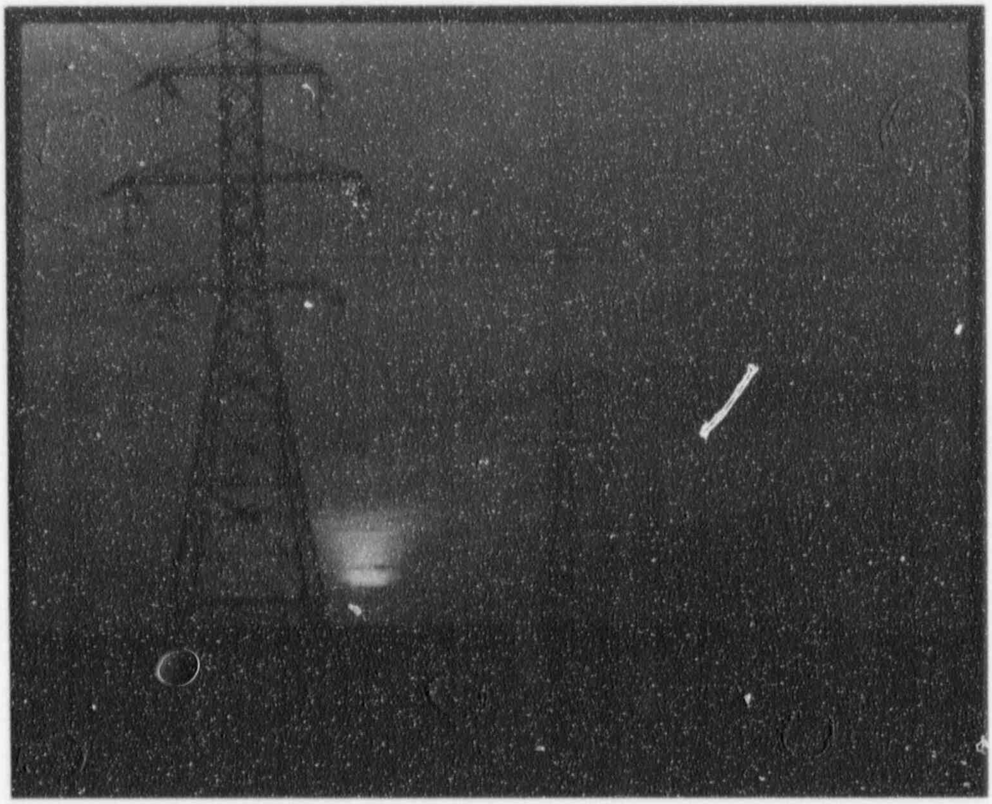
Ohio Edison

1 9 9 4 ANNUAL REPORT



MEETING THE COMPETITIVE CHALLENGE

Corporate Profile

Ohio Edison Company is headquartered in Akron, Ohio, and its subsidiary, Pennsylvania Power Company, is based in New Castle, Pennsylvania. We provide electric service to more than one million customers within 9,000 square miles of central and northeastern Ohio and western Pennsylvania.

Service Area

Ohio Edison Company and Pennsylvania Power Company

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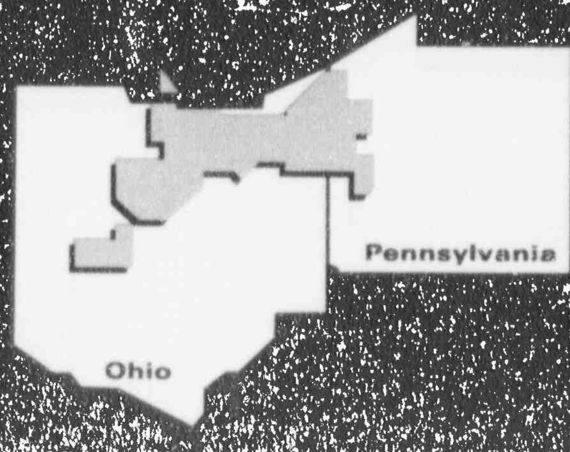
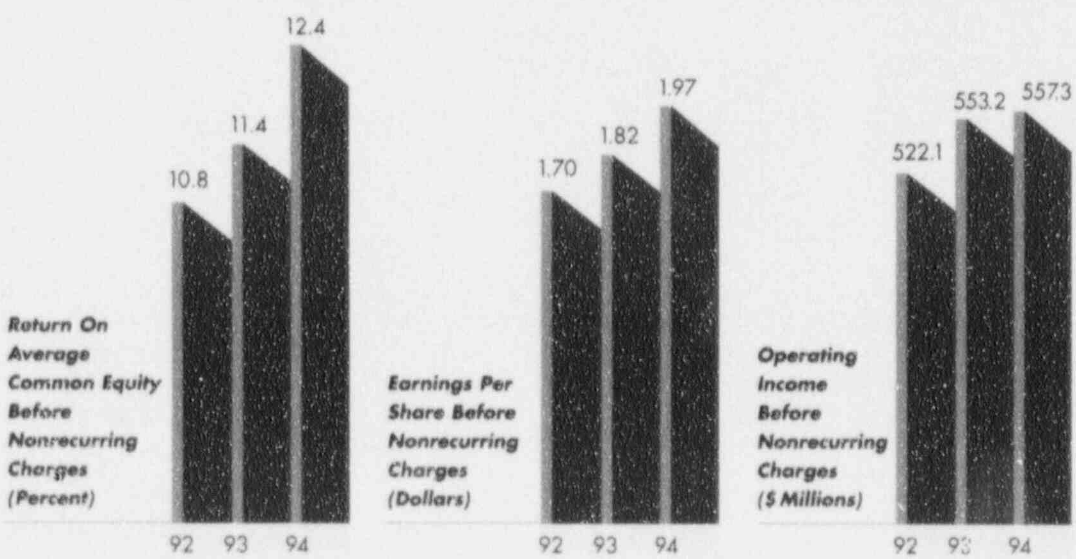


Financial Highlights

	1994	1993
Operating Performance		
Retail Kilowatt-Hour Sales (Millions)	25,071	25,042
Peak Load (Megawatts)	5,744	5,729
Customers Served	1,083,327	1,070,152
Number of Employees	5,166	5,978
Customers per Employee	210	179
Cost of Fuel per Million Btu	$1.21	$1.26
Financial Performance		
Operating Revenues	$2,368,191,000	$2,369,940,000
Operating Income–		
Before Nonrecurring Charges	$557,254,000	$553,165,000
After Nonrecurring Charges	$557,254,000	$525,330,000
Net Income–		
Before Nonrecurring Charges	$303,531,000	$301,101,000
After Nonrecurring Charges	$303,531,000	$82,724,000
Earnings per Common Share–		
Before Nonrecurring Charges	$1.97	$1.82
After Nonrecurring Charges	$1.97	$ .39
Return on Average Common Equity–		
Before Nonrecurring Charges	12.4%	11.4%
After Nonrecurring Charges	12.4%	2.4%
Dividends per Common Share	$1.50	$1.50



President's Message

The progress we made in 1994 will help us meet the competitive challenges that lie ahead.

Through Performance Initiatives — an ongoing effort to control costs and encourage continuous improvement throughout our Company — we identified savings that could reduce our cash requirements by more than $200 million annually within the next five years. This effort helped us achieve 1994 earnings of $282 million, or $1.97 per share, compared with $277 million, or $1.82 per share for 1993, excluding nonrecurring charges.

While achieving our second consecutive year of record retail sales, we also strengthened our commitment to exceptional customer service, which is reflected in both our marketing strategy and our Customer Value Improvement Program.

In addition, we're moving forward on a corporate strategy initiative that is focusing on a wide range of options and opportunities to enhance our ability to meet future competition.

Aggressively Cutting Costs

Performance Initiatives began with teams of employees looking at every facet of our business for opportunities to reduce costs, increase revenue and improve efficiency. In 1994, the program produced excellent results, including a $45-million reduction in our annual capital budget.

Many of the savings identified through Performance Initiatives resulted from the reprioritization of construction projects, improvements in maintenance procedures and the use of new technologies. These changes led to a work-force reduction of 812 employees, representing a savings of more than $40 million annually. The 14-percent reduction was achieved through a voluntary retirement program, layoffs and attrition.

Our future success will demand an even stronger emphasis on cost control and revenue enhancement. That's why we've made the Performance Initiatives strategy a permanent part of the way we do business. This program will play a key role in the years ahead as we achieve new operating efficiencies and cost savings that will help us become a stronger competitor in the electric utility industry.

Boosting Sales

As we make our business more productive, we're also working hard to increase sales and add to the value of our product and services.

Despite mild weather through most of the year, electric sales remained strong. Record retail sales of 25.1 billion kilowatt-hours reflect the continued vitality of our service area's economy as well as steady growth in the number of our customers. In 1994 alone, we added 13,175 customers, including 101 industrial and 2,431 commercial businesses.

Future electric sales should benefit from our marketing strategy that will help us build stronger partnerships with the businesses we serve. By giving our largest customers individualized marketing support and targeting our services to specific market segments, we will create new sales opportunities and enhance customer loyalty in the years ahead.

Keeping Rates Stable

We're continuing to promote sales growth through our Rate Stabilization and Service Area Development Program, which will keep 1990 base electric prices frozen until at least 1997. And our goal to extend the freeze until the year 2000 remains in effect.

By the end of 1994, we had made 43 loans through the program's $50-million efficiency fund for companies and local governments. These loans are supporting investments in energy-efficient electrical equipment and other improvements at large manufacturers and institutions throughout our Ohio service area.

In addition, we began using the program's $25-million fund to promote energy efficiency among our residential customers. A portion of these funds is being distributed through the

Community Partners Program, which is supporting efficiency improvements at local homeless shelters, homes for battered women and children and other agencies, and providing energy-saving items such as fluorescent light bulbs and weatherization materials to low-income customers.

Providing Exceptional Service

We're also adding value to the service we provide customers through our Customer Value Improvement Program, or Customer VIP. Introduced in 1994, Customer VIP underscores our commitment to offer responsive, quality service in areas that customers value the most—such as high reliability, related energy services and convenient operating hours at our service centers. The goals of this program have been shared with all employees through our new Customer VIP Promise, our pledge to deliver superior value to our customers — beyond what they expect.

Meeting The Competitive Challenge

Exceptional service is especially important in an increasingly competitive energy market. Much of this competition is being driven by technological advances and regulatory changes. In addition, many large users will continue to push for some form of retail wheeling, which would enable retail customers to purchase electricity from producers other than the local utility. While regulators appear to be increasingly reluctant to move in this direction — primarily because of the adverse impact retail wheeling would have on small users — we expect the debate will place downward pressure on our prices in the future.

Whether or not retail wheeling becomes a reality, we will continue to compete with existing sources such as natural gas and other fuel suppliers; municipal electric systems looking to expand; major manufacturers choosing among several plant locations; and cogenerators and independent power producers.

Regardless of what form it takes, competition is here to stay in our industry. We're meeting this challenge through the hard work of our employees, who are doing more with less, and through the bold actions we took during the year.

We're enthusiastic about the future of our business — a future in which electricity will fuel the most significant breakthroughs in tomorrow's homes and workplaces.

And we're confident of our success in the years ahead as we work hard to earn our customers' business and a fair return for our shareholders.

Willard R. Holland

Willard R. Holland
President and Chief Executive Officer

February 24, 1995

1994 In Review

Through Performance Initiatives, we made subtle changes to the look of our company vehicles, saving us $85,000 annually.

We've made fundamental improvements to our business that will establish Ohio Edison as a solid performer in tomorrow's energy market.

Many of these improvements are emerging from our Performance Initiatives program. Through this effort, teams of Ohio Edison employees studied every facet of our operations — looking for opportunities to cut costs, increase revenue and enhance efficiency.

By the end of 1994, steps taken through these initiatives had identified savings that could reduce our cash requirements by more than $200 million annually within the next five years.

For example, we've made changes to our materials management process that will achieve some $32 million in cost savings—ranging from improvements in how we buy, store and use transformers to reductions in inventory at our power plants. Changes in our tree-trimming process alone should produce savings of about $5 million annually.

Now firmly established within our organization, the cost-saving and improvement strategies developed through Performance Initiatives are an essential part of the way we do business.

After years of generating its own power, Chapel Hill Mall of Akron, Ohio, joined our system in 1994.

More than 800 transformers at our substations and generating plants help ensure the high reliability of our electrical system.

The clearest examples of our ongoing commitment to cost control are in the areas of capital spending and staffing.

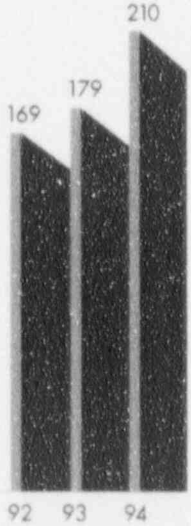
In 1994, we deferred or eliminated many power generation and electric transmission and distribution projects, changed the scope of others and replaced some with lower-cost alternatives — saving $45 million annually.

These changes — along with improvements in technology, enhancements in maintenance procedures and the streamlining of our operations — resulted in a work-force reduction of 14 percent during the year, saving the Company more than $40 million annually. Reductions totaling 812 employees were achieved through a combination of voluntary retirements, layoffs and attrition.

We now serve 118,000 more customers with about 2,700 fewer employees than we had in 1982.

During 1994, we also consolidated the operations of several divisions. The Bay, Mansfield and Marion divisions were merged to form the Western Division, and the Warren Division became part of the Youngstown Division. While improving our flexibility, the consolidations will help us provide greater focus to customer service, marketing and community activities. In addition, we achieved savings by consolidating several line shops and eliminating a number of management positions.

Employee Productivity (Number Of Customers Served Per Employee)



Marketing Strategy For The Future

We're ready to meet future competition with a marketing strategy that will retain existing customers, increase electric sales, and take advantage of new opportunities.

We have studied the marketing strategies of companies that successfully made the transition from highly regulated to highly competitive environments in industries such as airlines, telecommunications and trucking.

Using these and other strategies, we began a comprehensive restructuring of our marketing efforts that will help us add economic value to our product and enhance customer loyalty in a competitive market.

Basic marketing changes address the challenges electric companies will be facing. For example:

- We began segmenting our business customers by market — recognizing that plastics manufacturers need energy-related services and pricing options that are significantly different from those offered to steel companies or health care providers.

One of the world's largest makers of candles, the A.I. Root Company of Medina, Ohio, celebrated its 125th anniversary with a major expansion in 1994.

- We added major account representatives to bring a new perspective to our marketing efforts and to accelerate our shift to a more competitive environment.
- We created teams of marketing specialists to focus on key areas such as dealer incentives, demand-side management and equipment financing. They will improve and add to the many services we provide customers.
- We began allocating marketing resources based on higher standards of profitability to help us pursue sales and demand-side opportunities that make the most economic sense for our Company and our customers.

This restructuring is already paying off. In 1994, before our programs were fully implemented, new sales in competitive markets reached $73 million in projected lifetime contribution — a 38-percent increase over the previous year. Lifetime contribution is new revenue minus costs over the estimated life of new facilities or equipment, such as electric heating or industrial process applications.

For 1995, the first full year of the marketing strategy, we've set an ambitious goal that exceeds 1994's increase.

Other Business Incentives

Other efforts such as our Rate Stabilization and Service Area Development Program will also contribute to our success.

While establishing our commitment to freeze 1990 base electric rates through the balance of this decade, our rate freeze program continues to provide long-term

We developed a more efficient acoustic system to detect leaking valves that is now being marketed through a licensing agreement with Babcock & Wilcox.

We worked with the Nylonge Company on its expansion and installation of highly efficient electrical production equipment at its Elyria, Ohio, sponge manufacturing plant.

loans that business and governmental customers are using to improve the energy efficiency of their operations.

Through the program, we helped one manufacturer install new standby generators that can reduce its demand during peak operating hours. Another loan enabled a plastics company to replace natural gas-fueled chillers with highly efficient electrical chillers used to cool injection molds.

By the end of 1994, we had made 43 loans totaling $12 million to businesses and institutions in our service area, with another $10 million in loans committed or under consideration.

We also continue to offer five-year incentive rates for new and expanding businesses that meet criteria related to increased employment and capital investment. In 1994, 53 companies took advantage of these rates while investing $250 million in new facilities and creating nearly 3,300 new jobs. These new operations are expected to generate more than $22 million in new annual sales for our Company.

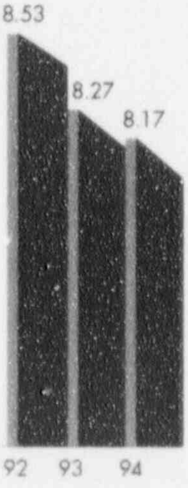
Building On A Strong Economy

As we focus on new ways to sell our product, we're also taking advantage of another important asset — a strong economy throughout our service area.

Over the year, we added 13,175 new customers — including 101 industrial and 2,431 commercial businesses.

New business activity in our service area included the following major projects:

- Washington Steel Corporation selected Massillon, Ohio, over a site in Pennsylvania to build its new $57-million facility to anneal and pickle stainless steel sheets. While keeping 260 jobs in the Massillon area, the project will create more than 60 new jobs over the next three years.
- In Warren, Ohio, the Packard Electric Division of General Motors added more than 1,600 new jobs in 1994 — and will create another 1,000 jobs this year — as it increases production of its component parts to meet a growing automotive market worldwide.



Embedded Cost Of Debt (Percent)

ABB Environmental Systems is building a new flue-gas desulfurization system at our Niles Plant that is expected to outperform conventional scrubbers.

- Over the past two years, Canal Place in Akron, Ohio, has signed new leases for 500,000 square feet of industrial and office space — the size of more than 11 football fields. Adjacent to the complex, Advanced Elastomer Systems — the world's leading maker and marketer of thermoplastic rubber — is renovating a former BFGoodrich plant into its new U.S. headquarters.

In addition, housing starts reached an all-time high as we added nearly 11,000 new single-family housing units to our service area — an increase of 10 percent over the previous year.

Record Retail Sales

This economic growth helped us achieve our second consecutive year of record retail sales. Despite mild weather through most of the year, retail sales reached 25.1 billion kilowatt-hours — a slight increase over last year's sales record of 25.0 billion kilowatt-hours. In addition, customers of Ohio Edison and Penn Power set records for peak demand and 24-hour use on July 20. Peak customer demand hit 5,744 megawatts, surpassing the previous record of 5,729 megawatts set on July 28, 1993. The new 24-hour use record of 105,071 megawatt-hours beat the previous mark of 103,745 megawatt-hours set on June 17, 1994.

Retail sales should remain strong due to continued growth in our service area's economy. For example, Ohio steel producers expect to spend more than $650 million on capital improvement projects in 1995 — a 40-percent increase over 1994. In our service area alone, steelmakers such as USS/KOBE, WCI Steel and Empire-Detroit are expected to complete nearly $160 million in modernization projects in 1995.

Our service area added nearly 11,000 new single-family housing units in 1994 — an all-time high.

One of our largest commercial customers, Wal-Mart continues to add new, all-electric stores in communities throughout our service area.

Making Every Customer Count

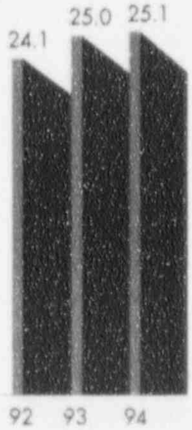
To become a strong competitor in the electricity marketplace, we need to provide the best possible service to all of our customers — both large and small.

Exceptional service is the goal of our Customer Value Improvement Program (Customer VIP). As part of this new effort, we're testing several programs that can help us deliver superior value to our customers.

Customer satisfaction is based on four key factors — performance, services, quality and price.

While our rate freeze helps address the issue of price, all of the Customer VIP programs are designed to meet specific customer-service needs in the areas of performance, services and quality:

- We're initiating a program that evaluates our service at the time of contact and compares it to service available from other companies.
- Another program will use effective follow-up to help increase loyalty and improve service. All levels of supervisory personnel will contact randomly selected customers to confirm satisfaction and identify ways of exceeding expectations.



- A recognition program will motivate employees to achieve top-notch service and reward their exceptional performances. We're also encouraging employees to offer proposals on cost-effective ways to enhance customer service.
- An existing program is improving our efforts to track and resolve customer problems — focusing on greater accountability, effective communications and quick turnaround.
- In addition, employee teams will be established in each division and area to review our customer service efforts. These teams will also evaluate employee suggestions, recognize top performers, analyze complaints and develop new programs that promote the goals of Customer VIP.

These goals are best expressed through our new Customer VIP Promise, which includes the following guidelines:

- *Take the customers' viewpoint and let their needs point the way.*
- *Treat customers in friendly, personable ways that instill confidence and trust.*
- *Deliver high-quality power, reliability and repairs.*

Our new Community Partners Program includes the distribution of high-efficiency, fluorescent light bulbs to low-income customers.

- *Be readily accessible and most responsive.*
- *Follow up to ensure satisfaction.*
- *Surface and resolve problems or mistakes promptly.*
- *Provide the information our customers need to make the best buying decision and confirm our value.*
- *Lead the way in making our communities grow and prosper.*

Working Closely With Our Communities

We're also providing support to our residential customers through our rate freeze program's \$25-million effort to encourage efficient uses of electricity. An important part of this effort is our new Community Partners Program, through which we will spend approximately \$5 million over the next several years to help low-income customers, senior citizens and community-based agencies reduce their energy bills.

For example, we're providing energy audits and appliance upgrades at facilities such as a home for battered women and children, a homeless shelter, and an emergency shelter for runaway, abused or foster children. We've also teamed up with local Salvation Army corps to distribute high-efficiency fluorescent light bulbs and weatherization materials. While underscoring our commitment to meet the special needs of all our customers, these projects help us delay the need for new power plants.

This scenic lighthouse in Vermilion, Ohio, is one of many attractions that contribute to the quality of life in our service area.

Our cost-effective strategy for complying with new clean-air standards includes the use of lower-sulfur coal at our W. H. Sammis Plant.

Clean-Air Compliance

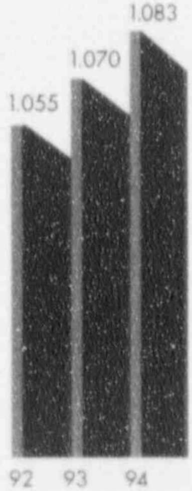
We are meeting the requirements of the Clean Air Act Amendments of 1990 through a wide range of cost-effective strategies.

Our cost of complying with the law's 1995 standards is modest due to steps taken in recent years. For example, a key feature of our compliance strategy involves the use of lower-sulfur coal at our W. H. Sammis Plant — made possible by innovative agreements negotiated with a number of our coal suppliers in 1991. Through these agreements, certain suppliers provide either the quality of coal or the emission allowances needed for compliance with clean-air standards. As a result, we're achieving compliance at the least cost to us and our customers.

Through another unique agreement, ABB Environmental Systems (ABBES) is financing the construction of a new-generation flue-gas desulfurization system at our Niles Plant. The five-year project will demonstrate the technical and economic feasibility of ABBES' LS-2 sulfur-dioxide (SO_2) scrubber system, which is designed to be less costly to build and operate than conventional scrubbers. Scheduled for commercial operation this summer, the $32.2 million project should reduce SO_2 emissions at the plant well under 1995 compliance standards, producing emission allowances that ABBES can sell to help recover its capital investment.

To meet nitrogen oxides (NO_x) regulations that take effect this year, we installed low-NO_x burners at the Bruce Mansfield Plant's Unit 1 boiler. The $10-million project was completed on schedule through a cooperative effort with our suppliers that will help us achieve significant savings in future outages, such as the one planned for the first half of this year to install low-NO_x burners at Mansfield Unit 2. By achieving significant reductions in NO_x emissions, the burners will enable the plant to meet stringent, ozone-related regulations for both stationary and mobile sources in an eastern 12-state area that includes Pennsylvania.

We also converted Unit 4 at our Edgewater Plant to burn both oil and natural gas. While reducing overall emissions, the project gives us valuable experience in natural gas generation — a supply option that could play a key role in meeting future energy needs.



Customers Served (Millions)

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 LLP, independent public accountants, have expressed an opinion on the Company's consolidated financial statements.

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 nonemployee 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 to the Board of Directors 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 four meetings during 1994.

H P Burg

H. P. Burg
Senior Vice President
Chief Financial Officer

H. L. Wagner

H. L. Wagner
Comptroller

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Ohio Edison Company (an Ohio corporation) and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, retained earnings, capital stock and other paid-in capital, cash flows and taxes for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Edison Company and subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 2 to the consolidated financial statements, effective January 1, 1993, the Company changed its method of accounting for unbilled revenues, income taxes and postretirement benefits other than pensions.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Cleveland, Ohio
February 3, 1995

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

We accomplished a great deal in 1994 as we continued preparing for the significant changes expected to take place in the electric utility industry.

For the second straight year, the Companies achieved record retail sales. This accomplishment, in combination with our aggressive cost control efforts, raised earnings on common stock to $1.97 per share in 1994 compared to $1.82 a year earlier. The 1993 amount, up from $1.70 per share in 1992, excludes nonrecurring charges of $1.43 per share, which included a $276,578,000 after-tax write-off of Perry Unit 2, the expected resolution of fuel cost recovery issues in Pennsylvania and certain costs associated with our Performance Initiatives program. The effect of the write-off was partially offset by a $58,201,000 credit from the cumulative effect of a change in accounting to accrue metered but unbilled revenue (see Note 2).

Our ongoing commitment to cost control is producing good results. Although total revenues dropped slightly in 1994, lower operation and maintenance expenses pushed operating income to its highest level in our history. A review of the work we do was an integral part of the Performance Initiatives program that began in 1993. As a result of this review, efficiencies were identified and the work force has been reduced by 812 employees since the beginning of 1994 through voluntary retirements, layoffs and normal attrition. This 14% reduction is expected to produce annual savings of at least $40,000,000.

Operating revenues decreased 0.1% from 1993 levels, which were 1.6% higher than 1992. The following table summarizes the sources of changes in operating revenues for 1994 and 1993 as compared to the previous year:

	1994	1993
	(In millions)	
Change in retail kilowatt-hour sales	$ 2.4	$ 95.9
Change in average retail electric price	(3.1)	(37.8)
Sales to utilities	2.2	(17.0)
Other	(3.2)	(3.5)
Net Increase (Decrease)	$ (1.7)	$ 37.6

An improving local economy helped us achieve record retail sales of 25.1 billion kilowatt-hours in 1994, which occurred despite milder weather conditions during the second half of the year as compared to 1993. More importantly, we added more than 13,100 new retail customers in 1994 after gaining approximately 14,500 customers the previous year. Commercial sales rose 1.4% in 1994, which follows a 4.7% gain in the previous year. Residential sales fell slightly in 1994 after posting a healthy 7.2% increase in 1993. Industrial sales were also down slightly in 1994 because of reduced production (until mid-1995) by a major steel customer that is modernizing its facilities. Sales to all other industrial customers were up 3.5% for the year, following a 1.3% increase in 1993. Reduced demand for bulk power and capacity constraints reduced our opportunity sales to other utilities in 1994 and 1993, falling 18.2% and 11.7%, respectively. As a result of these factors, total kilowatt-hour sales were down 3.9% compared with sales in 1993, which were up slightly over 1992.

Because of lower total kilowatt-hour sales, we spent 3.4% less on fuel and purchased power in 1994. However, we experienced higher nuclear expenses in 1994 and 1993 mainly due to corrective maintenance work at the Perry Plant. Due to mechanical failures and an extended refueling outage in 1994, Perry's availability was below expected levels during both years. The plant's operator has developed a comprehensive plan that is expected to improve Perry's performance. A major portion of the corrective action plan was completed during the 1994 outage, and the remainder will be implemented during Perry's next refueling, which is scheduled for early 1996. The plant returned to service on August 14, 1994, and ran continuously for the remainder of the year.

Our other operating costs were down markedly in 1994 compared with the two previous years. Costs in 1993 included a one-time $39,000,000 charge related to the Performance Initiatives program. Both 1994 and 1993 include higher expenses associated with the January 1, 1993, adoption of Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." These comparative increases were partially offset in 1993 by the previous year's additional provision for uncollectible accounts. Our cost-containment efforts resulting from the initiatives also contributed to lower operation and maintenance expenses in 1994.

Lower general taxes in 1994 resulted primarily from property taxes recognized in 1993 related to prior

years. Penn Power provided an $8,728,000 reserve for deferred postretirement benefit costs (see Note 1) in 1994, which was responsible for the majority of the change in net amortization of regulatory assets compared to 1993. The change between 1993 and 1992 was due to the deferral of incremental costs resulting from the adoption of SFAS No. 106 and the amortization of regulatory liabilities.

Other income was lower in 1994 than in 1993 because of a change in accounting for interest income from the Employee Stock Ownership Plan Trust (see Note 1). The effect of this accounting change on other income was partially offset by increased income from other investments. These include deposits by OES Finance as collateral for reimbursement obligations relating to certain letters of credit supporting our obligations to lessors under the Beaver Valley 2 sale and leaseback arrangements (see Note 4). The decrease in 1993 resulted from 1992's amortization of investment tax credits associated with disallowed Perry Unit 1 and Beaver Valley Unit 2 construction costs (see Note 1).

The electric utility industry is subject to the same inflationary pressures as those experienced by other industries. To the extent that we incur additional costs or receive benefits resulting from the effects of inflation, those effects are generally reflected in our electric rates through the traditional rate making process.

Capital Resources and Liquidity

Over the past decade, we have improved our financial position significantly. Because of higher revenues and aggressive cost controls, cash generated from operations was 42% higher in 1994 than it was ten years ago. By the end of 1994, we were serving about 104,000 more customers than at the end of 1984, with approximately 2,400 fewer employees. In 1984, our customer-employee ratio was 129 to 1. That ratio has improved significantly over the years, standing at 210 customers per employee at the end of 1994. In addition, capital expenditures have dropped significantly during that period. Expenditures in 1994 were less than one-third of what they were in 1984, and annual depreciation charges have exceeded property additions since the end of 1987.

We have also taken advantage of opportunities in the financial markets to reduce our embedded capital costs during the past decade. Through refinancing activities, we have reduced the average cost of outstanding debt from 11.04% at the end of 1984 to 8.17% at the end of 1994. Also, the cost of outstanding preferred and preference stock was reduced from 9.87% at the end of 1984 to 7.15% at the end of 1994. As a result of these actions, we have improved our financial position. For example, we have enhanced our coverage ratios and the percentage of common equity to total capitalization. Our indenture ratio, which is used to determine the ability to issue first mortgage bonds, improved from 3.18 at the end of 1984 to 5.34 at the end of 1994. Over the same period, our charter ratio, a measure of the ability to issue preferred stock, improved from 1.72 to 2.11, and, our common equity percentage of capitalization rose from approximately 33% at the end of 1984 to about 40% at the end of 1994.

At the end of 1994, we had the capability to issue $1,461,000,000 principal amount of first mortgage bonds and $1,089,000,000 of preferred stock. However, our projections for 1995 indicate no need to issue new long-term securities during the year.

We had about $23,000,000 of cash and temporary investments and $175,000,000 of short-term indebtedness on December 31, 1994. OES Fuel had approximately $30,000,000 of unused borrowing capability at the end of 1994 that was available for reloan to the Company. We also had $55,000,000 of unused short-term bank lines of credit, and $72,000,000 of bank facilities that provide for borrowings on a short-term basis at the banks' discretion. OES Capital had approximately $15,000,000 of unused, short-term borrowing capability on December 31, 1994.

During the past five years, we spent approximately $1,100,000,000 on our construction programs (excluding nuclear fuel). During that period, the Employee Stock Ownership Plan Trust was also funded with $200,000,000. We estimate our construction programs and capital lease requirements for the period 1995-1999 to be about $800,000,000 (excluding nuclear fuel), of which approximately $180,000,000 applies to 1995. We also have cash requirements of approximately $1,301,000,000 for the 1995-1999 period to meet maturities of, and sinking fund requirements for, long-term debt and preferred stock. Of that amount, approximately $227,000,000 applies to 1995.

Investments for additional nuclear fuel during the 1995-1999 period are estimated to be approximately $172,000,000, of which about $30,000,000 applies to 1995. During the same periods, our nuclear fuel investments are expected to be reduced by approximately $225,000,000 and $56,000,000, respectively, as the nuclear fuel is consumed. Also, we have operating lease commitments of approximately $575,000,000 for the 1995-1999 period, of which approximately $106,000,000 relates to 1995. We recover the cost of nuclear fuel consumed and operating leases through our electric rates.

Reference is made to Note 1 for a discussion of regulatory assets. Although the recoverable amounts are significant, about 83% of these deferred costs are already reflected in our rates, and are being recovered over approximately 22 years. Recovery of the remaining amounts will be requested in a future rate proceeding.

The Central Area Power Coordination Group (CAPCO) companies filed suit against Westinghouse Electric Corporation in 1991, alleging that six steam generators supplied by Westinghouse for the Beaver Valley Plant are defective and that replacement could be required earlier than the 40-year design life. A federal court rejected the claims of the CAPCO companies in December 1994, after a three-month trial. The CAPCO companies have appealed the verdict. The plant's operator has no current plans to replace the steam generators and is evaluating the feasibility of applying new technologies to repair the generators. If the generators need to be replaced and the companies decide to do so, the capital costs to the CAPCO companies could range from $100,000,000 to $150,000,000 per unit. That estimate is based upon costs other utilities have experienced. We have a 52.5% interest in Beaver Valley Unit 1 and a 41.88% interest in Unit 2.

Outlook

We will be facing many competitive challenges in the years ahead as the electric utility industry becomes more deregulated and more energy suppliers enter the marketplace. Retail wheeling, which would allow retail customers to purchase electricity from other energy producers, would be one of those challenges if legislators choose to move in that direction. In any event, changing market forces make it imperative that we continue to find ways to reduce costs, increase revenues and enhance shareholder value. The Company's Rate Stabilization and Service Area Development Program will help respond to these market forces by freezing base electric rates at 1990 levels until at least 1997, absent any significant changes in regulatory, environmental or tax requirements. In addition, we have a corporate goal of extending the rate freeze until the year 2000.

Effective operation of the nuclear facilities we jointly own will also help meet these competitive challenges. Proper planning to eventually decommission those facilities is also important to our competitive position. Beginning in 1995, we plan to increase our annual funding of the decommissioning obligation. Also, the staff of the Securities and Exchange Commission (SEC) has raised questions regarding the recognition, measurement and classification of decommissioning costs in the financial statements of electric utilities. Any future SEC actions are uncertain at this time (see Note 1).

The Clean Air Act Amendments of 1990, discussed in Note 7, require significant reductions of sulfur dioxide and nitrogen oxides from our coal-fired generating units by 1995 and additional emission reductions by 2000. We are well-positioned to meet the 1995 requirements at minimal costs, and we are pursuing cost-effective compliance strategies for meeting the reduction requirements that begin in 2000.

Through the Performance Initiatives program, we have identified substantial savings that will better position us to successfully compete in the future. In addition, the program ensures that an economic value added-based justification will be required for capital expenditures. We are also conducting studies to identify other opportunities to increase revenues and operating efficiency. The focus of the entire organization is to improve our competitive position in order to maximize the value of our shareholders' investment in the Company.

SELECTED FINANCIAL DATA

Ohio Edison Company

(In thousands, except per share amounts)

	1994	1993	1992	1991	1990
Operating Revenues	$2,368,191	$2,369,940	$2,332,378	$2,358,946	$2,240,646
Operating Income	$557,254	$525,330	$522,115	$550,452	$510,279
Net Income	$303,531	$82,724	$276,986	$264,823	$281,676
Earnings on Common Stock	$281,852	$59,017	$253,060	$240,069	$254,048
Earnings per Share of Common Stock	$1.97	$ .39	$1.70	$1.60	$1.67
Dividends Declared per Share of Common Stock	$1.50	$1.50	$1.50	$1.50	$1.73
Total Assets	$8,993,964	$8,918,267	$7,830,026	$7,812,345	$7,841,621
Capitalization at December 31:					
Common Stockholders' Equity	$2,317,197	$2,243,292	$2,408,164	$2,371,946	$2,545,159
Preferred and Preference Stock:					
Not Subject to Mandatory Redemption	328,240	328,240	354,240	354,240	354,240
Subject to Mandatory Redemption	40,000	45,500	59,862	65,582	62,822
Long-Term Debt	3,166,593	3,039,263	3,121,647	3,243,167	3,105,248
Total Capitalization	$5,852,030	$5,656,295	$5,943,913	$6,034,935	$6,067,469

COMMON STOCK DATA

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

PRICE RANGE OF COMMON STOCK	1994		1993	
First Quarter High-Low	22-3/4	18-7/8	25-3/8	22-1/8
Second Quarter High-Low	19-1/4	16-1/2	26	22-3/4
Third Quarter High-Low	19-5/8	17-1/2	25-7/8	24-3/8
Fourth Quarter High-Low	19-1/4	17-7/8	25-1/4	21
Yearly High-Low	22-3/4	16-1/2	26	21

Prices are based on reports published in *The Wall Street Journal* for New York Stock Exchange Composite Transactions.

CLASSIFICATION OF HOLDERS OF COMMON STOCK AS OF DECEMBER 31, 1994

	Holders of Record		Shares Held	
	Number	%	Number	%
Individuals	121,289	82.87	53,849,390	35.30
Fiduciaries	23,167	15.83	9,510,404	6.23
Nominees	68	.05	87,448,432	57.32
All Others	1,834	1.25	1,761,211	1.15
Total	146,358	100.00	152,569,437	100.00

As of January 31, 1995, there were 145,578 holders of 152,569,437 shares of the Company's Common Stock. Quarterly dividends of 37.5¢ per share were paid on the Company's Common Stock during 1994 and 1993. Information regarding retained earnings available for payment of cash dividends is given in Note 5A.

CONSOLIDATED STATEMENTS OF INCOME

Ohio Edison Company

(In thousands, except per share amounts)

For the Years Ended December 31,	1994	1993	1992
OPERATING REVENUES	$2,368,191	$2,369,940	$2,332,378
OPERATING EXPENSES AND TAXES:			
Fuel and purchased power	440,936	456,494	463,599
Nuclear operating costs	304,716	290,321	274,7[illegible]9
Other operating costs	427,133	474,241	440,425
Total operation and maintenance expenses	1,172,785	1,221,056	1,178,743
Provision for depreciation	220,502	217,980	223,497
General taxes	237,020	245,554	229,332
Amortization (deferral) of net regulatory assets	(884)	(6,753)	18,303
Income taxes	181,514	166,773	160,358
Total operating expenses and taxes	1,810,937	1,844,610	1,810,263
OPERATING INCOME	557,254	525,330	522,115
OTHER INCOME AND EXPENSE:			
Perry Unit 2 termination (Note 3)	—	(390,835)	—
Income tax benefit from Perry Unit 2 termination	—	142,092	—
Other	16,459	19,921	36,283
Total other income (expense)	16,459	(228,822)	36,283
TOTAL INCOME	573,713	296,508	558,398
NET INTEREST AND OTHER CHARGES:			
Interest on long-term debt	259,554	262,861	275,835
Deferred nuclear unit interest	(8,511)	(8,518)	(8,392)
Allowance for borrowed funds used during construction and capitalized interest	(5,156)	(4,666)	(6,488)
Other interest expense	18,931	16,445	13,958
Subsidiary's preferred stock dividend requirements	5,364	5,863	6,499
Net interest and other charges	270,182	271,985	281,412
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING	303,531	24,523	276,986
Cumulative effect to January 1, 1993 of a change in accounting for unbilled revenues (net of income taxes of $33,632,000) (Note 2)	—	58,201	—
NET INCOME	303,531	82,724	276,986
PREFERRED AND PREFERENCE STOCK DIVIDEND REQUIREMENTS	21,679	23,707	23,926
EARNINGS ON COMMON STOCK	$ 281,852	$ 59,017	$ 253,060
EARNINGS PER SHARE OF COMMON STOCK:			
Before cumulative effect of a change in accounting	$1.97	$ .01	$1.70
Cumulative effect to January 1, 1993 of a change in accounting for unbilled revenues (Note 2)	—	.38	—
EARNINGS PER SHARE OF COMMON STOCK	$1.97	$ .39	$1.70
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$1.50	$1.50	$1.50

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

CONSOLIDATED BALANCE SHEETS

Ohio Edison Company
(In thousands)

At December 31,	1994	1993
ASSETS		
UTILITY PLANT:		
In service, at original cost	$8,518,050	$8,380,430
Less—Accumulated provision for depreciation	2,910,587	2,732,527
	5,607,463	5,647,903
Construction work in progress—		
Electric plant	174,970	182,894
Nuclear fuel	52,470	46,879
	227,440	229,773
	5,834,903	5,877,676
OTHER PROPERTY AND INVESTMENTS:		
Letter of credit collateralization (Note 4)	277,763	—
Other	197,546	181,815
	475,309	181,815
CURRENT ASSETS:		
Cash and cash equivalents	23,291	159,690
Receivables—		
Customers (less accumulated provisions of $2,517,000 and $6,907,000, respectively, for uncollectible accounts)	254,515	298,913
Other	54,713	42,428
Materials and supplies, at average cost—		
Fuel	40,528	41,513
Other	81,809	87,689
Prepayments	71,836	72,889
	526,692	703,122
DEFERRED CHARGES:		
Regulatory assets	2,005,333	1,993,795
Unamortized sale and leaseback costs	106,883	110,656
Other	44,844	51,203
	2,157,060	2,155,654
	$8,993,964	$8,918,267
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See Consolidated Statements of Capitalization):		
Common stockholders' equity	$2,317,197	$2,243,292
Preferred stock—		
Not subject to mandatory redemption	277,335	277,335
Subject to mandatory redemption	25,000	25,000
Preferred stock of consolidated subsidiary—		
Not subject to mandatory redemption	50,905	50,905
Subject to mandatory redemption	15,000	20,500
Long-term debt	3,166,593	3,039,263
	5,852,030	5,656,295
CURRENT LIABILITIES:		
Currently payable preferred stock and long-term debt	227,496	444,170
Short-term borrowings (Note 6)	174,642	104,126
Accounts payable	100,884	127,895
Accrued taxes	140,629	107,687
Accrued interest	65,743	72,667
Other	152,856	141,251
	862,250	997,796
DEFERRED CREDITS:		
Accumulated deferred income taxes	1,799,324	1,798,551
Accumulated deferred investment tax credits	223,827	231,863
Property taxes	106,458	101,132
Other	150,075	132,580
	2,279,684	2,264,176
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Notes 4 and 7)		
	$8,993,964	$8,918,267

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

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Ohio Edison Company

(In thousands)

For the Years Ended December 31,	1994	1993	1992
Balance at beginning of year	$322,821	$490,564	$462,087
Net income	303,531	82,724	276,986
Tax benefit from ESOP dividends	—	5,256	5,592
	626,352	578,544	744,665
Cash dividends on preferred and preference stock	21,926	23,275	23,874
Cash dividends on common stock	214,826	228,855	228,855
Premium on redemption of preferred stock	—	3,593	1,372
	236,752	255,723	254,101
Balance at end of year (Note 5A)	$389,600	$322,821	$490,564

CONSOLIDATED STATEMENTS OF CAPITAL STOCK AND OTHER PAID-IN CAPITAL

	Common Stock				Preferred and Preference Stock			
					Not Subject to Mandatory Redemption		Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Unallocated ESOP Common Stock	Number of Shares	Par or Stated Value	Number of Shares	Par or Stated Value
				(Dollars in thousands)				
Balance, January 1, 1992	152,569,437	$1,373,125	$731,793	$(195,059)	3,542,399	$354,240	636,216	$70,102
Allocation of ESOP Shares				7,741				
Sale of 7.625% Preferred Stock							150,000	15,000
Redemptions—								
$102.50 Series							(1,800)	(1,800)
8.24% Series							(5,000)	(500)
11.00% Series							(8,000)	(800)
15.00% Series							(54,400)	(5,440)
10.50% Series							(100,000)	(10,000)
11.50% Series							(15,000)	(1,500)
13.00% Series							(10,000)	(1,000)
Balance, December 31, 1992	152,569,437	1,373,125	731,793	(187,318)	3,542,399	354,240	592,016	64,062
Allocation of ESOP Shares				6,799				
Sale of 7.75% Class A Preferred Stock			(3,361)		4,000,000	100,000		
Sale of 7.75% Preferred Stock			(345)		250,000	25,000		
Redemptions—								
$102.50 Series			(216)				(5,400)	(5,400)
8.24% Series							(45,000)	(4,500)
8.48% Series			(6)		(80,000)	(8,000)		
8.64% Series					(400,000)	(40,000)		
9.12% Series					(450,000)	(45,000)		
9.16% Series					(80,000)	(8,000)		
11.00% Series							(8,000)	(800)
11.50% Series							(60,000)	(6,000)
13.00% Series							(10,000)	(1,000)
Balance, December 31, 1993	152,569,437	1,373,125	727,865	(180,519)	6,782,399	378,240	463,616	46,362
Minimum liability for unfunded retirement benefits			(3,053)					
Allocation of ESOP Shares			36	10,143				
Redemptions—								
Market Auction Series					(500,000)	(50,000)		
11.00% Series							(3,616)	(362)
13.00% Series							(60,000)	(6,000)
Balance, December 31, 1994	152,569,437	$1,373,125	$724,848	$(170,376)	6,282,399	$328,240	400,000	$40,000

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION

Ohio Edison Company

(In thousands, except per share amounts)

At December 31,	Number of Shares Outstanding 1994	Number of Shares Outstanding 1993	Optional Redemption Price Per Share	Optional Redemption Price Aggregate	1994	1993
COMMON STOCKHOLDERS' EQUITY:						
Common stock, $9 par value, authorized 175,000,000 shares— 152,569,437 shares outstanding					**$1,373,125**	$1,373,125
Other paid-in capital					**724,848**	727,865
Retained earnings (Note 5A)					**389,600**	322,821
Unallocated employee stock ownership plan common stock— 9,076,489 and 9,608,739 shares, respectively (Note 5B)					**(170,376)**	(180,519)
Total common stockholders' equity					**2,317,197**	2,243,292
PREFERRED STOCK (Note 5C):						
Cumulative, $100 par value—						
Authorized 6,000,000 shares						
Not Subject to Mandatory Redemption:						
3.85%	—	500,000	$ —	$ —	**—**	50,000
3.90%	152,510	152,510	103.63	15,804	**15,251**	15,251
4.40%	176,280	176,280	108.00	19,038	**17,628**	17,628
4.44%	136,560	136,560	103.50	14,134	**13,656**	13,656
4.56%	144,300	144,300	103.38	14,917	**14,430**	14,430
7.24%	363,700	363,700	101.98	37,090	**36,370**	36,370
7.36%	350,000	350,000	101.74	35,609	**35,000**	35,000
8.20%	450,000	450,000	102.07	45,932	**45,000**	45,000
Optional Redemption — February 1994					**—**	(50,000)
	1,773,350	2,273,350		182,524	**177,335**	177,335
Cumulative, $25 par value—						
Authorized 8,000,000 shares						
Not Subject to Mandatory Redemption:						
7.75%	4,000,000	4,000,000	25.00	100,000	**100,000**	100,000
Total not subject to mandatory redemption	5,773,350	6,273,350		$282,524	**277,335**	277,335
Cumulative, $100 par value—						
Subject to Mandatory Redemption (Note 5D):						
8.45%	250,000	250,000			**25,000**	25,000
PREFERRED STOCK OF CONSOLIDATED SUBSIDIARY (Note 5C):						
Cumulative, $100 par value—						
Authorized 1,200,000 shares						
Not Subject to Mandatory Redemption:						
4.24%	40,000	40,000	$103.13	$ 4,125	**4,000**	4,000
4.25%	41,049	41,049	105.00	4,310	**4,105**	4,105
4.64%	60,000	60,000	102.98	6,179	**6,000**	6,000
7.64%	60,000	60,000	101.42	6,085	**6,000**	6,000
7.75%	250,000	250,000	100.00	25,000	**25,000**	25,000
8.00%	58,000	58,000	102.07	5,920	**5,800**	5,800
Total not subject to mandatory redemption	509,049	509,049		$ 51,619	**50,905**	50,905
Subject to Mandatory Redemption (Note 5D):						
7.625%	150,000	150,000	$107.63	$ 16,144	**15,000**	15,000
11.00%	—	3,616	—	—	**—**	362
13.00%	—	60,000	—	—	**—**	6,000
Redemption within one year					**—**	(862)
Total subject to mandatory redemption	150,000	213,616		$ 16,144	**15,000**	20,500

CONSOLIDATED STATEMENTS OF CAPITALIZATION (Cont.)

Ohio Edison Company

(In thousands)

At December 31,	1994	1993		1994	1993	1994	1993
LONG-TERM DEBT (Note 5E):							
First mortgage bonds:							
Ohio Edison Company—			Pennsylvania Power Company—				
8.800% due 1994-96	—	27,600	9.000% due 1996	50,000	50,000		
13.430% due 1994	—	30,000	9.740% due 1999-2019	20,000	20,000		
12.740% due 1995	30,000	30,000	7.500% due 2003	40,000	40,000		
8.500% due 1996	150,000	150,000	6.375% due 2004	50,000	50,000		
8.750% due 1998	150,000	150,000	6.625% due 2004	20,000	20,000		
6.875% due 1999	150,000	150,000	8.500% due 2022	50,000	50,000		
6.375% due 2000	80,000	80,000	7.625% due 2023	40,000	40,000		
7.375% due 2002	120,000	120,000					
7.500% due 2002	34,265	34,265					
8.250% due 2002	125,000	125,000					
8.625% due 2003	150,000	150,000					
6.875% due 2005	80,000	80,000					
9.750% due 2019	35,300	150,000					
8.750% due 2022	100,000	100,000					
7.625% due 2023	75,000	75,000					
7.875% due 2023	100,000	100,000					
Total first mortgage bonds	1,379,565	1,551,865		270,000	270,000	1,649,565	1,821,865
Secured notes:							
Ohio Edison Company—			Pennsylvania Power Company—				
9.345% due 1994	—	50,000	4.750% due 1998	850	850		
8.380% due 1996	53,718	87,987	6.080% due 2000	23,000	23,000		
7.930% due 2002	77,997	—	5.400% due 2013	1,000	1,000		
7.680% due 2005	200,000	—	12.000% due 2014	—	12,700		
9.200% due 2014	—	50,000	8.125% due 2015	14,250	14,250		
10.500% due 2015	60,000	60,000	5.400% due 2017	10,600	10,600		
10.625% due 2015	40,000	40,000	7.150% due 2017	17,925	17,925		
7.450% due 2016	47,725	47,725	5.900% due 2018	16,800	16,800		
7.100% due 2018	26,000	26,000	8.100% due 2018	10,300	10,300		
7.000% due 2021	69,500	69,500	8.100% due 2020	5,200	5,200		
7.150% due 2021	443	443	7.150% due 2021	14,482	14,482		
7.625% due 2023	50,000	50,000	6.150% due 2023	12,700	—		
8.100% due 2023	30,000	30,000	6.450% due 2027	14,500	14,500		
7.750% due 2024	108,000	108,000	5.450% due 2028	6,950	6,950		
5.625% due 2029	50,000	50,000	5.950% due 2029	238	238		
5.950% due 2029	56,212	56,212					
5.450% due 2033	14,800	14,800					
	884,395	740,667		148,795	148,795	1,033,190	889,462
OES Fuel—							
5.72% weighted average interest rate						124,984	131,611
Total secured notes						1,158,174	1,021,073
Unsecured notes:							
Ohio Edison Company—							
9.440% due 1995	75,000	75,000					
7.380% due 1997	100,000	100,000					
8.635% due 1997	50,000	50,000					
4.900% due 2012	50,000	50,000					
4.250% due 2014	50,000	50,000					
3.450% due 2015	50,000	50,000					
4.250% due 2018	56,000	56,000					
4.750% due 2018	57,100	57,100					
3.450% due 2032	53,400	53,400					
Total unsecured notes	541,500	541,500				541,500	541,500
Capital lease obligations (Note 4)						54,180	59,312
Net unamortized discount on debt						(9,330)	(11,179)
Long-term debt due within one year						(227,496)	(393,308)
Total long-term debt						3,166,593	3,039,263
TOTAL CAPITALIZATION						$5,852,030	$5,656,295

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Ohio Edison Company

(In thousands)

For the Years Ended December 31,	1994	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 303,531	$ 82,724	$ 276,986
Adjustments to reconcile net income to net cash from operating activities:			
Provision for depreciation	220,502	217,980	223,497
Nuclear fuel and lease amortization	72,141	59,858	85,419
Deferred income taxes, net	21,156	(26,233)	18,221
Investment tax credits, net	(8,036)	(8,345)	(17,857)
Deferred revenue	—	—	19,517
Allowance for equity funds used during construction	(5,277)	(4,257)	(3,025)
Deferred fuel costs, net	(2,656)	(1,078)	5,130
Perry Unit 2 termination	—	390,835	—
Cumulative effect of a change in accounting for unbilled revenues	—	(58,201)	—
Other amortization, net	8,422	1,184	9,941
Internal cash before dividends	609,783	654,467	617,829
Receivables	32,113	(1,962)	2,278
Materials and supplies	6,865	41,467	(14,889)
Accounts payable	(18,261)	9,823	(19,986)
Other	64,564	19,088	4,727
Net cash provided from operating activities	695,064	722,883	589,959
CASH FLOWS FROM FINANCING ACTIVITIES:			
New Financing—			
Preferred stock	—	121,294	15,000
Long-term debt	434,759	765,358	937,797
Short-term borrowings, net	70,516	—	56,716
Redemptions and Repayments—			
Preferred and preference stock	56,362	122,502	22,412
Long-term debt	483,347	773,128	1,065,377
Short-term borrowings, net	—	47,445	—
Dividend Payments—			
Common stock	216,782	224,943	234,188
Preferred and preference stock	21,483	20,926	23,786
Net cash used for financing activities	272,699	302,292	336,250
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property additions	258,249	256,746	241,508
Letter of credit collateralization deposit	277,763	—	—
Sale and leaseback restructuring fees	1,507	10,417	37,654
Other	21,245	7,950	14,133
Net cash used for investing activities	558,764	275,113	293,295
Net increase (decrease) in cash and cash equivalents	(136,399)	145,478	(39,586)
Cash and cash equivalents at beginning of year	159,690	14,212	53,798
Cash and cash equivalents at end of year	$ 23,291	$ 159,690	$ 14,212
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Cash Paid During the Year—			
Interest (net of amounts capitalized)	$ 267,319	$ 262,410	$ 290,420
Income taxes	143,202	94,272	134,768

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

CONSOLIDATED STATEMENTS OF TAXES

Ohio Edison Company

(In thousands)

For the Years Ended December 31,	1994	1993	1992
GENERAL TAXES:			
Real and personal property	$ 113,484	$ 124,709	$111,533
State gross receipts	100,996	97,348	94,415
Social security and unemployment	14,822	15,626	15,166
Other	7,718	7,871	8,218
Total general taxes	$ 237,020	$ 245,554	$229,332
PROVISION FOR INCOME TAXES:			
Currently payable—			
Federal	$ 161,219	$ 61,920	$132,712
State	14,547	5,544	14,331
	175,766	67,464	147,043
Deferred, net—			
Federal	20,796	489	17,586
State	360	6,455	635
	21,156	6,944	18,221
Investment tax credits, net of amortization	(8,036)	(8,345)	(17,857)
Total provision for income taxes	$ 188,886	$ 66,063	$147,407
INCOME STATEMENT CLASSIFICATION OF PROVISION FOR INCOME TAXES:			
Operating income	$ 181,514	$ 166,773	$160,358
Other income	7,372	(134,342)	(12,951)
Cumulative effect of a change in accounting	—	33,632	—
Total provision for income taxes	$ 188,886	$ 66,063	$147,407
RECONCILIATION OF FEDERAL INCOME TAX EXPENSE AT STATUTORY RATE TO TOTAL PROVISION FOR INCOME TAXES:			
Book income before provision for income taxes	$ 492,417	$ 148,787	$424,393
Federal income tax expense at statutory rate	$ 172,346	$ 52,075	$144,294
Increases (reductions) in taxes resulting from—			
Excess of book over tax depreciation	—	—	19,741
Amortization of investment tax credits	(8,036)	(8,345)	(32,092)
State income taxes net of federal income tax benefit	9,690	7,799	9,878
Amortization of tax regulatory assets	14,503	15,412	—
Other, net	383	(878)	5,586
Total provision for income taxes	$ 188,886	$ 66,063	$147,407
SOURCES OF DEFERRED TAX EXPENSE:			
Excess of tax over book depreciation, net			$ 27,627
Difference between tax and book revenue, net			(9,084)
Alternative minimum tax credits utilized			12,467
Other, net			(12,789)
Net deferred tax expense			$ 18,221
ACCUMULATED DEFERRED INCOME TAXES AT DECEMBER 31:			
Property basis differences	$1,024,737	$ 972,501	
Allowance for equity funds used during construction	278,172	282,525	
Deferred nuclear expense	272,516	277,555	
Customer receivables for future income taxes	237,826	244,540	
Deferred sale and leaseback costs	87,068	90,878	
Unamortized investment tax credits	(82,491)	(85,459)	
Other	(18,504)	16,011	
Net deferred income tax liability	$1,799,324	$1,798,551	

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), OES Capital, Incorporated (OES Capital), OES Finance, Incorporated (OES Finance) and OES Fuel, Incorporated (OES Fuel). All significant intercompany transactions have been eliminated. The Company and Penn Power (Companies) follow the accounting policies and practices prescribed by the Public Utilities Commission of Ohio (PUCO), the Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC).

Revenues - The Companies' retail customers are metered on a cycle basis. Revenue was recognized for electric service based on meters read through the end of the year for years prior to 1993. Beginning in 1993, revenue is recognized to include unbilled sales through the end of the year (see Note 2).

Receivables from customers include sales to residential, commercial and industrial customers located in the Companies' service area and sales to wholesale customers. There was no material concentration of receivables at December 31, 1994 or 1993, with respect to any particular segment of the Companies' customers.

Fuel Costs - The Companies recover fuel-related costs not otherwise included in base rates from retail customers through separate energy rates. Any over or under collection resulting from the operation of these rates are included as adjustments to subsequent energy rates. Accordingly, the Companies defer the difference between actual fuel-related costs incurred and the amounts currently recovered from their customers.

Utility Plant and Depreciation - Utility plant reflects the original cost of construction, including payroll and related costs such as taxes, employee benefits, administrative and general costs and financing costs (allowance for funds used during construction).

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 annual composite rate for electric plant was approximately 3.0% in 1994, 1993 and 1992.

The Companies recognize approximately $5,000,000 annually (as depreciation expense) for future decommissioning costs applicable to their ownership and leasehold interests in three nuclear generating units. The Companies' share of the future obligation to decommission these units is approximately $388,000,000 in current dollars and (using a 2.8% escalation rate) approximately $865,000,000 in future dollars. The estimated obligation (based on site specific studies) and the escalation rate were developed using information obtained from consultants. Payments for decommissioning are expected to begin in 2016, when actual decommissioning work begins. The Companies have recovered approximately $48,000,000 for decommissioning through their electric rates from customers through December 31, 1994; such amounts are reflected in the reserve for depreciation on the Consolidated Balance Sheet. If the actual costs of decommissioning the units exceed the accumulated amounts recovered from customers, the Companies expect that difference will be recoverable from their customers. The Companies have approximately $34,400,000 invested in external decommissioning trust funds as of December 31, 1994. Earnings on these funds are reinvested with a corresponding increase to the depreciation reserve. The Companies have also recognized an estimated liability of approximately $19,900,000 related to decontamination and decommissioning of nuclear enrichment facilities operated by the United States Department of Energy (DOE), as required by the Energy Policy Act of 1992. The Companies recover these costs through their respective energy rates.

The staff of the Securities and Exchange Commission has raised questions regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations in the financial statements of electric utilities. In response to these questions, the Financial Accounting Standards Board (FASB) has agreed to review the accounting for nuclear decommissioning costs. If current electric utility industry accounting practices for decommissioning are changed: (1) annual provisions for decommissioning could increase; (2) the full estimated cost for decommissioning could be recorded as a liability rather than as accumulated depreciation; and (3) income from the external decommissioning trusts could be reported as investment income. The FASB's review is expected to be completed in 1995.

Common Ownership Of Generating Facilities - The Companies and other Central Area Power Coordination Group (CAPCO) companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the costs associated with any jointly owned facility in the same proportion as its interest. The Companies' portions of operating expenses associated with jointly owned facilities are included in the corresponding operating expenses on the Consolidated Statements of Income. The amounts reflected on the Consolidated Balance Sheet under utility plant at December 31, 1994, include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Construction Work in Progress	Companies' Ownership/ Leasehold Interest
		(In thousands)		
W.H. Sammis #7	$ 308,000	$ 88,200	$ 3,300	68.80%
Bruce Mansfield #1, #2 and #3	762,800	335,000	9,600	50.68%
Beaver Valley #1 and #2	1,847,400	544,500	2,900	47.11%
Perry #1	1,623,000	281,700	4,300	35.24%
Total	$4,541,200	$1,249,400	$20,100	

Nuclear Fuel – Nuclear fuel is recorded at original cost, which includes material, enrichment, fabrication and interest costs incurred prior to reactor load. The Companies amortize the cost of nuclear fuel based on the rate of consumption. The Companies' electric rates include amounts for the future disposal of spent nuclear fuel based upon the formula used to compute payments to the DOE.

Income Taxes – Details of the total provision for income taxes are shown on the Consolidated Statements of Taxes. Deferred income taxes result from timing differences in the recognition of revenues and expenses for tax and accounting purposes. Investment tax credits (ITC), which were deferred when utilized, are being amortized over the estimated life of the related property. ITC amortization in 1992 included $21,300,000 associated with portions of the Company's investments in Perry Unit 1 and Beaver Valley Unit 2 which are not recoverable from retail customers.

The Companies adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," on January 1, 1993, which requires the liability method to be used to account for deferred income taxes. Under this standard, deferred income tax liabilities related to tax and accounting basis differences are recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. The components of accumulated deferred income taxes as of December 31, 1994 and 1993, are disclosed on the Consolidated Statements of Taxes.

Retirement Benefits – The Companies' trusteed, noncontributory defined benefit pension plans cover almost all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. The Companies use the projected unit credit method for funding purposes and were not required to make pension contributions during the three years ended December 31, 1994.

The following sets forth the funded status of the plans and amounts recognized on the Consolidated Balance Sheets as of December 31:

	1994	1993
	(In thousands)	
Actuarial present value of benefit obligations:		
Vested benefits	$483,850	$471,205
Nonvested benefits	27,312	28,180
Accumulated benefit obligation	$511,162	$499,385
Plan assets at fair value	$719,310	$770,240
Actuarial present value of projected benefit obligation	593,931	605,848
Plan assets in excess of projected benefit obligation	125,379	164,392
Unrecognized net loss (gain)	8,868	(6,743)
Unrecognized prior service cost	12,755	14,074
Unrecognized net transition asset	(49,775)	(57,719)
Net pension asset	$ 97,227	$114,004

The assets of the plans consist primarily of common stocks, United States government bonds and corporate bonds. Net pension costs for the three years ended December 31, 1994, were computed as follows:

	1994	1993	1992
		(In thousands)	
Service cost - benefits earned during the period	$ 15,159	$ 13,171	$ 13,278
Interest on projected benefit obligation	45,299	42,723	40,291
Return on plan assets	8,344	(97,849)	(59,297)
Net deferral (amortization)	(89,324)	14,954	(22,378)
Voluntary early retirement program expense	37,299	6,014	7,289
Net pension cost	$ 16,777	$(20,987)	$(20,817)

The assumed discount rate used in determining the actuarial present value of the projected benefit obligation was 8.5% in 1994, 7.5% in 1993 and 9% in 1992. The assumed rate of increase in future compensation levels used to measure this obligation was 4.5% in each year. Expected long-term rates of return on plan assets were assumed to be 10% in 1994 and 11% in 1993 and 1992.

The Companies provide a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee deductibles and copayments, are also available to retired employees, their dependents and, under certain circumstances, their survivors. The Companies pay insurance premiums to cover a portion of these benefits in excess of set limits; all amounts up to the limits are paid by the Companies.

In 1993 the Companies adopted SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires companies to recognize the expected cost of providing other postretirement benefits to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. The Companies do not currently fund these future benefits. Costs paid by the Companies for retiree health care and life insurance benefits of $9,689,000 were charged to income in 1992.

The following sets forth the accrued postretirement benefit cost on the Consolidated Balance Sheets as of December 31:

	1994	1993
	(In thousands)	
Accumulated postretirement benefit obligation allocation:		
Retirees	$165,386	$1[illegible]5,288
Fully eligible active plan participants	12,381	[illegible]3,827
Other active plan participants	77,599	67,597
Accumulated postretirement benefit obligation	255,366	240,712
Unrecognized transition obligation	(183,196)	(193,374)
Unrecognized net loss	(23,425)	(25,048)
Accrued postretirement benefit cost	$ 48,745	$ 22,290

Net periodic postretirement benefit costs for the years ended December 31, 1994 and 1993, were computed as follows:

	1994	1993
	(In thousands)	
Service cost - benefits attributed to the period	$ 4,865	$ 3,929
Interest cost on accumulated benefit obligation	19,332	18,039
Amortization of transition obligation	10,178	10,178
Amortization of loss	787	—
Voluntary early retirement program expense	2,815	1,533
Net periodic postretirement benefit cost	37,977	33,679
Benefits paid	11,522	11,389
Increase in accrued postretirement benefit cost	$26,455	$22,290

The health care trend rate assumption is 7.89% in the first year gradually decreasing to 3.5% for the year 2008 and later. The discount rates used to compute the accumulated postretirement benefit obligation in 1994 and 1993 were 8.5% and 7.5%, respectively. An increase in the health care trend rate assumption by one percentage point in all years would increase the accumulated postretirement benefit obligation by approximately $33,200,000 and the aggregate annual service and interest costs by approximately $3,700,000.

The PUCO and PPUC have authorized the Companies to defer the incremental costs resulting from adopting SFAS No. 106 (compared to costs computed under the former accounting basis) for future recovery from their retail customers. Similar authorizations relating to other utilities regulated by the PPUC were appealed by the Office of Consumer Advocate to the Commonwealth Court of Pennsylvania. The Commonwealth Court has issued conflicting opinions and both cases have been appealed to the Pennsylvania Supreme Court. Due to the uncertainty resulting from these conflicting opinions, Penn Power provided a reserve in 1994 against the full amount deferred.

Earnings Per Share Of Common Stock – The American Institute of Certified Public Accountants issued its Statement of Position 93-6 (SOP) in late 1993, which changes generally accepted accounting principles relating to employee stock ownership plans (ESOP) for shares purchased after December 31, 1992. The Company's ESOP shares were purchased prior to that date, but the Company elected to adopt the SOP effective January 1, 1994. This change in accounting reduced net income by approximately $8,700,000 in 1994; the net effect to earnings per common share resulting from this change was an increase of six cents after eliminating unallocated ESOP shares from the computation.

Earnings per share of common stock shown on the Consolidated Statements of Income for the three years ended December 31, 1994, were computed as follows:

	1994	1993	1992
	(In thousands, except per share amounts)		
Earnings:			
Income before cumulative effect	$303,531	$ 24,523	$276,986
Preferred and preference stock dividend requirements	(21,679)	(23,707)	(23,926)
Tax benefit from employee stock ownership plan dividends	—	—	5,592
Earnings before cumulative effect	281,852	816	258,652
Cumulative effect of a change in accounting	—	58,201	—
Earnings after cumulative effect	$281,852	$ 59,017	$258,652
Shares:			
Weighted average number of common shares outstanding	143,237	152,569	152,569
Earnings per share of Common Stock:			
Before cumulative effect of a change in accounting	$1.97	$.01	$1.70
Cumulative effect of a change in accounting	—	.38	—
Earnings per share of Common Stock	$1.97	$.39	$1.70

Supplemental Cash Flows Information – All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Consolidated Balance Sheets. The Companies reflect temporary cash investments at cost, which approximates their market value. Noncash financing and investing activities included capital lease transactions amounting to $3,613,000, $1,487,000 and $5,831,000 for the years 1994, 1993 and 1992, respectively. OES Fuel commercial paper transactions have initial maturity periods of three months or less, are reported net within financing activities under long-term debt and are reflected as long-term debt on the Consolidated Balance Sheets (see Note 5E).

All borrowings with initial maturities of less than one year are defined as financial instruments under generally accepted accounting principles and are reported on the Consolidated Balance Sheets at cost which approximates their fair market value. The following sets forth the approximate fair value and related carrying amounts of all other long-term debt, preferred stock subject to mandatory redemption and investments other than cash and cash equivalents as of December 31:

	1994		1993	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Millions)			
Long-term debt	$ 3,224	$ 3,062	$ 3,253	$ 3,451
Preferred stock	$ 40	$ 38	$ 46	$ 48
Investments other than cash and cash equivalents	$ 320	$ 317	$ 37	$ 37

The fair values of long-term debt and preferred stock reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective year. The yields assumed were based on securities with similar characteristics offered by a corporation with credit ratings similar to the Companies' ratings. The fair value of investments other than cash and cash equivalents represent cost (which approximates fair value) or the present value of the cash inflows based on the yield to maturity. The yields assumed were based on financial instruments with similar characteristics and terms. All of the Companies' financial instruments are for purposes other than trading.

Regulatory Assets – The Companies recognize, as regulatory assets, costs which the FERC, PUCO and PPUC have authorized for recovery from customers in future periods. Without such authorization, the costs would have been charged to income as incurred. Amounts shown below as being recovered currently would be recovered over approximately 22 years based upon amounts amortized during 1994. Amortization of the remaining assets, which are deferred for recovery in future rate proceedings, would increase revenues by less than 2% on an annual basis.

Regulatory assets on the Consolidated Balance Sheets are comprised of the following:

	1994	1993
	(In thousands)	
Currently being recovered through rates:		
Nuclear unit expenses	$ 503,625	$ 519,533
Customer receivables for future income taxes	639,592	658,115
Sale and leaseback costs	242,033	252,625
Property taxes	106,458	101,182
Loss on reacquired debt	99,384	103,158
DOE decommissioning and decontamination costs	21,170	19,275
Uncollectible customer accounts	44,368	13,425
Other	15,669	12,987
	1,672,299	1,680,300
Not currently recovered through rates:		
Nuclear unit interest expense	267,913	259,402
Employee postretirement benefit costs	27,055	16,456
Perry Unit 2 termination	38,066	37,637
	333,034	313,495
Total	$2,005,333	$1,993,795

2. CHANGE IN ACCOUNTING FOR UNBILLED REVENUES:

On January 1, 1993, the Companies changed their accounting policies to recognize revenue relating to metered sales which remain unbilled at the end of the accounting period. This change was made to more closely match the Companies' revenues with the costs of services provided. The effect of this change increased net income for the year ended December 31, 1993 (before the cumulative effect from periods prior to 1993) by approximately $4,600,000 ($.03 per share of common stock). The cumulative effect to January 1, 1993 was $58,201,000 (net of $33,632,000 of income taxes) or $.38 per share. The reported results of operations for the year ended December 31, 1992, would not have been materially different if this new accounting policy had been in effect during that year.

3. PERRY UNIT 2 TERMINATION:

In December 1993, the Companies announced that they would not participate in further construction of Perry Unit 2 and abandoned Perry Unit 2 as a possible electric generating plant. The Company determined that recovery from customers of its Perry Unit 2 investment was not probable, resulting in a $366,377,000 write-off of its investment in 1993. Penn Power expects its Perry Unit 2 investment to be recoverable from its retail customers. However, due to the anticipated delay in commencement of recovery and taking into account the expected rate treatment, Penn Power recognized an impairment to its Perry Unit 2 investment of $24,458,000 in 1993. As a result, net income for the year ended December 31, 1993, was reduced by $248,743,000 ($1.63 per share of common stock).

4. LEASES:

The Companies lease a portion of their nuclear generating facilities, certain transmission facilities, computer equipment, office space and other property and equipment under cancelable and noncancelable leases.

In 1987, the Company sold portions of its ownership interests in Perry Unit 1 and Beaver Valley Unit 2 and simultaneously entered into operating leases on the portions sold for basic lease terms of approximately 29 years. During the terms of the leases the Company continues to be responsible, to the extent of its combined ownership and leasehold interest, for costs associated with the units including construction expenditures, operation and maintenance expenses, insurance, nuclear fuel, property taxes and decommissioning. The basic rental payments are adjusted when applicable federal tax law changes. The Company has the right, at the end of the respective basic lease terms, to renew the leases for up to two years. The Company also has the right to purchase the facilities at the expiration of the basic lease term or renewal term (if elected) at a price equal to the fair market value of the facilities.

OES Finance was established during the third quarter of 1994 for the sole purpose of maintaining deposits pledged as collateral to secure reimbursement obligations relating to certain letters of credit supporting the Company's obligations to lessors under the Beaver Valley Unit 2 sale and leaseback arrangements. The deposits pledged to the financial institution providing those letters of credit are the sole property of OES Finance. In the event of liquidation, OES Finance, as a separate corporate entity, would have to satisfy its obligations to creditors before any of its assets could be made available to the Company as sole owner of OES Finance common stock.

NOTES Continued

Consistent with the regulatory treatment, the rental payments for capital and operating leases are charged to operating expenses on the Consolidated Statements of Income. Such costs for the three years ended December 31, 1994, are summarized as follows:

	1994	1993	1992
		(In thousands)	
Operating leases			
Interest element	$100,980	$ 96,804	$108,870
Other	14,530	15,418	13,308
Capital leases			
Interest element	7,483	7,896	8,354
Other	6,960	6,843	6,985
Total rental payments	$129,953	$126,961	$137,517

The future minimum lease payments as of December 31, 1994, are:

	Capital Leases	Operating Leases
	(In thousands)	
1995	$ 16,744	$ 106,073
1996	15,076	108,501
1997	13,540	113,826
1998	12,434	120,741
1999	11,117	125,595
Years thereafter	103,858	2,362,768
Total minimum lease payments	172,769	$2,937,504
Executory costs	43,086	
Net minimum lease payments	129,683	
Interest portion	75,503	
Present value of net minimum lease payment	54,180	
Less current portion	6,573	
Noncurrent portion	$ 47,607	

5. CAPITALIZATION:

(A) Retained Earnings – Under the Company's first mortgage indenture, the Company's consolidated retained earnings unrestricted for payment of cash dividends on the Company's common stock were $[illegible]2,781,000 at December 31, 1994.

(B) Employee Stock Ownership Plan – The Companies fund the matching contribution for their 401(k) savings plan through an ESOP Trust. All full-time employees eligible for participation in the 401(k) savings plan are covered by the ESOP. The ESOP borrowed $200,000,000 from the Company and acquired 10,654,114 shares of the Company's common stock on the open market. Dividends on ESOP shares are used to service the debt. Shares are released from the ESOP on a pro-rata basis as debt service payments are made. In 1994, 1993 and 1992, 532,250 shares, 369,956 shares and 412,167 shares, respectively, were allocated to employees with the corresponding expense recognized based on the shares allocated method. The fair value of 9,076,489 shares unallocated as of December 31, 1994, was approximately $168,000,000.

Total ESOP related compensation expense was calculated as follows:

	1994	1993	1992
		(In thousands)	
Base compensation	$10,179	$ 6,799	$ 7,741
Interest on ESOP debt	—	19,985	19,985
Dividends on common stock held by the ESOP and used to service debt	(1,966)	(15,944)	(15,970)
Interest earned by the ESOP	—	(275)	(317)
Total expense	$ 8,213	$10,565	$11,439

(C) Preferred Stock – Penn Power's 7.625% and 7.75% series of preferred stock have restrictions which prevent early redemption prior to October 1997 and July 2003, respectively. The Company's 8.45% series of preferred stock has no optional redemption provision, and its 7.75% series is not redeemable before April 1998. All other preferred stock may be redeemed by the Companies in whole, or in part, with 30-60 days' notice. The optional redemption price for Penn Power's 7.625% series shown on the Consolidated Statements of Capitalization will decline to $100 per share by 2007.

(D) Preferred Stock Subject To Mandatory Redemption – The Company's 8.45% series of preferred stock has an annual sinking fund requirement for 50,000 shares beginning on September 16, 1997. Penn Power's 7.625% series has an annual sinking fund requirement for 7,500 shares beginning on October 1, 2002.

Preferred shares are retired at $100 per share plus accrued dividends. Sinking fund requirements for the next five years are $5,000,000 in each year from 1997 through 1999.

(E) Long-Term Debt – The first mortgage indentures and their supplements, which secure all of the Companies' first mortgage bonds, serve as direct first mortgage liens on substantially all property and franchises, other than specifically excepted property, owned by the Companies.

Based on the amount of bonds authenticated by the Trustee through December 31, 1994, the Company's annual sinking and improvement fund requirement for all bonds issued under the mortgage amounts to $30,056,000. The Company expects to deposit funds in 1995 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 requirement.

Sinking fund requirements for first mortgage bonds and maturing long-term debt (excluding capital leases) for the next five years are:

1995	$220,923,000
1996	382,675,000
1997	334,845,000
1998	161,521,000
1999	162,036,000

The Companies' obligations to repay certain pollution control revenue bonds are secured by several series of first mortgage bonds and, in some cases, by subordinate liens on the related pollution control facilities. Certain pollution control revenue bonds are entitled to the benefit of irrevocable bank letters of credit of $338,831,000. 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 against its obligation to repay those bonds. The Company pays an annual fee of 0.625% to 0.925% of the amounts of the letters of credit to the issuing banks and is obligated to reimburse the banks for any drawings thereunder.

Nuclear fuel purchases are financed through the issuance of OES Fuel commercial paper and loans, both of which are supported by a $225,000,000 long-term bank credit agreement which expires March 31, 1997. Accordingly, the commercial paper and loans are reflected as long-term debt on the Consolidated Balance Sheets. OES Fuel must pay an annual facility fee of 0.1875% on the total line of credit and an annual commitment fee of 0.0625% on any unused amount.

6. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT:

Short-term borrowings outstanding at December 31, 1994, include OES Capital debt which is secured by customer accounts receivable. OES Capital can borrow up to $120,000,000 under a receivables financing agreement at rates based on certain bank commercial paper. OES Capital is required to pay an annual fee of 0.46% on the amount of the entire finance limit. The receivables financing agreement expires April 23, 1996.

The Companies have lines of credit with domestic banks that provide for borrowings of up to $55,000,000 under various interest rate options. Short-term borrowings may be made under these lines of credit on the Companies' unsecured notes. To assure the availability of these lines, the Companies are required to pay annual commitment fees that vary from 0.22% to 0.50%. These lines expire at various times during 1995. The weighted average interest rates on short-term borrowings outstanding at December 31, 1994 and 1993, were 5.76% and 3.23%, respectively.

7. COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Construction Program – The Companies' current forecasts reflect expenditures of approximately $800,000,000 for property additions and improvements from 1995-1999, of which approximately $180,000,000 is applicable to 1995. Investments for additional nuclear fuel during the 1995-1999 period are estimated to be approximately $172,000,000, of which approximately $30,000,000 applies to 1995. During the same periods, the Companies' nuclear fuel investments are expected to be reduced by approximately $225,000,000 and $56,000,000, respectively, as the nuclear fuel is consumed.

Nuclear Insurance – The Price-Anderson Act limits the public liability relative to a single incident at a nuclear power plant to $8,920,000,000. The amount is covered by a combination of private insurance and an industry retrospective rating plan. Based on their present ownership and leasehold interests in the Beaver Valley Station and the Perry Plant, the Companies' maximum potential assessment under the industry retrospective rating plan (assuming the other CAPCO companies were to contribute their proportionate share of any assessments under the retrospective rating plan) would be $102,800,000 per incident but not more than $13,000,000 in any one year for each incident.

The Companies are also insured as to their respective interests in the Beaver Valley Station and the Perry Plant under policies issued to the operating company for each plant. Under these policies, up to $2,750,000,000 is provided for property damage and decontamination and decommissioning costs. The Companies have also obtained approximately $345,000,000 of insurance coverage for replacement power costs for their respective interests in Perry and Beaver Valley. Under these policies, the Companies can be assessed a maximum of approximately $15,200,000 for accidents at any covered nuclear facility occurring during a policy year which are in excess of accumulated funds available to the insurer for paying losses.

The Companies intend to maintain insurance against nuclear risks as described above as long as it is available. To the extent that replacement power, property damage, decontamination, decommissioning, repair and replacement costs and other such costs arising from a nuclear incident at any of the Companies' plants exceed the policy limits of the insurance from time to time in effect with respect to that plant, to the extent a nuclear incident is determined not to be covered by the Companies' insurance policies, or to the extent such insurance becomes unavailable in the future, the Companies would remain at risk for such costs.

Guarantees – The Companies, together with the other CAPCO companies, have each severally guaranteed certain debt and lease obligations in connection with a coal supply contract for the Bruce Mansfield Plant. As of December 31, 1994, the Companies' shares of the guarantees (which approximate fair market value) were $87,159,000. The price under the coal supply contract, which includes certain minimum payments, has been determined to be sufficient to satisfy the debt and lease obligations. The Companies' total payments under the coal supply contract were $99,774,000, $114,572,000 and $103,657,000 during 1994, 1993 and 1992, respectively. Under the coal supply contract, the Companies' minimum payments in each year during the period 1995 through 1999 are approximately $35,000,000.

Environmental Matters – Various federal, state and local authorities regulate the Companies with regard to air and water quality and other environmental matters. The Companies have estimated additional capital expenditures for environmental compliance of approximately $70,000,000, which is included in the construction forecast

given above under "Construction Program" for 1995 through 1999.

The Clean Air Act Amendments of 1990 require significant reductions of sulfur dioxide (SO_2) and nitrogen oxides (NO_x) from the Companies' coal-fired generating units by 1995 and additional emission reductions by 2000. Compliance options include, but are not limited to, installing additional pollution control equipment, burning less-polluting fuel, purchasing emission allowances, operating facilities in a manner that minimizes pollution, and retiring facilities. In compliance plans submitted to the PUCO and to the Environmental Protection Agency (EPA), the Company stated that SO_2 reductions for the years 1995 through 1999 likely will be achieved by burning lower-sulfur fuel, generating more electricity from lower-emitting plants, and/or purchasing emission allowances. Equipment already installed, or to be installed by May 1995, is expected to provide NO_x reductions sufficient to meet 1995 requirements. Plans for complying with the year 2000 and later reductions have not been finalized. EPA is conducting additional studies which could indicate the need for additional NO_x reductions from the Companies' Pennsylvania facilities by the year 2003. The cost of such reductions, if required, may be substantial. The Company continues to evaluate its compliance plans and other compliance options.

The Companies are required to meet federally approved SO_2 regulations. Violations of such regulations can result in shutdown of the generating unit involved and/or civil or criminal penalties of up to $25,000 for each day the unit is in violation. The EPA has an interim enforcement policy for SO_2 regulations in Ohio that allows for compliance based on a 30-day averaging period. The EPA has proposed regulations that could change the interim enforcement policy, including the method of determining compliance with emission limits. The Companies cannot predict what action the EPA may take in the future with respect to proposed regulations or the interim enforcement policy.

The Pennsylvania Department of Environmental Resources has issued regulations dealing with the storage, treatment, transportation and disposal of residual waste such as coal ash and scrubber sludge. These regulations impose additional requirements relating to permitting, ground water monitoring, leachate collection systems, closure, liability insurance and operating matters. The Companies are considering various compliance options but are presently unable to determine the ultimate increase in capital and operating costs at existing sites.

Legislative, administrative and judicial actions will continue to change the way that the Companies must operate in order to comply with environmental laws and regulations. With respect to any such changes and to the environmental matters described above, the Companies expect that any resulting additional capital costs which may be required, as well as any required increase in operating costs, would ultimately be recovered from their customers.

8. SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED):

The following summarizes certain consolidated operating results by quarter for 1994 and 1993.

Three Months Ended	March 31, 1994	June 30, 1994	September 30, 1994	December 31, 1994
	(In thousands, except per share amounts)			
Operating Revenues	$601,248	$585,428	$614,390	$ 567,125
Operating Expenses and Taxes	468,850	447,353	462,573	432,161
Operating Income	132,398	138,075	151,817	134,964
Other Income	2,255	3,534	5,032	5,638
Net Interest and Other Charges	66,723	67,569	68,624	67,266
Net Income	$ 67,930	$ 74,040	$ 88,225	$ 73,336
Earnings on Common Stock	$ 62,329	$ 68,681	$ 82,869	$ 67,973
Earnings per Share of Common Stock	$.44	$.48	$.58	$.47

Three Months Ended	March 31, 1993	June 30, 1993	September 30, 1993	December 31, 1993
	(In thousands, except per share amounts)			
Operating Revenues	$593,214	$563,349	$624,524	$ 588,853
Operating Expenses and Taxes	461,719	425,354	472,341	485,196
Operating Income	131,495	137,995	152,183	103,657
Other Income (Expense)	4,016	4,988	4,079	(241,905)
Net Interest and Other Charges	68,287	68,438	68,041	67,219
Income (Loss) Before Cumulative Effect of a Change in Accounting	67,224	74,545	88,221	(205,467)
Cumulative Effect of a Change in Accounting	58,201	—	—	—
Net Income (Loss)	$125,425	$ 74,545	$ 88,221	$(205,467)
Earnings (Loss) Applicable to Common Stock	$119,520	$ 68,310	$ 82,462	$(211,275)
Earnings (Loss) per Share of Common Stock Before Cumulative Effect of a Change in Accounting	$.40	$.45	$.54	$(1.38)
Cumulative Effect of a Change in Accounting	.38	—	—	—
Earnings (Loss) per Share of Common Stock	$.78	$.45	$.54	$(1.38)

CONSOLIDATED FINANCIAL AND OPERATING STATISTICS

Ohio Edison Company

	1994	1993	1992	1991	1990	1989	1984
GENERAL FINANCIAL INFORMATION (Dollars in thousands)							
Operating Revenues	$2,368,191	$2,369,940	$2,332,378	$2,358,946	$2,240,646	$2,162,720	$1,646,152
Operating Income	$ 557,254	$ 525,330	$ 522,115	$ 550,452	$ 510,279	$ 543,659	$ 342,713
Earnings on Common Stock	$ 281,852	$ 59,017	$ 253,060	$ 240,069	$ 254,048	$ 332,932	$ 290,694
SEC Ratio of Earnings to Fixed Charges	2.24	1.12	2.01	1.95	1.97	2.03	2.25
Net Utility Plant	$5,834,903	$5,877,676	$5,938,410	$5,985,415	$6,049,219	$6,081,737	$5,983,214
Capital Expenditures	$ 258,642	$ 263,179	$ 252,592	$ 235,622	$ 270,993	$ 258,041	$ 868,099
Total Capitalization	$5,852,030	$5,656,295	$5,943,913	$6,034,935	$6,067,469	$6,083,504	$5,867,503
Capitalization Ratios:							
Common Stockholders' Equity	39.6%	39.7%	40.5%	39.3%	41.9%	42.2%	33.2%
Preferred and Preference Stock:							
Not Subject to Mandatory Redemption	5.6	5.8	6.0	5.9	5.9	5.8	7.8
Subject to Mandatory Redemption	0.7	0.8	1.0	1.1	1.0	1.5	2.7
Long-Term Debt	54.1	53.7	52.5	53.7	51.2	50.5	56.3
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Embedded Capital Costs:							
Preferred and Preference Stock	7.15%	6.86%	7.32%	7.60%	8.59%	8.72%	9.87%
Long-Term Debt	8.17%	8.27%	8.53%	8.75%	9.28%	9.67%	11.04%
COMMON STOCK DATA							
Earnings per Share*	$1.97	$1.82	$1.70	$1.60	$1.67	$2.18	$2.50
Return on Average Common Equity*	12.4%	11.4%	10.8%	9.9%	9.9%	13.0%	15.9%
Dividends Paid per Share	$1.50	$1.50	$1.50	$1.50	$1.73	$1.96	$1.84
Dividend Payout Ratio*	76%	82%	88%	94%	104%	90%	74%
Dividend Yield	8.1%	6.6%	6.5%	7.3%	8.8%	8.3%	13.6%
Price/Earnings Ratio*	9.4	12.5	13.6	12.8	10.3	10.9	5.4
Book Value per Share	$16.15	$14.70	$15.78	$15.55	$16.68	$16.82	$15.93
Market Price per Share	$18.50	$22.75	$23.125	$20.50	$17.125	$23.75	$13.50
Ratio of Market Price to Book Value	115%	155%	147%	132%	103%	141%	85%
*Before net nonrecurring charges in 1993.							
REVENUE FROM ELECTRIC SALES (Thousands):							
Residential	$ 859,781	$ 868,422	$ 820,687	$ 839,387	$ 768,226	$ 749,345	$ 571,878
Commercial	641,164	631,088	616,261	627,418	5[illegible],947	558,524	400,291
Industrial — 25 Largest	231,440	241,679	259,154	267,680	259,012	248,405	241,986
— Other	368,782	360,714	347,655	337,080	321,612	305,632	227,126
Other	11,785	12,575	14,037	15,392	16,491	17,243	14,621
Total Retail	2,112,952	2,114,478	2,057,794	2,086,957	1,952,288	1,879,149	1,455,902
Total Wholesale	221,805	220,355	239,663	237,700	257,634	252,626	168,677
Total	$2,334,757	$2,334,833	$2,297,457	$2,324,657	$2,209,922	$2,131,775	$1,624,579
KILOWATT-HOUR SALES (Millions):							
Residential	8,201	8,237	7,685	7,908	7,527	7,619	6,836
Commercial	6,885	6,787	6,479	6,608	6,370	6,234	5,101
Industrial — 25 Largest	4,664	4,866	5,034	5,074	5,255	5,315	5,371
— Other	5,177	5,008	4,716	4,524	4,617	4,480	3,790
Other	144	144	145	143	144	139	160
Total Retail	25,071	25,042	24,059	24,257	23,913	23,787	21,258
Total Wholesale	5,879	7,162	8,126	7,456	8,210	8,494	5,901
Total	30,950	32,204	32,185	31,713	32,123	32,281	27,159
CUSTOMERS SERVED:							
Residential	968,483	957,867	944,927	935,547	928,026	919,935	885,376
Commercial	109,832	107,401	105,792	104,462	103,297	102,055	90,810
Industrial	3,786	3,685	3,467	3,361	3,032	2,836	1,757
Other	1,226	1,199	1,151	1,094	1,061	883	721
Total	1,083,327	1,070,152	1,055,337	1,044,464	1,035,416	1,025,709	978,664
Average Annual Residential kWh Usage	8,524	8,660	8,182	8,498	8,159	8,336	7,762
Average Retail Price per kWh	8.43¢	8.44¢	8.63¢	8.75¢	8.18¢	7.79¢	6.85¢
Cost of Fuel per Million Btu	$1.21	$1.26	$1.26	$1.27	$1.27	$1.26	$1.51
Peak Load-Megawatts	5,744	5,729	5,247	5,513	5,394	5,152	4,093
Number of Employees	5,166	5,978	6,263	6,481	6,792	6,905	7,611

Investor Services

For assistance or information, shareholders and first mortgage bondholders can write to Investor Services, Ohio Edison Company, 76 South Main Street, Akron, Ohio 44308-1890, or call the following toll-free telephone number: 1-800-736-3402. The toll-free number is valid in the United States, Canada, Puerto Rico and the Virgin Islands. Business hours are 8 a.m. to 4:30 p.m., Eastern time, Monday through Friday.

Dividend Direct Deposit

Shareholders can elect to have their dividends electronically deposited into their bank checking or savings account. To receive an authorization form, contact Investor Services.

Sharebuilder Investment Plan

The Company's Sharebuilder Investment Plan provides an opportunity for registered shareholders to acquire shares of Ohio Edison Common Stock. Participants may invest all or some of their dividends or make optional cash payments of up to $50,000 annually. At the end of 1994, about 58,000 shareholders were participating in the plan. To receive an enrollment form, contact Investor Services.

Dividends

Proposed dates for the payment of common stock dividends in 1995 are as follows:

Ex-Dividend Date	Record Date	Payment Date
March 1	March 7	March 31
June 1	June 7	June 30
September 6	September 8	September 29
December 5	December 7	December 29

Stock Listing And Trading

Ohio Edison Common Stock is listed on the New York and Chicago stock exchanges under the "OEC" trading symbol. Newspapers usually use "OhioEd" in their listings.

Form 10-K Annual Report

Form 10-K, the Annual Report to the Securities and Exchange Commission, will be sent without charge upon written request to Nancy C. Brink, Secretary, Ohio Edison Company, 76 South Main Street, Akron, Ohio 44308-1890.

Annual Meeting Of Shareholders

We invite shareholders to attend the 1995 Annual Meeting of Shareholders on Thursday, April 27, at 10 a.m., in the Company's General Office in Akron, Ohio. Registered holders of common stock not attending can vote on the items of business by filling out and returning the proxy card that is mailed about 40 days before the meeting. Shareholders whose shares are held in the name of a broker can attend the meeting if a letter from the broker is presented indicating ownership of Ohio Edison Common Stock on March 7, 1995.

Transfer Agent And Registrar For Stock And First Mortgage Bonds

Ohio Edison Company
Investor Services
76 South Main Street
Akron, Ohio 44308-1890

Multiple Annual Reports

You may be receiving more than one copy of the annual report if you have more than one stock account. If you want to maintain separate stock accounts but eliminate multiple copies, please write to Investor Services and request that we stop mailing an annual report to a particular account. Be sure to provide the exact registration of the stock account for which you want the annual report mailing stopped. Dividends and proxy material will continue to be sent for each account.

Combining Stock Accounts

If you have more than one stock account and wish to combine them, please write or call Investor Services and specify the account that you would like to retain as well as the registration of each of your accounts. Your request will be reviewed to determine if your accounts can be combined or whether we need additional documentation from you.

Institutional Investor/ Security Analyst Inquiries

Institutional investors and security analysts should direct inquiries to:

Richard H. Marsh Treasurer 216-384-5318	Theodore F. Struck II Assistant Treasurer and Assistant Secretary 216-384-5202	Gregory F. LaFlame Manager, Investor Relations 216-384-5500

Board/Management Changes

Frank C. Watson reached mandatory retirement age and retired from the Board, effective April 28, 1994. Former president of The Youngstown Welding and Engineering Company, Youngstown, Ohio, Mr. Watson provided outstanding service during his 20 years on the Board.

Anthony N. Gorant, former vice president, was named senior vice president, and Earl T. Carey, former manager of the Performance Initiatives Department, was named vice president.

Nancy C. Brink, former assistant secretary, was named secretary, replacing Gregory F. LaFlame, who was named manager, Investor Relations. Theodore F. Struck II was named assistant treasurer and assistant secretary.

The newly formed Western Division, managed by Gary M. Stair, includes the Bay, Mansfield and Marion areas. The Youngstown Division, managed by Douglas S. Elliott, now includes the Warren Area.

In August, we were saddened by the passing of Pennsylvania Power President Robert L. Kensinger. Mr. Kensinger, 59, served as president since 1991 and served the Ohio Edison System since 1960. The Board named H. Peter Burg president of Pennsylvania Power on an interim basis. Mr. Burg continues serving as senior vice president and chief financial officer of Ohio Edison and a member of the boards of directors of both Companies.

Board Of Directors

DONALD C. BLASIUS, 65
Retired, formerly President of White Consolidated Industries, Inc., Cleveland, Ohio (home and commercial appliances, outdoor and industrial products). Chairman, Nominating Committee; Member, Finance Committee. Elected 1981

H. PETER BURG, 48
Senior Vice President and Chief Financial Officer of Ohio Edison and President of its subsidiary, Pennsylvania Power. Member, Finance Committee. Elected 1989

ROBERT H. CARLSON, 68
Retired, formerly President and Chief Executive Officer of Universal-Rundle Corporation, New Castle, Pennsylvania (plumbing fixtures). Member, Audit Committee. Elected 1987

ROBERT M. CARTER, 44
Partner, Carter & Associates, Cleveland, Ohio (law firm). Member, Audit Committee. Elected 1994

DR. CAROL A. CARTWRIGHT, 53
President, Kent State University, Kent, Ohio. Member, Nominating Committee. Elected 1992

WILLARD R. HOLLAND, 58
President and Chief Executive Officer of Ohio Edison and Chairman of the Board and Chief Executive Officer of its subsidiary, Pennsylvania Power. Chairman, Finance Committee; Member, Nominating Committee. Elected 1991

ROBERT L. LOUGHHEAD, 65
Retired, formerly Chairman of the Board, President and Chief Executive Officer of Weirton Steel Corporation, Weirton, West Virginia (steel products). Chairman, Compensation Committee; Member, Audit Committee. Elected 1980

GLENN H. MEADOWS, 65
Retired, formerly President and Chief Executive Officer of McNeil Corporation, Akron, Ohio (manufactured products). Chairman, Audit Committee; Member, Compensation Committee. Elected 1981

PAUL J. POWERS, 60
Chairman of the Board and Chief Executive Officer of Commercial Intertech Corporation, Youngstown, Ohio (engineered metal components). Member, Compensation Committee. Elected 1992

CHARLES W. RAINGER, 61
President of Sandusky International Inc., Sandusky, Ohio (centrifugal castings). Member, Nominating Committee. Elected 1987

GEORGE M. SMART, 49
Chairman of the Board and President of Phoenix Packaging Corporation, North Canton, Ohio (easy-opening lids). Member, Finance Committee. Elected 1988

JESSE T. WILLIAMS, SR., 55
Vice President, Compensation and Employment Practices of The Goodyear Tire & Rubber Company, Akron, Ohio (tires and rubber-related products). Member, Compensation Committee. Elected1992

Officers

WILLARD R. HOLLAND
President and Chief Executive Officer

ANTHONY J. ALEXANDER
Senior Vice President and General Counsel

H. PETER BURG
Senior Vice President and Chief Financial Officer

ANTHONY N. GORANT
Senior Vice President

ROBERT J. McWHORTER
Senior Vice President

EARL T. CAREY
Vice President

ARTHUR R. GARFIELD
Vice President

JOHN A. GILL
Vice President

BARRY M. MILLER
Vice President

DAVID L. YEAGER
Vice President

DANIEL P. ZENO
Vice President

NANCY C. BRINK
Secretary

RICHARD H. MARSH
Treasurer

HARVEY L. WAGNER
Comptroller

THEODORE F. STRUCK II
Assistant Treasurer and Assistant Secretary

HOWARD J. TUBER
Assistant Comptroller

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Akron Division

CHARLES E. JONES
Lake Erie Division

THOMAS A. CLARK
Springfield Division

R. JOSEPH HRACH
Stark Division

GARY M. STAIR
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