Not subject to mandatory redemption	**50,000**	—
Subject to mandatory redemption	**55,165**	56,843
Preferred stock of consolidated subsidiary—		
Not subject to mandatory redemption	**41,905**	41,905
Subject to mandatory redemption	**33,395**	26,298
Long-term debt	**2,005,436**	1,759,771
	4,000,607	3,444,196
Long-Term Obligations (Note 5):		
Construction energy trust	**500,000**	432,500
Nuclear fuel	**156,655**	14,984
	656,655	447,484
Current Liabilities:		
Current maturities of long-term debt and preferred stock	**22,383**	7,581
Notes payable to banks (Note 6)	**—**	74,400
Accounts payable	**133,776**	142,718
Accrued taxes	**51,115**	47,074
Accrued interest	**57,736**	39,982
Other	**26,390**	25,468
	291,400	337,223
Deferred Credits:		
Accumulated deferred income taxes	**152,890**	124,279
Accumulated deferred investment tax credits	**53,727**	40,646
Property taxes	**50,527**	41,450
Energy costs recovered in advance	**14,418**	4,144
Other	**26,914**	20,852
	298,476	231,371
Commitments, Guarantees and Contingencies (Notes 2, 3 and 7)		
	$5,247,138	$4,460,274

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

Statements of Consolidated Capitalization

At December 31					1982	1981
					(In Thousands)	
Common Stockholders' Equity:						
Common stock, $9 par value, authorized 125,000,000 shares—96,081,844 and 78,675,703 shares outstanding, respectively (Note 4a)					**$ 864,737**	$ 708,081
Other paid-in capital					**423,195**	349,772
Retained earnings (Note 4b)					**200,439**	171,191
Total common stockholders' equity					**1,488,371**	1,229,044
	Number of Shares Outstanding		Optional Redemption Price			
	1982	1981	Per Share	Aggregate (In Thousands)		
Preferred Stock (Note 4c):						
Cumulative, $100 par value—Authorized 6,000,000 shares						
Not Subject to Mandatory Redemption:						
3.90%—7.24%	973,350	973,350	$103.38-108.00	$102,034	**97,335**	97,335
7.36%—8.20%	800,000	800,000	$106.52-107.40	85,612	**80,000**	80,000
8.64%—9.12%	850,000	850,000	$106.48-109.12	91,696	**85,000**	85,000
Total not subject to mandatory redemption	2,623,350	2,623,350		$279,342	**262,335**	262,335
Subject to Mandatory Redemption (Note 4d):						
10.48%—10.76%	659,630	692,760	$107.86-111.87	$ 72,430	**65,963**	69,276
Redemption within one year					**(1,963)**	(1,276)
Total subject to mandatory redemption					**64,000**	68,000
Preference Stock (Note 4c):						
Cumulative, no par value—Authorized 4,000,000 shares						
Not Subject to Mandatory Redemption:						
$3.92 Series	2,000,000	—	$31.42	$ 62,840	**50,000**	—
Subject to Mandatory Redemption (Note 4e):						
$95.00—$102.50 Series	27,000	27,000	$1,095.00-1,102.50	$ 29,700	**27,000**	27,000
$1.80 Series	1,862,181	1,973,100	$16.03	29,841	**28,165**	29,843
Total subject to mandatory redemption	1,889,181	2,000,100		$ 59,541	**55,165**	56,843
Preferred Stock of Consolidated Subsidiary (Note 4c):						
Cumulative, $100 par value—Authorized 950,000 shares						
Not Subject to Mandatory Redemption:						
4.24%—9.16%	419,049	419,049	$102.98-107.32	$ 44,238	**41,905**	41,905
Subject to Mandatory Redemption (Note 4d):						
8.24%—15.00%	338,951	267,984	$108.24-115.00	$ 37,630	**33,895**	26,798
Redemption within one year					**(500)**	(500)
Total subject to mandatory redemption					**33,395**	26,298
Long-Term Debt (Note 4f):						
First mortgage bonds:						
Ohio Edison Company—						
9.63% weighted average interest rate, due 1983-1987					**113,791**	113,791
13.37% weighted average interest rate, due 1988-1992					**256,616**	208,250
10.46% weighted average interest rate, due 1993-1997					**77,715**	78,250
8.87% weighted average interest rate, due 1998-2002					**187,198**	191,701
10.20% weighted average interest rate, due 2003-2010					**485,918**	507,678
					1,121,238	1,099,670
Pennsylvania Power Company—10.08% weighted average interest rate, due 1983-2008					**239,000**	214,805
Total first mortgage bonds					**1,360,238**	1,314,475
Secured notes and obligations:						
Ohio Edison Company—8.03% weighted average interest rate, due 1983-2010					**230,914**	230,914
Ohio Edison Finance N.V.—17.38% weighted average interest rate, due 1987-1988					**150,000**	75,000
Pennsylvania Power Company—8.83% weighted average interest rate, due 1983-2007					**68,106**	53,606
Amount held by Trustee					**(5,327)**	—
					62,779	53,606
Total secured notes and obligations					**443,693**	359,520
Unsecured notes of Ohio Edison Company, 10.42% weighted average interest rate, due 1984-2012					**302,000**	176,000
Amount held by Trustee					**(69,026)**	(75,686)
Total unsecured notes of Ohio Edison Company					**232,974**	100,314
Net unamortized discount on debt					**(11,549)**	(8,733)
Long-term debt due within one year					**(19,920)**	(5,805)
Total long-term debt					**2,005,436**	1,759,771
Total Capitalization (Note 7)					**$4,000,607**	$3,444,196

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	**1982**	1981	1980
		(In Thousands)	
Balance at beginning of period	**$171,191**	$133,592	$150,552
Net income	**215,729**	197,062	135,150
	386,920	330,654	285,702
Deduct:			
Preferred and preference stock dividends	**34,488**	33,160	33,724
Common stock dividends	**151,289**	126,030	118,137
Capital stock issuance expense	**704**	273	249
	186,481	159,463	152,110
Balance at end of period (Note 4b)	**$200,439**	$171,191	$133,592

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 or Stated Value	Number of Shares	Par or Stated Value
			(Dollars in Thousands)				
Balance, January 1, 1980	59,622,369	$536,602	$282,956	3,069,049	$306,905	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	317,196	3,069,049	306,905	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	—	—	—	—
Conversion of $1.80 Preference Stock	26,900	242	147	—	—	(26,900)	(407)
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	—	—	251	(3,720)	(372)	—	—
4.44% Series	—	—	896	(13,440)	(1,344)	—	—
4.56% Series	—	—	386	(5,700)	(570)	—	—
Balance, December 31, 1981	78,675,703	708,081	349,772	3,042,399	304,240	2,960,844	152,917
Sale of Common Stock	10,000,000	90,000	42,000	—	—	—	—
Dividend Reinvestment Plan	4,644,622	41,802	17,647	—	—	—	—
Exchange of Common Stock for First Mortgage Bonds	2,650,600	23,855	9,463	—	—	—	—
Conversion of $1.80 Preference Stock	110,919	999	610	—	—	(110,919)	(1,678)
Sale of $3.92 Series of Preference Stock	—	—	2,940	2,000,000	50,000	—	—
Sale of 15% Series of Preferred Stock	—	—	—	—	—	80,000	8,000
Preferred Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
10.48% Series	—	—	284	—	—	(13,130)	(1,313)
10.76% Series	—	—	435	—	—	(20,000)	(2,000)
11.00% Series	—	—	44	—	—	(4,033)	(403)
Balance, December 31, 1982	96,081,844	$864,737	$423,195	5,042,399	$354,240	2,887,762	$155,023

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

Statements of Consolidated Sources of Funds for Property Additions

For the Years Ended December 31	1982	1981	1980
		(In Thousands)	
Internally generated funds—			
Income before extraordinary items	$195,571	$183,020	$135,150
Principal non-cash items—			
Depreciation and amortization—			
Charged to provision for depreciation	103,206	95,830	85,455
Charged to other accounts	1,953	1,318	1,282
Amortization of terminated construction project costs	1,866	3,995	—
Deferred income taxes, net	91,832	99,179	83,536
Investment tax credits, net	7,312	(772)	(27,201)
Allowance for equity funds used during construction	(84,210)	(60,421)	(57,715)
Deferred fuel and energy costs, net	4,609	(49,393)	(9,114)
	322,139	272,756	211,393
Less—Dividends on common stock	151,289	126,030	118,137
Dividends on preferred and preference stock	34,488	33,160	33,724
Net funds from operations	136,362	113,566	59,532
Income from extraordinary items	20,158	14,042	—
Non-cash items—			
Gain on reacquisition of first mortgage bonds	—	(26,276)	—
Gain on exchange of common stock for first mortgage bonds	(20,158)	—	—
	136,362	101,332	59,532
Financing activities—			
Common stock	224,767	120,729	113,918
Preferred stock	8,000	—	10,000
Preference stock	52,940	—	—
First mortgage bonds	105,000	95,000	322,000
Secured notes, net	84,173	94,920	50,000
Unsecured long-term notes, net	106,660	24,314	—
Construction energy trust and nuclear fuel obligations	209,171	182,484	265,000
Retirement of long-term debt and preferred stock	(43,295)	(202,336)	(95,800)
Increase (decrease) in notes payable to banks	(74,400)	32,918	(150,517)
Sale of tax benefits	10,480	37,531	—
	683,496	385,560	514,601
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	(57,200)	(4,300)	—
Receivables	(9,063)	2,715	(29,171)
Materials and supplies	(12,045)	3,149	(33,843)
Accounts payable	(8,942)	39,193	1,474
Accrued taxes	4,041	(12,085)	(1,186)
Accrued interest	17,754	285	10,722
Miscellaneous, net	(7,148)	112	1,601
	(72,603)	29,069	(50,403)
Other, net—			
Construction funds held in escrow, including accrued interest	711	39,847	(20,938)
Allowance for equity funds used during construction	84,210	60,421	57,715
Sale of utility property	13,568	—	—
Deferred income taxes on allowance for borrowed funds used during construction	(67,127)	(59,530)	(38,690)
Miscellaneous, net	(4,384)	11,345	(6,797)
	26,978	52,083	(8,710)
Property Additions	$774,233	$568,044	$515,020

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

Statements of Consolidated Taxes

For the Years Ended December 31	1982	1981	1980
		(In Thousands)	
General Taxes:			
State gross receipts (i)	**$ 56,808**	$ 34,144	$ 38,753
Real and personal property	**45,028**	39,193	37,183
Social security and unemployment	**8,990**	8,010	6,408
Miscellaneous	**3,743**	2,969	2,799
Total general taxes	**$114,569**	$ 84,316	$ 85,143
Provision for Income Taxes:			
Currently payable—			
Federal	**$ 324**	$ 80	$ (3,043)
State	**2,532**	678	—
Foreign	**206**	59	—
	3,062	817	(3,043)
Deferred, net (see below)—			
Federal	**88,666**	96,218	81,105
State	**3,166**	2,961	2,431
	91,832	99,179	83,536
Investment tax credits, net of amortization (ii)	**7,312**	(772)	(27,201)
Total provision for income taxes	**$102,206**	$ 99,224	$ 53,292
Income Statement Classification of Provision for Income Taxes:			
Operating expenses	**$ 94,245**	$ 80,820	$ 51,619
Other income	**(59,166)**	(53,360)	(37,017)
Allowance for borrowed funds used during construction	**67,127**	59,530	38,690
Extraordinary items	**—**	12,234	—
Total provision for income taxes	**$102,206**	$ 99,224	$ 53,292
Sources of Deferred Tax Expense:			
Allowance for borrowed funds used during construction, which is credited to plant	**$ 67,127**	$ 59,530	$ 38,690
Deferred fuel and energy costs, net	**7,000**	12,308	4,210
Excess of tax over book depreciation, net	**17,387**	13,669	9,334
Cost of terminated construction projects, net	**384**	5,197	33,181
Property taxes applicable to subsequent periods, net	**4,177**	1,233	475
Deferred interest on leased nuclear fuel, net	**(2,840)**	9,567	—
Other, net	**(1,403)**	(2,325)	(2,354)
Total deferred tax expense, net	**$ 91,832**	$ 99,179	$ 83,536
Reconciliation of Federal Income Tax Expense at Statutory Rate to Total Provision for Income Taxes:			
Book income before provision for income taxes	**$317,935**	$296,286	$188,442
Federal income tax expense at statutory rate	**$146,250**	$136,292	$ 86,683
Increases (reductions) in taxes resulting from:			
Allowance for equity funds used during construction, which does not constitute taxable income	**(38,737)**	(27,794)	(26,549)
Difference between tax and book depreciation	**4,026**	(2,422)	(5,874)
Gain on exchange of common stock for first mortgage bonds, which does not constitute taxable income	**(9,273)**	—	—
Other, net	**(60)**	(6,852)	(968)
Total provision for income taxes	**$102,206**	$ 99,224	$ 53,292

(i) Amount for 1981 includes a credit of $14,352,000 resulting from a December 1981 settlement applicable to Pennsylvania Excise Tax on Gross Receipts accrued in prior years.

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

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 signficant 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).

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.

The Companies collected $11,987,000 and $8,905,000 during 1982 and 1981, respectively, in revenues attributable to wholesale rate increases which are subject to possible refund. The effect on retained earnings has been an increase of $11,082,000, of which $6,327,000 ($.07 per share of common stock) is applicable to 1982 and $4,755,000 ($.07 per share of common stock) is applicable to 1981. Management believes that any refunds which may be required in these cases would not have a material effect on the Company's consolidated results of operations.

Deferred Fuel And Energy Costs
The Companies record the cost of fuel when it is consumed, except as discussed below.

The Company recovers fuel-related costs from its retail customers through an 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 is included as an adjustment to the new EFC rate in a subsequent six-month period. Accordingly, the Company defers the difference between actual fuel-related costs incurred and the amounts currently recovered from its customers.

On July 30, 1982, the PUCO, following the Company's regular semiannual fuel hearing, modified its prior order with respect to recovery of the costs of coal purchased from Quarto Mining Company (Quarto). Taking account of the fact that Quarto coal is burned exclusively at the Bruce Mansfield Plant, but does not constitute the sole source of coal for that plant, the PUCO's order permits the Company to reduce the deferred cost of Quarto coal by recovering such costs over time as an additional cost of fuel for purposes of its EFC to the extent that the overall cost of coal at the Bruce Mansfield Plant is less than 115% of the generally prevailing market price of comparable coal. In calculating the cost of coal at the Bruce Mansfield Plant, the PUCO ordered the Company not to include but to defer (unless the costs proposed to be deferred are found to be unreasonable) the cost of Quarto coal to the extent it exceeds 125% of the generally prevailing market price of comparable coal. The July 30, 1982 PUCO order has been appealed by the Ohio Office of Consumers' Counsel. Although management cannot predict the outcome of this appeal, it believes the PUCO order is both lawful and reasonable and therefore believes the order should be allowed to stand.

Penn Power recovers fuel and energy costs from its customers through an annual "levelized" energy cost rate (ECR). The ECR, which includes adjustment for any over or under collection from customers, is recalculated each year. Accordingly, Penn Power defers the difference between actual energy costs and the amounts currently recovered from its customers.

In January 1981, the PPUC ordered that Penn Power not include the cost of Quarto coal in its ECR at more than generally prevailing market prices pending completion of a PPUC investigation to determine the reasonableness of the costs of Quarto coal. Accordingly, Penn Power defers the Quarto coal costs in excess of generally prevailing market prices.

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 property included in plant in service. The effective composite rate for electric plant was 3.3% in 1982, 1981 and 1980. 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 construction 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, 1982 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	$ 128,084	$ 26,430	$ 62,355	68.80%
Bruce Mansfield #1, #2 and #3	685,659	92,938	12,215	50.68%
Beaver Valley #1	427,016(i)	67,219	60,068(i)	52.50%
Beaver Valley #2 (Note 5)	—	—	583,417	41.88%
Perry #1 and #2	—	—	968,384	35.24%
Total	$1,240,759	$186,587	$1,686,439	

(i) Includes common facilities applicable to Beaver Valley #2.

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. The Companies also include in fuel expense the estimated spent nuclear fuel disposal costs which are being recovered from customers. The storage of spent nuclear fuel is necessary until the manner of its disposal is determined, which is currently under study by the Department of Energy.

Allowance for Funds Used During Construction (AFUDC)
AFUDC, a non-cash item charged to utility plant under construction 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 utility plant under construction and in the cost of capital. The Companies compute AFUDC utilizing a net of tax rate, which is consistent with the rate treatment. AFUDC related to assets financed only through the incurrence of long-term obligations (see Note 5) is based on actual interest accrued on the obligations during the period. The rates used by the Company for all other construction projects were 10.32%, 9.84% and 10.14% during 1982, 1981 and 1980, respectively. Penn Power used rates of 9.25%, 8.50% and 8.00% during 1982, 1981 and 1980, respectively, applicable to such projects.

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 utility plant under construction, to income taxes-credit included under other income and deductions on the Statements of Consolidated Income.

For income tax purposes, the Companies claim liberalized depreciation and, consistent with the rate treatment, generally follow "normalization" accounting. The Companies expect that deferred taxes which are not 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 $10,480,000 in 1982 and $37,531,000 in 1981 resulting from the sales of tax benefits applicable to property placed in service during those years in accordance with provisions of the Economic Recovery Tax Act of 1981. Of the total, $5,823,000 and $12,675,000, respectively, were recorded as additional deferred investment tax credits on the Company's Consolidated Balance Sheet and are being amortized over the life of the related property. The remaining $4,657,000 and $24,856,000, respectively, were recorded as reductions to utility plant in service and 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, 1982, approximately $98,000,000 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	$11,000,000
1992	16,000,000
1993	9,000,000
1994	7,000,000
1995	33,000,000
1996	5,000,000
1997	17,000,000
	$98,000,000

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 1982, 1981 and 1980 were

$15,448,000, $15,311,000 and $14,931,000, respectively. Of those amounts, $10,350,000, $9,237,000 and $9,259,000, respectively, were charged to operating expenses. The balances were charged primarily to construction. Such costs include the amortization of unfunded 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	1982	1981
Actuarial present value of accumulated plan benefits:		
Vested	$157,014,000	$144,527,000
Nonvested	12,862,000	11,467,000
	$169,876,000	$155,994,000
Net assets available for benefits	$224,641,000	$213,749,000
Assumed rate of return for actuarial present value of accumulated plan benefits	8%	8%

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 currently 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 recommended, and the Companies utilized, discount rates of 7% and 6% during the twelve months ended June 30, 1982 and 1981, respectively, 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. Costs, including settlement of all asserted claims resulting from termination, unrecovered by the Company and Penn Power as of December 31, 1982 applicable to these units amounted to approximately $87,751,000 and $16,084,000, respectively.

The PUCO had authorized recovery of the applicable portion of the Company's then known share of the construction costs from its PUCO jurisdictional customers over a ten-year period beginning in February 1981. On July 15, 1981, however, the Supreme Court of Ohio ruled in a case involving another Ohio utility, 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. Subsequent appeals to the U.S. Supreme Court by that company have been denied because of the lack of a properly presented Federal question. The utility has taken further action before the Ohio Supreme Court which may still have a bearing on the matter. As a result of the July 1981 Ohio Supreme Court decision, the PUCO disallowed the Company's recovery, as service-related costs, of the costs of the terminated units, effective August 1, 1981. Accordingly, the Company discontinued amortization of such costs on that date.

On November 3, 1982, the PUCO decided in the Company's then pending rate case to allow a rate of return above that which it otherwise would have allowed were it not for the July 1981 Ohio Supreme Court decision. Based on that order, the Company has resumed amortization of the costs of the terminated units applicable to PUCO jurisdictional customers over a ten-year period. Consumers' Counsel has appealed a similar decision in another utility's rate case to the Ohio Supreme Court. Whether the November 3, 1982 PUCO order will ultimately be appealed and sustained cannot be determined at this time.

In January 1983, the other Ohio utility referred to above received a rate order in a subsequent rate case which the utility has concluded does not provide a sufficient basis under generally accepted accounting principles for its continued amortization of the costs of the terminated units. Were the Company to receive a similar order and reach a similar conclusion in connection with the PUCO order in its current or some succeeding rate case, and no other basis for amortization could be found or anticipated, the Company would be required to write off that portion of the then unrecovered costs applicable to its PUCO jurisdictional customers. Such costs at December 31, 1982 approximated $83,559,000 ($53,613,000 net of income tax effect).

The Companies are currently seeking approval from the FERC to recover these costs from FERC jurisdictional customers to the extent they are allocable to those customers. The Companies are currently collecting interim rates from FERC jurisdictional customers which are intended to provide for such recovery and, accordingly, those costs applicable to FERC jurisdictional customers are being amortized over ten years. The Companies believe that the construction costs were prudently incurred and have no reason to believe that the FERC will not act favorably upon their requests. The PPUC has indicated that it will allow Penn Power to begin recovering its share of the costs allocable to PPUC jurisdictional customers over a ten-year period beginning with the effective date of its next change in base rates.

3 Leases

The Companies lease nuclear fuel, certain transmission facilities, computer equipment, office space and other incidental property and equipment under cancelable and noncancelable leases. Total rent expenses included on the Statements of Consolidated Income for 1982, 1981 and 1980 were $20,766,000, $20,731,000 and $9,373,000, respectively. The future minimum rental commitments as of December 31, 1982 for all noncancelable leases are:

1983	$ 23,299,000
1984	22,765,000
1985	20,488,000
1986	16,525,000
1987	14,030,000
Years thereafter	348,404,000

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

4 Capitalization

(a) Common Stock
Through the Dividend Reinvestment and Stock Purchase Plan, holders of common, preferred and preference 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 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 purchase of common stock made with reinvested cash dividends on preferred and preference stock are made at a price equal to 100% of the average market price. At December 31, 1982, the Company had 3,031,794 shares reserved for issuance under this plan and 1,862,181 shares of common stock reserved for possible conversion of the $1.80 Preference Stock.

(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 $128,392,000 at December 31, 1982. Under Penn Power's Charter, $30,089,000 of retained earnings at December 31, 1982 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 that establish 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 8.24% Series and 11% Series each include provisions for a mandatory sinking fund to retire a minimum of 5,000 shares and 4,000 shares, respectively, every year on December 1 and January 1, respectively, at $100 per share plus accrued dividends, and its 15% Series includes a provision for a mandatory sinking fund to retire a minimum of 3,200 shares on July 15 of each year beginning in 1988, 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 $2,463,000 for 1983 and $4,900,000 for each of the years 1984 through 1987.

(e) Preference Stock Subject to Mandatory Redemption
The $102.50 Series and $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 for 1984 and $4,213,000 for each of the years 1985 through 1987.

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, 1982, the Companies' annual sinking and improvement fund requirements amount to $22,504,000. The Company expects to deposit funds in 1983 which 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. This method can result in minor increases in the amount of the annual sinking fund requirements. Penn Power expects to satisfy its requirements in 1983 by certifying unfunded property additions of 166-2/3% of the required amount.

As of December 31, 1982, the Companies' sinking and improvement fund requirements and maturing long-term debt for the next five years are:

1983	$ 42,424,000
1984	149,330,000
1985	75,647,000
1986	58,582,000
1987	183,582,000

The weighted average interest rates shown on the Statements of Consolidated Capitalization relate to long-term debt outstanding at December 31, 1982.

Total secured and unsecured notes outstanding at December 31, 1982 and 1981 exclude $74,353,000 and $75,686,000, respectively, of pollution control notes, the proceeds of which were then in escrow pending their disbursement for construction of certain pollution control facilities. Penn Power's obligation to repay the pollution control revenue bonds is secured by a series of Penn Power first mortgage bonds. The pollution control revenue bonds to which the unsecured notes relate are entitled to the benefit of irrevocable bank letters of credit of $159,802,000. To the extent that drawings are made under those letters 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%–7/8% of the amounts of the letters of credit to the issuing banks and is obligated to reimburse the banks for any drawings thereunder.

5 Long-Term Obligations

Ohio Edison Energy Trust (OEET)
In November 1980, OEET was created for financing part of the Company's investment in Beaver Valley Unit No. 2. OEET 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 OEET 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 OEET, where the assets are used to secure OEET borrowings. All OEET 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 OEET 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 have been or are expected to be made against the $100,000,000 line of credit, but OEET has issued and has 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 has been issued upon which OEET pays a fee of 1/8% of the amount of commercial paper notes outstanding. The effective average interest rates on OEET borrowings were 14.8%, 18.7% and 21.4% during 1982, 1981 and 1980, respectively. Of the total OEET obligations outstanding at December 31, 1982 and 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 Companies of up to $135,000,000 and $30,000,000 is available through the Ohio Edison Fuel Corporation and Pennsylvania Power Fuel Corporation, respectively, either through revolving credit arrangements or the issuance of commercial paper, which is supported by bank letters of credit, or a combination of both.

In November 1982, the Companies also began participating in arrangements wherein the Central Area Energy Trust (CAET) finances the acquisition of nuclear material that will ultimately be used to fuel various CAPCO generating units. As part of these arrangements, the Companies have entered into purchase agreements whereby the Companies are unconditionally obligated to purchase their share of the nuclear material that has been financed from CAET in not less than two nor more than three years from the date of the agreement, unless the nuclear material reaches the point of fabrication, at which time the purchase commitment will then be due. Financing of up to $137,000,000 is available to CAET on behalf of the Companies. Of the increase in the Companies' nuclear fuel obligations during 1982, approximately $58,000,000 was the result of a transfer to CAET of nuclear material which was previously financed by a lessor under lease arrangements with the CAPCO companies.

The Companies accrue interest applicable to the nuclear fuel obligations which is subsequently capitalized, net of income tax effect. Interest on the fuel corporations' bank borrowings is computed at 110% of the applicable prevailing prime interest rate, plus a commitment fee of 1/8% on the available portions of the lines of credit. The fuel corporations also pay a 5/8% letter of credit fee on the aggregate amount of outstanding commercial paper. Interest on CAET purchase commitments are at rates which vary from 1-1/8% to 1-1/2% over the interest rate applicable to certain dealer placed commercial paper. The effective average interest rates applicable to nuclear fuel obligations were 12.6% and 13.9% in 1982 and 1981, respectively.

6 Notes Payable To Banks and Lines of Credit

The Companies have lines of credit with domestic banks that provide for borrowings of up to $235,000,000 at rates that vary from prime up to 105% of 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, 1983; 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 $90,127,500 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 $3,000,000 and are not subject to any contractual restriction against withdrawal. The Companies are required to pay commitment fees that vary from a flat rate of 1/2% to a variable rate of 5% of the applicable prime interest rate to assure the availability of $99,000,000 of the lines of credit.

7 Commitments, Guarantees and Contingencies

Construction Program
The Companies' current budget forecasts reflect expenditures of approximately $2,700,000,000 for property additions and improvements from 1983–1987, of which approximately $637,000,000 is applicable to 1983. In addition, the Companies expect to incur additional nuclear fuel obligations of approximately $145,000,000 in 1983. 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 $295,000,000, of which approximately $200,000,000 is applicable to the 1983–1987 period) for the supply of nuclear fuel in connection with the future commercial operation of nuclear generating units.

The Companies' financing programs during 1983 through 1987 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 amount 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 porportionate 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, 1982, the Companies' share of the guarantee was $235,414,000 ($121,878,000—long-term debt; $79,190,000—lease obligations; and $34,346,000—short-term bank credit).

Under the terms of the coal supply contracts, which expire December 31, 1999, the Companies must reimburse Quarto for their shares 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 $80,709,000 and $94,379,000 during 1982 and 1981, respectively. The Companies' future minimum payments under the coal supply contracts related to mine construction costs are:

1983	$ 26,538,000
1984	25,920,000
1985	25,302,000
1986	24,684,000
1987	24,066,000
Years thereafter	245,245,000

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 the circumstances. Any action by the Company affecting the Quarto project as a result of such studies will now have to take into account the principles expressed in 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. 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 PUCO method for recovery of the costs of Quarto coal, including recovery of the deferred costs, is appropriate under the reduced mode of operation of the mines because this method is consistent with the fuel procurement strategy for reducing the overall cost of coal for the Bruce Mansfield Plant. Despite the delay in the final resolution of this matter by the PPUC, management believes that its ultimate disposition by the PPUC will not have a material adverse effect upon the Company's consolidated results of operations.

An issue has been raised in the Companies' most recent rate cases before the FERC concerning the amount of the cost of Quarto coal that may be included in the Companies' charges for electric service to their wholesale customers.

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 $488,000,000 for projects remaining to be completed. Of this amount, approximately $237,000,000 was spent prior to 1983, and $242,000,000 is included in the construction estimate given above under "Construction Program" for 1983 through 1987. 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.

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 filed Petitions for Review of these regulations. On January 7, 1983, the U.S. Court of Appeals for the District of Columbia upheld the validity of most 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 Federal Environmental Protection Agency (EPA) has acknowledged in earlier settlements of proceedings involving the Companies' 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. Also, approval of a Pennsylvania State Implementation Plan revision, which was effective January 15, 1982, brings Penn Power's New Castle Plant into compliance with sulfur dioxide (SO_2) emission standards.

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 in an upwind State causes nonattainment of air quality standards in the downwind State. Pennsylvania's petition complains of excessive particulate and SO_2 emissions from a number of sources in Ohio and other states, including potentially all of the Companies' Ohio plants. The States of New York and Maine have filed similar petitions which have subsequently been consolidated with the Pennsylvania petition. 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.

As a part of the reauthorization of the Clean Air Act, legislation has been introduced in Congress to address the so-called "acid rain problem." Various bills introduced thus far would require reductions in SO_2 emissions from utility power plants and other sources located in several states, including Ohio and Pennsylvania. The Company is unable to predict whether the proposed bills will be enacted and, if so, to what extent, if any, the SO_2 emission limits at the Companies' plants would be affected. Substantial changes in the SO_2 emission limits could result in the need for changes in coal supply or significant capital investments in flue gas desulfurization equipment to assure compliance. If flue gas desulfurization equipment were to be installed on all of their generating units to achieve compliance, a circumstance that may be physically impossible because of space limitations at certain of their plants, the Companies estimate that the capital costs associated with such installation could exceed $1,000,000,000. The Companies expect that any such capital costs, as well as any increased operating costs associated with such equipment, would ultimately be recovered from their customers.

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. On February 14, 1983, Penn Power filed a Motion for Summary Judgment on the claims not dismissed by the Court's 1979 Order. On February 11, 1983, the Boroughs asked the Court to allow them to amend their 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 make refunds to that company's customers based upon that company's expenditures for purchased replacement power during the outage. The PPUC is currently investigating Penn Power's liability, if any, 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.

8 Extraordinary Income

During 1982, the Company exchanged 2,650,600 shares of its common stock for $53,432,000 principal amount of its outstanding first mortgage bonds which were subsequently retired. The exchange resulted in a nontaxable gain of $20,158,000, which is included as an extraordinary item on the 1982 Statement of Consolidated Income. During 1981, the Company purchased and subsequently retired $65,821,000 principal amount of its outstanding first mortgage bonds for cash. This resulted in a gain of $26,276,000, which is included as an extraordinary item, net of related incomes taxes of $12,234,000, on the 1981 Statement of Consolidated Income.

9 Summary of Quarterly Financial Data

The following summarizes certain consolidated operating results for the four quarters of 1982 and 1981.

Three Months Ended	March 31, 1982	June 30, 1982	September 30, 1982	December 31, 1982
	(In thousands, except per share amounts)			
Operating Revenues	$361,190	$328,834	$374,328	$365,274
Operating Expenses and Taxes	286,837	258,311	315,272	299,566
Operating Income	74,353	70,523	59,056	65,708
Other Income and Deductions	35,819	30,505	50,212	43,711
Net Interest and Other Charges	56,335	58,937	59,820	59,224
Income Before Extraordinary Items	53,837	42,091	49,448	50,195
Extraordinary Items	—	20,158	—	—
Net Income	$ 53,837	$ 62,249	$ 49,448	$ 50,195
Earnings on Common Stock	$ 45,644	$ 54,095	$ 41,326	$ 40,431
Weighted Average Number of Shares of Common Stock Outstanding	79,131	81,122	88,021	92,688
Earnings per Share of Common Stock:				
Before Extraordinary Items (after preferred and preference stock dividend requirements)	$.58	$.42	$.47	$.44
Extraordinary Items	—	.25	—	—
Earnings on Common Stock	$.58	$.67	$.47	$.44

Three Months Ended	March 31, 1981	June 30, 1981	September 30, 1981	December 31, 1981
	(In thousands, except per share amounts)			
Operating Revenues	$308,837	$293,500	$337,249	$340,063
Operating Expenses and Taxes	254,891	237,668	270,449	264,260
Operating Income (i)	53,946	55,832	66,800	75,803
Other Income and Deductions	27,994	29,212	35,860	37,736
Net Interest and Other Charges	44,729	49,225	51,049	55,160
Income Before Extraordinary Items	37,211	35,819	51,611	58,379
Extraordinary Items	9,516	4,526	—	—
Net Income	$ 46,727	$ 40,345	$ 51,611	$ 58,379
Earnings on Common Stock	$ 38,354	$ 32,042	$ 43,369	$ 50,127
Weighted Average Number of Shares of Common Stock Outstanding	68,844	69,585	70,410	75,881
Earnings per Share of Common Stock:				
Before Extraordinary Items (after preferred and preference stock dividend requirements) (i)	$.42	$.40	$.62	$.66
Extraordinary Items	.14	.06	—	—
Earnings on Common Stock	$.56	$.46	$.62	$.66

(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, 1982 (In Thousands)	As Reported on the Primary Consolidated Statements	Adjusted for General Inflation	Adjusted for Change in Specific Prices (Current Cost)
		(Average 1982 Dollars)	
Operating Revenues	$1,429,626	$1,429,626	$1,429,626
Operating Expenses and Taxes:			
Operation and maintenance	846,100	846,100	846,100
Provision for depreciation and amortization	105,072	219,966	253,304
General taxes	114,569	114,569	114,569
Income taxes	94,245	94,245	94,245
Total operating expenses and taxes	1,159,986	1,274,880	1,308,218
Operating Income	269,640	154,746	121,408
Other Income and Deductions	160,247	160,247	160,247
Net Interest and Other Charges	234,316	234,316	234,316
Preferred and Preference Stock Dividend Requirements	34,233	34,233	34,233
Income from Continuing Operations (excluding reduction to net recoverable cost)	$ 161,338	$ 46,444(i)	$ 13,106
Increase in specific prices (current cost) of property, plant and equipment held during the year (ii)			$ 633,048
Reduction to net recoverable cost		$ (41,669)	(342,314)
Effect of increase in the general price level on property, plant and equipment			(299,065)
Excess of increase in the general price level over increase in specific prices of property, plant and equipment after reduction to net recoverable cost			(8,331)
Advantage resulting from the decrease in purchasing power of net monetary liabilities		106,804	106,804
Net		$ 65,135	$ 98,473

(i) Including the reduction to net recoverable cost, income from continuing operations adjusted for general inflation would have been $4,775,000.

(ii) At December 31, 1982, property, plant and equipment net of accumulated depreciation, adjusted for changes in specific prices (current cost) was $8,615,953,000, while historical cost (net recoverable cost) was $4,529,489,000.

Five-Year Comparison of Selected Supplementary Financial Data

Adjusted for the Effects of Changing Prices Year Ended December 31,	1982	1981	1980	1979	1978
	(Dollars in thousands, except per share amounts)				
Operating Revenues					
As reported on the primary consolidated statements	$1,429,626	$1,279,649	$1,080,869	$ 994,585	$ 862,956
Adjusted to average 1982 dollars	$1,429,626	$1,358,100	$1,266,123	$1,322,606	$1,276,769
Historical Cost Information Adjusted for General Inflation (In Average 1982 Dollars)					
Income from continuing operations (excluding reduction to net recoverable cost)	$ 46,444	$ 52,161	$ 24,478	$ 55,618	
Income from continuing operations per common share (excluding reduction to net recoverable cost)	$ .54	$ .73	$ .37	$ .95	
Current Cost Information (In Average 1982 Dollars)					
Income (loss) from continuing operations (excluding reduction to net recoverable cost)	$ 13,106	$ 25,925	$ (14,436)	$ 18,822	
Income (loss) from continuing operations per common share (excluding reduction to net recoverable cost)	$ .15	$ .36	$(.22)	$ .32	
Excess of increase in the general price level over increase in specific prices of property, plant and equipment after reduction to net recoverable cost	$ (8,331)	$ (197,439)	$ (308,443)	$ (355,655)	
Other Information					
Common stockholders' equity at December 31 at net recoverable cost (Average 1982 Dollars)	$1,471,796	$1,263,081	$1,188,228	$1,222,290	
Advantage resulting from the decrease in purchasing power of net monetary liabilities (Average 1982 Dollars)	$ 106,804	$ 228,464	$ 296,627	$ 328,800	
Cash dividends declared per common share—					
As reported	$1.76	$1.76	$1.76	$1.76	$1.76
Adjusted to average 1982 dollars	$1.76	$1.86	$2.04	$2.33	$2.58
Market price per common share at December 31—					
As reported	$14.00	$11.625	$11.875	$13.375	$14.875
Adjusted to average 1982 dollars	$13.84	$11.94	$13.29	$16.82	$21.20
Average consumer price index	289.1	272.4	246.8	217.4	195.4

The Consumer Price Index for All Urban Consumers (CPI-U) was used for converting actual dollars spent for property, plant and equipment into average 1982 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 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, 1982, and 1981, and the related statements of consolidated income, retained earnings, capital stock and other paid-in capital, sources of funds for property additions and taxes for each of the three years in the period ended December 31, 1982. 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 in Note 2 to the consolidated financial statements, the Company has incurred 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 applicable construction costs from its customers over a ten-year period. In light of a 1981 Ohio Supreme Court ruling, the PUCO did not allow these costs as service-related costs in the Company's most recent rate case, but did permit an increment to be added to the allowed rate of return to recover these costs. In 1982, another Ohio utility was granted a similar increment in the allowed rate of return, but that decision has been appealed to the Ohio Supreme Court by Consumers' Counsel. How this appeal will ultimately affect the Company's recovery of these costs from its retail customers is uncertain 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 matter 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, 1982, and 1981, and the results of their operations and the sources of funds for property additions for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

February 8, 1983.

Consolidated Financial Statistics

	1982	19[illegible]	1980	1979	1978	1977	1972
General Financial Information		([illegible]ars in thousands, except per share amounts)					
Total Operating Revenues	**$1,429,526**	$1,279,649	$1,080,869	$ 994,585	$ 862,956	$ 796,289	$ 343,204
Operating Income	**$ 269,640**	$ 252,381	$ 169,383	$ 163,744	$ 123,945	$ 146,508	$ 76,155
Earnings on Common Stock	**$ 181,496**	$ 163,892	$ 101,403	$ 105,120	$ 61,259	$ 87,863	$ 49,130
Ratio of Earnings on Common Stock to Operating Revenues	**12.7%**	12.8%	9.4%	10.6%	7.1%	11.0%	14.3%
Times Interest Earned Before Income Tax	**2.02x**	2.11x	2.05x	2.31x	1.67x	2.38x	3.01x
Net Utility Plant at December 31	**$4,522,733**	$3,867,757	$3,435,267	$3,012,197	$2,717,820	$2,403,810	$1,173,233
Property Additions	**$ 774,233**	$ 568,044	$ 515,020	$ 476,746	$ 395,162	$ 358,105	$ 166,035
Capitalization at December 31:							
Common Stockholders' Equity	**$1,488,371**	$1,229,044	$1,067,524	$ 970,110	$ 851,686	$ 867,292	$ 360,011
Preferred and Preference Stock Not Subject to Mandatory Redemption	**354,240**	304,240	306,905	306,905	306,905	261,905	119,905
Preferred and Preference Stock Subject to Mandatory Redemption	**152,560**	151,141	156,450	150,850	98,000	98,000	—
Long-Term Debt	**2,005,436**	1,759,771	1,594,384	1,410,782	1,343,195	1,189,821	629,140
Total Capitalization	**$4,000,607**	$3,444,196	$3,125,263	$2,838,647	$2,599,786	$2,417,018	$1,109,056
Capitalization Ratios at December 31:							
Common Stockholders' Equity	**37.2%**	35.7%	34.2%	34.2%	32.7%	35.9%	32.5%
Preferred and Preference Stock Not Subject to Mandatory Redemption	**8.9**	8.8	9.8	10.8	11.8	10.8	10.8
Preferred and Preference Stock Subject to Mandatory Redemption	**3.8**	4.4	5.0	5.3	3.8	4.1	—
Long-Term Debt	**50.1**	51.1	51.0	49.7	51.7	49.2	56.7
Total Capitalization	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Obligations at December 31	**$656,655**	$447,484	$265,000	—	—	—	—
Cost of Preferred & Preference Stock Outstanding at December 31	**9.17%**	8.37%	8.38%	8.36%	7.99%	7.85%	5.40%
Cost of Long-Term Debt Outstanding at December 31	**10.69%**	9.99%	9.16%	8.13%	7.71%	7.45%	5.92%
Common Stock Data							
Earnings per Average Common Share	**$2.13**	$2.30	$1.52	$1.80	$1.19	$1.97	$1.91
Return on Average Common Equity	**13.5%**	14.6%	9.7%	11.2%	7.1%	11.7%	13.8%
Dividends Paid Per Share	**$1.76**	$1.76	$1.76	$1.76	$1.76	$1.715	$1.54
Common Stock Dividend Payout Ratio	**83%**	77%	116%	98%	148%	87%	81%
Common Stock Dividend Yield at December 31	**12.6%**	15.1%	14.8%	13.2%	11.8%	9.0%	6.7%
Price/Earnings Ratio at December 31	**6.6**	5.1	7.8	7.4	12.5	9.9	12.1
Shares of Common Stock Outstanding at December 31 (000)	**96,082**	78,676	68,526	59,622	52,120	51,207	25,695
Book Value per Common Share at December 31	**$15.49**	$15.62	$15.58	$16.27	$16.34	$16.94	$14.01
Market Price per Common Share at December 31	**$14.00**	$11.625	$11.875	$13.375	$14.875	$19.50	$23.125
Ratio of Market Price to Book Value per Share at December 31	**90%**	74%	76%	82%	91%	115%	165%

Consolidated Operating Statistics

	1982	1981	1980	1979	1978	1977	1972
Revenue From Electric Sales: (Thousands)							
Residential	**$ 497,941**	$ 442,267	$ 398,832	$360,273	$314,867	$284,512	$124,930
Commercial	**356,325**	308,599	268,788	240,458	205,901	191,381	87,844
Industrial	**383,535**	381,162	330,717	315,185	258,767	236,434	102,207
Other	**67,828**	53,993	50,420	42,607	46,471	31,744	14,785
Sub-total	**1,305,629**	1,186,021	1,048,757	958,523	826,006	744,071	329,766
Sales to Utilities	**101,688**	73,966	12,381	10,185	9,346	7,825	2,698
Total	**$1,407,317**	$1,259,987	$1,061,138	$968,708	$835,352	$751,896	$332,464
Revenue From Electric Sales—%:							
Residential	**35.4%**	35.1%	37.6%	37.2%	37.7%	37.8%	37.6%
Commercial	**25.3**	24.5	25.3	24.8	24.6	25.5	26.4
Industrial	**27.3**	30.2	31.2	32.5	31.0	31.5	30.7
Other	**4.8**	4.3	4.7	4.4	5.6	4.2	4.5
Sub-total	**92.8**	94.1	98.8	98.9	98.9	99.0	99.2
Sales to Utilities	**7.2**	5.9	1.2	1.1	1.1	1.0	0.8
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Kilowatt-Hour Sales: (Millions)							
Residential	**6,733**	6,747	6,801	6,650	6,501	6,334	5,023
Commercial	**4,996**	4,917	4,812	4,693	4,470	4,549	3,692
Industrial	**7,708**	9,352	8,909	9,830	9,600	9,671	9,250
Other	**1,227**	1,181	1,370	1,346	1,309	1,253	1,023
Sub-total	**20,664**	22,197	21,892	22,519	21,880	21,807	18,988
Sales to Utilities	**3,361**	2,465	502	441	429	422	284
Total	**24,025**	24,662	22,394	22,960	22,309	22,229	19,272
Customers Served at December 31:							
Residential	**873,877**	872,303	867,447	861,196	848,268	836,500	767,261
Commercial	**89,706**	89,231	88,505	87,425	86,410	85,002	80,219
Industrial	**1,048**	1,068	1,059	1,161	1,160	1,147	1,129
Other	**724**	711	704	693	689	682	557
Total	**965,355**	963,313	957,715	950,475	936,527	923,331	849,166
Average Annual Residential KWH Usage	**7,723**	7,760	7,870	7,780	7,724	7,637	6,668
Average Residential Price Per KWH	**7.40¢**	6.56¢	5.86¢	5.42¢	4.84¢	4.49¢	2.49¢
Cost of Coal per Million BTU	**$1.75**	$1.81	$1.50	$1.26	$1.16	$.96	$.36
Generating Capability at December 31: (Megawatts)							
Coal	**4,858**	4,907	4,899	4,861	4,861	4,861	3,939
Oil	**354**	354	364	423	423	423	132
Nuclear	**425**	425	425	425	420	420	—
Total	**5,637**	5,686	5,688	5,709	5,704	5,704	4,071
Sources of Electric Generation:							
Coal	**93.8%**	89.9%	98.7%	93.9%	90.4%	90.0%	99.8%
Oil	**0.1**	0.2	0.6	2.0	3.5	2.6	0.2
Nuclear	**6.1**	9.9	0.7	4.1	6.1	7.4	—
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Peak Load—Megawatts	**4,073**	4,148	4,210	4,105	4,038	4,134	3,530
Number of Employees at December 31	**7,885**	7,669	7,503	7,157	6,765	6,609	6,040

Stockholder Information

Stockholder Profile

At the end of 1982, 194,877 stockholders owned 96.1 million shares of our common stock. Approximately 33 percent of our stockholders are women, 25 percent are men and 31 percent are joint holders. The remaining 11 percent represent trusts, corporations, institutions, brokers and other investment groups.

Nearly 75 percent of our stockholders own 300 shares or less. They live in all 50 states and some foreign countries, but more stockholders reside in Ohio than in any other state, followed by New York, Florida, California and Pennsylvania.

Common Stock Dividend Increased

Effective the first quarter of 1983, the Company's Board of Directors increased the quarterly dividend on the common stock of Ohio Edison Company to 45 cents per share from 44 cents.

Dividends of 44 cents per share of common stock outstanding were declared by the Board of Directors for each quarter of 1982.

Dividend Reinvestment and Stock Purchase Plan Grows

The Company's Dividend Reinvestment and Stock Purchase Plan continues to be popular with stockholders. In 1982, about 15,500 stockholders joined the Plan, raising the total number of participants enrolled at the end of the year to 52,807, or 27 percent of all stockholders. By reinvesting $37.7 million in dividends and making optional cash payments of $21.7 million, they acquired more than 4.6 million shares of common stock during the year.

The Plan was expanded in 1982 to include preferred and preference stockholders. Participants may automatically invest all or part of their quarterly dividends to purchase shares of common stock at 95 percent of market value with common stock dividends, or at full market value with preferred and preference stock dividends. They may also buy, directly through the Company, additional shares of common stock at 97 percent of market value through optional cash payments of up to $40,000 per year.

As another stockholder benefit, the Economic Recovery Tax Act of 1981 provides that from 1981 through 1985, most participants of qualified dividend reinvestment plans such as Ohio Edison's may elect to exclude from their yearly income up to $750 per year ($1,500 on a joint return) of dividends that are reinvested. However, regulations have not yet been issued explaining how this exclusion applies to companies with return of capital dividends. We anticipate that a portion of common stock dividends paid during the next few years will be designated as a return of capital. Therefore, participants should consult their own tax advisers to determine the proper treatment of common stock dividends on their federal tax return.

Additional information about the Plan, and a Prospectus, can be obtained by contacting Ohio Edison's Stockholder Services.

Dividend Income Taxability

For 1982, 75 percent of common stock dividends were designated as a return of capital, and therefore nontaxable for federal income tax purposes. Preferred and preference stock dividends paid during 1982 were totally taxable. These figures are subject to final determination by the Internal Revenue Service (IRS) and stockholders will be notified in the event of a significant change.

Law Requires Withholding Taxes from Dividends

With the passage of the Tax Equity and Fiscal Responsibility Act of 1982, the IRS requires that 10 percent of most dividend payments be withheld for tax purposes, beginning with dividends paid after June 30, 1983. The withholding and reporting of this tax will be similar to that of income taxes currently withheld from wages.

Regulations issued on this withholding provision (subject to change) specified that withholding will not be required under the following circumstances:

- For dividends reinvested in common stock under the Company's Dividend Reinvestment and Stock Purchase Plan;
- For dividend recipients who during the previous year did not pay more than $600 in federal income tax ($1,000 on a joint return);
- For dividend recipients age 65 or older who during the previous year did not pay taxes of more than $1,500 ($2,500 for a joint return). On joint tax returns, the age qualification is met if either spouse has reached the age of 65 at any time in the year which the exemption certificate is filed;
- For dividends paid to corporations, tax exempt organizations, individual retirement accounts (IRAs), and other exempt recipients; and
- For that portion of the Company's dividends estimated to be a return of capital.

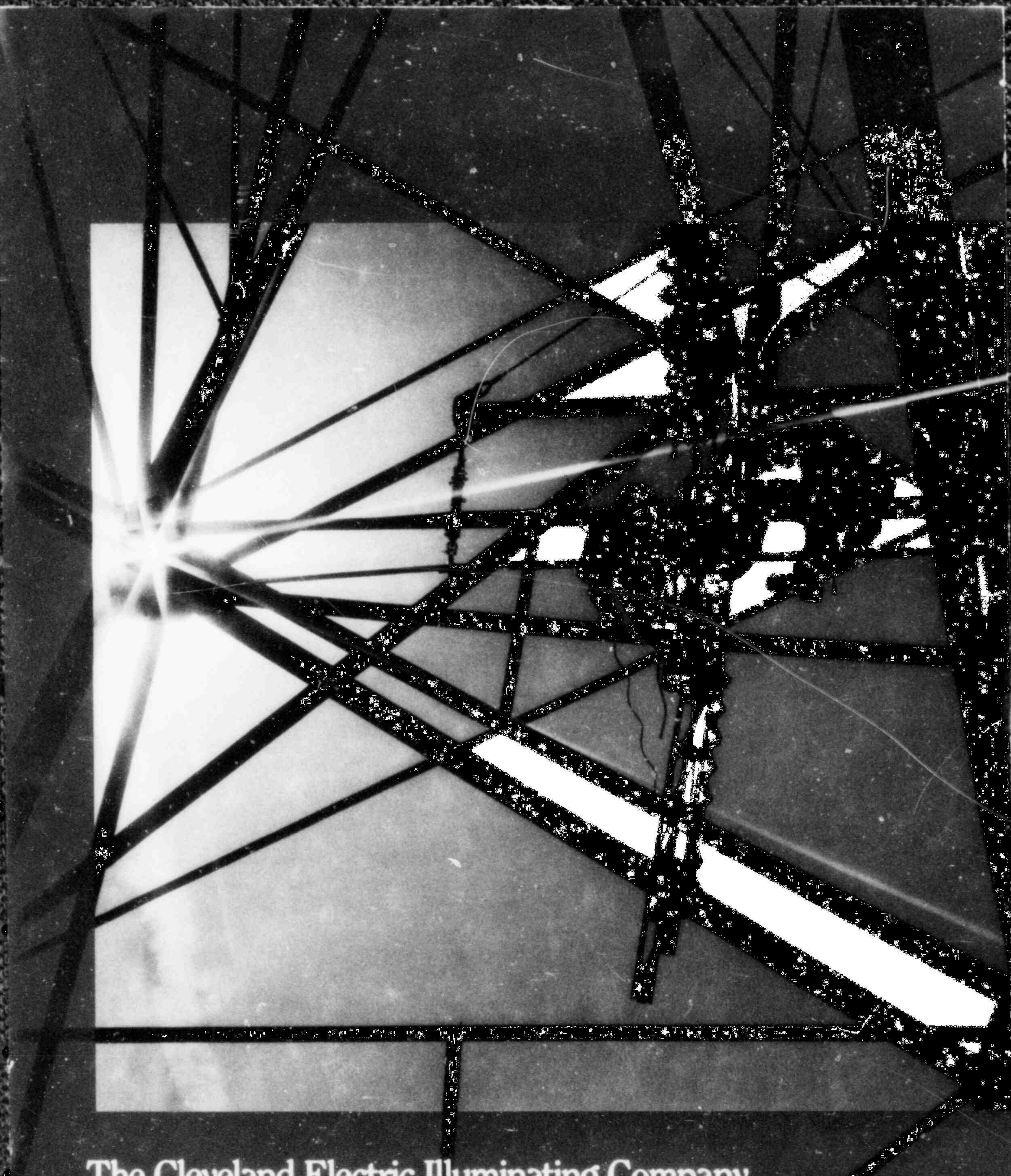
Except for participants in our Dividend Reinvestment and Stock Purchase Plan, who are having all of their dividends reinvested, all stockholders eligible for an exemption must have an exemption certificate on file with the Company. Exemption certificates will be sent during the second quarter to all stockholders, except those reinvesting all of their dividends. A certificate must be filed for each account eligible for an exemption and must be received by the Company at least 45 days prior to the record date for the dividends subject to withholding. Stockholders who have an exemption certificate on file with us, but no longer meet the requirements for exemption, must notify us so the certificate may be canceled.

Annual Meeting of Stockholders

Stockholders are cordially invited to attend the 1983 Annual Meeting on Thursday, April 28, at 10:00 a.m., local time, in the Company's General Office auditorium in Akron, Ohio. Those unable or choosing not to attend 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.

Additional Information Available

For other items of interest and sources of additional information, remove the pull-out stockholder reference card opposite this page. Also attached is a duplicate mailing notice. To help us reduce expenses by eliminating unnecessary duplicate mailings, please complete and return the postage-paid notice.



The Cleveland Electric Illuminating Company
1982 ANNUAL REPORT

Contents

Our line mechanics are responsible for the maintenance and upgrading of thousands of miles of transmission and distribution lines. Their work ensures that our customers have reliable and safe electric service.

Cover: Line mechanics place conductors in final position on a transmission tower, part of a new 43-mile, 345KV transmission line which runs from the Perry Nuclear Power Plant to our Juniper Substation. The line will make Perry's low-cost electricity available to our entire service area.

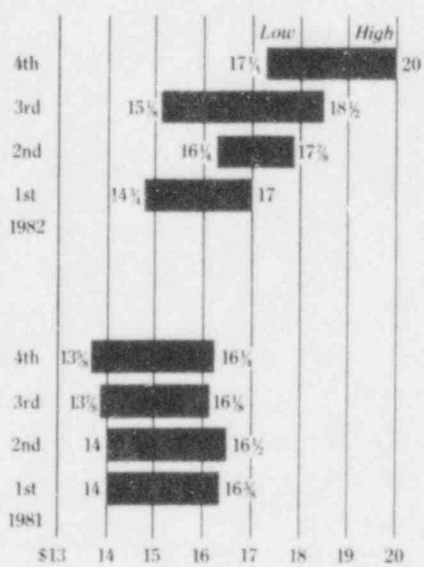
1982 Highlights

- Earnings per share reached a calendar year record of $3.01, up 19% from 1981.
- Common Stock quarterly dividend per share was increased twice in 1982 —2¢ effective in February and 3¢ effective in November. Total payment of $2.19 represents a 5.3% growth over 1981.
- A $107.8 million (10%) rate increase became effective for retail customers in March 1982; another increase of $89.4 million (7.4%) became effective in January 1983.
- The Dividend Reinvestment Plan raised $23.4 million, an increase of 67% from 1981. Over 30% of our share owners are taking advantage of the special tax treatment of dividends available through the Plan.
- On November 2, Ohio voters overwhelmingly defeated the proposed amendment to the Ohio Constitution to elect the members of The Public Utilities Commission of Ohio.
- In 1982, nine million shares of common stock were sold through two public offerings. We do not expect to make a public common stock offering in 1983.
- In July, the Advisory Committee on Reactor Safeguards recommended a 100% power license for Perry Unit #1.

Financial Summary and Quarterly Stock Prices

	1982	1981	Percent Change
Earnings Per Share of Common Stock	$ 3.01	$ 2.52	19.4
Dividends Paid Per Share of Common Stock	$ 2.19	$ 2.08	5.3
Book Value Per Share of Common Stock	$ 19.86	$ 19.63	1.2
Common Stock Share Owners	111,688	103,242	8.2
Operating Revenues (000)	$1,108,571	$1,012,930	9.4
Operating Expenses (000)	$ 879,644	$ 820,226	7.2
Net Income (000)	$ 208,964	$ 155,734	34.2
Earnings Available for Common Stock (000)	$ 170,669	$ 120,817	41.3
Kilowatthour Sales (Millions of Kilowatthours)			
Residential	4,336	4,376	(0.9)
Commercial	4,194	4,178	0.4
Industrial	7,082	8,280	(14.5)
Other	414	399	3.8
Sub-total	16,026	17,233	(7.0)
Sales to Utilities	139	275	(49.5)
Total	16,165	17,508	(7.7)

Quarterly High and Low Prices of Common Stock *(dollars)*



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Letter to Share Owners

Dear Share Owner:

It is human nature to look back with pride on past accomplishments and to draw confidence from them in facing the challenges which lie ahead.

In almost every one of the 20 years that the three of us have been officers of The Illuminating Company, our predecessors have reported to you in this space on the outstanding results of the prior year, but looked to the future as a time of change and challenge. For an organization with high standards this is natural. The Company has always recognized that the achievements and lessons of the past are only prologues for the future.

The year 1982 was no exception.

The Company achieved higher revenues and higher earnings per share. The dividend was increased twice, making the annual rate $2.28 per share.

This progress, achieved in the face of adverse economic conditions which resulted in lower kilowatthour sales, is a tribute to all the men and women of the Company. We are particularly proud of our management team and are fortunate in having a Board of Directors uncommonly strong in leadership and breadth of experience.

Our Board was strengthened early in 1983 by the addition of William J. Williams, President and Chief Operating Officer of Republic Steel Corporation. In addition to his leadership of one of the nation's largest industrial corporations, Mr. Williams brings to the Board utility experience as a result of his previous law practice.

The accomplishments of the past year are described in detail in this Annual Report. The significance of the past is the foundation it lays for the future. We are a strong company in a strong geographical area. This does not mean, however, that we are overconfident.

There is particular cause for concern in three major areas—acid rain legislation, the regulatory environment in Ohio and nuclear energy.

The issue of acid rain is fraught with emotion, largely because the true facts about this environmental phenomenon are not yet known. Under our system of laws, people and corporations are presumed innocent until proven guilty. This has not been the case with acid rain.

Robert M. Ginn (top)
Richard A. Miller (left)
Harold L. Williams (right)

Midwestern utilities, including the Company, have been singled out as the cause of this phenomenon. Congress is now being urged to mandate solutions by passing legislation which would cost our industry and ultimately our customers billions of dollars. Yet there is no scientific evidence that the proposed reduction of sulfur emissions from utilities in the Midwest would significantly reduce acid rain in the northeastern states and Canada.

The Company believes the environment should be protected. The first step, however, is to diagnose the problem—to determine the causes and effects of acid rain—before prescribing a cure.

Responsible research already begun must be completed. This region has already suffered too many economic setbacks to burden utility ratepayers with billions of dollars of additional spending which may prove unnecessary or ineffectual.

The second major area of concern is Ohio's regulatory climate. Regulatory law underwent legislative changes during 1982 and more have been proposed for 1983.

As this is written, the Ohio Legislature is considering a bill which would impose several changes in rate regulations. In the short run, those changes might hold down utility rates but would substantially increase rates in the long run. The proposed changes would tend to lower the quality and amount of earnings which utilities are allowed. In turn, this would increase the risk of utility investment and increase financing costs.

One change would stringently limit the amount of Construction Work In Progress (CWIP) allowed in rate base. The CWIP inclusion—allowed presently in many regulatory jurisdictions including Ohio—permits construction costs for projects nearing completion to be included in rate base. This does *not* mean consumers are paying *for* the plant before it renders service—it only means they are paying "interest" costs on part of the money borrowed to build the plant.

While inclusion of CWIP slightly increases rates prior to the in-service date of the plant, it provides rates lower than they would otherwise be over the life of the plant. This practice also helps ease the "rate shock" which occurs whenever a new plant goes in service.

Another provision of the proposed legislation would require retroactive adjustments of rates if the Ohio Supreme Court reversed a PUCO decision. Under this proposal, a company's earnings would not be precisely known until the Court had ruled on the decision as much as a year later. This would add a layer of uncertainty to utility investment which increases the risk to investors. That risk would raise our financing costs which ultimately must be paid by our customers.

It is evident that this proposed legislation is a reaction to the rate increases which all utilities have been forced to seek in recent years.

This is unfortunate because higher rates could result in the long run. Such short-term expediency is not the answer if utilities are to have the financial stability required to serve our economy in the future.

Our third area of concern is nuclear energy.

Nuclear generating plants have a safety record unparalleled in industry. No member of the public has ever been injured by a nuclear plant. Yet they are perceived as an uncommon danger.

The public's view of nuclear energy contrasts sharply with the view of scientists.

In a recent survey, scientists most closely associated with nuclear energy were the most confident of its safety. Unfortunately, regulators more often respond to public perceptions than scientific realities.

Efforts to provide reassurance to the public through regulation have proved costly in both time and money.

The industry must find a way to provide accurate information about nuclear energy. It is safe and efficient and that must be understood. Nuclear energy must be a part of our industry's future if we are to meet our customers' electric energy needs.

We are indeed facing challenges in the years ahead. But we have confidence in the Company and in the economic vitality of our service area. When recovery comes, our factories and businesses will participate. New industries in the service segment—particularly in the medical field—and in high technology are growing here.

The political leaders in our city and in our state are dedicated to making this area a good place to do business. Through such organizations as the Great Lakes Economic Policies Council, business and government are working to bring economic progress to the entire Great Lakes region.

The history of this Company has been one of change and challenge. It has also been one of considerable accomplishment. As we resolve the challenges of 1983 and beyond, we are confident that we will again provide history with a new record of achievements.

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, 1983

Perspective

In serving the electrical energy needs of Northeastern Ohio, The Cleveland Electric Illuminating Company assumes basic responsibilities to its investors, customers, employees and the communities it serves and in which its employees live and work. These constituencies look to the Company for performance, reliability and leadership.

This Annual Report is an accounting of our stewardship in 1982 as measured in three broad areas: financial performance, product reliability and service and community involvement.

Financial Performance

Sound financial management and recovery of a fair profit are the standards by which we are measured by our investors, potential investors, the rating

Our Avon Lake Plant (background) and downtown Cleveland (foreground), some 20 miles apart, are brought together in a summer sunset by a 1,000 mm telephoto lens. The photo was taken by Reverend E. M. Carreira, S. J. of John Carroll University.

agencies and those from whom we borrow.

In 1982, we substantially improved our financial position. Our record earnings for the year supported two increases in our quarterly dividend rate. Our return on common equity increased. Our level of short-term borrowing was significantly reduced.

External financing reached a peak in 1982 when we raised $434 million. This amount included the sales of nine million common shares. We expect about half of our future cash needs to be generated internally, thus significantly reducing our reliance on external financing.

As in the past, we will continue to request rate increases as needed to provide quality electric service to Northeastern Ohio and to assure our share owners a fair return. With inflation abating and cost pressures moderating, we are hopeful that future rate requests will be smaller and less frequent than in the recent past.

Product Reliability and Service

Our record of product reliability and service is the standard by which we are judged by our customers. They depend on us to provide a constant, instant supply of electric power for their homes, offices and factories.

In 1982, service reliability was nearly perfect. Interruptions were held to a low level and restoration of service was achieved more quickly than during the previous year.

We also improved the availability and efficiency of our generating plants through an extensive Plant Availability and Efficiency Improvement Program. A skilled team of engineers and operations specialists was formed to study our power supply system. Recommendations from the team to upgrade the system through specific maintenance and capital improvement projects resulted in reduced fuel costs. These cost savings ultimately are passed along to our customers.

We provide electricity to an area of 1,700 square miles. This service area contains approximately 1.9 million people, about 650,000 households and thousands of industrial and commercial businesses. The electric energy needs of the people and industries in Northeastern Ohio are growing and, in fact, are expected to increase by nearly 45 percent by the end of the century. We are committed to meeting our customers' needs by insuring that we have the capacity required to provide electricity at the lowest possible cost.

Community Involvement

The economic and social vitality of our service area affects the success of our business and the well-being of our employees and their families. Thus, the third measure of our stewardship is our contribution to the communities to which we provide electric energy.

One of the ways we meet this responsibility is through our area development efforts. Our programs are designed to retain and expand existing businesses and to attract new ones by promoting the advantages of Northeastern Ohio.

Through participation in the Great Lakes Economic Policies Council, our development efforts have now been expanded to include the Great Lakes region.

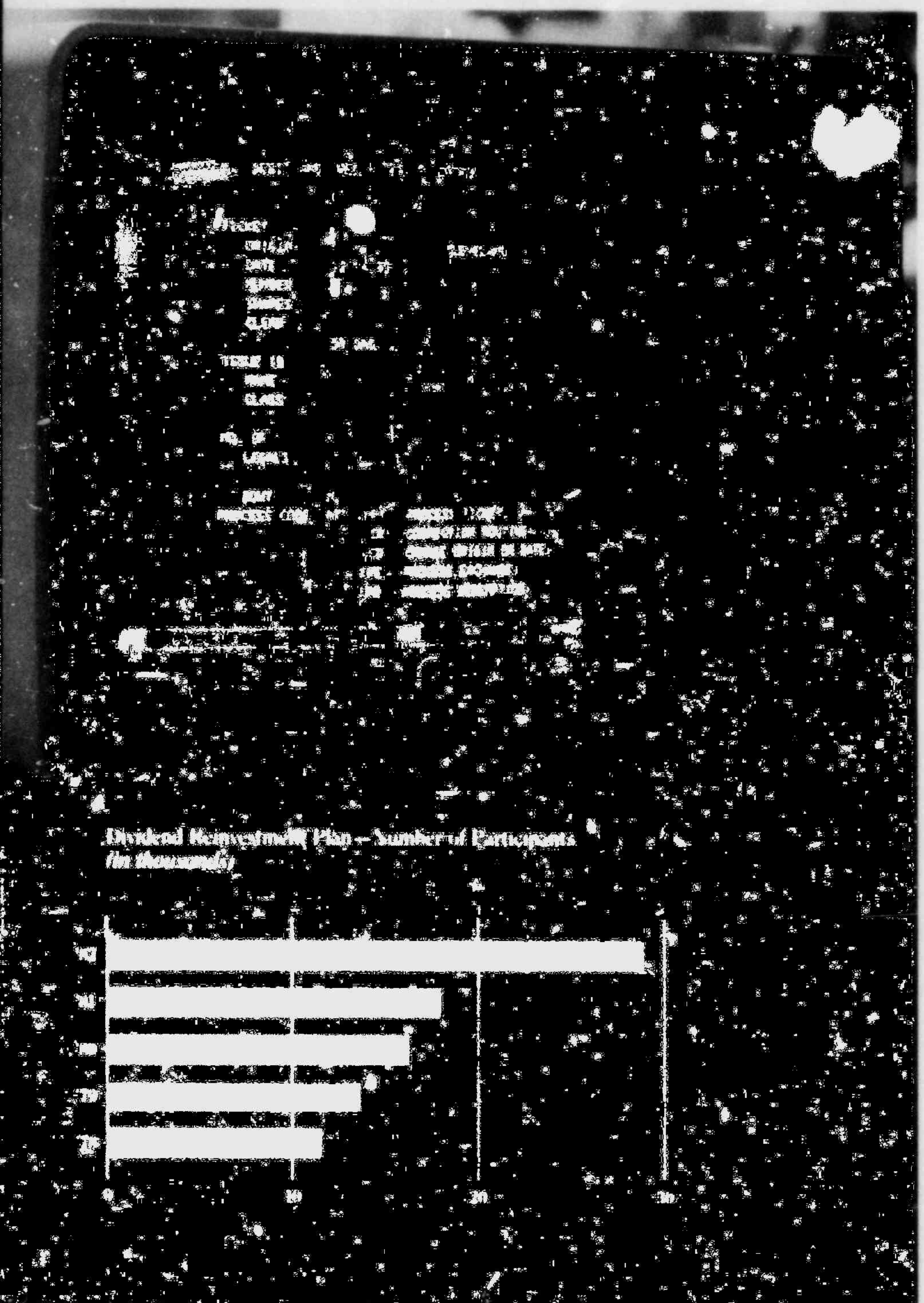
Our contributions to the communities we serve include efforts to improve the social as well as the economic vitality of our service area. We are concerned with the effect our operations have on the quality of air and water, and we have worked hard to comply with environmental regulations. We are the largest property taxpayer in most of the communities we serve. We are financial supporters of health and social agencies, education, the arts and sciences in Northeastern Ohio.

There are over 5,000 men and women in The Cleveland Electric Illuminating Company family— people who work and live here in Northeastern Ohio. They are a strong resource to their communities. They, too, want a better quality of life for themselves and their families, their friends and neighbors and their fellow citizens.

Corporately and individually, the Company and its people are helping make their communities better places to work...better places to live and raise families...better places for personal development and enjoyment.

We believe that again in 1982 we have passed the three tests of our stewardship: good financial performance, excellent product reliability and service and dedicated community involvement. The rest of this Annual Report supports that belief.

Financial Performance in 1982



A new on-line computerized share owner record system was implemented in 1982 to provide better and faster service to our investors. Debbie Sasala, Stock Transfer Clerk, is reflected in the screen.

We are firmly committed to our share owners and have shown that we are good stewards of their investment. Our first priority to our investors is to provide them with a fair return on their investment. Maintaining investor confidence in the Company is a critical concern as we look to present and future investors to provide us with needed capital in the years ahead.

Financial Objectives

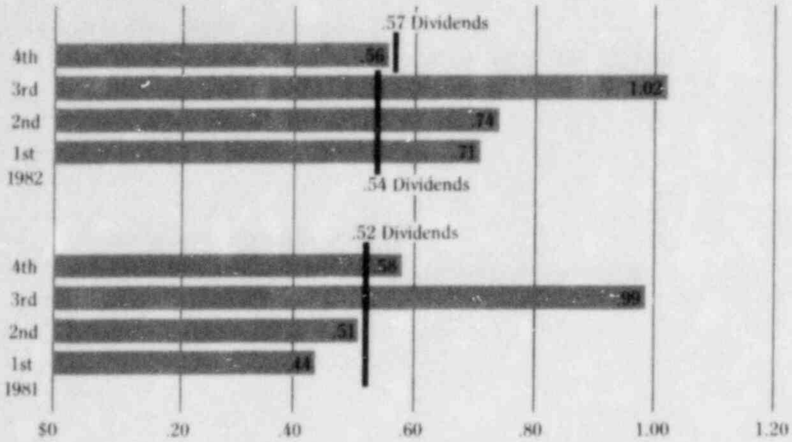
To guide us in meeting our obligation to investors, we have established specific long-range financial objectives: (1) to provide a fair return to our share owners; (2) to maintain earnings growth which will support dividends large enough to attract investors to our common stock; (3) to improve our credit ratings so that our securities can be sold in the future at reasonable costs; and (4) to maintain a balanced capital structure of 40 to 42 percent common equity, a maximum of 48 percent debt and 10 to 12 percent preferred and preference stock.

In 1982, we made progress in meeting these objectives. We achieved record earnings for a calendar year of \$3.01 per share, up 19 percent from 1981. We increased our dividend rate twice during the year; dividends per share increased 5.3 percent over 1981. In January, the quarterly rate was raised to 54 cents from 52 cents, and then in September it was raised to 57 cents. This action provided dividend growth more consistent with that of the electric utility industry.

During the year, we significantly reduced the level of our short-term debt from a daily average of \$139 million in 1981 to a \$61 million daily average in 1982.

We took a conservative approach in our financing by lengthening the average maturity of our long-term debt by three years. Average maturity was 19½ years at year end 1982 compared to 16½ years at year end 1981. We also

Quarterly Earnings and Dividends Per Share of Common Stock *(dollars)*



improved our ratio of earnings to fixed charges to 3.0 times in 1982 from 2.4 times in 1981. At year end, our capital structure consisted of approximately 47 percent debt, 13 percent preferred and preference stock and 40 percent common equity.

Financings in 1982

Equity and debt financing activity totaled $434 million in 1982. Through two public offerings of common stock, totaling nine million shares, we raised $150.4 million. We also raised $171.9 million through the public sale of 30-year first mortgage bonds in March and November. In addition, through the Ohio Air Quality Development Authority, we raised $76.7 million of 30-year tax-exempt bonds to refinance tax-exempt pollution control revenue bonds which mature in April 1983. We issued 30-year first mortgage bonds as collateral security for the Authority's bonds.

In November 1982, we agreed to sell notes, periodically and in varying amounts, to a major financial institution for inclusion in its publicly-offered bond funds. We issued $60 million of 30-year first mortgage bonds as collateral security for these notes. Under the agreement, we can sell $60 million of the notes by November 1984.

This new agreement replaces a similar one which expired in April 1982. The advantage of this financing program is its flexibility. We can average our interest costs over a period of time or decline to sell notes when interest rates are extremely high. Last year, we raised $6.1 million in this manner.

Through our Dividend Reinvestment Plan, in 1982 we raised $17 million from reinvested dividends, up 79 percent from 1981, and an additional $6.4 million in optional cash contributions, up 42 percent from 1981. Participation in the Plan increased 60 percent in 1982 from the previous year, mainly due to incentives provided by The Economic Recovery Tax Act of 1981.

The Act provides a means for share owners to shelter all or a significant portion of dividends reinvested in our common stock.

The balance of funds obtained in 1982, approximately $5.3 million, was raised through employee stock plans.

External financing activity will be lower in 1983 than in prior years. Our financing plans include the sale of $100 million of first mortgage bonds in the first half of the year and additional sales of notes to the bond funds during the year. Capital will also be raised through our employee stock purchase plans and the Dividend Reinvestment Plan. Finally, we are considering an additional preferred stock sale and we may borrow funds to finance construction of additional pollution control facilities.

For the first time since 1974, the Company does not expect to make a public common stock offering, largely because of the high level of share owner participation in our Dividend Reinvestment Plan.

Rates

The rates our customers pay for the services we provide are an ongoing and critical concern of the Company. Our rates must cover our costs and provide a fair return on our share owners' investment. Yet, we are mindful of the impact of our rates on household budgets and the operations of area businesses.

The Company operates, as do all investor-owned electric utilities, under government regulation. When increased costs force us to seek a higher price for our products, we must request rate increases. In 1982, we received rate increases in three segments of our business—retail electric, steam and wholesale electric.

Effective March 19, 1982, The Public Utilities Commission of Ohio (PUCO) granted the Company a 10 percent, $107.8 million retail electric rate increase. This order, and the one discussed below, dealt with the recovery through rates as an operating expense of the costs of four nuclear unit projects terminated in 1980. This matter is explained in detail in Note E of "Notes to Consolidated Financial Statements."

An additional electric rate increase of $89.4 million, or 7.4 percent, went into effect on January 7, 1983. Some $58 million of the increase allows for earnings on part of the construction costs of Unit #1 of the Perry Nuclear Power Plant. For the first time since construction began in 1974, customers will be contributing toward the costs of the Unit.

The Company also sells steam for heating and cooling to more than 300 commercial customers in downtown Cleveland. While our steam business is relatively small, steam sales totaled more than $17 million in 1982. In October, the PUCO granted us a $2.4 million, or 12 percent, increase in steam rates.

Early in 1983, the Company signaled its continuing commitment to this segment of its business by announcing a $1.5 million capital improvement program which will reduce operating costs. To meet competition from alternate fuels, the Company also offered a rate reduction to those customers who make a long-term commitment to receive steam service.

Wholesale rates for electricity we sell to other utilities are set by the Federal

The cooling tower of Perry Unit #1 stands completed in the background as the Perry Unit #2 cooling tower is built. The two 1,205-megawatt nuclear units, of which the Company owns 31 percent, will help the Company keep pace with future energy needs.

Energy Regulatory Commission (FERC). In July 1981, we filed a request for a \$2.3 million rate increase covering sales to the City of Cleveland's municipal electric system. Although the request is still pending with the FERC, we began collecting under the new rates in September 1981, subject to refund depending on the final FERC order. In November 1982, we filed for an additional wholesale rate increase of \$716,000, which is also pending. We will be allowed to begin collecting under these new rates in June 1983, again subject to refund depending upon the final decision.

Regulatory Climate

Regulation of Ohio's public utilities underwent considerable legislative change, although Ohio voters rejected a proposal for direct election of PUCO members by a margin of two to one. Under the new regulatory law, which went into effect in January 1983, the membership of the PUCO was increased to five members from three and terms were reduced to five years from six. The Governor is now required to fill PUCO vacancies from a list of candidates submitted by a 12-member panel which makes selections based on specific education and experience qualifications. In addition, the new law disallows use of the "matching test year", which based rates on current costs rather than historical costs and thereby recognized the effects of inflation on our financial results. A further provision of the new legislation prohibits a utility from seeking a rate increase if it already has a rate case pending before the PUCO.

There are indications that Ohio's regulatory climate may become even more difficult for utilities. Any unfavorable shift would affect the financial health of the utilities on which business is depending to meet its future energy needs. Ohio's economy depends on the vitality of its businesses. But, economic growth will not be possible without an adequate supply of energy.

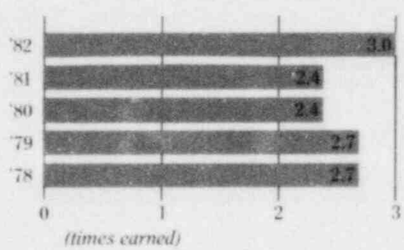
Coverage Ratios

Coverage ratios are financial measurements of a company's ability to pay interest charges. The higher the ratio of income to interest charges, the better the company's margin of safety in paying interest. This measurement is similar to the comparison of income to payments which is used by banks when approving mortgage loans for individuals. The coverage ratio is one of the key indicators used by Moody's Investors Service, Standard & Poor's and other credit rating agencies.

Comparing coverage ratios for different time periods helps indicate whether a company's financial situation is improving, weakening or staying the same. In addition, coverage ratio comparisons of companies within a specific industry are one measure of relative financial strength.

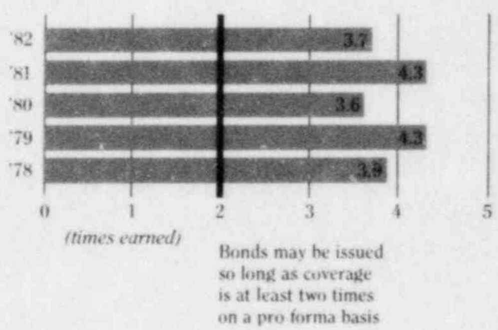
There are a number of ways to calculate coverage ratios. One of the more commonly used calculations is Earnings Before Interest Charges **plus** *Federal Income Taxes* **plus** *the Allowance for Borrowed Funds Used During Construction* **divided by** *Interest on Short and Long-Term Debt. The Company's coverage ratios for the last five years based on this calculation are shown in the chart below.*

Interest Charges Coverage Ratio



Another type of coverage ratio which is important to the Company but is not used by the credit rating agencies is the first mortgage bond interest coverage ratio. This ratio is one of two tests which must be met before the Company may issue additional first mortgage bonds under its Mortgage. This test requires that the Company's earnings, as defined in the Mortgage, must be at least twice the amount of first mortgage bond interest charges. This calculation is less restrictive than the one used by credit rating agencies principally because only first mortgage bond interest is considered and, therefore, results in a higher ratio. The chart below shows that the Company's coverage ratios for the last five years have been substantially above the two times requirement. The high ratios mean that the Company has the capability to issue a large amount of first mortgage bonds—our lowest cost security. This flexibility, which not all utilities have, is vital to continue financing expansion at the lowest cost.

First Mortgage Bond Interest Coverage Ratio



Product Reliability and Service

Workers at one of our substations repair a 345KV power circuit breaker. Repair, maintenance and upgrading of our transmission and distribution system are year-round tasks and key factors in our record of providing reliable and safe electric service.

Our responsibility to the people of our service area is to provide them with continuous service at the lowest possible cost. How well we are meeting this objective is measured largely by our records of service reliability and equipment availability and efficiency.

Service Reliability

To our customers, our reliability record—that is, how well we supply adequate energy on demand—is of primary importance. In 1982, as in prior years, we had a nearly perfect reliability record, 99.98 percent. This is typical of investor-owned utilities in the United States where we have the best reliability in the world.

Our favorable record is partly the result of programs to maintain and improve system reliability. Most potential problems at our transmission and distribution facilities are discovered and remedied without service interruptions because of our preventive maintenance program. This program includes many manhours spent in visual inspection and electrical testing.

The improvements resulting from maintenance programs, aided by less severe weather conditions, enabled us to hold the number of customer outages to a low level. The average restoration times for those customers who experienced service interruptions was reduced to about 57 minutes per outage, well below the 67-minute average of 1981.

Plant Availability and Efficiency

Overall, both availability and efficiency of our fossil fuel units improved during 1982. Availability, the percentage of time units are available to provide electricity, increased to 77 percent, up from 75 percent in 1981. Efficiency, measured by our ability to generate more electricity with less fuel, also improved, resulting in savings of $3 million in fuel expenses in 1982 from the previous year.

A boiler—11 stories tall—at our Avon Lake Plant is undergoing its semiannual inspection and maintenance. The plant maintenance mechanics on the scaffolding are replacing water tube sections previously removed for laboratory testing.

Our maintenance planning and scheduling program is one of the factors responsible for our improved availability and efficiency record. By programming pertinent data into our computers, we are better able to schedule and manage equipment maintenance at regular intervals. The Company's ongoing program to modernize existing plants through capital improvements is another factor affecting our record of availability and efficiency.

The prolonged outage of the Davis-Besse Nuclear Power Station during 1982 for refueling and maintenance meant that our coal-fired generating units were in greater use. Our maintenance and modernization programs assured that our most efficient fossil-fueled units would be available when needed.

Although Davis-Besse experienced a lengthy shutdown last summer, its operating statistics since returning to service in September show the Station's potential as one of the best in our system. During the last quarter of the year, Davis-Besse averaged 97 percent availability, with an average capacity factor of 91 percent. The capacity factor measures actual output against maximum possible output.

Davis-Besse's electricity is the lowest cost energy available to our system. Its fuel cost is about 0.5 cents per kilowatthour compared with 1.8 cents for our lowest cost coal units.

Expenditures for Plant and Equipment

During 1982, capital expenditures for our power plants and equipment totaled $422 million.

The largest outlay in 1982 was $276 million for new construction at two nuclear power plants—Perry, of which we own approximately 31 percent, and Beaver Valley Unit #2, of which we own approximately 25 percent. Beaver Valley is being built by Duquesne Light Company.

Some $48 million was spent on improvements at the Davis-Besse and Bruce Mansfield Plants and for additional facilities at the Beaver Valley site.

An investment of some $61 million was made to upgrade our transmission and distribution facilities.

We spent $9 million to upgrade our coal-fired generating units, several of which are more than 30 years old. Additional environmental equipment required to meet State and Federal water and air standards was installed at a cost of $21 million.

An expenditure of $7 million was made for trucks and work equipment, data processing equipment and other items for day-to-day operations, all necessary to maintain the reliable, economical service our customers expect and deserve from us.

In 1983, our capital expenditures are expected to total some $500 million. The largest allocations in the budget are for Perry and Beaver Valley construction. Other items are for additional improvement of our existing coal-fired units and for transmission and distribution facilities.

Growth Forecasts

The need for current construction and planning for new generation is predicated on our growth forecasts for Northeastern Ohio over the next 10 to 20 years. By the year 2000, our residential, commercial and industrial customers will require nearly 45 percent more electric energy than they are presently using, a compound growth rate of a manageable two percent a year. Clearly, that increased need, coupled with the need to replace aging units, will require additional generating capacity.

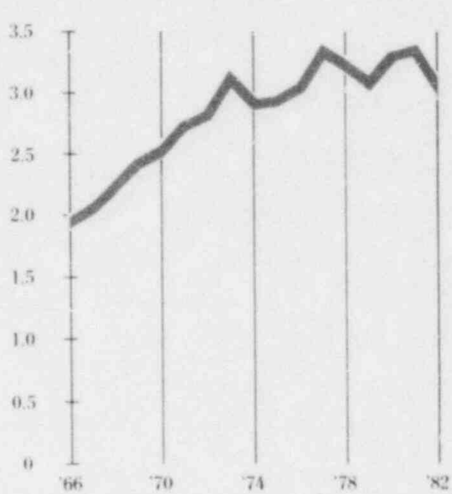
Peak Demand and Capacity

System peak demand occurs in our service area most often during the summer months when electricity demand is pushed higher by heavy air conditioner usage. The peak represents the maximum requirement for electricity by our customers for any one-hour period in a given year.

In 1966, our peak was 1,947 megawatts. Over the following 15 years, it grew 73 percent to the record 3,362 megawatts set in 1981. However, the 1982 peak of 3,078 megawatts, which occurred on July 16, fell short of the 1981 record primarily because of the sharp decline in industrial activity during the year.

Obviously, capacity planning cannot be based on peak demand for any single year. As the economy recovers from the current recession, peak demand will resume its growth. The Company must have adequate capacity to meet the future demands of its service area. Our construction program is designed to phase in new generating facilities at planned intervals to meet that demand.

Peak Demand
(millions of kilowatts)

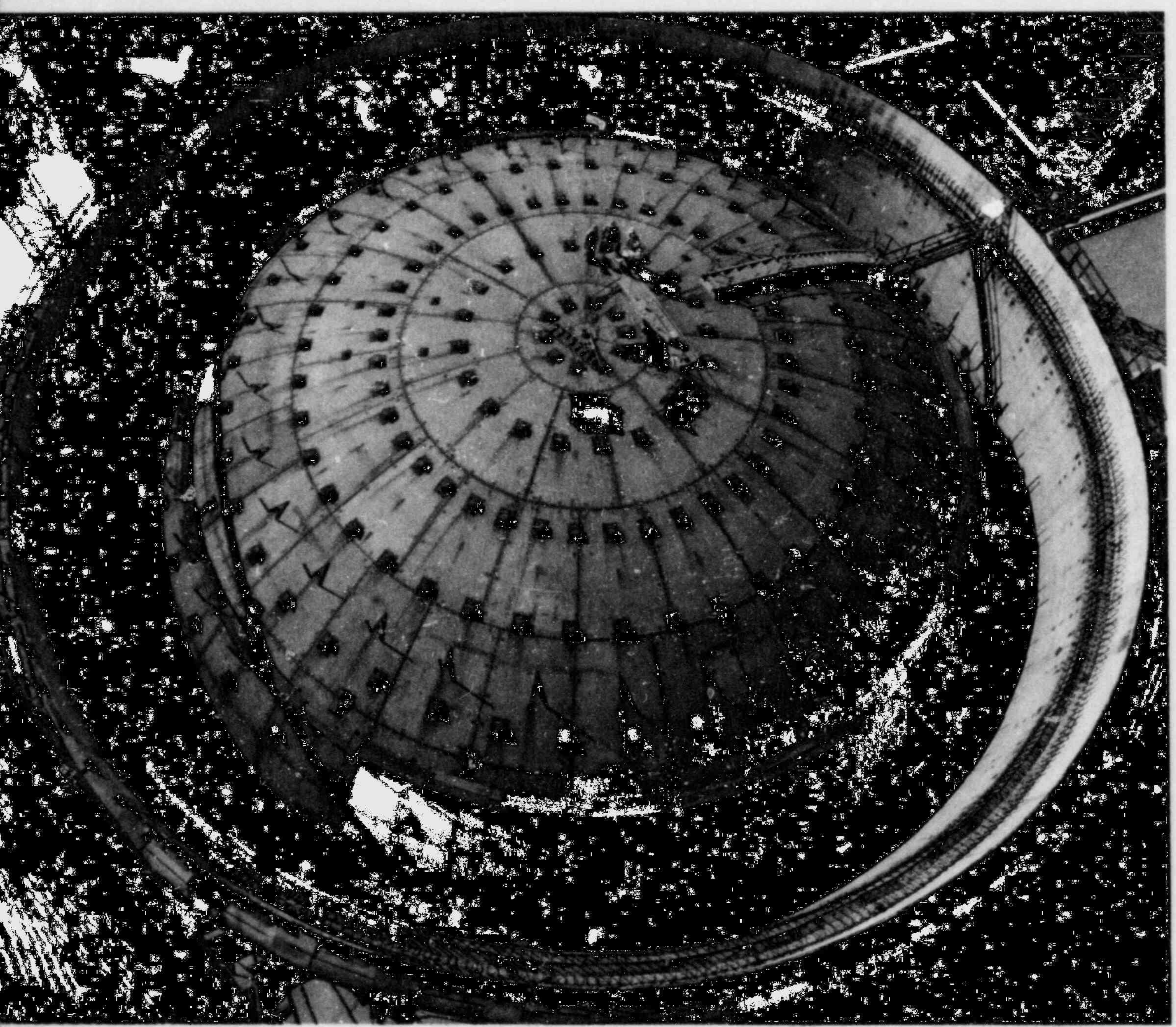


Jack Schultz, owner of Springbrook Gardens Nursery in Mentor, inspects his plants which are thriving in the ideal greenhouse environment provided by his newly installed electric geothermal heat pump. Mr. Schultz says that the heat pump has increased productivity at a very reasonable cost of operation.

Present Construction

The two 1,205-megawatt nuclear units under construction at Perry will help us to keep pace with those projected needs. The Perry Plant, the largest construction job currently in Ohio with over 4,000 workers on site, is progressing satisfactorily. The efforts of our own Perry staff and the Nuclear Regulatory Commission (NRC) have been directed toward ensuring that all construction is being done properly.

Perry Unit #1 passed a licensing milestone in 1982. In July, the Advisory Committee on Reactor Safeguards, which provides independent evaluations of nuclear plant safety to the NRC, recommended a 100 percent power license for Perry Unit #1. This recommendation is an important intermediate step toward full licensing. We believe the Committee's action is indicative of the overall quality of the Perry Plant inasmuch as the Committee's first recommendation often is for only a five percent, low-power startup. The next step in the licensing process is a series of public hearings before the Atomic Safety and Licensing Board, which are scheduled to begin in May 1983.



The containment dome atop Perry Unit #2 was positioned in August 1982. The dome, weighing 580 tons, is 30 feet high and 120 feet in diameter.

Future Construction

Because of the 10 to 15-year lead times required to build a new unit, planning for the additional generating capacity which will be needed in the 1990s must be done now. The Company is investigating various new technologies to find the most efficient, cost-effective approach to supplying the power needs of the future consistent with the needs of the environment.

We are studying three methods which would reduce sulfur emissions from coal-burning plants: fluidized bed combustion which introduces limestone into the coal-burning process; a gasifier system which converts coal to gas for use as a fuel; and flue-gas scrubbers which remove substantially all of the sulfur dioxide from stack emissions. Successful application of these methods would allow the Company to burn more of the lower-cost, high-sulfur coal mined in Ohio.

A fourth technology under investigation is a compressed air storage system in which air would be pumped and compressed in underground caverns. Such a system would allow us to build a less costly unit to be used for peaking capacity.

These alternatives will be given equal consideration until one emerges as a clear choice. We believe it is vital to explore all of the options offered by new technologies to provide the most cost-effective means of generating electricity. While this approach increases planning costs, it will provide eventual savings in the tens or hundreds of millions of dollars.

The Company continuously investigates the potential application of new technology to all aspects of its operations. One way in which we carry on our research is through active participation by a number of Company specialists in the industry advisory structure of the Electric Power Research Institute. You may read more about this activity in the story below.

CEI, EPRI and R&D

The Electric Power Research Institute (EPRI) was organized in 1972 to coordinate and intensify the research and development efforts of the Electric Research Council and the Edison Electric Institute.

The industry has many R&D goals in common involving conventional fossil and nuclear power plants, alternate and advanced energy sources such as solar and fusion, power transmission, energy resources and protection of the environment. Thus, a central R&D organization has proved to be economical and productive.

To assure that EPRI investments are keyed to industry needs, the EPRI program is guided by industry advisory committees and task forces composed of senior representatives from member utilities. Our Company currently has 10 senior technical experts serving in advisory roles.

EPRI's funding comes from nearly 600 utilities across the country, representing about 70 percent of the nation's electric energy service. Our Company's contribution to EPRI's total 1982 budget of $302 million was about $3.3 million, which makes possible the Company's participation in research involving nuclear reactor components, reactor water chemistry and fluidized bed combustion, among others.

EPRI identifies specific industry R&D projects and then assigns many of the projects, along with funding, to universities and independent research laboratories or corporations. EPRI's technical staff, which has 144 PhDs among its more than 200 members, oversees, coordinates and reports extensively and regularly on the progress of each project.

Since 1972, more than 1,700 research projects have been initiated which resulted in a comparable number of published reports. There are currently about 1,400 active projects under EPRI management. The EPRI funding commitment for these projects from 1982 through 1986 totals $2.6 billion, including co-funding and cost sharing by over 490 contractors and other organizations. In 1983, EPRI's total budget will reach $326 million, up about eight percent from 1982.

Benefits of EPRI research are seen throughout the industry in the form of commercial devices, design specifications, controls, testing devices, data and operating procedures. Forty-one commercial products and services resulting from EPRI research are now available to the utility industry. Many more will be available in the next two years. In addition, such specialized services as the Coal Cleaning Test Facility and the Electric Power Data Base have resulted from the organization's research.

Responsibilities to Communities

Judy Gaumer, word processor at the Perry Nuclear Power Plant, has been a volunteer worker with retarded children and adults for more than 12 years. She is shown teaching an adult Sunday School class. Ms. Gaumer works closely with retarded children at the Happy Hearts School and with retarded adults at the Ash/Craft Industries Workshop.

The Company's success and the well-being of its employees and their families is dependent on the economic and social vitality of Northeastern Ohio. Thus, our commitment to the area goes beyond providing dependable electric service and touches the lives of the 1.9 million people of the area in myriad other ways.

For the more than 100 years of its existence, the Company has invested time, talent and money in environmental projects, area economic development, health and social services, higher education, the arts and culture and other activities which have helped improve the quality of life in Northeastern Ohio.

Our sizeable investment in land, plants and equipment has made us the largest property taxpayer in most of the communities we serve.

Community/Area Development

During the period following World War II, the Company initiated an extensive area development program. The campaign soon was adopted as a pattern for other major industrial areas. Our industrial development campaign slogan "Best Location in the Nation" became known worldwide.

While the Company fostered growth from expansion within, the need also was seen to expand the base by attracting new companies to the area. The result has been new business, new jobs and a larger, stronger and more diversified economic base to benefit the Company and those who work and reside here.

The benefits continue. Seventeen of the nation's largest 500 firms are headquartered in the Greater Cleveland area. These companies require the services of a wide range of other businesses and professions, and they, in turn, grow, prosper and create still others. Today, the technology and service industries are becoming an important part of the area's economy.

Signs of vitality are clear in downtown Cleveland, which is alive with new office building construction for such firms as Standard Oil Company of Ohio, Eaton Corporation, Medical Mutual and Ohio Bell. TRW, Inc. is building a new headquarters in a Cleveland suburb. The Cleveland Clinic, premier medical facility and largest employer in the City of Cleveland, is beginning a $200 million expansion. By the mid-1980s, the Clinic's present employment of 7,000 is expected to increase to some 10,000.

Community and area development work was, and is, an important effort of the Company. To help sell all prospective employers on the advantages of our area, the Company's activities are closely coordinated with those of the Greater Cleveland Growth Association, the Cleveland Tomorrow committee and other development groups. These efforts have now been expanded to encompass the Great Lakes region. We joined with other members of Cleveland's private sector to lead the formation of the Great Lakes Economic Policies Council. This

Voices of Reason: Our Speakers Bureau, Films, Ads and Executives Are Communicating

In 1983, the Company's employee-staffed Speakers Bureau will celebrate its 30th anniversary. While it is impossible to know how many people have been reached by the Bureau in all those years, we do know that in 1982 its 52 members gave almost 400 presentations to groups ranging in size from 25 to 300, a total audience of about 12,000 people.

In addition, the Company received 1,200 requests for movies from our film library, which were viewed by an additional 29,000 persons.

In May, we held a series of meetings with share owners in our service area. As an adjunct to the regular annual meeting, Company executives took the annual meeting message to six additional locations, increasing the number of share owners we reached by about 1,400.

When the total communications effort by the Company is taken into account, the audience includes just about every man, woman and child in Northeastern Ohio. Our mass communications program—newspapers, television and radio—reached into every home many times during the year. Our executives appeared on television and radio programs throughout 1982. We also answered more than 800,000 customer inquiries through telephone calls and office visits. A computerized bill printing system installed last year permits inclusion of brief messages, enabling us to reach all of our 642,000 residential customers each month.

The men and women of The Cleveland Electric Illuminating Company are taking the Company's message directly to the people they serve. We are a dedicated team whose only business purpose is to provide electric service to the homes, factories and businesses of Northeastern Ohio—at the lowest possible cost.

organization of representatives from the major industrial cities on the Great Lakes is working with public sector leaders to promote economic progress throughout the region.

One of the area's greatest advantages is abundant fresh water, a precious resource that is becoming scarce in other parts of the country. Northeastern Ohio, with its 100-mile Lake Erie shoreline, has access to 20 percent of the world's supply. In fact, the Great Lakes region has the largest supply of fresh water in the world.

In this time of economic uncertainty, we recognize that many of our customer prospects are engaged in coping with the immediate problems of the recession. However, we are sowing seeds for the future. The promotion of our area's advantages—its central location to key markets, dependable energy supplies, abundant supplies of fresh water and a skilled labor force, among others—will yield results as it has in the past.

Our efforts to foster economic growth in our service area extend to our own purchasing. To the extent possible, we buy equipment and other supplies from our customers. For example, in 1982, we ordered almost 150 replacement passenger cars and light trucks—vehicles made by American workers, including Clevelanders. Our purchasing policy affects a wide variety of local businesses including machine shops, combustion control manufacturers, safety glasses suppliers, construction and maintenance contractors and countless others.

Financial Support

Beyond the economic contribution made by our business activities, the Company has long recognized a responsibility to provide direct financial support to health and social services, education, the arts and cultural activities. Each dollar contributed is intended in some way to improve the quality of life in Northeastern Ohio. These activities have become even more important considering the reductions made in Federal spending for social and civic projects. Thus, we continue to make donations even though the Company has been denied recovery through rates of its charitable contributions.

The Company's donations are made largely through The Cleveland Electric Illuminating Foundation. The Foundation was established over 20 years ago when management recognized the need, during more profitable years, to invest contributions for future use. In this way, the Foundation enables the Company to maintain a consistent level of giving in both good and lean years. Its contributions place us among the leaders of Ohio electric utilities in total giving.

Employee Involvement

We are particularly proud of the degree to which our employees contribute to the well-being of their communities. For example, our employees' United Way giving in 1982 amounted to over $1 million which was augmented by an additional $300,000 from the Company Foundation.

Financial contributions are only one part of the community involvement of our employees. The Company consistently seeks to hire people who display leadership ability. That we have been successful in this effort is evidenced by the number of our employees who truly give of themselves as they provide volunteer leadership to community projects and governmental bodies.

For example:

- a service engineer holds free tax seminars for senior citizens and church groups

Gail Twymon, Engineering Aide, is one of the 12-member New Heavenly Wonders. This highly regarded gospel music group performs in churches of all denominations, homes for the elderly and prisons in the Cleveland area. Each year the group tours the South and has standing invitations for annual appearances in New York City, Atlanta and Chicago.

- a billing clerk works with young black women, involving them in community social service projects
- a Tele-Communications Unit supervisor and a Company telephone operator are hospital volunteers
- an electric service installer was selected "Man of the Year" by the Optimists Club for his work in scouting
- a Personnel clerk volunteers for the American Heart Association
- a word processor at the Perry Plant teaches mentally retarded children
- more than 30 employees serve as volunteer firemen
- the number of scout leaders, Little League coaches, service club officers and church and social agency workers runs well into the hundreds
- in the area of community development, Company employees are serving with organizations such as the Ashtabula County Citizens Committee and the City of Rocky River Design and Construction Board
- professional group members total more than 500 in organizations as diverse as the American Institute of Architects and the Purchasing Management Association

This sampling indicates the diversity of interest and depth of commitment of our employee volunteers. We are proud that they give to these activities the same dedication they give to their jobs.

Our responsibility to the communities we serve goes beyond meeting the energy needs of the area. The Company and its employees are investing their time, talent and money to contribute to the social and economic needs of Northeastern Ohio and its people.

Cliff Bissell, Senior Community Development Representative (left), reviews a report by the Western Reserve Consortium with Paul A. Reichert, Dean of Kent State University's Ashtabula campus. Mr. Bissell was an organizer and first president of the Consortium, a group of six major educational institutions formed to train people to meet the needs of existing and new industries in the eastern part of our service area.

Financial Contents

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

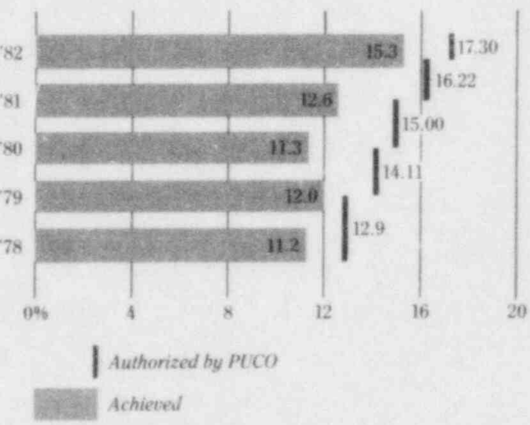
Capital Resources and Liquidity

Our capital requirements stem from our ongoing program of constructing facilities needed to meet anticipated demand for electric service, to replace worn-out facilities and to comply with pollution control regulations. Over the years 1980-1982, we spent approximately $1.2 billion on the construction program. This amount included an allowance for funds used during construction (AFUDC) which is explained in Note A of "Notes to Consolidated Financial Statements." At December 31, 1982, our purchase commitments totaled $447,000,000, of which $236,000,000 principally related to the construction program with the balance applicable to the cost of acquiring nuclear material and processing it into fuel.

After paying our expenses, taxes, interest and dividends, our business currently does not generate all of the funds needed for our construction program. Therefore, we must supplement our internally generated funds with additional money raised from investors. In the past 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 stocks, and from bank borrowings. The cost of these funds has been high and the common stock was sold at various 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. Construction program expenditures over the next several years are expected to be funded about equally from internal and external sources.

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 investors the return on investment they demand in the form of interest, dividends and increased net worth. We have vigorously sought rate increases over the last three years. As a result, The Public Utilities Commission of Ohio (PUCO) granted us the following rate increases in the last three years—9.0% (1980), 17% (1981) and 10% (1982). In addition, the PUCO granted us a 7.4% electric rate increase effective January 7, 1983. We also secured various increases in steam, wholesale power and street lighting rates in the three-year period. These rate increases, coupled with effective cost control and higher AFUDC, 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 those increased costs. Consequently, earnings per share rose in 1981 and 1982, reaching a calendar year record level of $3.01 in 1982. Also, the ratio of earnings to fixed charges rose in 1981 and 1982 (2.3, 2.4 and 3.0 in 1980, 1981 and 1982, respectively).

Rate of Return on Common Equity
Authorized vs. Achieved
(percent)



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 seek fair rate levels in order to maintain as strong a financial position as possible. Without adequate rates it would be impossible to earn a fair return for our common stock share owners in an inflationary economy. Inadequate returns could also 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. We aim to maintain a balanced capital structure of 40-42% common equity, 10-12% preferred and preference stock and a maximum of 48% debt. At year end 1982, our capitalization structure was 40% common equity, 13% preferred and preference stock and 47% debt. Specific financing plans are discussed elsewhere in this Annual Report.

Over the 1983-1987 period, we must refinance $339,320,000 of maturing debt and preferred stock which was outstanding at December 31, 1982. In addition, we are required to offer to purchase $19,400,000 of preferred and preference stock in both 1984 and 1985 and $36,067,000 in both 1986 and 1987. A portion of the 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 average cost of capital.

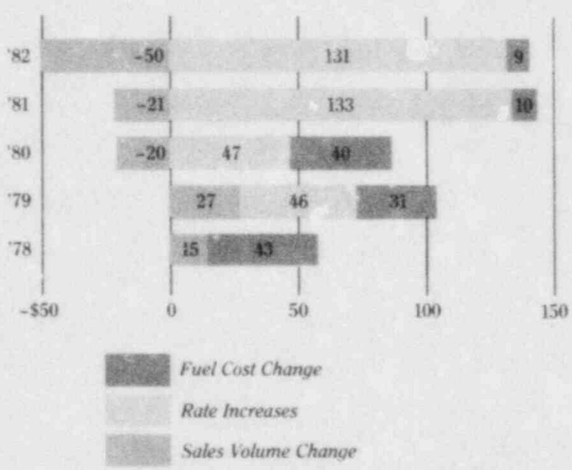
The amount of first mortgage bonds the Company can issue is limited by our Mortgage and Deed of Trust. The amount fluctuates depending upon the remaining amount of bondable property and upon earnings and interest rates. At December 31, 1982, we would have been permitted to issue approximately $694,000,000 of additional first mortgage bonds. 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 short-term arrangements is primarily used to finance temporarily our construction program. We have a total short-term borrowing capability of $200,000,000 in the form of bank lines of credit and revolving loan commitments. In accordance with customary industry practice, part of these lines is 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 its second highest category. Note K of "Notes to Consolidated Financial Statements" gives the details of our credit arrangements.

Results of Operations

The chart below shows the factors which have affected our electric revenues in each of the last five years.

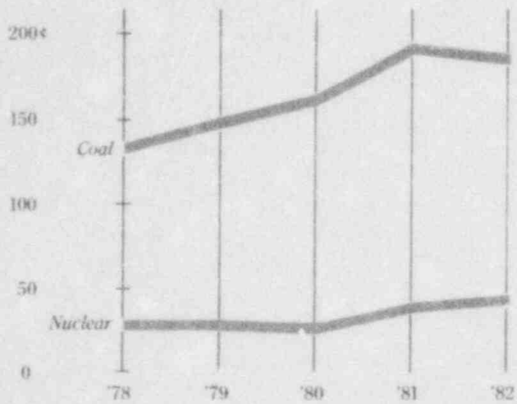
Sources of Electric Revenue Increases
(millions of dollars)



In the last two years, the most significant factor affecting kilowatthour sales was the recession which began in 1980. In 1982, industrial sales declined 14.5%, primarily among our machinery and steel manufacturers. In 1981, industrial sales increased 2.7%. The weak economy as well as milder weather were the major factors affecting sales to commercial customers in 1982 and 1981. As a result, commercial sales increased only 0.4% in 1982 and 0.7% in 1981. Residential sales were down 0.9% in 1982 compared with a 2.0% decline in 1981. The decreases were primarily attributable to milder weather. There also was a slight decline in the number of residential customers in 1982 as new housing starts were depressed. Overall, sales declined 7.7% in 1982 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 1982, purchased power expense was eliminated because of lower kilowatthour sales, improved availability of our plants and power sales to other utilities. In 1981, purchased power expense was sharply reduced from 1980 primarily because of the greater availability of the Davis-Besse Nuclear Power Station.

Fuel Costs
(¢ per million BTU)



Total fuel and purchased power expense declined in 1982 because of the decrease in kilowatthour sales and a slight decline in the unit cost of fuel. This expense also declined in 1981 from 1980 despite sharply higher prices of coal and oil because of lower kilowatthour sales and greater use of low-cost nuclear generation. Nuclear generation accounted for 7%, 13% and 10% of our total electric generation in 1980, 1981 and 1982, respectively.

Other significant items affecting earnings per share in 1982 and 1981 were increased preferred stock dividends and a greater number of outstanding common shares resulting from additional external financing and higher preferred dividend rates. In 1981, interest payments also increased significantly. The impact of the increases in these items was partially offset by related increases in the amount of AFUDC.

For a discussion of how we are affected by inflation, see "Supplementary Information Concerning the Effects of Inflation."

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 amounts to be estimated.

We maintain a system of internal accounting controls. The control procedures are designed to assure that the 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 appointed 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:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, capitalization, retained earnings, and changes in financial position present fairly the financial position of The Cleveland Electric Illuminating Company and its subsidiaries at December 31, 1982 and 1981, 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, 1982, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements 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.

February 4, 1983

Price Waterhouse

Income Statement

The Cleveland Electric Illuminating Company and Subsidiaries

	For the Year Ended December 31, 1982	1981	1980
	(Thousands of Dollars)		
OPERATING REVENUES			
Electric	$1,091,054	$1,000,734	$878,501
Steam	17,517	12,196	15,065
Total Operating Revenues	1,108,571	1,012,930	893,566
OPERATING EXPENSES			
Operation			
Fuel	330,674	322,154	268,096
Purchased power	(1,395)	29,256	91,292
Other	168,802	149,374	128,782
	498,081	500,784	488,170
Maintenance	81,789	74,925	67,058
Depreciation and amortization	86,588	85,294	64,619
Taxes, other than Federal income tax	106,804	91,648	81,630
Federal income tax	106,382	67,575	41,574
Total Operating Expenses	879,644	820,226	743,051
NET OPERATING INCOME	228,927	192,704	150,515
NONOPERATING INCOME			
Allowance for equity funds used during construction	76,896	48,970	40,873
Other income and deductions, net	(2,481)	10,617	7,605
Federal income tax — credit	22,254	16,125	13,962
Total Nonoperating Income	96,669	75,712	62,440
INCOME BEFORE INTEREST CHARGES	325,596	268,416	212,955
INTEREST CHARGES			
Long-term debt	134,250	121,040	95,085
Short-term bank loans, commercial paper and other	9,822	25,672	17,538
Allowance for borrowed funds used during construction	(27,440)	(34,030)	(25,051)
Total Interest Charges	116,632	112,682	87,572
NET INCOME	208,964	155,734	125,383
Dividend requirements on preferred and preference stock	38,295	34,917	27,711
EARNINGS AVAILABLE FOR COMMON STOCK	$ 170,669	$ 120,817	$ 97,672
EARNINGS PER COMMON SHARE	$ 3.01	$ 2.52	$ 2.26
DIVIDENDS DECLARED PER COMMON SHARE	$ 2.19	$ 2.08	$ 2.00

Retained Earnings Statement

	For the Year Ended December 31, 1982	1981	1980
	(Thousands of Dollars)		
BALANCE AT BEGINNING OF YEAR	$ 280,285	$ 258,432	$245,716
ADDITIONS			
Net income	208,964	155,734	125,383
DEDUCTIONS			
Dividends declared			
Preferred stock	33,900	29,762	22,949
Preference stock	4,418	4,417	4,417
Common stock	124,841	99,134	85,296
Costs of issuing equity securities	627	568	5
Total Deductions	163,786	133,881	112,667
BALANCE AT END OF YEAR	$ 325,463	$ 280,285	$258,432

The accompanying notes are an integral part of these financial statements.

Balance Sheet at December 31

The Cleveland Electric Illuminating Company and Subsidiaries

Assets

	1982	1981
	(Thousands of Dollars)	
PROPERTY AND PLANT		
Utility plant		
Electric in service	$2,684,629	$2,585,892
Steam in service	40,172	38,546
	2,724,801	2,624,438
Less accumulated depreciation and amortization	679,890	621,353
	2,044,911	2,003,085
Construction work in progress	1,285,731	986,457
	3,330,642	2,989,542
Nuclear fuel in trust	52,751	—
Other property, less accumulated depreciation	11,465	23,870
	3,394,858	3,013,412
POLLUTION CONTROL CONSTRUCTION FUNDS—unexpended	17,778	36,337
CURRENT ASSETS		
Cash	5,216	6,946
Temporary investments, at cost	54,101	17,750
Amounts due from customers and others, net	101,858	94,407
Materials and supplies, at average cost	28,123	25,640
Fossil fuel inventory, at average cost	75,403	68,773
Taxes applicable to succeeding years	87,130	63,610
Other	1,837	1,786
	353,668	278,912
DEFERRED CHARGES		
Unamortized costs of terminated projects	52,385	49,598
Deferred fuel	5,761	11,642
Other	18,844	16,174
	76,990	77,414
	$3,843,294	$3,406,075

Capitalization and Liabilities

	1982	1981
CAPITALIZATION (See statement of Capitalization)		
Long-term debt	$1,441,822	$1,328,404
Serial preferred stock		
With mandatory redemption provisions	265,000	268,000
Without mandatory redemption provisions	95,071	95,071
Serial preference stock with mandatory redemption provisions	57,000	57,000
Common stock equity	1,227,095	1,002,206
	3,085,988	2,750,681
CURRENT LIABILITIES		
Current portion of long-term debt and preferred stock	71,145	23,145
Notes payable to banks and others	19,100	94,963
Accounts payable	91,128	105,302
Accrued payroll and vacations	15,407	13,353
Federal income taxes	10,149	8,300
Other taxes	110,011	103,631
Interest	31,268	27,491
Other	7,328	5,286
	355,536	381,471
DEFERRED CREDITS		
Unamortized investment tax credits	153,582	102,438
Accumulated deferred Federal income taxes	155,832	134,043
Unamortized tax benefits sold to others	24,226	25,101
Nuclear fuel trust obligations	52,751	—
Other	15,379	12,341
	401,770	273,923
COMMITMENTS AND CONTINGENCIES—See Note L		
	$3,843,294	$3,406,075

The accompanying notes are an integral part of these financial statements.

Capitalization at December 31

The Cleveland Electric Illuminating Company and Subsidiaries

	Annual Dividend Rate	1982 Shares	Mandatory Redemption Price	1982 (Thousands of Dollars)	1981 (Thousands of Dollars)	1982 (Percent of Capitalization)	1981 (Percent of Capitalization)
LONG-TERM DEBT (a)							
First mortgage bonds—maturing through 2013 at rates of 2¾% to 16⅝% (Less $50,000,000 in 1982 and $20,000,000 in 1981 classified as current)				$1,245,191	$1,092,291		
Collateral pledge notes (b)—maturing in 2012 at semiannual equivalent rates of 12.79% to 13.07%				6,100	23,900		
Term bank loans (c)—maturing 1984-1988 at variable rates				134,000	134,000		
Promissory notes—maturing in 1983 at a rate of 14% (classified as current in 1982)				—	20,000		
Pollution control notes—maturing through 2012 at rates of 5.6% to 6.7% (Less $105,000 in 1982 and 1981 classified as current)				57,840	57,945		
Other—net				(1,309)	268		
Total Long-term Debt				1,441,822	1,328,404	47	48
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 A	$7.40	500,000		50,000	50,000		
Series B	$7.56	450,000		45,071	45,071		
				95,071	95,071		
Preferred stock with mandatory redemption provisions less current portion							
Series C	$ 7.35	250,000	$ 100	25,000	25,000		
Series E	$ 88.00	51,000	$1,000	51,000	54,000		
Series F	$ 75.00	50,000	$1,000	50,000	50,000		
Series G	$ 80.00	40,000	$1,000	40,000	40,000		
Series H	$145.00	28,500	$1,000	28,500	28,500		
Series I	$145.00	31,500	$1,000	31,500	31,500		
Series J	$113.50	29,000	$1,000	29,000	29,000		
Series K	$113.50	10,000	$1,000	10,000	10,000		
				265,000	268,000		
Preference stock with mandatory redemption provisions							
Series 1	$77.50	57,000	$1,000	57,000	57,000		
Total Preferred and Preference Stock				417,071	420,071	13	15
COMMON STOCK EQUITY							
Common shares, without par value—85,000,000 authorized; 61,774,582 and 51,054,503 outstanding in 1982 and 1981, respectively				901,632	721,921		
Retained earnings (d)				325,463	280,285		
Total Common Stock Equity				1,227,095	1,002,206	40	37
TOTAL CAPITALIZATION				$3,085,988	$2,750,681	100	100

(a) Long-term debt matures during the next five years as follows: $68,105,000 in 1983 (classified as a current liability on the consolidated Balance Sheet); $82,210,00[illegible] 1984; $70,501,000 in 1985; $57,210,000 in 1986; and $27,210,000 in 1987.

(b) The collateral pledge notes shown as outstanding in 1981 were exchanged for first mortgage bonds in September 1982.

(c) The term loan agreements were amended in 1982 to provide that, at the Company's option, interest payments will be based on either prime, bank certificate of deposit or Eurodollar rates.

(d) As of December 31, 1982 there was no restriction on the right of the Company to pay dividends in any amount up to all the earnings retained in the business.

The accompanying notes are an integral part of these financial statements.

Changes in Financial Position

The Cleveland Electric Illuminating Company and Subsidiaries

	For the Year Ended December 31,		
	1982	1981	1980
	(Thousands of Dollars)		
FINANCIAL RESOURCES PROVIDED			
Net Income	$208,964	$155,734	$125,383
Items not affecting working capital			
Depreciation and amortization	86,622	85,325	64,640
Deferred Federal income tax	72,103	43,931	30,330
Allowance for equity funds used during construction	(76,896)	(48,970)	(40,873)
Other	918	1,910	1,6[illegible]6
Total financial resources provided from operations	291,711	237,930	181,116
Sales of securities			
First mortgage bonds	277,600	82,200	171,591
Preferred stock	—	70,500	28,500
Common stock	179,711	67,622	79,604
Total sales of securities	457,311	220,322	279,695
Term bank loans	—	50,000	—
Promissory notes	—	—	30,000
Collateral pledge notes	6,100	4,800	19,100
Nuclear fuel in trust	52,751	—	—
Sale of tax benefits to others	—	25,199	—
Pollution control funds expended	18,559	57,805	95,255
Deferred fuel costs	5,881	—	—
Increase in short-term debt and other borrowings	—	—	80,431
Working capital decrease (a)	—	14,591	—
Other	126	1,451	—
Total Financial Resources Provided	$832,439	$612,098	$685,597
FINANCIAL RESOURCES USED			
Additions to utility plant	$422,170	$409,277	$398,088
Allowance for equity funds used during construction	(76,896)	(48,970)	(40,873)
	345,274	360,307	357,215
Retirement of first mortgage bonds	94,700	—	31,831
Retirement of preferred stock	3,000	3,000	—
Retirement of promissory notes	—	10,000	—
Retirement of collateral pledge notes	23,900	—	—
Dividends	163,786	133,312	112,662
Pollution control construction funds deposited	—	22,200	123,300
Deferred fuel costs	—	11,642	—
Nuclear fuel trust obligations	52,751	—	—
Decrease in short-term debt and other borrowings	76,200	71,637	—
Working capital increase (a)	72,828	—	51,715
Other	—	—	8,874
Total Financial Resources Used	$832,439	$612,098	$685,597
SUMMARY OF CHANGES IN WORKING CAPITAL (a)			
Temporary investments	$ 36,351	$ 17,750	$ (4,300)
Amounts due from customers and others, net	7,451	(10,477)	26,572
Fossil fuel inventory	6,630	1,306	11,912
Taxes applicable to succeeding years	23,520	5,499	4,351
Accounts payable and accrued payroll and vacations	12,120	(16,108)	9,634
Federal income and other taxes payable	(8,229)	(5,446)	120
Other	(5,015)	(7,115)	3,426
Change in Working Capital (a)	$ 72,828	$ (14,591)	$ 51,715

(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 Policies

We are required to follow the accounting principles or rules set by The Public Utilities Commission of Ohio (PUCO) and the Federal Energy Regulatory Commission (FERC). The principles we follow are also substantially consistent with the requirements of the Financial Accounting Standards Board, as expressed in their Standard No. 71, "Accounting For the Effects of Certain Types of Regulation." 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 in both. One subsidiary is The CEICO Company which owns nonutility land and performs certain nonutility services. The other is the 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 property we own is stated in the financial statements at its cost when it was first devoted to public utility service. The cost of making repairs is deducted from revenues in the income statement as maintenance expense. 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 on the balance sheet (which is labeled Accumulated Depreciation and Amortization).

Depreciation

We report depreciation expense on our income statement as a current cost of doing business to account for the normal using-up of our property. Depreciation is deducted in equal amounts 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.

However, in the case of the Davis-Besse Nuclear Power Station (Davis-Besse), we utilize the units of production depreciation method described in Note C.

Terminated Projects

In January 1980, CAPCO terminated plans to build four nuclear generating units. Before that decision was made, considerable planning, engineering and designing had been done for these units. As described in Note E, the Company is continuing legal action to recover from customers in rates the unrecovered portion of these costs and amortize them rather than write them off as a loss. Our share of the unrecovered costs is included in Deferred Charges on the 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 the FERC allow us to include as part of the total cost of constructing new assets a portion of the cost of money paid on funds which are tied up in construction projects. Such cost of money is called Allowance for Funds Used During Construction (AFUDC).

When a construction project is completed or, if the PUCO allows, at least 75% completed, the funds invested in it are no longer considered tied up in construction and we stop recording AFUDC. The cost of the project at that time, including its AFUDC, is treated as a new asset and is used to determine the rates we charge our customers for service. Because the resulting rates include a factor for all these costs, we are being allowed to recover in cash all costs of the property, including AFUDC, over the useful life of the property.

The amount of AFUDC for an accounting period is determined by applying a rate of AFUDC to the funds tied up in construction. The annual AFUDC percentage rate is determined by a formula set by the FERC. The rate represents an average of the cost of money paid on funds tied up in construction. 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 parts: 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.

The amount of AFUDC recorded in each accounting period varies. The variation occurs because of (1) the number of dollars spent on construction, (2) the length of the construction period and (3) the rate used in computing AFUDC. In 1980, the rate was 8.75%; in 1981, it was 10.17%; and in 1982, it was 10.00%.

Federal Income Tax

The depreciation expense we report on our income statement is different from the depreciation expense we use to calculate Federal income tax. There are several reasons for this difference. First, AFUDC and certain overheads are excluded

Notes to Consolidated Financial Statements

from the cost of assets which we depreciate for tax purposes. However, these costs are included in the basis for the depreciation shown on our income statement. Second, the period of time over which the Internal Revenue Service (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 practice is called liberalized depreciation.) Beginning with October 1976 property additions, the tax reductions resulting from the use of liberalized depreciation and accelerated amortization are not recognized in the income statement as reductions of tax expense in the periods 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, for income statement purposes in order to match the costs with their related Federal income tax effects, the tax savings were deferred.

When we place new property in service during the year, the IRS allows us a credit against the tax due for up to 10% of the investment we have made in the new asset. 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 procedure of normalization.

The Economic Recovery Tax Act of 1981 allowed us to sell to others the tax benefits related to property placed in service on and after January 1, 1981. The monies received from two such sales relating to 1981 property are being recognized in the income statement as a reduction of taxes over the estimated useful lives of the property involved. The Tax Equity and Fiscal Responsibility Act of 1982 prohibits tax benefit transfers of public utility property placed in service after 1982.

Our Federal income taxes are lowered 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 actually paid on funds invested in property currently being constructed are charged to Nonoperating Income. The tax reductions of interest paid on all other funds are charged to Operating Income.

Revenues

Customer meters are read or estimated and billed on a monthly cycle basis. Operating revenues are recorded when billed.

Prior to September 1, 1981, the rates we charged customers for electricity were made up of two parts. These parts were a base rate and a fuel rate. Each month's electric fuel rate was based on what we paid for fuel one month earlier. Since September 1, 1981 under a new Ohio law, a fuel factor is included in base rates. The fuel factor is changed every six months after a hearing before the PUCO. The steam fuel rate continues to be based on what we paid for fuel in the preceding month.

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 under Deferred Charges—Other. As the fossil and nuclear fuel is used, we transfer the cost to the income statement as fuel expense. Nuclear fuel amortization also includes a recovery through rates for the ultimate disposal of spent nuclear fuel.

Accounts Receivable

Amounts due from customers and others was reduced by the allowance for uncollectable accounts of $1,741,000 and $1,126,000 in 1982 and 1981, respectively.

Note B—Deferred Fuel

As described in Note A—Revenues, since September 1, 1981, our rates are adjusted every six months to reflect changes in fuel costs. The differences between the cost of fuel actually used and the costs included in the bills to customers are deferred. The deferred amount is taken into account to fix the fuel factor for a subsequent six-month period. We were not allowed to defer such costs (except for the cost of coal purchased under one coal contract) under the previous monthly fuel adjustment method.

On August 25, 1982, the PUCO issued an order providing that starting August 1, 1982 both actual and deferred costs of coal used at the Mansfield Plant can be recovered from customers through the Company's electric fuel component rate under a formula which is expected to permit gradual recovery of such accumulated deferred fuel costs.

Note C—Depreciation

We calculate depreciation for most of 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). Prior to March 1982, the composite rate used was 3.4%. Since March 1982, the rate, as set by the PUCO, has been 3.5%.

Davis-Besse depreciation is based on the ratio of the amount of electric energy it produces in the accounting period to its total estimated energy production over its useful life. When a nuclear unit is retired from service, we will have additional costs to shut it down. These costs are called decommissioning costs. From 1980 through 1982, the depreciation recorded for Davis-Besse included a factor for decommissioning costs. The factor was determined in 1980 estimating that the decommissioning costs would be $20,000,000 in current dollars. The factor used in 1981 and 1982 was based on an estimate of $27,000,000 in current dollars.

Hydroelectric plant and property held for future use have their own depreciation rates. Rates ranging from 1.8% to 8.33% are used for hydroelectric plant. A rate of 3.66% is used for property held for future use.

We calculate depreciation for our steam property by multiplying our depreciable steam 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 recorded on our books as follows:

	1982 (Thousands of Dollars)	% of Pre-Tax Income	1981 (Thousands of Dollars)	% of Pre-Tax Income	1980 (Thousands of Dollars)	% of Pre-Tax Income
Book income before Federal income tax	$293,093		$207,184		$152,995	
Tax on book income at statutory rate	$134,803	46.0	$ 95,285	46.0	$ 70,358	46.0
Decreases in tax due to:						
Excess of tax depreciation over book depreciation	(3,608)	(1.2)	(2,508)	(1.1)	4,201	2.8
Allowance for funds used during construction	47,994	16.4	38,180	18.4	30,325	19.8
Certain overheads capitalized on the books	2,491	0.8	2,526	1.2	2,267	1.5
Other items	3,798	1.3	5,637	2.7	5,953	3.9
	50,675	17.3	43,835	21.2	42,746	28.0
Total Federal income tax expense	$ 84,128	28.7	$ 51,450	24.8	$ 27,612	18.0

Federal income tax expense is shown in the income statement as follows:

	1982 (Thousands of Dollars)	1981 (Thousands of Dollars)	1980 (Thousands of Dollars)
Operating Expenses			
Current tax provision	$ 34,279	$ 23,668	$ 11,244
Changes in accumulated deferred Federal income tax:			
Liberalized depreciation and accelerated amortization	19,498	19,747	16,106
Terminated projects	1,700	(1,841)	21,944
Other items	(239)	8,361	(254)
Investment tax credit deferred, less amounts amortized	51,144	17,640	(7,466)
Total charged to operating expenses	106,382	67,575	41,574
Nonoperating Income			
Current tax provision	(22,254)	(16,125)	(13,962)
Total Federal income tax expense	$ 84,128	$ 51,450	$ 27,612

In 1980, we had a loss for Federal income tax purposes. This happened principally because we deducted from taxable income the costs of four nuclear projects which were terminated in January 1980. See Note E. The resulting loss we had that year was applied against taxable income in prior years.

The income tax we paid in 1981 and 1982 was reduced by investment tax credits of $22,094,000 and $56,582,000, respectively. Since we had a loss for tax purposes 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 $41,971,000. These unused credits may be used to reduce tax liability through 1997.

Notes to Consolidated Financial Statements

Note E—Terminated Projects

In January 1980, the CAPCO companies terminated their plans to construct four nuclear generating units which were in various stages of construction startup. The amount spent by the Company on these projects through December 31, 1982 was $62,413,000 (terminated unit costs). For a period of time, the PUCO allowed us to recover these costs through rates to be charged to customers over a 10-year period beginning late in July 1980. It also directed us to amortize these costs in the income statement as a cost of service over the same 10-year period.

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 a cost of service. As a result, in October 1981, the PUCO ordered us to discontinue amortization of the terminated unit 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 terminated unit costs. This did not result in any change in net income or earnings per share.

The Company appealed the rate reduction to the Ohio Supreme Court. The appeal was dismissed by the Court. We appealed both the Ohio Supreme Court's original ruling and its dismissal of the rate reduction appeal to the United States Supreme Court. That Court has refused to hear both appeals on procedural grounds.

In the proceeding for the electric rate increase granted to the Company by the PUCO effective March 19, 1982, the Company tried again to obtain recovery of the terminated unit costs in rates as a cost of service, but the PUCO refused because of the Ohio Supreme Court's ruling. However, the PUCO increased the rate of return on common stock equity in recognition of the added risk incurred by common stock owners as the result of the disallowance of the terminated unit costs as a cost of service. The PUCO also authorized the Company to amortize the unamortized terminated unit costs over a period not to exceed 15 years. In April 1982, the Company began 15-year amortization. In July 1982, an opponent appealed the PUCO's decision on rate of return to the Ohio Supreme Court and the Company appealed the PUCO's refusal to allow recovery of the terminated unit costs in rates as a cost of service. These appeals are pending. The Company plans to appeal this case to the United States Supreme Court, if necessary, in its continuing effort to recover the terminated unit costs in rates as a cost of service.

In its January 5, 1983 rate order, the PUCO again denied recovery of the terminated unit costs in rates as a cost of service. The PUCO also stated that the rate of return on common stock equity granted in this case recognized the added risk resulting from the disallowance of such recovery and, therefore, no additional increase in that rate of return should be made. As a result, under generally accepted accounting principles, as of February 1, 1983 we stopped amortizing the terminated unit costs. As of December 31, 1982, the unamortized terminated unit costs were $52,385,000, or $31,506,000 (51 cents per share), after adjustment for the tax reduction resulting from the deduction of the terminated unit costs on the Company's Federal income tax returns.

The Company believes, based on the opinion of its counsel, that it should not be required to write off the unamortized terminated unit costs as a loss. However, if it becomes unlikely that any regulatory relief ultimately will be allowed to the Company, then all of the unamortized terminated unit costs after adjustment for the tax reduction would have to be written off as a loss at that time.

Note F—First Mortgage Bonds

The Company has first mortgage bonds outstanding, as follows:

Series Due	Issued	Interest Rate	At December 31, 1982	At December 31, 1981
			(Thousands of Dollars)	
1982	1947	3%	$ —	$ 20,000
1983	1975	8.85%	50,000	50,000
1983-A	1980	9¼%	—	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 and B	1976	5¼%	5,000	5,000
1989	1954	3%	20,000	20,000
1989-A	1981	15¼%	40,000	40,000
1990	1969	7⅛%	60,000	60,000
1991	1969	8⅜%	35,000	35,000
1992	1981	15¼%	20,000	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 to C	1979	7%	52,000	52,000
2010	1975	9.85%	100,000	100,000
2010-B to N	1982	12.10%-15.75%	23,900	—
2011	1976	8⅜%	125,000	125,000
2011-A	1980	(a)	48,600	48,600
2011-B	1981	(b)	22,200	22,200
2012	1977	8⅜%	75,000	75,000
2012-A	1982	16⅝%	75,000	—
2012-B	1982	13⅛%	78,700	—
2012-D	1982	12¾%	100,000	—
2013	1978	6.20%	47,500	47,500
			1,295,191	1,112,291
Less amounts classified as current			50,000	20,000
			$1,245,191	$1,092,291

(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 1981 and 1982 were 9.99% and 9.37%, 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 rates in 1981 and 1982 were 10.40% and 10.26%, respectively.

The first mortgage bonds are issued under our Mortgage. The Mortgage puts a first lien on almost all the property we own and franchises we hold.

The issuance of additional first mortgage bonds is limited by two provisions of our Mortgage. Under the more restrictive of these provisions, we would have been permitted at December 31, 1982 to issue approximately $694,000,000 of additional first mortgage bonds. This amount fluctuates depending upon the remaining amount of bondable property and upon earnings and interest rates.

The collateral pledge notes included in the statement of Capitalization were issued under an agreement signed in 1982. This agreement permits us to borrow additional amounts from time to time up to $60,000,000 over a two-year period. The interest rate on each borrowing will be fixed when it is made, but cannot be higher than 16⅝%. 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. Although these bonds are not shown as outstanding in the statement of Capitalization, they are outstanding under our Mortgage.

Note G—Leases

As part of our operations, we have entered into the following leases:

Type	Remaining Terms
Nuclear fuel in the reactor	(a)
Unit trains	4-8 years (b)
Office space	5 years (c)
Data processing and office equipment 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 leases for the reload fuel currently in the reactor will last as long as it takes to burn the fuel. For the reload leases, we pay full rent as the fuel is burned and we pay a reduced rent equivalent to an interest charge when the fuel is not being burned.

(b) Unit train leases include renewal options through 2011.

(c) 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 the above leases as an operating expense. Accordingly, we record those rents as an operating expense on the income statement. Financial Accounting Standards (FAS) No. 13 and No. 71 require that not later than 1986 we treat our leased nuclear fuel and unit train coal delivery equipment as though we owned it. This will require us to record these leased properties on the balance sheet as assets which will be depreciated. Also, we will have to record a long-term debt for the promises to make lease payments.

All the rental 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 as the fuel is used. See Note A—Fuel. We paid rent of $8,180,000 in 1982, $7,925,000 in 1981 and $7,240,000 in 1980 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, 1982:

Year	Amount (Thousands of Dollars)
1983	$ 3,942
1984	3,706
1985	3,350
1986	2,775
1987	2,259
Later Years	2,260
Total	$18,292

We did not include in the above table the payments we must make on our Davis-Besse nuclear fuel reload leases. Since the payments are made when fuel is used, we do not know the timing or total amount of the rental payments. However, we do know that the lessor has invested $17,322,000 in those leases.

Note H—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 Price Per Share (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:

1983	$3,000,000	1986	$ 7,751,000
1984	$4,000,000	1987	$13,551,000
1985	$5,782,000		

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 Serial Preferred and Preference Stock we have issued includes a provision which requires us to ask the share owners of that stock whether they want us to buy back their

Notes to Consolidated Financial Statements

shares at $1,000 per share, as follows:

	Shares Subject to Purchase Annually	Offer Beginning on
Preferred Series F	16,667	11-1-85
Preferred Series G	8,000	8-1-84
Preference Series 1	11,400	4-1-84

If the share owners decide to sell, we must buy the shares four months after the date we offered 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 $19,400,000 in both 1984 and 1985 and $36,067,000 in both 1986 and 1987.

We have assured the owners of our Series F Preferred Stock a minimum return on their investment of 6.96% after deducting 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 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 Price Per Share
Preferred C	Prior to August 1, 1983	$110.00
	August 1, 1983 and thereafter	$103.00–$101.00
Preferred E	Prior to June 1, 1986	$1,088.00
	June 1, 1986 and thereafter	$1,049.74–$1,000.00
Preferred F	Prior to March 1, 1984	$1,055.00
	March 1, 1984 and thereafter	$1,015.00–$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, 1986 through May 31, 1987	$1,050.44
	June 1, 1987 and thereafter	$1,037.83–$1,000.00
Preference 1	Prior to August 1, 1983	$1,032.29
	August 1, 1983 and thereafter	$1,025.83–$1,000.00

We can buy back Series E Preferred Stock before June 1, 1986 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%. 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%. Finally, we may not use money raised through the sale of stock which is junior to the Series E. A total of 3,000 shares of Series E Preferred Stock was bought back and retired in 1981 and in 1982 pursuant to its mandatory redemption provision.

Sales of Serial Preferred Stock with mandatory redemption provisions during the three years ended December 31, 1982 were as follows:

		Shares Sold	
Year	Series	Price Per Share	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

There are no restrictions on our right to issue and sell authorized shares of Serial Preferred or Preference Stock.

Note I—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. All this Serial Preferred Stock is subject to optional redemption. These provisions give us the right to buy back and retire the stock. The times when this may be done and the redemption prices (plus dividends accrued to the redemption dates) are as follows:

Series	Date	Redemption Prices Per Share
Preferred A	Prior to December 1, 1986	$102.50
	December 1, 1986 and thereafter	$101.00
Preferred B	August 1, 1982 through July 31, 1987	$103.78
	August 1, 1987 and thereafter	$102.26

Note J—Common Shares Issued and Reserved for Issue

Shares of Common Stock sold during the three years ended December 31, 1982 were as follows:

	1982	1981	1980
Public Sale	9,000,000	3,500,000	4,000,000
Share Owner Dividend Reinvestment and Stock Purchase Plan	1,362,141	926,542	733,188
Employee Savings Plan	282,162	264,605	218,902
Employee Thrift Plan	75,775	74,727	64,496
Key Employee Incentive Stock Plan	—	—	469
Total Shares	10,720,078	4,765,874	5,017,055

At December 31, 1982, 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 unexercised stock options) are as follows:

Plan	Shares
Share Owner Dividend Reinvestment and Stock Purchase Plan	2,279,381
Employee Savings Plan	2,833,819
Employee Thrift Plan	528,327
Key Employee Incentive Stock Plan	550,250 (a)
1978 Key Employee Stock Option Plan	600,000
	6,791,777

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, 1982 were sold at an option price of $17.63. Shares under outstanding options held by employees were as follows:

	Key Employee Incentive Stock Plan (a)		
	1982	1981	1980
Options Outstanding at December 31			
Shares	148,642	150,095	154,148
Option Price	$17.63 to $22.43	$17.63 to $22.43	$17.63 to $22.43

	1978 Key Employee Stock Option Plan		
	1982	1981	1980
Options Outstanding at December 31			
Shares	374,705	244,425	251,375
Option Price	$15.69 to $20.25	$16.94 to $20.25	$16.94 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, 1982 may be issued.

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:

1980	43,300,451
1981	48,004,081
1982	56,739,806

Note K—Short-Term Borrowing Arrangements

Notes payable to banks and others were as follows:

Type	At December 31, 1982	1981
	(Thousands of Dollars)	
Bank loans	$19,100	$19,400
Commercial paper, net	—	75,563
	$19,100	$94,963

Available bank credit arrangements are as follows:

Type	At December 31, 1982	1981
	(Thousands of Dollars)	
Bank lines of credit (borrowings at or near prime interest rate)	$170,300	$209,600
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 $\frac{3}{16}$% to $\frac{3}{8}$% per year is paid on any unused part of this borrowing agreement. The interest rate on borrowings is $\frac{3}{8}$% to $\frac{5}{8}$%, depending on usage, above the rate which specified banks pay for Eurodollar deposits in the London interbank market.

Borrowings under the variable interest rate agreement 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 at least 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 $181,200,000 at December 31, 1982.

The average daily cash balance in bank accounts was $6,500,000 in 1982 and $5,700,000 in 1981. 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.

Notes to Consolidated Financial Statements

Note L—Commitments and Contingencies

Material and services needed to build new plant and equipment must be ordered in advance so that it will be available when needed. At December 31, 1982, such commitments amounted to:

Construction program	$236,000,000
Nuclear material acquisition and processing into fuel	$211,000,000

Usually we can cancel advance orders but often we must pay the manufacturers for what they have already spent for labor and materials and sometimes a penalty.

The Company has lease and other arrangements to finance up to $220,000,000 of the cost of acquiring nuclear material, processing it into fuel and leasing it while it is being burned in a reactor. At December 31, 1982, under these arrangements, a trust established in 1982 invested $52,75 000 shown on the balance sheet, and lessors invested $84,000,000, in nuclear material and costs of processing it into fuel. Also under those arrangements, nuclear fuel costing the lessor $17,322,000 is in the Davis-Besse reactor under operating leases. FAS No. 71 will require balance sheet treatment as described in Note G of all our existing nuclear fuel lease and other arrangements not later than 1986.

Under two long-term coal purchase arrangements, we have agreed to guarantee the mining companies' loan and lease obligations. At December 31, 1982, the principal amount of the mining companies' loan and lease obligations was $86,333,000. 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. Included is the appeal by the City of Cleveland to the United States Court of Appeals for the Sixth Circuit of the City's antitrust suit against the Company. In the trial, the City had claimed treble damages of $160,000,000. The jury had returned a unanimous verdict in favor of the Company. We believe, based on the opinion of our counsel, that the ultimate disposition of these matters, including the antitrust suit, should not have a material adverse effect on our financial condition, although an adverse final decision in certain instances could have a material adverse effect on income for the period in which the decision becomes final.

Note M—Rate Matters

The PUCO allowed us to raise electric rates by 9% on July 14, 1980, by 17% on May 6, 1981 and by 10% on March 19, 1982. Because of these increases, we charged customers an additional $47,000,000 in 1980, $133,300,000 in 1981 and $131,400,000 in 1982.

In 1982, we asked the PUCO for another $221,000,000 increase and, on January 5, 1983, the PUCO granted us an increase of $89,400,000 which was placed into effect on January 7, 1983. The PUCO included in our rate base $278,065,000 related to construction work in progress for Perry Unit #1.

In January 1982, the PUCO allowed us to increase steam rates by 47% which amounts to approximately $7,000,000 annually. In October 1982, the PUCO approved another 12% increase which will result in an annual increase in steam rates of about $2,400,000.

In September 1981, the FERC granted a rate increase of $2,300,000 covering sales for resale to the Cleveland Municipal Electric Light Plant. In November 1982, we filed an application with the FERC for an additional $716,000. Any increase granted will go into effect in mid-1983.

Note N—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 its 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, 1982 includes the following facilities owned as tenants in common with other utilities:

	Company Ownership		
Facility	Percent	Electric in Service	Construction Work in Progress
		(Thousands of Dollars)	
Davis-Besse	51.38	$421,912	$ 30,599
Bruce Mansfield 1	6.50	25,039	644
Bruce Mansfield 2	28.60	112,920	2,823
Bruce Mansfield 3	24.47	154,743	1,151
Beaver Valley 2	24.47	—	373,831
Perry 1 and common facilities	31.11	—	513,202
Perry 2	31.11	—	241,608
Eastlake 5	68.80	111,562	448
Seneca Pumped Storage Hydroelectric Plant	80.00	54,735	88
		$880,911	$1,164,394

Separate depreciation records are kept for Davis-Besse property and Seneca property. The accumulated depreciation for Davis-Besse at December 31, 1982 was $38,026,000. The accumulated depreciation for Seneca at December 31, 1982 was $11,363,000. Depreciation on all other property owned with other utilities has been accumulated on a composite basis along with all other depreciable 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 O—Pensions

We pay the full cost of a pension plan for our employees. Under the plan, an employee who has worked at the Company at least 5, 10 or 20 years (depending on his age when he leaves the Company) can begin receiving a pension benefit between ages 55 and 70. The amount of his benefit depends on his length of service and his earnings. The benefit is reduced by a portion of social security benefits. The benefit of an employee who retires after age 65 is determined as if he were age 65. If he retires before age 62, his benefit is reduced. The plan also pays benefits when an employee dies or is disabled.

We annually deposit money into the plan to fund the cost of benefits arising from employee service and earnings in the current year. We also deposit money to fund each year a portion of the cost of benefits arising from past service and earnings because of amendments to the plan. In 1980, our total payment to the fund was $9,300,000. We deposited another $10,200,000 in 1981 and $12,100,000 in 1982. Of these amounts, we recorded on the income statement $6,132,000 in 1980, $6,659,000 in 1981 and $8,014,000 in 1982. The remainder was recorded in the balance sheet, mostly as construction costs.

The amount we deposit into the pension plan is determined by a method known as the entry age normal method. It is used by many private pension plans. This method takes into account estimated increases in employees' future earnings in an effort to levelize the funding of pension benefits over their working lives. The liability of the plan as of January 1, 1982 determined under this method was slightly more than the value of the assets in the plan on that date.

Statement of Financial Accounting Standards No. 36 (FAS-36) requires us to disclose accumulated pension plan liability without consideration of future increases in employees' earnings. Therefore, the disclosures below, required by FAS-36, compare liability of the plan determined on one basis with assets accumulated on a different basis. We and our pension consultants believe that FAS-36 disclosures are very misleading because they understate the amount which the entry age normal method tells us should be in the fund now to provide pension benefits as they become payable under a plan intended to continue indefinitely. We are making the following disclosures only because we are required to do so.

	At January 1,	
	1982	1981
	(Millions of Dollars)	
Actuarial present value of accumulated plan benefits:		
Benefits which are vested	$132	$122
Benefits which are not vested	13	12
	$145	$134
Value of assets held in the plan	$194	$193

Under both methods of determining the plan's liability, the one which we use and the FAS-36 method, we estimated in 1980, 1981 and 1982 that the earnings of the plan would average about 6½% per year over the life of the plan.

Note P—Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1982.

	Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Thousands, except per share amounts)			
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
1982				
Total operating revenues	$273,038	$268,985	$299,224	$267,325
Net operating income	$ 52,774	$ 56,953	$ 70,253	$ 48,948
Net income	$ 48,019	$ 50,641	$ 66,849	$ 43,456
Earnings available for common stock	$ 38,407	$ 41,051	$ 57,302	$ 33,909
Average common shares	54,257	55,679	56,088	60,304
Earnings per common share	$ .71	$ .74	$ 1.02	$ .56

Financial and Statistical Review 1972-1982

Income Statement
(Thousands of Dollars)

	1982	1981	1980
TOTAL OPERATING REVENUES	1,108,571	1,012,930	893,566
Residential	348,757	310,409	268,787
Commercial	304,901	263,608	220,677
Industrial	393,794	386,805	323,764
Other Electric (Includes Sales for Resale)	43,702	39,912	65,273
Steam Heating	17,517	12,196	15,065
TOTAL OPERATING EXPENSES	879,644	820,226	743,051
Fuel and Purchased Power	329,279	351,410	360,347
Other Operating Expenses	250,591	224,299	194,881
Depreciation and Amortization	86,588	85,294	64,619
Taxes Other Than Federal Income Taxes	106,804	91,648	81,630
Federal Income Taxes	106,382	67,575	41,574
NET OPERATING INCOME	228,927	192,704	150,515
NONOPERATING INCOME	96,669	75,712	62,440
Allowance for Equity Funds Used During Construction	76,896	48,970	40,873
Other Income and Deductions	19,773	26,742	21,567
INCOME BEFORE INTEREST CHARGES	325,596	268,416	212,955
INTEREST	116,632	112,682	87,572
Long and Short-term Interest	144,072	146,712	112,623
Allowance for Borrowed Funds Used During Construction	(27,440)	(34,030)	(25,051)
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	208,964	155,734	125,383
Cumulative Effect of Change in Depreciation Method on Periods Prior to January 1, 1979	—	—	—
NET INCOME (a)	208,964	155,734	125,383
PREFERRED AND PREFERENCE DIVIDEND REQUIREMENTS	38,295	34,917	27,711
EARNINGS AVAILABLE FOR COMMON STOCK	170,669	120,817	97,672
EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$ 3.01	$ 2.52	$ 2.26
CUMULATIVE EFFECT PRIOR TO JANUARY 1, 1979	—	—	—
TOTAL EARNINGS PER SHARE (a) (b)	$ 3.01	$ 2.52	$ 2.26
DIVIDENDS PER SHARE (b)	$ 2.19	$ 2.08	$ 2.00

Balance Sheet Year end
(Thousands of Dollars)

	1982	1981	1980
TOTAL ASSETS	3,843,294	3,406,075	3,094,462
Utility Plant—Total	4,010,532	3,610,895	3,215,339
Accumulated Utility Plant Depreciation and Amortization	(679,890)	(621,353)	(557,859
Other Property	64,216	23,870	21,137
Current and Other Assets	448,436	392,663	415,845
TOTAL CAPITALIZATION AND LIABILITIES	3,843,294	3,406,075	3,094,462
Long-term Debt	1,441,822	1,328,404	1,211,528
Preferred and Preference Stock:			
With Mandatory Redemption Provisions	322,000	325,000	260,500
Without Mandatory Redemption Provisions	95,071	95,071	95,071
Common Stock Equity	1,227,095	1,002,206	912,731
Deferred Federal Income Taxes	309,414	236,481	192,452
Current Liabilities and Other Credits	447,892	418,913	422,180
UTILITY PLANT ADDITIONS (c)	422,170	409,277	398,088
UTILITY PLANT RETIREMENTS	22,533	13,721	25,002
NUMBER OF COMMON SHARES (b)	61,774,582	51,054,503	46,288,629

Operating Statistics

	1982	1981	1980
KWHR SALES (Thousands)	16,165,157	17,507,864	18,159,754
Residential	4,335,605	4,375,732	4,463,147
Commercial	4,194,177	4,178,459	4,148,996
Industrial	7,082,261	8,279,700	8,062,172
Other (Includes Sales for Resale)	553,114	673,973	1,485,443
ELECTRIC CUSTOMERS—YEAR END	711,222	711,325	710,557
Residential	641,705	642,925	642,845
Commercial	61,861	60,714	60,076
Industrial	7,235	7,261	7,216
Other	421	425	432
RESIDENTIAL SALES DATA			
Average Kwhr per Customer	6,490	6,548	6,68
Average Revenue per Customer	$ 524.63	$ 466.55	$ 405.0
Average Revenue per Kwhr	8.08¢	7.12¢	6.0
ELECTRIC PRODUCTION			
Net Available for Service Area (Thousands)	17,677,831	18,936,567	18,722,61
Net Generation	17,032,759	17,297,523	15,325,94
Net Received from Others	645,072	1,639,044	3,396,66
BTU per Kwhr of Net Output	10,475	10,582	10,63
Fuel Cost per Million BTU	174.72¢	175.14¢	156.9
Coal Cost per Ton	$ 45.51	$ 46.70	$ 39.3
Annual Net 60-Min. Max. Load-KW-Excl. Interruptibles	3,078,000	3,362,000	3,304,00
Net System Capability—KW—Year End	4,656,000	4,624,000	4,598,00
STEAM HEATING			
Sales—Pounds (Thousands)	1,501,077	1,612,151	1,979,39
Customers—Year End	312	337	34
EMPLOYEES—YEAR END	5,411	5,189	4,99

(a) The 1978 net income and earnings per share calculated on a pro forma basis to reflect the units-of-production method of depreciation are $102,942,503 and $2.31, respectively. The pro forma effect of the adoption of this depreciation method on 1977 was not material.

1979	1978	1977	1976	1975	1974	1973	1972
824,267	717,092	659,290	543,148	523,165	463,937	328,768	293,343
237,612	213,520	200,765	160,015	154,020	140,030	104,379	98,891
194,899	172,251	165,049	129,286	121,653	109,185	80,756	74,992
322,909	278,405	251,181	197,189	180,890	177,246	119,964	99,926
55,799	42,831	31,611	45,730	55,679	29,946	17,832	13,966
13,048	10,085	10,684	10,928	10,923	7,530	5,837	5,568
688,788	599,289	542,871	441,401	433,614	375,159	255,276	224,473
349,027	307,429	265,771	234,107	246,984	199,362	100,450	75,199
162,636	140,996	127,330	102,794	94,539	85,122	72,795	71,722
59,443	56,774	43,307	35,874	33,046	31,632	30,965	27,336
79,455	68,756	58,807	51,925	48,735	43,653	40,906	36,203
38,227	25,334	47,656	16,701	10,310	15,390	10,160	14,013
135,479	117,803	116,419	101,747	89,551	88,778	73,492	68,870
47,621	42,226	49,484	26,346	17,681	8,472	7,642	5,567
33,432	29,890	35,265	24,706	16,983	7,854	6,363	5,958
14,189	12,336	14,219	1,640	698	618	1,279	(391)
183,100	160,029	165,903	128,093	107,232	97,250	81,134	74,437
69,566	61,016	54,175	46,413	42,464	36,509	31,729	25,365
85,299	72,071	67,889	56,750	50,511	44,717	35,161	27,907
(15,733)	(11,055)	(13,714)	(10,337)	(8,047)	(8,208)	(3,441)	(2,542)
113,534	99,013	111,728	81,680	64,768	60,741	49,414	49,072
4,125	—	—	—	—	—	—	—
117,659	99,013	111,728	81,680	64,768	60,741	49,414	49,072
25,587	23,575	22,907	18,005	14,696	10,067	7,658	5,118
92,072	75,438	88,821	63,675	50,072	50,674	41,756	43,954
2.31	$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45	$ 2.03	$ 2.15
.11	—	—	—	—	—	—	—
2.42	$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45	$ 2.03	$ 2.15
1.92	$ 1.84	$ 1.76	$ 1.71	$ 1.65	$ 1.60	$ 1.55	$ 1.52
2,678,786	2,331,541	2,117,135	1,842,999	1,513,247	1,354,065	1,152,335	1,057,091
2,842,253	2,523,996	2,232,111	1,955,701	1,693,614	1,526,659	1,364,122	1,228,840
(521,175)	(476,983)	(429,150)	(396,338)	(373,851)	(355,841)	(334,071)	(313,109)
19,503	15,034	13,753	12,849	9,942	7,433	5,331	5,340
338,205	269,494	300,421	270,787	183,542	175,814	116,953	136,020
2,678,786	2,331,541	2,117,135	1,842,999	1,513,247	1,354,065	1,152,335	1,057,091
973,991	920,973	885,899	747,392	673,003	553,144	502,800	491,304
232,000	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	95,071
820,411	708,883	633,744	511,333	419,990	346,736	326,947	314,542
162,122	140,677	119,299	72,318	63,267	43,348	34,312	34,444
395,191	233,937	198,122	281,885	186,916	252,766	168,205	121,730
329,869	300,765	286,739	275,524	181,673	173,899	145,470	134,893
11,612	8,880	10,329	13,437	14,718	11,362	10,188	12,850
41,271,574	35,995,365	32,388,055	28,347,544	24,351,499	20,748,110	20,611,034	20,499,420
19,030,453	18,364,437	18,066,428	18,070,291	18,133,826	17,601,686	17,747,663	15,173,048
4,352,983	4,288,865	4,200,116	4,045,158	3,984,004	3,830,305	3,910,018	3,730,365
4,041,134	3,933,586	4,007,123	3,808,897	3,685,878	3,527,382	3,569,689	3,356,419
9,268,600	8,992,919	8,874,796	8,475,983	7,822,419	8,819,205	9,103,173	7,298,700
1,367,736	1,149,067	984,393	1,740,253	2,641,525	1,424,794	1,164,783	787,564
708,219	702,538	696,547	693,425	689,133	684,728	678,426	672,165
641,856	637,609	632,740	630,581	627,719	623,988	618,266	612,845
58,690	57,310	56,241	55,178	53,765	53,070	52,291	51,645
7,232	7,167	7,112	7,206	7,190	7,212	7,415	7,222
441	452	454	460	459	458	454	453
6,557	6,517	6,412	6,187	6,116	5,914	6,098	5,864
357.86	$ 324.91	$ 307.11	$ 245.16	$ 237.02	$ 216.69	$ 162.69	$ 155.45
5.48¢	5.00¢	4.80¢	3.97¢	3.88¢	3.67¢	2.67¢	2.65¢
19,645,001	19,254,857	19,098,231	18,331,384	17,271,169	17,817,763	18,257,155	16,101,689
17,069,914	16,882,669	18,123,528	16,747,626	16,213,012	18,040,100	17,326,640	15,404,233
2,575,087	2,372,188	974,703	1,583,758	1,058,157	(222,337)	930,515	697,456
10,634	10,536	10,401	10,322	10,454	10,569	10,382	10,172
142.51¢	131.80¢	117.50¢	105.55¢	111.14¢	102.26¢	48.40¢	42.86¢
35.20	$ 30.73	$ 25.72	$ 23.98	$ 24.93	$ 21.53	$ 11.05	$ 9.94
3,097,000	3,249,000	3,350,000	3,065,000	2,937,000	2,934,000	3,119,000	2,822,000
4,562,000	4,566,000	4,386,000	3,906,000	3,615,000	3,764,000	3,769,000	3,775,000
2,004,680	2,210,886	2,374,510	2,359,677	2,263,645	2,274,925	2,154,390	2,450,656
365	369	372	385	399	406	416	427
4,963	4,831	4,790	4,840	4,947	4,982	4,853	4,898

(b) Adjusted for the 3-for-2 stock split, effective December 16, 1977.
(c) Excludes $56,022,606 of terminated projects reclassified to Deferred Charges in 1979.

Statement of Income from Continuing Operations Adjusted for Changing Prices for the Year Ended December 31, 1982 (Unaudited)

	Conventional Historical Cost	Constant Dollar Average 1982 Dollars		Current Cost Average 1982 Dollars	
		(Thousands of Dollars)			
Revenue	$1,108,571	$1,108,571		$1,108,571	
Operation expense	498,081	498,081		498,081	
Maintenance expense	81,789	81,789		81,789	
Depreciation and amortization	86,588	184,923		214,338	
Taxes other than Federal income tax	106,804	106,804		106,804	
Federal income tax	106,382	106,382		106,382	
Nonoperating income	(96,669)	(96,669)		(96,669)	
Interest expense	116,632	116,632		116,632	
	899,607	997,942		1,027,357	
Net income — continuing operations	$ 208,964	$ 110,629	(a)	$ 81,214	(a)
Increase in specific prices of property and plant (b)				$ 172,658	
Reduction to net recoverable cost		$ (17,199)		(92,282)	
Increase in general prices				(68,160)	
Increase in general prices in excess of increase in specific prices after the reduction to net recoverable cost				12,216	
Gain from decline in purchasing power of net amounts owed		77,395		77,395	
Net price level adjustment		$ 60,196		$ 89,611	

(a) Including the reduction to net recoverable cost, net income (loss) for 1982 would have been $93,430,000 in constant dollars and $(11,068,000) in current cost dollars.

(b) At December 31, 1982, the current cost of property, plant and equipment net of accumulated depreciation was $5,551,884,000 while original (net recoverable) cost was $3,330,642,000.

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 subject to rapid turnover. As such, we believe the original cost of this item fairly represents its current cost.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (Unaudited)

(Average 1982 Dollars)

	Year Ended December 31, 1982	1981	1980	1979	1978
	(Thousands, except per share amounts)				
Revenue					
as reported	$ 1,108,571	$ 1,012,930	$ 893,566	$ 824,267	$ 717,092
in 1982 constant dollars	$ 1,108,571	$ 1,075,030	$ 1,046,718	$ 1,096,116	$ 1,060,958
Net Income					
as reported—continuing operations	$ 208,964	$ 155,724	$ 125,383	$ 113,534	
in 1982 constant dollars	$ 110,629	$ 73,579	$ 60,868	$ 76,608	
in 1982 current cost dollars	$ 81,214	$ 45,661	$ 28,452	$ 40,493	
Income (Loss) per Common Share					
as reported—continuing operations	$ 3.01	$ 2.52	$ 2.26	$ 2.31	
in 1982 constant dollars	$ 1.27	$ 0.76	$ 0.66	$ 1.12	
in 1982 current cost dollars	$ 0.76	$ 0.18	$ (0.09)	$ 0.17	
Net Assets at Year End					
as reported	$ 1,227,095	$ 1,002,206	$ 912,731	$ 820,411	
at net recoverable cost	$ 1,213,246	$ 1,029,264	$ 1,021,171	$ 1,031,670	
Increase in general prices in excess of increase in specific prices after reduction to net recoverable cost	$ (12,216)	$ 130,524	$ 221,186	$ 252,262	
Gain from decline in purchasing power of net amounts owed	$ 77,395	$ 168,509	$ 220,971	$ 235,670	
Cash Dividends Declared per Common Share					
as reported	$ 2.19	$ 2.08	$ 2.00	$ 1.92	$ 1.84
in 1982 constant dollars	$ 2.19	$ 2.21	$ 2.34	$ 2.55	$ 2.72
Market Price per Common Share at Year End					
as reported	$ 19.75	$ 16.00	$ 14.63	$ 16.25	$ 16.88
in 1982 constant dollars	$ 19.53	$ 16.43	$ 16.36	$ 20.43	$ 24.04
Average Consumer Price Index	289.1	272.4	246.8	217.4	195.4

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 1982. However, when the current cost of plant was reduced to the lower original cost amount, this "gain" from specific price increases was significantly reduced.

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 1982 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 1982 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 partly 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
Chairman and Chief Executive Officer of Tremco, Inc., manufacturer of specialty chemical products and a wholly-owned subsidiary of The BFGoodrich Company. Also, President—Engineered Products Group and Executive Vice President of The BFGoodrich Company

Robert M. Ginn
President of the Company

Roy H. Holdt
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.
Partner in the law firm of Squire, Sanders & Dempsey

Richard A. Miller
Executive Vice President of the Company

Karl H. Rudolph
Chairman of the Executive Committee and retired Chairman and Chief Executive Officer of the Company

Craig R. Smith
Chairman of the Industrial Group of Bendix Corporation, a wholly-owned subsidiary of Allied Corporation. The Industrial Group is a producer of machines and accessories for the metalworking industry

Charles E. Spahr
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
Chairman and Chief Executive Officer of The Higbee Company, a department store

Richard B. Tullis
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
Executive Vice President of the Company

William J. Williams*
President and Chief Operating Officer of Republic Steel Corporation, manufacturer of steel and steel products

*Elected effective February 1, 1983.

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 President
Richard A. Miller Executive Vice President
Harold L. Williams Executive Vice President
Dalwyn R. Davidson Senior Vice President
Murray R. Edelman Vice President-Nuclear
Robert J. Farling Vice President-Administrative Services
John W. Fenker Vice President-Power Supply
Frank A. Kender Vice President-Marketing
Edgar H. Maugans Vice President-Finance
John J. Misic Vice President-Distribution & Services
Alan D. Wright Vice President-Public Affairs & Legal
Newton D. Flack Division Manager-Steam Power Division
Charles C. Chopp Controller
Andrew R. Felmer Treasurer
E. Lyle Pepin Secretary

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 their examination of the Company's financial statements and the audit practices employed by them 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.

L. Carter (Chairman), R. H. Holdt, C. R. Smith, C. E. Spahr

Compensation Committee The Compensation Committee reviews and approves the Company's overall Compensation Plan, including the pension and employee stock plans and, in particular, recommends the remuneration of the Chairman (if any), President and all Vice Presidents.

R. H. Holdt (Chairman), C. R. Smith, C. E. Spahr, H. E. Strawbridge

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, H. E. Strawbridge

Finance Committee The Finance Committee reviews and recommends long-range financial policies and objectives and specific actions to achieve these 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. R. Smith, 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.

C. E. Spahr (Chairman), L. Carter, R. H. Holdt, J. Lansdale, Jr., K. H. Rudolph, C. R. Smith, H. E. Strawbridge, R. B. Tullis

Planning Committee The Planning Committee advises and consults 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

General Information

Share owner dividend reinvestment and stock purchase plan The Company has a Share Owner Dividend Reinvestment and Stock Purchase Plan which provides common stock share owners of record a convenient means of purchasing additional shares of Company common stock automatically at no additional cost by investing a part or all of their quarterly dividends and additional cash payments. Dividends reinvested in Company common stock under the Plan qualify for the tax deferral provisions of The Economic Recovery Tax Act of 1981. In addition, dividends reinvested will not be subject to the withholding tax on dividends which is expected to go into effect July 1, 1983. Information and a prospectus relating to the Plan may be obtained from Share Owner Services at the Company.

Form 10-K The Company will furnish to share owners, without charge, a copy of its most recent annual report to the Securities and Exchange Commission (Form 10-K) and, upon payment of a reasonable fee, a copy of each exhibit to Form 10-K. Requests should be directed to the Secretary of the Company.

Independent Accountants
Price Waterhouse, 1900 Central National Bank Building, Cleveland, Ohio 44114

Bond Trustee and Registrar
Morgan Guaranty Trust Company of New York for all series.

Communications regarding bond registration requirements and lost certificates should be directed to Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015.

Bond Paying Agent
Manufacturers Hanover Trust Company, 40 Wall Street, New York, N.Y. 10015 and AmeriTrust Company, 900 Euclid Avenue, Cleveland, Ohio 44114—Co-paying agents for the

2¾% Series, Due 1985	3⅞% Series, Due 1993
3⅜% Series, Due 1986	4⅜% Series, Due 1994
3% Series, Due 1989	

Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015—for the

8.85% Series, Due 1983	8¾% Series, Due 2005
7.55% Series, Due 1984	9¼% Series, Due 2009
12¼% Series, Due 1984-A	9.85% Series, Due 2010
11½% Series, Due 1985-A	8⅜% Series, Due 2011
15¼% Series, Due 1989-A	8⅜% Series, Due 2012
7⅛% Series, Due 1990	16⅝% Series, Due 2012-A
8⅜% Series, Due 1991	12¾% Series, Due 2012-D
15¼% Series, Due 1992	

Inquiries regarding interest payments should be directed to either Manufacturers Hanover Trust Company or Morgan Guaranty Trust Company of New York for the series of bonds for which each acts as paying agent as noted above.

Common Stock
Listed on the New York, Midwest and Pacific Stock Exhanges; unlisted trading on the Boston, Philadelphia-Baltimore-Washington and Cincinnati Stock Exchanges. New York Stock Exchange symbol—CVX.

Preferred Stock
Listed on the New York Stock Exchange.

Registrars
For Common Stock and Preferred Stock
AmeriTrust Company
900 Euclid Avenue
Cleveland, Ohio 44114

Transfer Agents
For Common Stock and Preferred Stock
The Cleveland Electric Illuminating Company
Share Owner Services
P.O. Box 5000, Cleveland, Ohio 44101

Stock transfers may be presented at Wells Fargo Securities Clearance Corporation, 45 Broad Street, New York, N.Y. 10004.

Share Owner Inquiries
Communications regarding stock transfer requirements, lost certificates, dividends and changes of address should be directed to Share Owner Services at the Company. To reach Share Owner Services by phone, call the following numbers:

Local calls in
Cleveland area 622-9800, ext. 2325

Elsewhere in Ohio	1-800-362-1237
Outside Ohio	1-800-321-3206

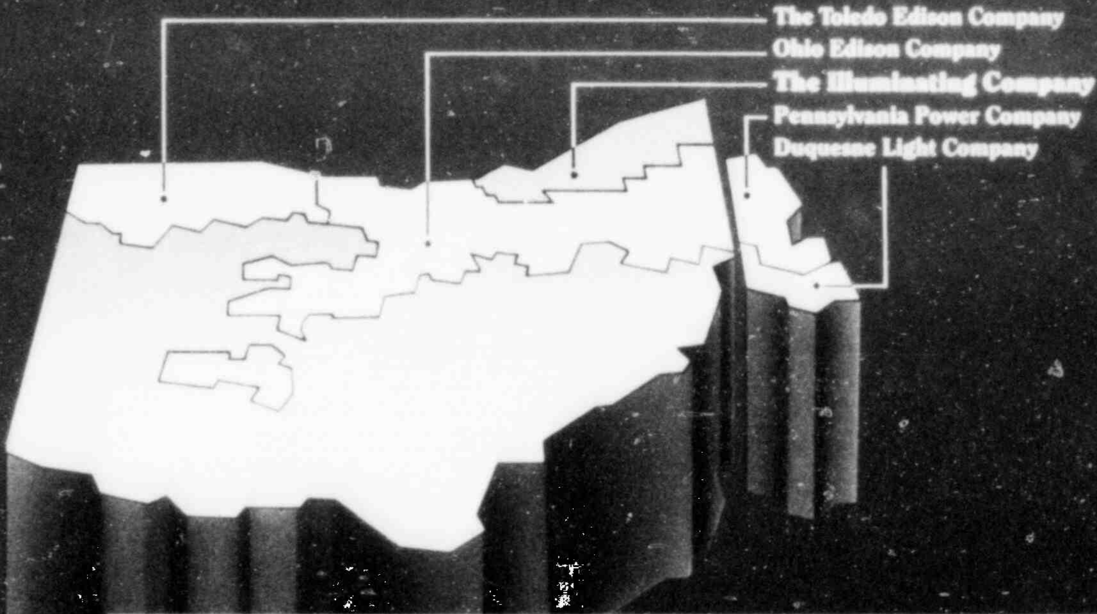
Please have your account number ready when calling.

Executive Offices
Illuminating Building
55 Public Square
Cleveland, Ohio
Telephone Number (216) 622-9800

Mail Address
Post Office Box 5000
Cleveland, Ohio 44101

The annual meeting of the share owners of the Company will be held on April 26, 1983. Owners of common stock as of February 25, 1983, the record date for the meeting, will be entitled to vote on the issues. The official notice, proxy statement and proxy will be mailed to share owners on or about March 14, 1983.

Notice: The annual report and the financial statements herein are for the general information of the share owners of the Company and are not intended to be used in connection with any sale or purchase of securities.



CAPCO
GENERATING UNITS

The Company furnishes electric service to an area approximately 1,700 square miles, extending 100 miles along the south shore of Lake Erie from the Ohio-Pennsylvania border on the east through the city of Avon Lake on the west. Total population served is approximately 1,900,000.

The Company is a member of the Central Area Power Coordination Group (CAPCO), formed by regional utility companies to assure greater reliability of interconnections, back-up in case of emergencies and better economies of operation. Other members include Duquesne Light Company, Ohio Edison Company, Pennsylvania Power Company and The Toledo Edison Company. The members are constructing power generation and transmission facilities.

Through interconnections with CAPCO members, Pennsylvania Electric Company and Ohio Power Company, the Company's service area is part of an interconnected system linking continental U.S.A. and major portions of Canada. This international network further enhances the reliability and economy of our customers' electric service.

	Project	Expected Net Demonstrated Capability (Kilowatts) Total	Company Share	Year of Scheduled Completion	Construction and Operation Responsibility
Eastlake	■ Unit #5	635,000	437,000	In Service	The Illuminating Company
Sammis	■ Unit #7	600,000	—0—	In Service	Ohio Edison Company
Mansfield	■ Unit #1	780,000	51,000	In Service	Pennsylvania
	Unit #2	780,000	223,000	In Service	Power
	Unit #3	800,000	196,000	In Service	Company
Davis-Besse ●		880,000	452,000	In Service	The Toledo Edison Company
Perry	● Unit #1	1,205,000	375,000	1984	The Illuminating Company
	Unit #2	1,205,000	375,000	1988	
Beaver	● Unit #1	810,000	—0—	In Service	Duquesne
Valley	Unit #2	833,000	204,000	1986	Light Company

■ Coal-Fired ● Nuclear

A Interconnections with Ohio Edison (From Davis-Besse Nuclear Power Station)

B Interconnections with Ohio Edison (From Mansfield and Beaver Valley Plants) and Ohio Power

C Interconnection with Pennsylvania Electric (From Seneca Pumped Storage Hydroelectric Power Plant) (80% owned by Company)