PENN POWER
The Energy Makers

NSYLVANIA POWER COMPANY 1983 ANNUAL REPORT

The Company

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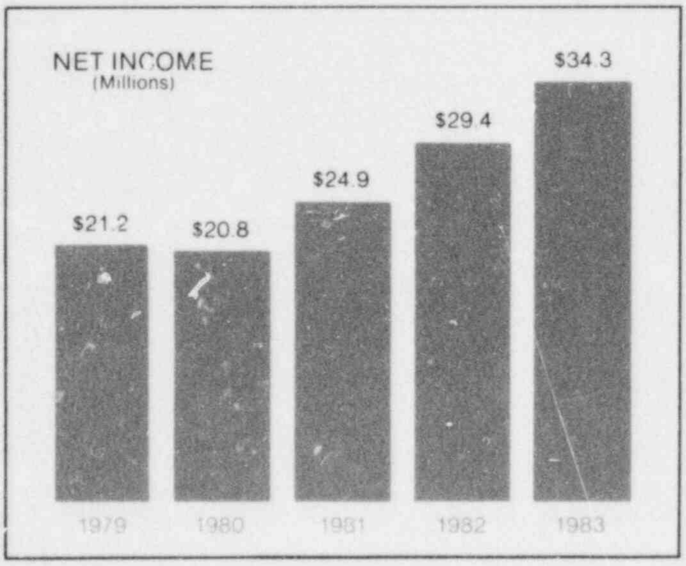
The Energy Makers

Financial Highlights

For the Years Ended December 31,	1983	1982	Change
	(In Millions)		
Kilowatt-Hour Sales	3,396.5	3,057.4	+ 11.1%
Operating Revenues	$191.2	$185.9	+ 2.8%
Fuel Expense	47.7	62.0	−23.1%
Operating Income	44.0	40.6	+ 8.3%
Allowance for Funds Used During Construction, Net	18.4	14.5	+ 26.8%
Interest Expense	35.1	30.3	+ 15.6%
Net Income	34.3	29.4	+ 16.8%
Earnings on Common Stock	27.0	23.3	+ 16.1%
Dividends on Capital Stock	$ 26.6	$ 24.4	+ 8.8%
Property Additions:			
Construction of Facilities	$ 71.6	$ 68.7	
Nuclear Fuel	8.5	18.2	
	$ 80.1	$ 86.9	− 7.8%
Internally Generated Funds	22.6	27.0	−16.5%
Net Financing Activities	58.2	51.9	+ 12.0%
Return on Average Common Equity	13.0%	11.8%	



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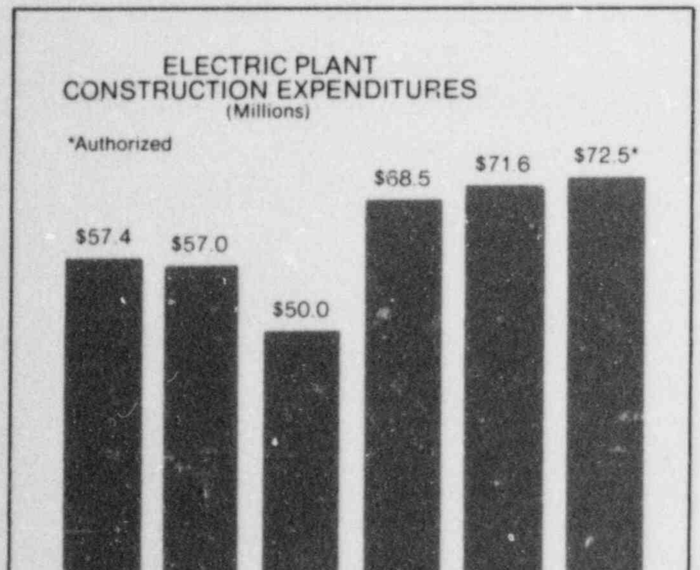


Letter to the Stockholders

Cost cutting and aggressive marketing paid off in 1983. Electric sales increased and the Company held the line on expenses for a 16.8 percent increase in net income. Operating revenues amounted to $191.2 million, a 2.8 percent increase.

Western Pennsylvania appears to be on the road to economic recovery. Following a downturn in 1982, the Company's total kilowatt-hour sales increased by 11.1 percent in 1983. The upswing was due mainly to a resurgence of industrial kilowatt-hour sales and our successes in the highly competitive bulk power market.

Growth in the nation's automotive and housing markets spurred sales for several area industries. Consequently, the Company's industrial kilowatt-hour sales bettered the previous year by nearly 10 percent. Commercial and residential customers recorded less dramatic, but stable gains in kilowatt-hour use.

Long-term sales agreements

To more fully utilize facilities and hold down rates to our customers, the Company and its parent company, Ohio Edison, completed two long-term bulk power sales agreements in 1983. In May, the Companies began providing 150 megawatts to Potomac Electric Power Company for a minimum of the next five years. A ten-year contract with General Public Utilities for 200 megawatts started in July. Penn Power received $4.3 million in revenues from these sales in 1983.

The Company filed for a $19.9 million annual rate increase with the Pennsylvania Public Utility Commission (PPUC) in July 1983. A final decision from the Commission is expected in April.

Reduced operation and maintenance expenses

A paring of expenses produced notable results in 1983. Total operation and maintenance expenses for the year were slightly less than 1982. The operation and maintenance budget for 1984, excluding fuel, remains lean with a 1.8 percent decrease from 1983 expenditures.

The Company had no short-term debt outstanding at the end of 1983. Anticipating an increase in interest rates, the Company accelerated part of its long-term financing program with a sale of $20 million in first mortgage bonds in December. Other sales for the year included $12 million of common stock to Ohio Edison and $15 million of preferred stock. The Company also completed a $5.2 million pollution control and environmental improvement refunding issue. The remaining portion of our 1983 construction program was financed internally. This year, our plans to finance the construction program include additional sales of first mortgage bonds, preferred stock and common stock, as well as internally-generated funds.

The Company has nearly completed its construction program for air quality controls on coal-fired generating

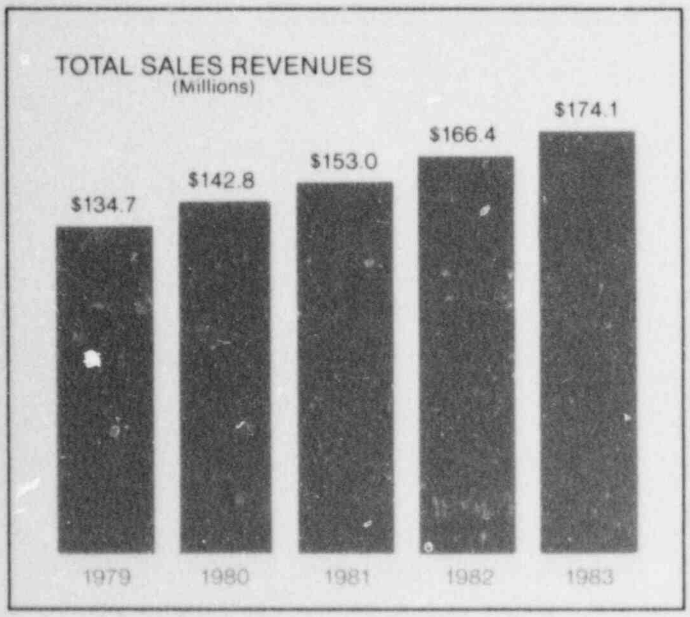
units. In April 1983, Unit 7 at the W. H. Sammis Plant began operating with electrostatic precipitators. Penn Power, with an approximate 21 percent share in the unit, will have made pollution control expenditures of approximately $21 million for this project when completed in late 1984.

"Acid rain" requires intensified research

The Company speaks out against the so-called cures for "acid rain" which has become a major political issue. Costly legislation based on conjecture more than reason and scientific fact could result. Intensified research on this phenomenon must precede a cost-effective remedy.

Penn Power will spend approximately $229 million for property additions and improvements over the next five years, according to our current budget forecast. Our 1984 construction budget amounts to $73 million. Also, additional nuclear fuel investments are expected to amount to $13 million in 1984. Construction of facilities and nuclear fuel amounted to $80.1 million in 1983.

The joint development of power plants and transmission facilities with the Central Area Power Coordination Group (CAPCO) companies constitutes the greater part of our current construction activities. The Company has partial ownership in three CAPCO nuclear units, one operating and two under construction. Unit 1 at the Beaver Valley Power Station supplied 23 percent of our electric generation in 1983. For the year, the unit operated at 68.2 percent availability, despite a 3-1/2 month refueling and maintenance outage. The unit's core was modified during the outage to extend the time between refuelings from 12 to 15 months. Additional modifications will be made during the next refueling to permit 18 months of continuous operation.



The federal regulations for building a nuclear power plant continue to increase in complexity. The total estimated cost of the Perry Nuclear Plant increased from $4.0 billion to $5.2 billion in early 1983. The Company has a 5.24 percent interest in the two-unit plant. Penn Power's portion of this cost rose accordingly by $61.2 million from $250.7 million to $311.9 million. An ensuing modification of the construction schedule set back the completion date for Unit 1. The unit is now scheduled for completion in late 1985. The completion date for Unit 2 will be assessed at the time Unit 1 is completed.

The PPUC has indicated that the Company may recover costs allocable to retail customers for four cancelled CAPCO nuclear units. Recovery of the costs amounting to approximately $10 million after taxes will take place over ten years and are part of our current retail rate increase request. Costs allocable to wholesale customers are being recovered through interim municipal resale rates, subject to final approval by the Federal Energy Regulatory Commission.

Market-pricing plan for Quarto coal

In February 1984, a PPUC administrative law judge approved a method of market-pricing Quarto coal for the Mansfield plant that provides an opportunity for the Company to recover its deferred costs. The initial decision is subject to final Commission approval. The Company had deferred $9.9 million of Quarto coal costs through December 31, 1983.

Our 1984 sales forecast calls for a continued resurgence on the part of industry as well as steady growth in the commercial and residential sectors. A major expansion by one of our large steel-making customers, including an electric furnace and continuous caster, will be completed this year. Our goal is to increase new business by another 86 million kilowatt-hours. This and other goals we have set for ourselves are achievable because Penn Power employees have an excellent track record of getting the job done. Our experienced and well-trained work force will continue to set a course in which we can both contribute to and benefit from Western Pennsylvania's economic recovery.

Justin T. Rogers Jr.
Chairman of the Board

A. Wayne Cole
President

New Castle, Pennsylvania
March 13, 1984

Operating Statistics

	1983	1982	1981	1980	1979
Revenue from Electric Sales (Thousands)					
Residential	$ 63,994	$ 61,628	$ 52,649	$ 50,251	$ 46,425
Commercial	36,841	36,068	30,225	28,374	25,588
Industrial	61,959	61,611	64,787	58,623	58,128
Other	6,989	7,082	5,347	5,472	4,426
Subtotal	169,783	166,389	153,008	142,720	134,567
Sales to Utilities	4,277	20	24	73	114
Total	$174,060	$166,409	$153,032	$142,793	$134,681
Revenue from Electric Sales–%					
Residential	36.7%	37.0%	34.4%	35.2%	34.5%
Commercial	21.[illegible]	21.7	19.8	19.9	19.0
Industrial	35.6	37.0	42.3	41.0	43.1
Other	4.0	4.3	3.5	3.8	3.3
Subtotal	97.5	100.0	100.0	99.9	99.9
Sales to Utilities	2.5	–	–	0.1	0.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Kilowatt-Hour Sales (Millions)					
Residential	876.0	865.0	862.4	845.5	823.3
Commercial	589.5	578.2	566.1	536.9	512.6
Industrial	1,627.3	1,487.7	1,915.8	1,737.2	1,878.5
Other	123.7	125.5	131.5	129.7	126.2
Subtotal	3,216.5	3,056.4	3,475.8	3,249.3	3,340.6
Sales to Utilities	180.0	1.0	1.0	2.1	4.2
Total	3,396.5	3,057.4	3,476.8	3,251.4	3,344.8
Customers Served at End of Year					
Residential	112,768	111,931	111,121	110,012	109,032
Commercial	13,474	12,994	12,902	12,839	12,919
Industrial	104	106	109	107	135
Other	129	122	118	117	114
Total	126,475	125,153	124,250	123,075	122,200
Residential Customer Averages					
Average Kwh Used per Residential Customer	7,804	7,755	7,813	7,726	7,626
Average Price per Kwh-Residential (Cents)	7.30	7.12	6.10	5.94	5.64
Kilowatt-Hours Generated (Millions)	3,563.7	3,546.7	3,834.6	3,146.0	3,194.8
Kilowatt-Hours Purchased and Interchanged, Net (Millions)	(3.3)	(400.2)	(256.4)	296.5	281.7
Peak Load (Megawatts)	567	562	577	548	554
Cost of Coal per Million BTU	$ 1.57	$ 1.66	$ 1.66	$ 1.41	$ 1.22
Generation Capability					
Coal	77.7%	77.7%	77.7%	77.5%	76.0%
Oil	6.[illegible]	6.1	6.1	6.3	7.4
Nuclear	16.2	16.2	16.2	16.2	16.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Sources of Electric Generation					
Coal	77.1%	86.7%	78.3%	97.7%	88.4%
Oil	–	0.1	0.2	0.7	2.1
Nuclear	22.9	13.2	21.5	1.6	9.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Number of Employees	1,838	1,868	1,779	1,682	1,500

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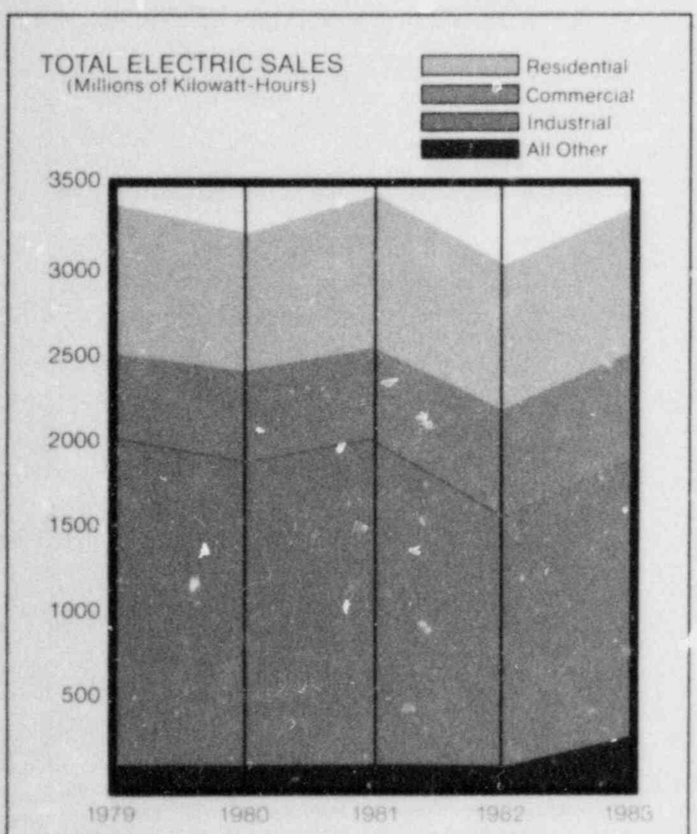
Selected Financial Data

	1983	1982	1981	1980	1979
		(Dollars in Thousands)			
Operating Revenues	$191,172	$185,883	$174,488	$157,208	$145,340
Operating Income	$ 43,977	$ 40,590	$ 37,412	$ 32,427	$ 29,421
Net Income	$ 34,343	$ 29,392	$ 24,936	$ 20,822	$ 21,206
Preferred Stock Dividend Requirements	$ 7,296	$ 6,098	$ 5,605	$ 5,232	$ 4,660
Earnings on Common Stock	$ 27,047	$ 23,294	$ 19,331	$ 15,590	$ 16,546
Cash Dividends on Common Stock	$ 19,203	$ 18,324	$ 15,876	$ 14,301	$ 12,278
Total Assets at December 31	$783,894	$710,886	$637,607	$588,624	$517,285
Utility Plant	$810,578	$733,395	$649,350	$599,982	$546,744
Depreciation Reserve	151,278	137,016	124,115	113,044	101,585
Net Utility Plant	$659,300	$596,379	$525,235	$486,938	$445,159
Property Additions	$ 80,130	$ 86,889	$ 52,858	$ 57,204	$ 57,676
Nuclear Fuel Obligations	$ 32,614	$ 22,847	–	–	–
CAPITALIZATION					
Common Stockholder's Equity	$219,474	$199,680	$194,666	$170,755	$154,438
Preferred Stock–					
Not Subject to Mandatory Redemption	41,905	41,905	41,905	41,905	41,905
Subject to Mandatory Redemption	47,471	33,395	26,298	27,200	17,600
Long-Term Debt	323,363	295,405	262,011	242,194	225,156
Total Capitalization	$632,213	$570,385	$524,880	$482,054	$439,099
CAPITALIZATION RATIOS					
Common Stockholder's Equity	34.7%	35.0%	37.1%	35.4%	35.2%
Preferred Stock–					
Not Subject to Mandatory Redemption	6.6	7.3	8.0	8.7	9.5
Subject to Mandatory Redemption	7.5	5.9	5.0	5.6	4.0
Long-Term Debt	51.2	51.8	49.9	50.3	51.3
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%

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



Results of Operations

The increase in operating revenues during 1983 resulted from several factors, most important of which were a rate increase effective in September of 1982 and increased kilowatt-hour sales to most classes of customers. Industrial kilowatt-hour sales increased in 1983 following a substantial decrease in 1982. This increase in sales to industrial customers reflects the improving economic environment in the Company's service territory. In addition, the Company entered into two long-term sales contracts with other non-associated utilities in 1983. These contracts contributed to the increased operating revenues for the year 1983. Partially offsetting this revenue increase was a reduction to the levelized energy cost rate. The 1982 operating revenue increase was primarily due to rate increases effective in January and September of 1982. This increase was partially offset by decreased kilowatt-hour sales and reductions to the levelized energy cost rate.

Reductions in fuel costs were primarily attributable to reduced consumption of coal as a result of outages to generating units at the New Castle Plant and Sammis Unit No. 7 during the year 1983. Fuel costs in 1982 were at substantially the same level as 1981. Net purchased and interchanged power expenses increased in 1983 compared to 1982 principally due to reduced deliveries of power to Ohio Edison in 1983 and increased purchases of low-cost power resulting principally from the Company's contractual obligations with Ohio Valley Electric Corporation. The reduction in purchased and interchanged power, net, in 1982 resulted from the improved availability of the Company's generating units.

There were no significant changes in maintenance expenses for 1983 as compared to 1982. Maintenance expenses increased in 1982 following a decrease in 1981. The increase was principally due to the scheduled outage of Beaver Valley Unit No. 1 for refueling and certain modifications.

The provision for depreciation increased in 1982 principally because of increased rates which were approved by the PPUC in January 1982.

Financing requirements associated with the Company's construction program continued to remain the principal

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factor giving rise to the increases in interest expenses in 1983 and 1982. As the Company's construction projects proceed and until the projects are placed in service and included in rate base, the total allowance for funds used during construction (AFUDC) will continue to increase in order to capitalize the appropriate financing costs which are not currently recovered through rates.

Information with respect to the estimated effects of inflation upon the Company is given in Note 8 of Notes to Financial Statements.

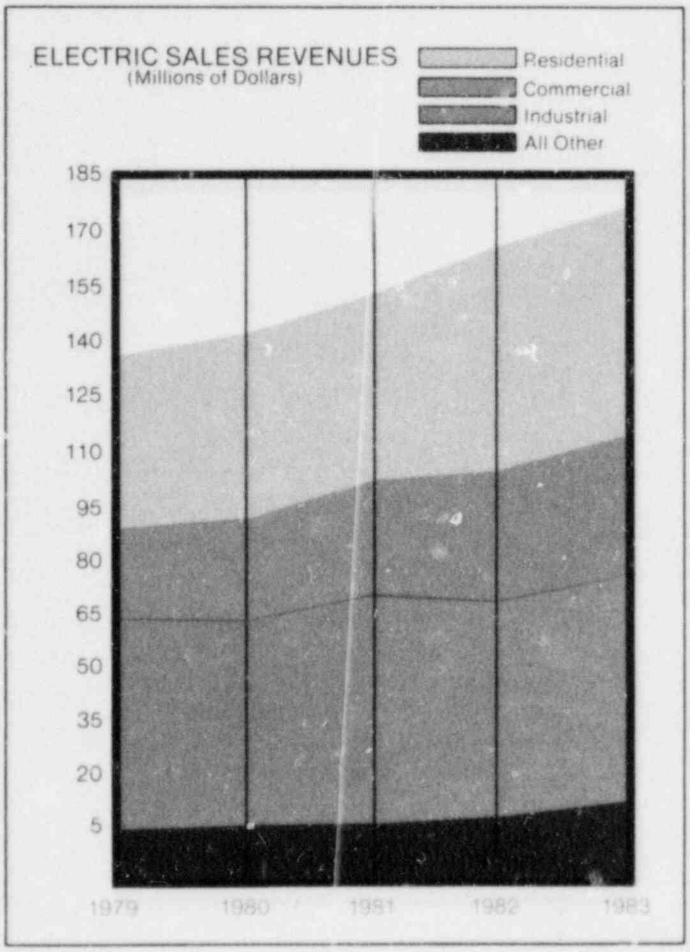
Capital Resources and Liquidity

The Company's current budget forecast reflects expenditures of approximately $73,000,000 for new construction in 1984. In addition, the Company expects to invest approximately $13,000,000 for additional nuclear fuel. The Company plans to meet its 1984 capital requirements, depending on market conditions, through the issuance of additional first mortgage bonds, preferred stock and common stock, as well as internally generated funds.

The Company had $23,000,000 of temporary cash investments at the end of 1983, resulting principally from the sale in December of $20,000,000 principal amount of first mortgage bonds. The Company accelerated its long-term debt financing plans to take advantage of prevailing favorable interest rates.

Based upon earnings as of December 31, 1983, under the earnings coverage requirements of its first mortgage indenture, the Company could presently issue approximately $52,000,000 principal amount of additional first mortgage bonds at an assumed interest rate of 13%. Based on those earnings and assuming the issuance of no additional debt, under its Charter restrictions the Company could presently issue approximately $14,000,000 of additional preferred stock at an assumed dividend rate of 13%.

The Company has a rate case pending with the Pennsylvania Public Utility Commission which, if granted in full, is designed to produce additional annual revenues of approximately $19,900,000. New rates are expected to become effective in April, 1984.



Balance Sheets

Assets

At December 31,	1983	1982
	(In Thousands)	
Utility Plant:		
In service, at original cost	$558,780	$524,617
Less-Accumulated provision for depreciation	151,278	137,016
	407,502	387,601
Construction work in progress	220,420	185,926
Nuclear fuel in process	31,378	22,852
	659,300	596,379
Other Property and Investments	2,688	2,666
Current Assets:		
Cash	635	692
Temporary cash investments, at cost, which approximates market value	22,993	7,900
Receivables–		
Customers (less accumulated provision of $432,000 and $420,000, respectively, for uncollectible accounts)	14,212	12,256
Parent company	16,762	20,326
Other	14,447	15,737
Materials and supplies, at average cost–		
Fuel	8,871	12,821
Other	5,072	5,039
Prepayments	426	508
	83,418	75,279
Deferred Charges:		
Deferred Quarto coal costs (Note 7)	9,879	8,027
Unamortized costs of terminated construction projects (Note 2)	16,000	16,084
Other	12,609	12,451
	38,488	36,562
	$783,894	$710,886

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Capitalization and Liabilities

At December 31,	1983	1982
	(In Thousands)	
Capitalization (See Statements of Capitalization):		
Common stockholder's equity	$219,474	$199,680
Preferred stock–		
Not subject to mandatory redemption	41,905	41,905
Subject to mandatory redemption	47,471	33,395
Long-term debt	323,363	295,405
	632,213	570,385
Nuclear Fuel Obligations (Note 5)	32,614	22,847
Current Liabilities:		
Current maturities of long-term debt and preferred stock	550	6,145
Notes payable to banks (Note 6)	—	—
Accounts payable–		
Parent company	2,069	2,219
Other	41,610	39,564
Accrued taxes	4,562	6,912
Accrued interest	6,978	6,761
Other	5,018	4,032
	60,787	65,633
Deferred Credits:		
Accumulated deferred income taxes	31,002	23,708
Accumulated deferred investment tax credits	15,179	11,997
Energy costs recovered in advance	3,569	8,641
Other	8,530	7,675
	58,280	52,021
Commitments, Guarantees and Contingencies (Notes 2, 3 and 7)		
	$783,894	$710,886

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

Statements of Income

For the Years Ended December 31,	1983	1982	1981
		(In Thousands)	
Operating Revenues	$191,172	$185,883	$174,488
Operating Expenses and Taxes:			
Operation–			
Fuel	47,666	61,974	60,979
Purchased and interchanged power, net	(3,818)	(14,534)	(4,975)
Other operation expenses	36,339	32,841	30,073
Total operation	80,187	80,281	86,077
Maintenance	18,467	18,585	17,017
Provision for depreciation	16,793	15,808	14,171
Amortization of terminated construction project costs (Note 2)	52	49	–
General taxes	13,475	12,590	11,831
Income taxes	18,221	17,980	7,980
Total operating expenses and taxes	147,195	145,293	137,076
Operating Income	43,977	40,590	37,412
Other Income and Deductions:			
Allowance for equity funds used during construction	12.219	10,464	6,483
Miscellaneous, net	892	763	723
Income taxes–credit	6,149	3,871	3,662
Total other income and deductions	19,260	15,098	10,868
Total Income	63,237	55 688	48,280
Net Interest:			
Interest on long-term debt	30,300	27,019	23,210
Interest on nuclear fuel obligations	2,931	1,068	–
Allowance for borrowed funds used during construction, net of deferred income taxes	(6,173)	(4,040)	(3,807)
Other	1,836	2,249	3,941
Net interest	28,894	26,296	23,344
Net Income	34,343	29,392	24,936
Preferred Stock Dividend Requirements	7,296	6,098	5,605
Earnings on Common Stock	$ 27,047	$ 23,294	$ 19,331

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

Statements of Sources of Funds for Property Additions

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For the Years Ended December 31,	1983	1982	1981
		(In Thousands)	
Internally generated funds–			
Net income	$ 34,343	$ 29,392	$ 24,936
Principal non-cash items–			
Depreciation and amortization–			
Charged to provision for depreciation	16,793	15,808	14,171
Charged to other accounts	313	271	202
Amortization of terminated construction project costs	52	49	–
Deferred income taxes, net	13,585	6,653	8,096
Investment tax credits, net	3,182	7,847	1,248
Allowance for equity funds used during construction	(12,219)	(10,464)	(6,483)
Deferred fuel and energy costs, net	(6,924)	1,898	1,009
	49,125	51,454	43,179
Less–Dividends on common stock	19,203	18,324	15,876
Dividends on preferred stock	7,363	6,098	5,602
	22,559	27,032	21,701
Financing activities–			
Common stock	12,000	–	20,400
Preferred stock	15,000	8,000	–
First mortgage bonds	20,000	30,000	20,000
Secured notes, net	7,955	9,173	5,645
Nuclear fuel obligations	9,767	22,847	–
Retirement of long-term debt and preferred stock	(6,569)	(6,708)	(5,402)
Notes payable to banks	–	(11,400)	(12,100)
	58,153	51,912	28,543
Net change in current assets and current liabilities excluding notes payable to banks and current maturities of long-term debt and preferred stock–			
Temporary cash investments	(15,093)	(3,600)	(4,300)
Receivables	2,898	2,931	(729)
Materials and supplies	3,917	(344)	(1,226)
Accounts payable	1,896	(7,545)	8,363
Accrued taxes	(2,350)	2,877	(1,205)
Accrued interest	217	3,096	(45)
Miscellaneous, net	1,125	3,594	(2,390)
	(7,390)	1,009	(1,532)
Other, net–			
Allowance for equity funds used during construction	12,219	10,464	6,483
Sale of utility property	–	2,039	–
Deferred income taxes on allowance for borrowed funds used during construction	(6,559)	(4,291)	(4,046)
Miscellaneous, net	1,148	(1,276)	1,709
	6,808	6,936	4,146
Total Sources of Funds for Property Additions	$ 80,130	$ 86,889	$ 52,858
Property Additions–			
Electric Plant	$ 71,592	$ 68,533	$ 49,965
Nuclear Fuel	8,526	18,146	2,815
Nonutility property	12	210	78
	$ 80,130	$ 86,889	$ 52,858

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

Statements of Capitalization

At December 31,	Number of Shares Outstanding 1983	Number of Shares Outstanding 1982	Optional Redemption Price Per Share	Optional Redemption Price Aggregate (In Thousands)	1983 (In Thousands)	1982 (In Thousands)
Common stockholder's equity:						
Common stock, $30 par value, 6,500,000 shares authorized 5,490,000 and 5,090,000 shares outstanding, respectively					$164,700	$152,700
Other paid-in capital					177	160
Retained earnings (Note 4a)					54,597	46,820
Total common stockholder's equity					219,474	199,680
Preferred stock (Note 4b):						
Cumulative, $100 par value						
Authorized–950,000 shares						
Not Subject to Mandatory Redemption:						
4.24% - 4.64%	141,049	141,049	$102.98 - 105.00	$14,614	14,105	14,105
7.64% - 8.00%	118,000	118,000	104.47 - 105.27	12,374	11,800	11,800
8.48% - 9.16%	160,000	160,000	106.87 - 107.32	17,135	16,000	16,000
Total not subject to mandatory redemption	419,049	419,049		$44,123	41,905	41,905
Subject to Mandatory Redemption (Note 4c):						
8.24%	90,000	95,000	$108.24	$ 9,742	9,000	9,500
10.50%	100,000	100,000	109.41	10,941	10,000	10,000
11.00%	59,708	63,951	112.11	6,694	5,971	6,395
11.50%	150,000	–	103.29	15,494	15,000	–
15.00%	80,000	80,000	114.81	9,185	8,000	8,000
Redemption within one year					(500)	(500)
Total subject to mandatory redemption	479,708	338,951		$52,056	47,471	33,395
Long-term debt (Note 4d):						
First mortgage bonds–						
10.12% weighted average interest rate, due 1984 through 1988					37,512	37,512
11.91% weighted average interest rate, due 1989 through 1993					99,890	79,890
10.68% weighted average interest rate, due 1994 through 1998					11,890	11,890
8.46% weighted average interest rate, due 1999 through 2003					67,620	67,620
9.30% weighted average interest rate, due 2004 through 2008					47,088	42,088
Total first mortgage bonds					259,000	239,000
Secured notes and obligation–						
5.83% weighted average interest rate, due 1984 through 1988					263	5,908
8.51% weighted average interest rate, due 1989 through 1993					8,104	2,904
7.77% weighted average interest rate, due 1994 through 1998					8,086	8,086
10.66% weighted average interest rate, due 1999 through 2003					28,839	28,839
7.53% weighted average interest rate, due 2004 through 2007					22,369	22,369
					67,661	68,106
Amount held by Trustee					(2,572)	(5,327)
Total secured notes and obligation					65,089	62,779
Net unamortized discount on debt					(676)	(729)
Long-term debt due within one year					(50)	(5,645)
Total long-term debt					323,363	295,405
Total capitalization					$632,213	$570,385

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

PENN POWER
The Energy Makers

Statements of Retained Earnings

For the Years Ended December 31,	1983	1982	1981
		(In Thousands)	
Balance at beginning of period	$ 46,820	$ 41,850	$ 38,392
Net income	34,343	29,392	24,936
	81,163	71,242	63,328
Deduct:			
Cash dividends on common stock	19,203	18,324	15,876
Cash dividends on preferred stock	7,363	6,098	5,602
	26,566	24,422	21,478
Balance at end of period (Note 4a)	$ 54,597	$ 46,820	$ 41,850

Statements of Capital Stock and Other Paid-In Capital

	Common Stock			Preferred Stock — Not Subject to Mandatory Redemption		Preferred Stock — Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Number of Shares	Par Value	Number of Shares	Par Value
			(Dollars in Thousands)				
Balance, January 1, 1981	4,410,000	$132,300	$ 63	419,049	$41,905	272,000	$27,200
Sale of Common Stock	680,000	20,400	–	–	–	–	–
Preferred Stock Sinking Fund Redemptions–							
11.00% Series	–	–	53	–	–	(4,016)	(402)
Balance, December 31, 1981	5,090,000	152,700	116	419,049	41,905	267,984	26,798
Sale of 15.00% Series of Preferred Stock	–	–	–	–	–	80,000	8,000
Preferred Stock Sinking Fund Redemptions–							
8.24% Series	–	–	–	–	–	(5,000)	(500)
11.00% Series	–	–	44	–	–	(4,033)	(403)
Balance, December 31, 1982	5,090,000	152,700	160	419,049	41,905	338,951	33,895
Sale of Common Stock	400,000	12,000	–	–	–	–	–
Sale of 11.50% Series of Preferred Stock	–	–	–	–	–	150,000	15,000
Preferred Stock Sinking Fund Redemptions–							
8.24% Series	–	–	–	–	–	(5,000)	(500)
11.00% Series	–	–	17	–	–	(4,243)	(424)
Balance, December 31, 1983	5,490,000	$164,700	$177	419,049	$41,905	479,708	$47,971

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

Statements of Taxes

For the Years Ended December 31,	1983	1982	1981
		(In Thousands)	
General Taxes:			
State gross receipts	$ 7,727	$ 7,473	$ 6,875
Real and personal property	2,212	2,172	2,126
State capital stock	1,902	1,675	1,492
Social security and unemployment	1,587	1,207	1,275
Miscellaneous	47	63	63
Total general taxes	$ 13,475	$ 12,590	$ 11,831
Provision for Income Taxes:			
Currently payable–			
Federal	$ 647	$ 1,644	$ (1,656)
State	1,217	2,256	676
	1,864	3,900	(980)
Deferred, net (see below)–			
Federal	10,708	5,253	6,754
State	2,877	1,400	1,342
	13,585	6,653	8,096
Investment tax credits, net of amortization	3,182	7,847	1,248
Total provision for income taxes	$ 18,631	$ 18,400	$ 8,364
Income Statement Classification of Provision for Income Taxes:			
Operating expenses	$ 18,221	$ 17,980	$ 7,980
Other income	(6,149)	(3,871)	(3,662)
Allowance for borrowed funds used during construction	6,559	4,291	4,046
Total provision for income taxes	$ 18,631	$ 18,400	$ 8,364
Sources of Deferred Income Taxes:			
Allowance for borrowed funds used during construction, which is credited to plant	$ 6,559	$ 4,291	$ 4,046
Excess of tax over book depreciation, net	4,145	3,375	1,568
Cost of terminated construction projects, net	(43)	460	–
Deferred fuel and energy costs, net	3,567	(977)	(498)
Deferred interest on leased nuclear fuel, net	(608)	(13)	3,146
Nuclear fuel disposal costs	(575)	(497)	–
Other, net	540	14	(166)
Net deferred income taxes	$ 13,585	$ 6,653	$ 8,096
Reconciliation of Federal Income Tax Expense at Statutory Rate to Total Provision for Income Taxes:			
Book income before provision for income taxes	$ 52,974	$ 47,792	$ 33,300
Federal income tax expense at statutory rate	$ 24,368	$ 21,984	$ 15,318
Increases (reductions) in taxes resulting from:			
Allowance for equity funds used during construction, which does not constitute taxable income	(5,621)	(4,813)	(2,982)
Excess of tax over book depreciation, net	(839)	(1,307)	(3,666)
State income taxes, net of Federal income tax benefit	2,211	1,974	1,090
Other, net	(1,488)	562	(1,396)
Total provision for income taxes	$ 18,631	$ 18,400	$ 8,364

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

PENN POWER
The Energy Makers

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies:

The Company, a wholly-owned subsidiary of Ohio Edison Company (Edison), follows the accounting policies and practices prescribed by the Pennsylania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC).

Revenues–

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

Revenues from the Company's largest customer, Sharon Steel Corporation, for 1983, 1982 and 1981 amounted to approximately \$22,846,000, \$19,370,000 and \$20,707,000, respectively. These amounts represented approximately 12.0%, 10.4% and 11.9%, respectively, of the Company's total operating revenues.

Deferred Fuel and Energy Costs–

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

Reference is made to Note 7 with respect to accounting for the cost of coal received from Quarto Mining Company (Quarto).

Utility Plant and Depreciation–

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

The Company provides 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 3.2% in 1983 and 1982 and 3.0% in 1981. The Company provides for the estimated cost of decommissioning the radioactive components of its only nuclear generating unit in service, in accordance with a PPUC rate order.

Common Ownership of Generating Facilities–

The Company and other Central Area Power Coordination Group (CAPCO) companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the construction costs of any jointly owned facility in the same proportion as its ownership interest. The Company's portion of operating expenses associated with these jointly owned facilities is included in the corresponding operating expenses on the Statements of Income. The amounts reflected on the Balance Sheet under utility plant at December 31, 1983, include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Construction Work in Progress	Company's Ownership Interest
		(In Thousands)		
W. H. Sammis No. 7	\$ 43,547	\$ 7,061	\$ 1,359	20.80%
Bruce Mansfield No. 1, No. 2 and No. 3	84,084	11,451	361	5.76%
Beaver Valley No. 1	138,055	24,606	24,335	17.50%
Perry No. 1 and No. 2	–	–	181,250	5.24%
Total	\$265,686	\$ 43,118	\$207,305	

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

Nuclear Fuel–

The Company amortizes the cost of nuclear fuel based on the rate of consumption. The Company also makes provision for future nuclear fuel disposal costs associated with the fuel.

Allowance for Funds Used During Construction (AFUDC)–

AFUDC, a non-cash item charged to utility plant under construction during the construction period, represents the net cost of borrowed funds and equity funds used for construction purposes. AFUDC varies according to changes in the level of utility plant under construction and in the cost of capital. The Company computes AFUDC utilizing a net of tax rate, which is consistent with the rate treatment. The AFUDC rates related to nuclear fuel financed only through the incurrence of long-term obligations (see Note 5) is based on actual interest accrued on the obligations during the period. The rates used by the Company for all other construction projects were 9.25% during 1983 and 1982 and 8.5% during 1981.

Income Taxes—

Details of the total provision for income taxes are shown on the Statements of Taxes. The deferred income taxes result from timing differences in the recognition of revenues and expenses for tax and accounting purposes.

The Company allocates the income tax benefit resulting from interest expense related to utility plant under construction, to income taxes-credit included under other income and deductions on the Statements of Income.

For income tax purposes, the Company claims liberalized depreciation and, consistent with the rate treatment, generally follows "normalization" accounting. The Company expects that deferred taxes which have not been provided will be collected from its customers when the taxes become payable, based upon the established ratemaking practices of the PPUC and the FERC.

The Company defers investment tax credits utilized and amortizes these credits to income over the estimated life of the related property. At December 31, 1983, approximately $13,000,000 of unused investment tax credits were available to offset future Federal income taxes payable. These credits expire at the end of the following years:

1995	$ 5,000,000
1996	2,000,000
1997	2,000,000
1998	4,000,000
	$13,000,000

Pensions—

The Company's trusteed, noncontributory pension plan covers almost all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. Pension costs for 1983, 1982, and 1981, were $3,397,000, $2,987,000 and $2,668,000, respectively. Of those amounts, $1,309,000, $666,000 and $354,000, respectively, were charged to operating expenses; the balances were primarily billed to the other CAPCO companies or charged to construction. Such costs include the amortization of unfunded past service costs on an actuarial basis over approximately 40 years in 1983 and 30 years in 1982 and 1981. The Company funds pension costs accrued.

A comparison of accumulated plan benefits and plan net assets from the two latest actuarial reports is as follows:

	June 30, 1983	June 30, 1982
Actuarial present value of accumulated plan benefits:		
Vested	$22,468,000	$19,574,000
Nonvested	3,500,000	2,369,000
	$25,968,000	$21,943,000
Net assets available for benefits	$45,233,000	$31,550,000
Assumed rate of return for actuarial present value of accumulated plan benefits	8%	8%

The total actuarial present value of accumulated plan benefits reflects pension benefits applicable to eligible employees based upon present salary levels and past years of service accumulated through the valuation date. This is the generally accepted reporting procedure currently set forth by the Financial Accounting Standards Board. The Company's annual contribution to the plan, however, considers estimated ultimate salary increases due to inflation and other factors and the estimated total service expected to be accumulated by employees. This is a widely recognized funding technique and is consistent with the recommendation of the Company's actuary. In addition, the actuary recommended, and the Company utilized, a discount rate of 7% for funding purposes. Differences between funding bases and reporting requirements can have a significant effect on the comparisons shown above.

Significant Parent Company Transactions—

Operating revenues for 1983, 1982 and 1981 include $12,745,000, $14,141,000 and $16,172,000, respectively, attributable to transactions with Edison. Such revenues resulted primarily from Edison's purchase of capacity from the Company's ownership interest in Beaver Valley Unit No. 1 and W. H. Sammis Unit No. 7. Purchased and interchanged power, net, reflects credits of $8,290,000, $18,467,000 and $7,565,000 due to the Company's net delivery of interchanged power to Edison during 1983, 1982 and 1981, respectively. In addition, other operation expenses for 1983, 1982 and 1981 include $2,794,000, $2,251,000 and $1,570,000, respectively, attributable to services rendered by Edison to the Company.

PENN POWER
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Notes to the Financial Statements — cont.

(2) Terminated Construction Projects:

In January 1980, the Company and all other CAPCO companies terminated plans to construct four nuclear generating units. Costs, including settlement of all asserted claims resulting from termination, unrecovered by the Company as of December 31, 1983, applicable to these units amounted to approximately $16,000,000.

The Company is currently seeking approval from the FERC to recover these costs from FERC jurisdictional customers to the extent they are allocable to those customers. The Company is currently collecting interim rates from FERC jurisdictional customers which are intended to provide for recovery over a ten-year period and, accordingly, those costs applicable to FERC jurisdictional customers are being amortized over that period. The Company believes that the construction costs were prudently incurred and has no reason to believe that the FERC will not act favorably upon its request. The PPUC has indicated that it will allow the Company to begin recovering its share of the costs allocable to PPUC jurisdictional customers over a ten-year period beginning with the effective date of new rates resulting from its pending rate increase request.

(3) Leases:

The Company leases nuclear fuel, certain transmission and distribution facilities, office space and other property and equipment under cancelable and noncancelable leases. Total rent expenses included on the Statements of Income were $8,646,000, $4,618,000 and $5,116,000 for 1983, 1982 and 1981, respectively. The future minimum rental commitments as of December 31, 1983, for all noncancelable leases recorded as operating leases are:

1984	$ 5,071,000
1985	4,369,000
1986	3,857,000
1987	3,458,000
1988	2,201,000
Years thereafter	52,695,000

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

(4) Capitalization:

(a) Retained Earnings—

Under the Company's Charter, the Company's retained earnings unrestricted for payment of cash dividends on the Company's Common Stock were $33,773,000 at December 31, 1983.

(b) Preferred Stock—

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

(c) Preferred Stock Subject to Mandatory Redemption—

The Company's 8.24% Series and 11% Series each include provisions for a mandatory sinking fund to retire a minimum of 5,000 shares and 4,000 shares, respectively, every year on December 1 and January 1, respectively, at $100 per share plus accrued dividends. Its 15% Series and 11.50% Series each include provisions for a mandatory sinking fund to retire a minimum of 3,200 shares and 15,000 shares, respectively, on July 15 of each year beginning in 1988 and 1989, respectively, at $100 per share plus accrued dividends. The Company's 10.50% Series includes a provision for mandatory redemption of the entire series on April 1, 2040, at $100 per share plus accrued dividends.

As of December 31, 1983, the Company's sinking fund requirements for the next five years are:

1984	$ 500,000
1985	871,000
1986	900,000
1987	900,000
1988	1,220,000

Notes to the Financial Statements—cont.

(d) Long-Term Debt—

The mortgage and its supplements, which secures all of the Company's first mortgage bonds, serves as a direct first mortgage lien on substantially all property and franchises, other than specifically excepted property, owned by the Company.

Based on the amount of bonds authenticated by the Trustee through December 31, 1983, the Company's annual sinking and improvement fund requirements amount to $2,784,000. The Company expects to satisfy these requirements in 1984 by certifying unfunded property additions of 166-2/3% of the required amount.

As of December 31, 1983, the Company's sinking and improvement fund requirements and maturing long-term debt for the next five years are:

1984	$ 2,834,000
1985	30,212,000
1986	5,212,000
1987	5,212,000
1988	8,225,000

The weighted average interest rates shown on the Statements of Capitalization relate to long-term debt outstanding at December 31, 1983.

Total secured notes outstanding at December 31, 1983 and 1982 exclude $2,572,000 and $5,327,000, respectively, of pollution control notes, the proceeds of which were then in escrow pending their disbursement for construction of certain pollution control facilities. The Company has pledged first mortgage bonds in a like aggregate principal amount to secure its obligations under $14,500,000 of its pollution control notes.

(5) Nuclear Fuel Obligations:

In December 1981, Pennsylvania Power Fuel Corporation (a corporation in which the Company has no ownership interest) was created to provide funds for the procurement of nuclear fuel. The fuel corporation will lease fuel to the Company under a fuel lease which will require lease payments sufficient to permit the fuel corporation to repay the obligations. Under ordinary circumstances, the lease payments will be made at such time and in such amounts as will coincide with the burn-up of the nuclear fuel. Financing on behalf of the Company of up to $48,000,000 is currently available through the Pennsylvania Power Fuel Corporation, either through revolving credit arrangements or the issuance of commercial paper, which is supported by a bank letter of credit, or a combination of both.

In November 1982, the Company also began participating in arrangements wherein the Central Area Energy Trust (CAET) finances the acquisition of nuclear material that will ultimately be used to fuel various CAPCO generating units. As part of these arrangements, the Company has entered into purchase agreements whereby the Company is unconditionally obligated to purchase its share of the nuclear material that has been financed through CAET in not less than two nor more than three years from the date of the agreement, unless the nuclear material reaches the point of fabrication, at which time the purchase commitment will then be due. Financing of up to $29,000,000 is available to CAET on behalf of the Company, subject to certain limitations.

The Company accrues interest applicable to the nuclear fuel obligations which is subsequently capitalized, net of income tax effect. No direct borrowings have been or are expected to be made against the line of credit available to the fuel corporation; the fuel corporation has issued and has outstanding commercial paper supported by the line of credit. To the extent that borrowings are less than the $48,000,000 available under this credit line, the fuel corporation must pay a commitment fee of 1/8% to 1/2% on the available portion of the line of credit. It also pays a fee of 5/8% to 7/8% for the letter of credit on the aggregate amount of outstanding commercial paper. Interest rates on CAET purchase commitments vary from 1-1/8% to 1-1/2% over the interest rates applicable to certain dealer placed commercial paper. The effective average annual interest rates applicable to nuclear fuel obligations were 10.6% and 12.0% in 1983 and 1982, respectively.

(6) Notes Payable to Banks and Lines of Credit:

The Company has lines of credit with banks that provide for borrowings of up to $30,000,000 at rates that vary from prime up to 105% of the prevailing prime interest rates. Short-term borrowings may be made under these lines of credit on the Company's unsecured notes. All of the current lines expire December 31, 1984; however, all unused lines may be canceled by the banks.

The Company maintains cash balances on deposit with banks to provide operating funds and to assure availability of $6,500,000 of the lines of credit. Such compensating balances, net of "float", are expected to be maintained at an average of approximately $500,000 and are not subject to any contractual restriction against withdrawal. In addition, the Company is required to pay commitment fees that vary from a flat rate of 3/8% to a variable rate of 5% of the applicable prime interest rate to assure the availability of $16,000,000 of the lines of credit.

(7) Commitments, Guarantees and Contingencies

Construction Program—

The Company's current budget forecast reflects expenditures of approximately $229,000,000 for property additions and improvements from 1984 through 1988, of which approximately $73,000,000 is applicable to 1984. In addition, the Company expects to invest approximately $56,000,000 for nuclear fuel during the 1984-1988 period, of which approximately $13,000,000 is applicable to 1984. The major portion of the Company's construction activities during this five-year period relates to the CAPCO companies' program for the joint development of power generation and transmission facilities.

Quarto Project—

The Company, together with the other CAPCO companies, has entered into a long-term coal supply contract with Quarto. The CAPCO companies have also agreed to severally, and not jointly, guarantee their proportionate shares of Quarto's debt and lease obligations incurred while developing and equipping the mines. As of December 31, 1983, the Company's share of the guarantee was $31,990,000.

Under the terms of the coal supply contract, which expires December 31, 1999, the Company must reimburse Quarto for its share of the costs of operating the Quarto mines, including those costs associated with mine construction, whether or not it receives coal from Quarto. These payments will permit Quarto, over the life of the contract, to meet the debt and lease obligations it incurred while developing and equipping the mines. The Company's total payments under this contract, including amounts related to mine construction costs, amounted to $10,708,000, $9,369,000 and $10,836,000 during 1983, 1982 and 1981, respectively. Under the coal supply contract, the Company's future minimum payments related solely to mine construction costs are:

1984	$ 2,964,000
1985	2,894,000
1986	2,824,000
1987	2,754,000
1988	2,683,000
Years thereafter	26,446,000

Based on studies concerning the economics of the Quarto project and the various alternatives available to provide the long-term fuel requirements of the Bruce Mansfield Plant, changes were made in 1981 in the mode of operation of the Quarto mines which have the effect of reducing the annual tonnage production of these mines. Additional coal requirements for the Bruce Mansfield Plant are currently being procured in the open market and the Company is presently continuing to evaluate the alternatives for making additional arrangements to fulfill, together with the use of coal from the Quarto project, the long-term fuel requirements of the Bruce Mansfield Plant. These changes are part of a fuel procurement strategy designed to reduce the weighted average price of coal used at the Bruce Mansfield Plant. The Company will continue to monitor the Quarto project and conduct such additional studies of the economics of the project as are deemed warranted by the circumstances.

Under the terms of the coal supply contract, the price of Quarto coal is based on, among other things, the actual production costs plus amortization of certain production expenses which were not included in the price of that coal prior to May 31, 1980, when the development period ended.

Following the end of the development period, the Company was ordered by the PPUC to defer recovery of the cost of Quarto coal in excess of generally prevailing market prices, pending further proceedings. As a result of that order the Company began deferring a portion of the cost of Quarto coal, rather than including such cost in its ECR.

On February 10, 1984, an Administrative Law Judge for the PPUC issued his Initial Decision in the proceedings relating to the recovery of the cost of Quarto coal. The Initial Decision would allow the Company to recover in its ECR the current cost of Quarto coal and the costs which were deferred in prior years (amounting to approximately $9,879,000 at December 31, 1983) to the extent that the actual cost of all coal burned at the Bruce Mansfield Plant is less than the prevailing delivered market price for comparable coal. The Company may continue to defer costs which are in excess of the amount allowed to be recovered on a current basis. The Initial Decision will become final unless it is appealed to the PPUC or the PPUC elects to review the decision. Although unable to predict the final resolution of this matter, management believes that its ultimate disposition will not have a material adverse effect upon the Company's results of operations.

In the Company's current rate case before the FERC, hearings are scheduled to begin in April, 1984 concerning the amount of the cost of Quarto coal that should be included in the Company's charge for electric service to its wholesale customers. Management believes that the ultimate disposition of this matter by the FERC will not have a material adverse effect upon the Company's results of operations.

Environmental Matters–

Various Federal, state and local authorities regulate the Company with regard to air and water quality and other environmental matters. The Company estimates that compliance requires capital expenditures of approximately $21,000,000 for projects remaining to be completed. Of this amount, approximately $18,000,000 was spent prior to 1984 and $3,000,000 is included in the construction estimate given above under "Construction Program" for 1984 through 1988. If the Company is required to install off-stream cooling in connection with the operation of the New Castle Plant, costs (based on a 1980 study) estimated between $13,800,000 and $31,500,000, depending on the required thermal limitations, would be incurred. In addition, annual operating costs would increase substantially. The Company expects that the impact of any such capital and operating expenditures would eventually be reflected in its rate schedules.

On December 19, 1980, the Commonwealth of Pennsylvania petitioned the Federal Environmental Protection Agency (EPA) to make findings under Section 126 of the Clean Air Act. Section 126 provides a remedy for a downwind State that can show adverse impact because air pollution in an upwind State causes nonattainment of air quality standards in the downwind State. Pennsylvania's petition complains of excessive particulate and sulfur dioxide (SO_2) emissions from a number of sources in Ohio and other states, including Sammis Unit No. 7. The States of New York and Maine have filed similar petitions which have subsequently been consolidated with the Pennsylvania petition. In January 1984, a number of states, together with various environmental organizations, sent the EPA a notice of their intent to sue the EPA for failing to render a timely decision on the pending Section 126 petitions. The notice also asserts that the EPA has a mandatory duty to order cutbacks in SO_2 emissions in Ohio and other states under Section 115 of the Clean Air Act, which deals with international air pollution. These proceedings could ultimately result in the revision of the particulate and SO_2 emission limitations for Sammis Unit No. 7, to make them more stringent. The outcome of these proceedings cannot be predicted at this time.

As a part of the reauthorization of the Clean Air Act, legislation has been introduced in Congress to address the so-called "acid rain problem." Various bills introduced thus far would require reductions in SO_2 emissions from utility power plants and other sources located in several states, including Ohio and Pennsylvania. The Company is unable to predict whether the proposed bills will be enacted and, if so, to what extent, if any, the SO_2 emission limits at the Company's plants would be affected. Substantial changes in the SO_2 emission limits could result in the need for changes in coal supply or significant capital investments in flue gas desulfurization equipment to assure compliance. If flue gas desulfurization equipment were to be installed on all of the Company's generating units to achieve compliance, the Company estimates that the capital costs associated with such installation could exceed $100,000,000. The Company would expect that any such capital costs, as well as any increased operating costs associated with such equipment, would ultimately be recovered from its customers.

On October 11, 1983, the U.S. Court of Appeals for the District of Columbia reversed several significant portions of the EPA's regulations on the methods used by the EPA to determine the amount of stack height credit for establishing individual source emission limitations. The EPA is currently considering changes to its stack height regulations to conform them to the court's decision. Such changes could result in more stringent emission limitations for some existing plants and increased capital costs and operating expenses. The utility industry is seeking review of the decision before the U. S. Supreme Court. The Company is unable to predict the ultimate outcome of this proceeding.

The Pennsylvania Department of Environmental Resources has informed the Company that it intends to enter into a Consent Agreement with the Company in an effort to substantially reduce alleged opacity violations at the New Castle Plant. Such Consent Agreement may ultimately include capital expenditures and changes in operations at the plant, as well as an undeterminable penalty payment. Management is unable to predict the terms of the Consent Agreement but anticipates that any capital costs and increased operating expenses would ultimately be recovered from the Company's customers and that any penalty payment would not be material to the Company's results of operations.

Other Legal Actions and Complaints–

In 1977, the Boroughs of Ellwood City and Grove City, Pennsylvania, filed a complaint against the Company, alleging that the Company, individually and in conspiracy with Edison and other CAPCO companies, has violated Sections 1 and 2 of the Sherman Act and Sections 4 and 16 of the Clayton Act by restraining and monopolizing trade and commerce in alleged markets for electric power. Damages of $7,000,000 (to be trebled) and injunctions against the alleged unlawful acts were originally sought. In February 1984, the Boroughs revised their claimed damages up to $9,743,000. In 1979, the Court granted summary judgment in favor of the Company as to certain allegations of the complaint. In February 1983, the Company filed a Motion for Summary Judgment on the claims not dismissed by the Court's 1979 order. Also in February 1983, the Boroughs asked the Court to allow them to amend their complaint. In August 1983, the Court granted the Company summary judgment on the Boroughs' conspiracy claims, denied summary judgment on "price squeeze" and Robinson-Patman Act claims, and denied the Boroughs' request to amend their complaint. Trial is anticipated to begin in the second quarter of 1984. Management is unable to predict the ultimate outcome of this action.

The PPUC is investigating an outage of Beaver Valley Unit No. 1 which occurred during the period March-August 1979. The outage had been ordered by the Nuclear Regulatory Commission to analyze possible seismic deficiencies of safety-related piping and pipe supports in the Unit. The PPUC has ordered that the operating company of the Unit make refunds to that company's customers based upon that company's expenditures for purchased replacement power during the outage. The PPUC is currently investigating the Company's liability, if any, for the outage and whether refunds are due to the Company's customers for purchased replacement power expenses incurred during the outage which were included in its energy clause. If the Company is required at some future time to make such a refund, it is not expected that the amount would be material to the Company's results of operations.

(8) Supplementary Financial Data
Financial Reporting and Changing Prices: (Unaudited)

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

Results of Operations Adjusted for the Effects of Changing Prices for the Year Ended December 31, 1983	Adjusted for General Inflation	Adjusted for Change in Specific Prices (Current Cost)
	(Thousands of Average 1983 Dollars)	
Income from continuing operations	$ 27,047	$ 27,047
Inflationary Effects on Common Equity:		
Capital Investments Effects–		
Increase in specific prices (current cost) of property held during the year (i)	–	42,245
Change in general price level on property held during the year	–	(40,063)
Reduction to net recoverable cost	(4,208)	(4,454)
Additional provision for depreciation	(19,122)	(21,058)
	(23,330)	(23,330)
Advantage from the decrease in purchasing power of net monetary liabilities	15,594	15,594
Net erosion of common stockholder's equity	(7,736)	(7,736)
Income from continuing operations adjusted for changing prices (ii)	$ 19,311	$ 19,311

(i) At December 31, 1983, net property, plant and equipment, adjusted for changes in specific prices (current cost) was $1,119,604,000, while historical cost (net recoverable cost) was $659,620,000.

(ii) Income from continuing operations, adjusted for general inflation and adjusted for change in specific prices (current cost) would be $7,925,000 and $5,989,000, respectively, if only the amount reportable as additional provision for depreciation was included in the adjustment.

Notes to the Financial Statements — cont.

Comparison of Supplementary Financial Data For the Years Ended December 31	1983	1982	1981	1980	1979
	(Dollars in Thousands)				
Operating Revenues—					
Historical	$191,172	$185,883	$174,488	$157,208	$145,340
Adjusted to Average 1983 Dollars	$191,172	$191,863	$191,143	$190,076	$199,492
Income (Loss) from Continuing Operations—					
Historical	$ 27,047	$ 23,294	$ 19,331	$ 15,590	$ 16,546
Adjusted for changing prices (Average 1983 Dollars)	$ 19,311	$ 16,296	$ 4,679	$ (2,973)	$ (2,239)
Return from Continuing Operations on Average Common Equity—					
Historical	13.0%	11.8%	11.1%	9.9%	10.8%
Adjusted for changing prices	9.3%	8.0%	2.4%	(1.6)%	(1.1)%
Effective Income Tax Rate—					
Historical	35.2%	38.5%	25.1%	26.4%	25.9%
Adjusted for changing prices	41.2%	45.7%	45.9%	72.9%	71.0%
Excess of Increase in the Specific Level of Prices on Property, Plant and Equipment Over General Price Changes (Average 1983 Dollars)	$ 2,182	$ 10,077	$ (832)	$(27,015)	$(30,128)
Advantage Resulting from the Decrease in Purchasing Power of Net Monetary Liabilities (Average 1983 Dollars)	$ 15,594	$ 13,848	$ 31,029	$ 44,209	$ 49,072
Year End Common Stockholder's Equity—					
Historical	$219,474	$199,680	$194,666	$170,755	$154,438
Adjusted for changing prices (Average 1983 Dollars)	$215,831	$203,787	$206,892	$198,358	$201,760
Average Consumer Price Index	298.4	289.1	272.4	246.8	217.4

The increase in specific prices of property held during the year attempts to measure increasing asset values which approximate dollars that would have to be spent today to acquire property, plant and equipment identical to assets currently owned. The Company uses the Handy-Whitman Index of Public Utility Construction Costs and the Bureau of Labor and Statistics engineering indices to calculate the current cost of those assets. The indices are applied to actual dollars spent on large construction projects according to the year of expenditure. For all other plant facilities, the current cost is determined based upon the year the facilities were placed in service.

Changes in the valuation of assets adjusted for general inflation are computed by using the average Consumer Price Index for All Urban Consumers for the calendar year, according to the guidelines set forth in SFAS No. 33.

As shown on the results of operations, adjusted for the effects of changing prices, the erosion of common stockholder's equity is identical either adjusted for general inflation or adjusted for specific price changes. This results from the effect of regulation in setting the Company's electric rates. Since those rates are based upon historical costs of utility plant, the inflationadjusted results of operations must recognize this limitation; this is accomplished by the reduction to net recoverable cost shown on the summary.

Additional depreciation expense adjusted for general inflation and for the change in specific prices was determined using the same rates and methods used for computing the historical cost provision for depreciation. No inflation adjustment has been reflected for income taxes, in conformity with the reporting requirements of SFAS No. 33.

During periods of inflation, the Company's net monetary liabilities (principally long-term debt and preferred stock) will be repaid with dollars having less purchasing power than dollars had when the original liability was incurred. This economic benefit is portrayed on the summary as the advantage from the decrease in purchasing power of net monetary liabilities, which serves as an offset to the inflationary effects of replacing the Company's property, plant and equipment.

PENN POWER
The Energy Makers

(9) Summary of Quarterly Financial Data:

The following summarizes certain operating results for the four quarters of 1983 and 1982.

	Three Months Ended			
	March 31, 1983	June 30, 1983	September 30, 1983	December 31, 1983
	(In Thousands)			
Operating Revenues	$46,966	$45,724	$50,189	$48,293
Operating Expenses and Taxes	34,992	35,087	39,817	37,299
Operating Income	11,974	10,637	10,372	10,994
Other Income and Deductions	4,356	4,571	4,885	5,448
Net Interest	7,261	7,194	7,359	7,080
Net Income	$ 9,069	$ 8,014	$ 7,898	$ 9,362
Earnings on Common Stock	$ 7,395	$ 6,341	$ 6,042	$ 7,269

	Three Months Ended			
	March 31, 1982	June 30, 1982	September 30, 1982	December 31, 1982
	(In Thousands)			
Operating Revenues	$47,934	$46,489	$46,268	$45,192
Operating Expenses and Taxes	37,926	36,402	36,189	34,776
Operating Income	10,008	10,087	10,079	10,416
Other Income and Deductions	3,202	3,809	3,979	4,108
Net Interest	5,979	6,416	6,489	7,412
Net Income	$ 7,231	$ 7,480	$ 7,569	$ 7,112
Earnings on Common Stock	$ 5,836	$ 6,085	$ 5,944	$ 5,429

Auditors' Report

ARTHUR ANDERSEN & CO.
NEW YORK, N. Y.

To the Board of Directors
of Pennsylvania Power Company:

We have examined the balance sheets and statements of capitalization of Pennsylvania Power Company (a Pennsylvania corporation and a wholly-owned subsidiary of Ohio Edison Company) as of December 31, 1983, and 1982, and the statements of income, retained earnings, capital stock and other paid-in capital, sources of funds for property additions and taxes for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Pennsylvania Power Company as of December 31, 1983, and 1982, and the results of its operations and the sources of funds for property additions for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

February 14, 1984

Directors

Robert H. Carlson
Senior Vice President, Universal-Rundle Corporation, a plumbing fixture manufacturer, New Castle, Pennsylvania

A. Wayne Cole
President of the Company, New Castle, Pennsylvania

J. F. Dunlevy
Vice President of the Company, New Castle, Pennsylvania

J. R. Edgerly
Vice President and General Counsel of the Company, New Castle, Pennsylvania

D. Bruce Mansfield
Retired—formerly Chairman of the Board and President of the Company, Akron, Ohio

Joseph J. Nowak
President of Sawhill Tubular Division, Sharon, Pennsylvania, and Tex-Tube Division, Houston, Texas, both pipe and tubing divisions of Cyclops Corporation

V. A. Owoc
Executive Vice President of the Company's parent, Ohio Edison Company, Akron, Ohio

W. F. Reeher
Vice President of the Company, New Castle, Pennsylvania

Justin T. Rogers, Jr.
Chairman of the Board of the Company, and President of its parent, Ohio Edison Company, Akron, Ohio

W. H. Sammis
Retired—formerly Chairman of the Board and President of the Company, Akron, Ohio

D. W. Tschappat
Executive Vice President of the Company's parent, Ohio Edison Company, Akron, Ohio

C. M. Whittaker
Retired—formerly President of Universal-Rundle Corporation, a plumbing fixture manufacturer, New Castle, Pennsylvania

G. Leo Winger
President and Chief Operating Officer of Steel Castings Corporation, Unitcast Castings Inc., a castings manufacturer, Sharon, Pennsylvania

Officers

Justin T. Rogers, Jr.
Chairman of the Board

A. Wayne Cole
President

J. F. Dunlevy
Vice President

J. R. Edgerly
Vice President and General Counsel

W. F. Reeher
Vice President

[illegible]
Secretary and Treasurer

[illegible]
Comptroller

[illegible]
Assistant Comptroller

[illegible]
Assistant Secretary

[illegible]
Assistant Treasurer

[illegible]
Assistant Treasurer

DISTRICT MANAGER
[illegible]
Mercer County

[illegible]

[illegible]

PENN POWER
The Energy Makers

Pennsylvania Power Company
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The Toledo Edison Company

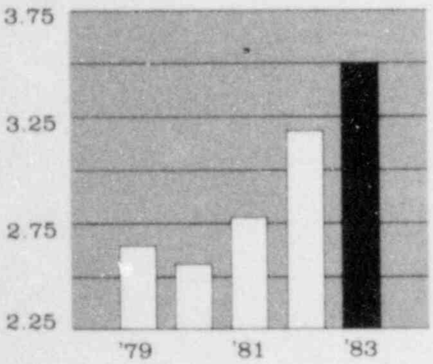
1983 Annual Report

HIGHLIGHTS

	1983	1982	Change
Earnings Per Common Share	$3.50	$3.18	+ 32¢
Dividends Declared Per Common Share (current quarterly rate is 63¢ – equivalent to $2.52 per year)	2.46	2.38	+ 8¢
Return on Average Common Equity	14.5%	13.3%	
Financial Results (millions of dollars)			
Income from operations	63	57	+ 11%
Allowance for equity funds used during construction	65	49	+ 33%
Net income	128	106	+ 21%
Operating Results (millions of kilowatt-hours)			
Sales			
Retail customers	6811	6523	+ 4%
Wholesale customers	320	395	– 19%
System Performance			
Nuclear generation	2383	1569	+ 52%
Fossil generation	4683	5306	– 12%
Employees	2405	2458	– 2%

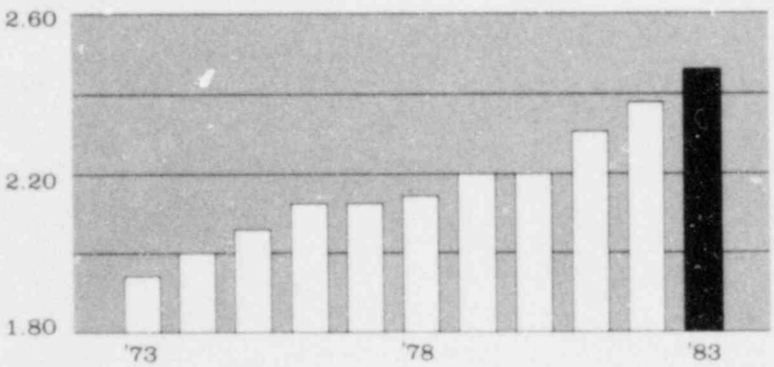
Earnings per Common Share

Dollars/Share



Dividends Declared per Common Share

Dollars/Share



ABOUT TOLEDO EDISON

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

TO OUR SHAREOWNERS:

John P. Williamson
Chairman and
Chief Executive Officer

Wendell A. Johnson
President and
Chief Operating Officer

It is a pleasure to report a significant earnings gain, especially in the second half of 1983.

Shareowners and customers alike are benefiting from the results of our successful, on-going cost reduction and control efforts. And an upturn occurred in kilowatt-hour sales due to the improving economy and a return to more normal weather patterns.

The price per kilowatt-hour of electricity to our customers was reduced significantly. Our power generation facilities, particularly nuclear, set new records for production and efficiency.

The dividend rate was increased two cents, to 63 cents per common share, by your board of directors in December. This was the 21st increase declared in the last 23 years. The new rate is equivalent to $2.52 on an annualized basis. 1983 also was the 62nd consecutive year of dividend payments.

Earnings rose to $3.50 per common share from the $3.18 of the previous year, a 10 percent increase.

Leading the way to a 9 percent increase in industrial kilowatt-hour sales were the substantial gains registered by automotive-related customers. Their power use was up 18 percent for the year.

The improving economy also means employment in our eight-county service area has been on the rise. By late 1983, total employment was at its highest level in four years.

Locally, two major automotive-related employers are operating at pre-recessionary levels. They've invested in retooling their existing northwest Ohio plants and have called back laid-off workers. We see that as further evidence of a direct correlation between industrial electric consumption and the economic health of the community.

Total 1983 kilowatt-hour sales rose 3 percent. This was the first overall sales increase in the last four years. Sales to municipal customers decreased as a result of their increased purchases of power from other government entities.

Residential and commercial kilowatt-hour sales showed only a slight annual increase. The first half of the year saw exceptionally mild temperatures and low sales. However, the weather returned to more normal patterns in the summer and fall, with December temperatures being very cold.

We decreased our prices to customers during the year. Most of this is attributable to a 50 percent decrease in the "fuel charge" portion of our customers' bills in August. This reflected our lower fuel costs over the prior six-month period. It resulted primarily from the low-cost generation of the Davis-Besse Nuclear Station, along with continued efficient production from our coal-fired Bay Shore Station.

Also in August, the Public Utilities Commission of Ohio approved a partially offsetting increase in our base prices. The commission approved a 5 percent, or $23 million, annual increase in retail electric rates.

The net effect of the two decisions was that our average total price per kilowatt-hour decreased about 10 percent for the six-month fuel adjustment period. This came at a time when it could be most beneficial – right before the winter heating season.

Of particular significance in this commission decision was the partial allowance of carrying charges on Construction Work in Progress (CWIP) for the Perry No. 1 generating addition project as part of the basic price increase. The first Perry Unit is now over 90 percent complete. Work on a second unit, about 40 percent complete, is being minimized pending completion of the first unit and future evaluation of capacity timing needs. Your company has a 20 percent ownership share in the two units, which are being built by Cleveland Electric Illuminating Company on behalf of the Central Area Power Coordination Group (CAPCO). We also have about a 20 percent ownership share in the Beaver Valley Unit No. 2, now about 80 percent complete and under the construction supervision of Duquesne Light Company.

Our Davis-Besse station set a new record for annual production in 1983. The nuclear unit provided over 5.2 billion kilowatt-hours, a six-year high. In 1983 the unit rated in the upper one-third for production of all of the nuclear units in the country. Of the company's total electricity output, 31 percent was from the nuclear station. With the consequent lowering of costs and prices, it is not difficult to point out to customers the advantages of nuclear generation. We look forward to continued efficient service in 1984.

Coal-fired units provided about 66 percent of company generated power in 1983, a dependable complement to our nuclear generating source.

We'll continue fine-tuning the procedures and equipment at our generating stations to keep their performance at peak efficiency. Our coal-fired units, in particular, have been the recipients of many modifications in recent years, most of which are designed to minimize any harmful environmental impact.

Improving air quality is the reason we have already made substantial environmental equipment investments at our Acme and Bay Shore Stations in Toledo. We have also changed to higher-cost, low sulfur coal sources for our boilers. Your management team believes the company probably should be minimally affected and, in fact, will be less affected than most other utilities in this part of the country by proposed acid rain legislation.

Cost-control programs lowered costs in 1983. For instance, our operating expenses for the year showed only a slight increase and maintenance expenses actually decreased by 16 percent. We achieved this by carefully evaluating even the most routine projects for ways to reduce expenses.

Cost-control continues to be truly an all-around effort. All of our employees deserve a great deal of credit for making the cost-reduction program work. Partially through their hard work and sacrifices, including wage freezes, we were able to experience an improved financial condition compared to the previous year.

Management was strengthened and re-aligned in 1983. Donald G. Nicholson was elected senior vice president, finance. He continues to direct the extensive financing of our construction program and has the additional responsibilities for accounting and treasury activities. Paul M. Smart joined the company as senior vice president, with prime responsibility for corporate development. He was recently elected to the board of directors. The board also elected Lyman C. Phillips vice president, corporate planning and administration. He has the added responsibilities of administration of personnel, procurement, industrial security, transportation, building and office services, and business analysis and planning, as well as corporate planning activities.

Frank W. Keith, vice president, administration, retired after 36 meritorious years with the company.

1983 was a gratifying year. Our earnings were up while customer prices were down. And we continued monitoring and evaluating the CAPCO generating unit projects still under construction. Shareowners can be assured that the same scrutiny and thought that went into our past year's successes will be applied to all of our future efforts.

But we entered 1984 with what could best be termed cautious optimism. For even the most prudent decisions and the highest quality work are no guarantee against adversity. In the last few months we have seen how capricious use of regulatory standards can make a mockery of the carefully balanced relationship between utilities, shareowners and customers.

Providing future capacity involves risks, particularly financial risks these days. New capacity additions have become needlessly expensive. The regulatory process has created many uncertainties, driven up construction costs and contributed to lowered bond ratings and higher financing costs. Yet new capacity is vital for new jobs and businesses. Since this capacity benefits society as a whole, it stands to reason that electric customers, who benefit from the power supply, should share the risk. But there are those who believe that the investment risk should fall only on the shoulders of utility "companies" and their shareowners. This is patently unfair and a real threat to our nation's ability to power its economic future.

For example, if a regulated company such as ours were required to cancel any of its generating units under construction, and were directed to charge off the investment **only** against shareowners, the resultant write-off could exceed the balance in its Earnings Reinvested Account and probably result in a consequent suspension of dividend payments. Even a forced suspension in construction of a unit could result in a reduction in the accrual for Allowance for Funds Used During Construction credits and a possible reduction or termination of dividend payments. Either of these events could, in turn, preclude a company from selling additional equity and debt securities. This, then, could result in a company being unable to obtain funds sufficient to finance its share of the construction costs of other units, unless the company was able to obtain the necessary financing by other means. Therefore, politicians and regulators need to be made very aware of the serious consequences of any actions to "protect customers" that would affect utility construction and financing programs and, ultimately, adequacy and reliability of customer service, as well as bills.

We at Toledo Edision are not wavering in any of our convictions. But as one of the most heavily regulated of American industries, much of our fate is beyond our immediate control. Thus our cautious optimism. We can only ask that authorities carefully weigh **all** the repercussions of their actions in the years ahead, especially with respect to utilities.

Cordially,

John P. Williamson

John P. Williamson
Chairman and Chief Executive Officer

Wendell A. Johnson

Wendell A. Johnson
President and Chief Operating Officer

CONTENTS

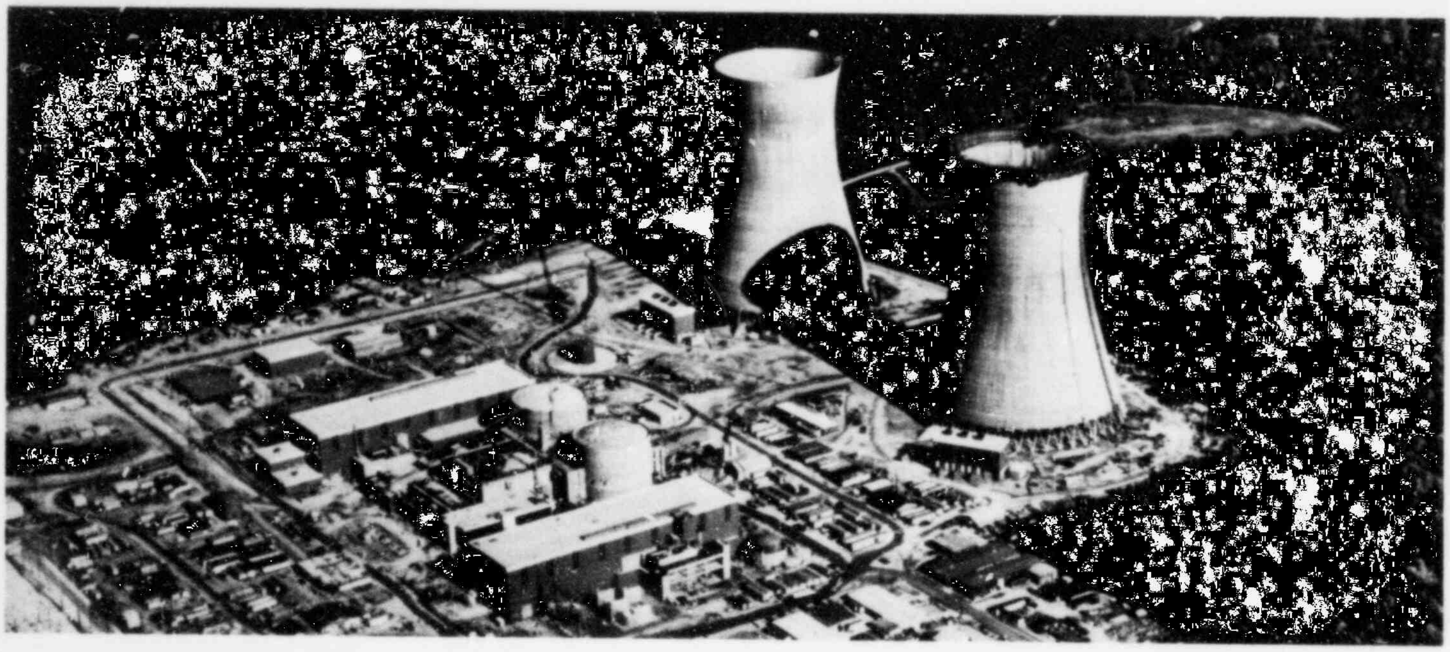
THE ANNUAL MEETING

The Annual Meeting of The Toledo Edison Company will be held at 10 a.m. (E.D.T.) on April 24, 1984 in the company's headquarters, Edison Plaza, 300 Madison Avenue, Toledo, Ohio. Formal notice of the meeting will be sent to shareowners with the proxy statement.

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

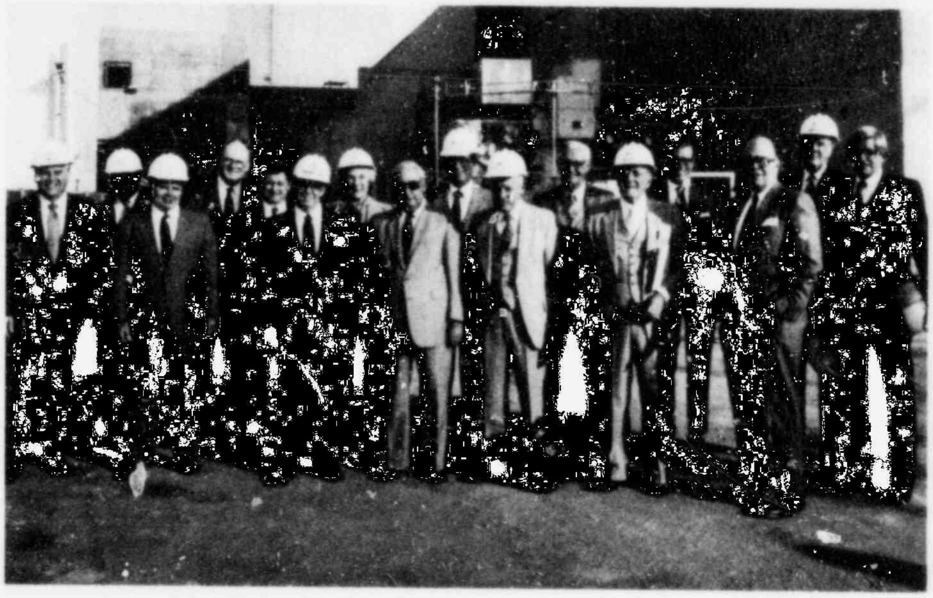
A copy of Form 10-K as filed with the Securities and Exchange Commission will be available to shareowners upon written request to the company's senior vice president, finance, D. G. Nicholson, 300 Madison Avenue, Toledo, Ohio 43652.

BOARD OF DIRECTORS INSPECTS GENERATING PROJECT

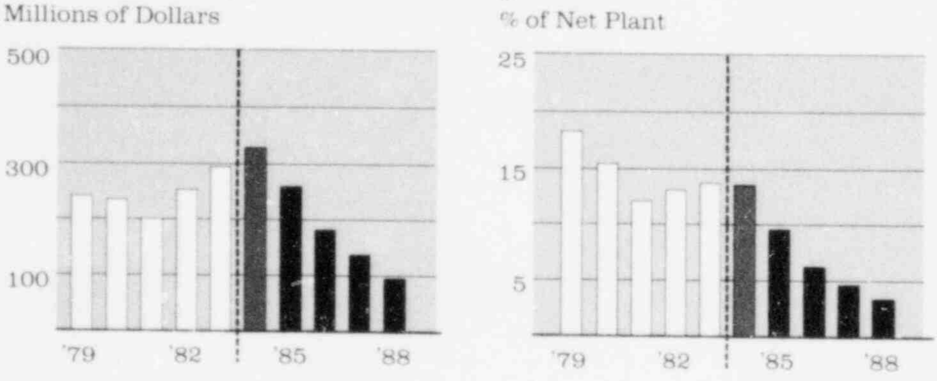


The company's board of directors (right) inspected the Perry No. 1 and No. 2 generating projects, being built northeast of Cleveland. The tour provided an opportunity for first-hand inspection of construction quality and progress. Most of the time and effort on this project is involved with the first unit, which is over 90 percent complete. Work on the second unit, about 40 percent complete, is being minimized pending completion of the first unit and future evaluation of capacity timing needs.

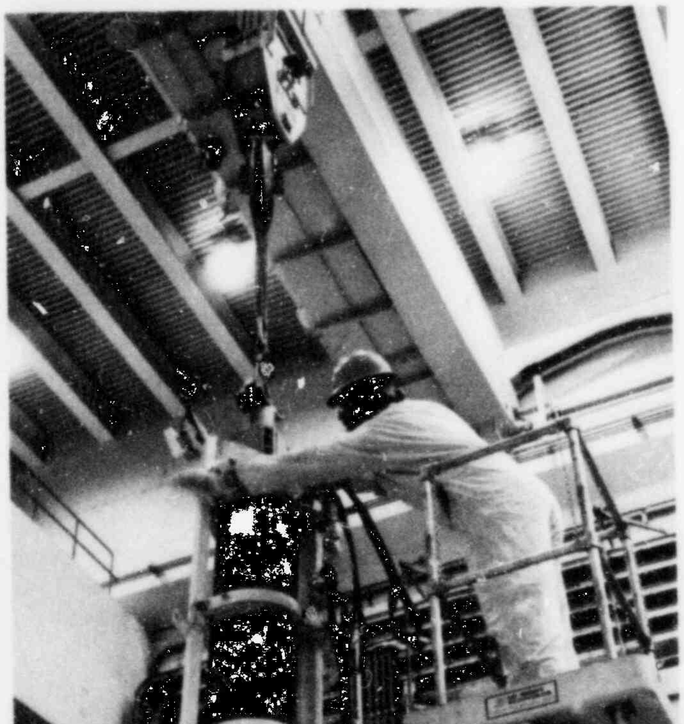
The company's board and senior management will continue to closely monitor developments and progress at Perry during 1984. Meanwhile, work at a third CAPCO generating project, Beaver Valley No. 2 in southwestern Pennsylvania, is about 80 percent complete and on schedule.



Construction Expenditures Declining



BALANCED COAL/NUCLEAR ENERGY MIX WORKS FOR NORTHWEST OHIO



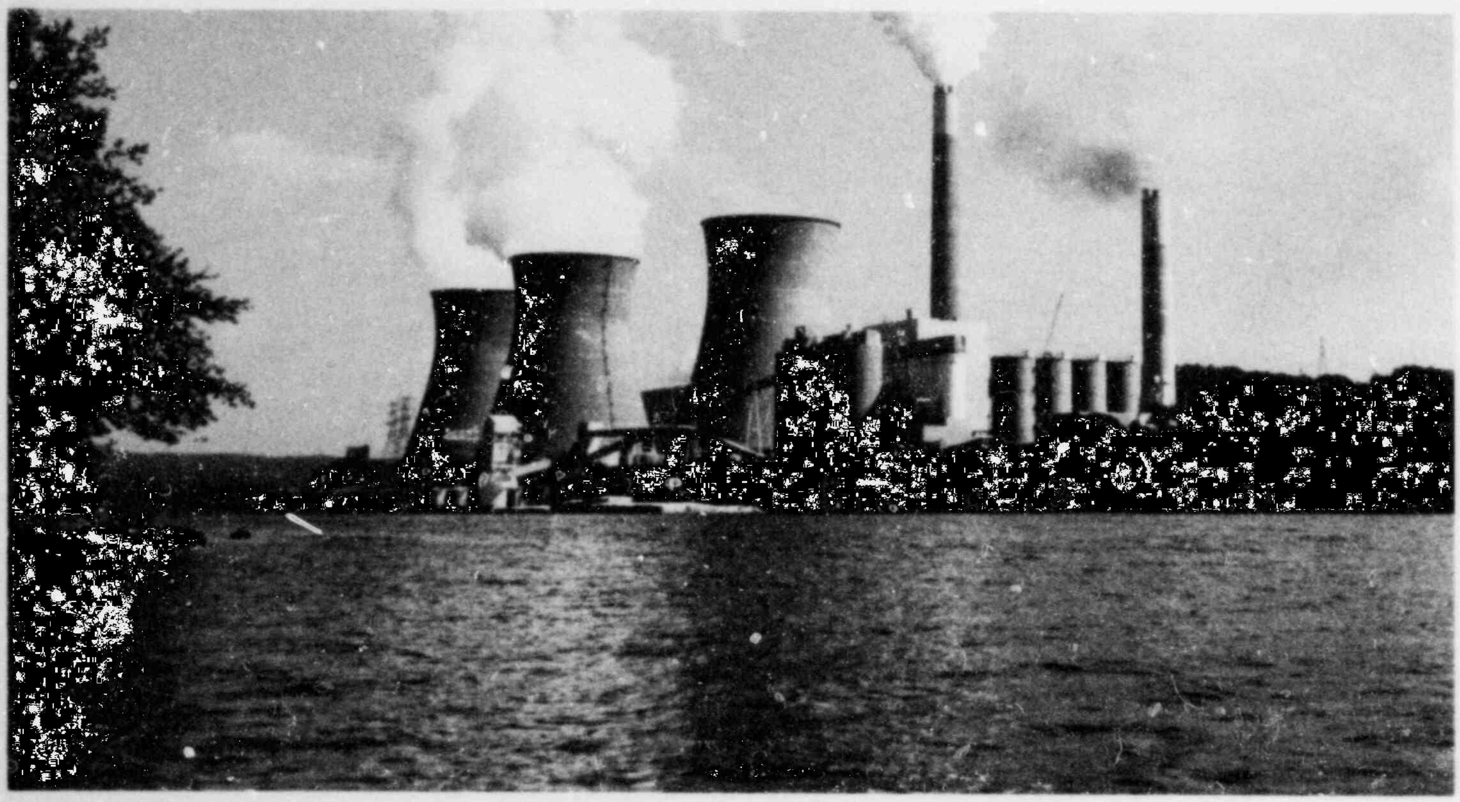
A balance of coal and nuclear generating capacity helped lower energy prices for customers in our service area last year.

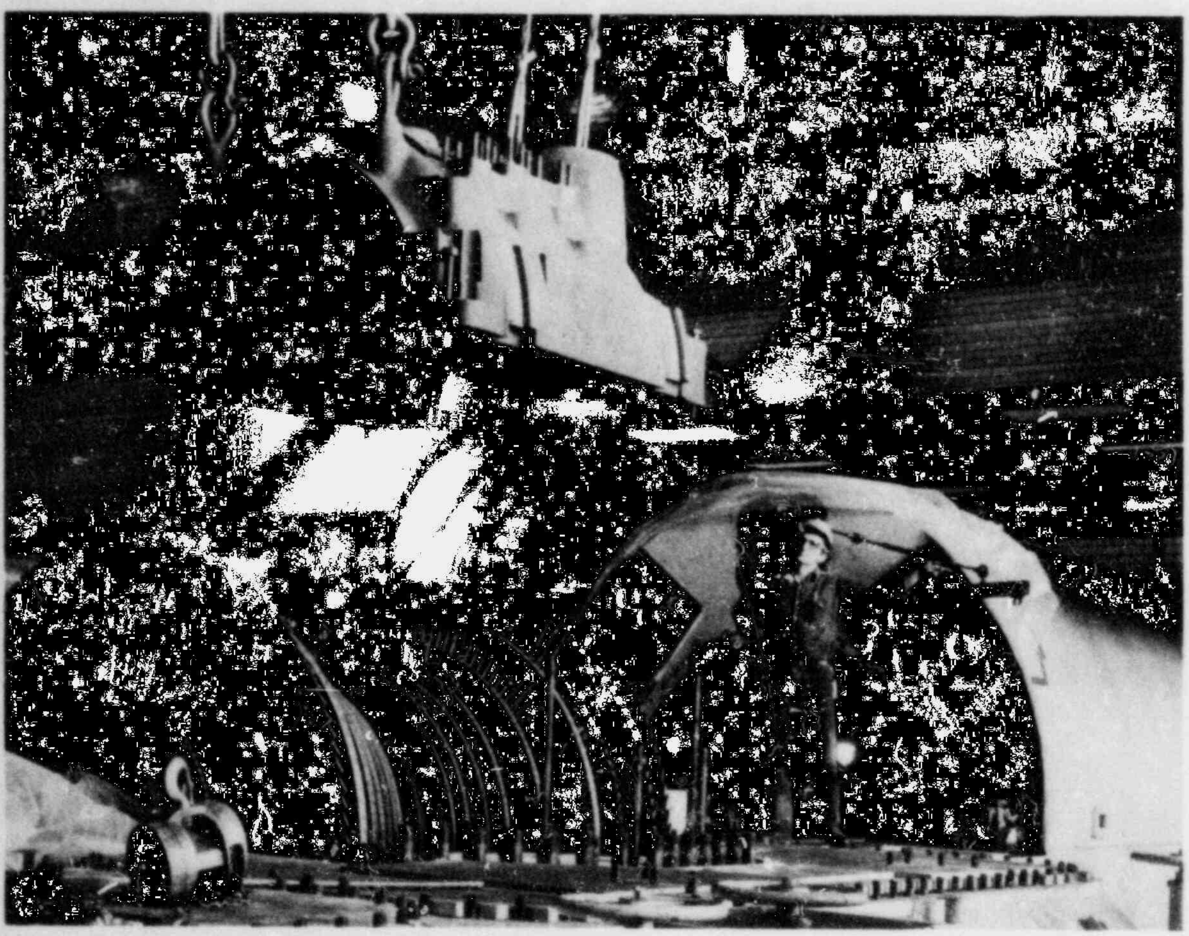
The Davis-Besse Nuclear Power Station (above) had its best operating year ever in 1983 and generated 5.2 billion kilowatt-hours. The low cost of its nuclear fuel, being unloaded (left) upon arrival at the station, enabled us to initiate about a 50 percent reduction in the fuel charges, which make up about 25 percent of a customer's bill.

Coal-fired generating stations of the company provide efficient, reliable electricity generation. These include Bruce Mansfield station (opposite page, top) in Pennsylvania and Acme and Bay Shore stations in Toledo. Coal was the fuel source for 4.7 billion kilowatt-hours generated by Toledo Edison in 1983.

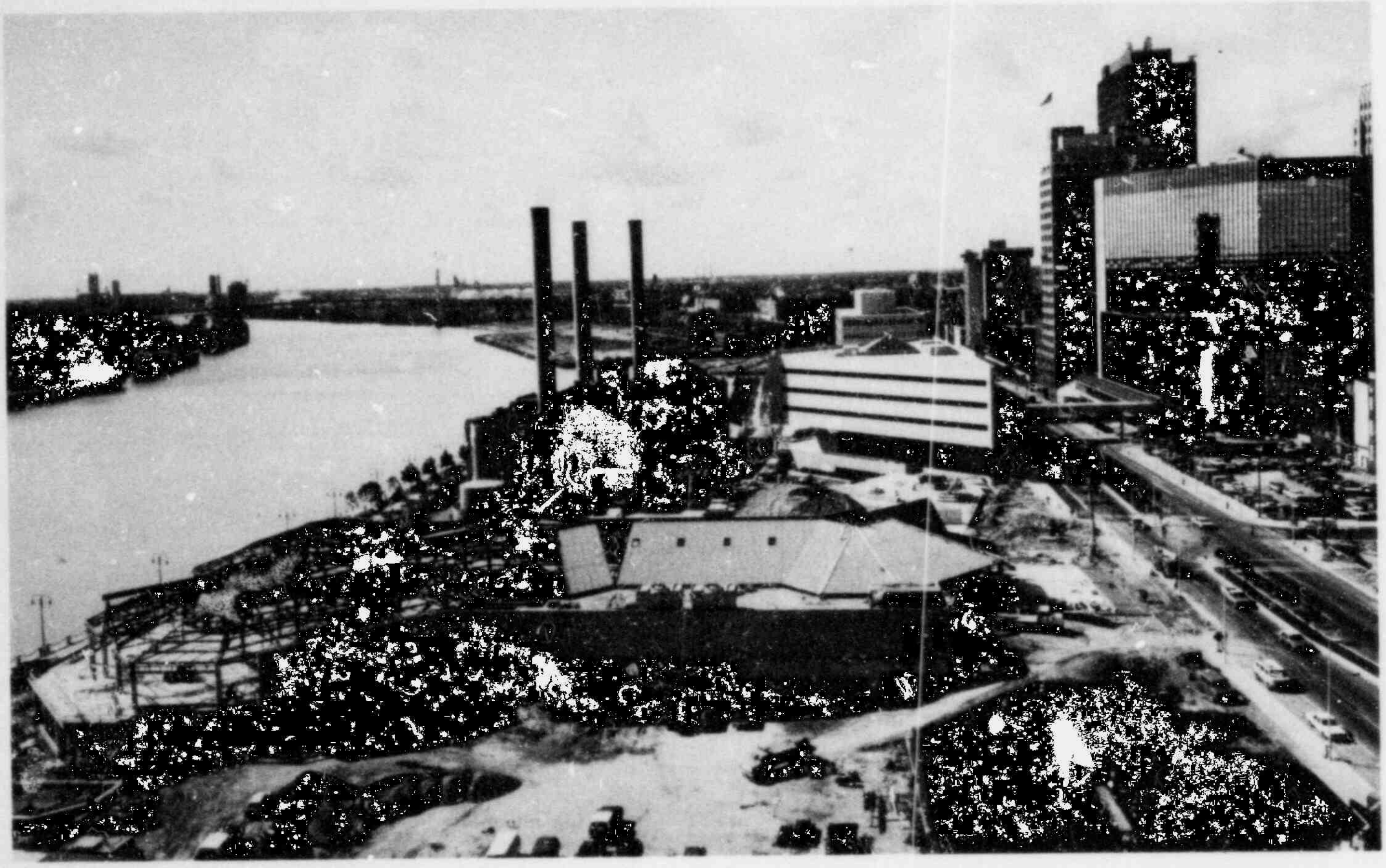
We will continue examining operations at these facilities to keep costs to a minimum. As an example, last year a maintenance outage schedule for a unit at Bay Shore Station (opposite page, bottom) was revised to reduce overtime work. The result was a cost reduction of about $40,000. Maintenance and operating costs for the total system were reduced $4 million in 1983 thanks to the cost-reduction program.

Our Bay Shore units have ranked in the top ten of the entire nation's coal-fired stations for efficiency for many years. Bay Shore No. 1 had a 91 percent capacity factor from 1955, when it came on-line, through 1983.



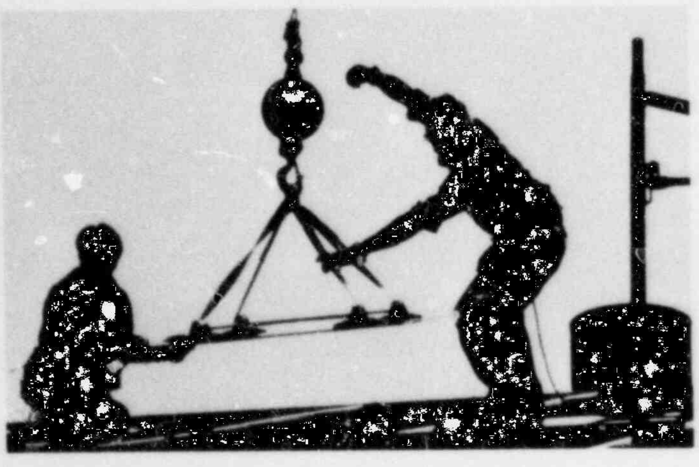


ECONOMIC ACTIVITY ON THE UPSWING



Northwest Ohio has been experiencing renewed business investment. Construction activity (below left) in downtown Toledo will lead to new office space and hotel and convention facilities. It will also bring added tax revenue and jobs. Portside Marketplace (top), along the Maumee River, is scheduled to open in May 1984. Its many restaurants and shops will help bring in commercial business and diversify the economy. Toledo Edison's 12-year-old headquarters is centered in this redevelopment area.

Toledo's largest employer, American Motors-Jeep (below right), reinvested substantially in production facilities and recently returned to full employment for the first time in four years.



Financial Analysis

Results of Operations

Earnings per common share were $3.50 in 1983, 10 percent higher than last year. The resulting return on average shareowner's investment of 14.5 percent is the highest return achieved since 1975.

Total revenues increased in 1983 due to higher kilowatt-hour sales to our retail electric customers and the full-year effect of our June 1982 price increase. Sales to electric wholesale customers declined in 1983 as our municipal customers purchased a portion of their electric needs from other suppliers.

The Public Utilities Commission of Ohio granted us an annual increase of $23 million in our retail electric rates in August 1983. Approximately $12 million of the rate increase was due to the inclusion of $63 million of Construction Work In Progress (CWIP) in our rate base. The CWIP included in rate base was primarily due to the Perry Nuclear Unit. In addition, the PUCO allowed us to continue to amortize over ten years our share of the costs of the four nuclear generating units cancelled by the Central Area Power Coordination Group (CAPCO) in 1980 (see Note 6).

We requested a 50 percent reduction in the fuel component of our electric rates and received PUCO approval in August 1983. This reduction was attributed largely to the good operating performance of our Davis-Besse Nuclear Unit combined with continued efficient production from our coal-fired Bay Shore Station. The net result of this, combined with the rate increase described above, was a reduction of our rates by approximately 10 percent. The next revision of the fuel component will be in February 1984.

We filed a price increase request in November 1983 with the PUCO for a $61 million increase in retail electric rates. Continuing high financing costs associated with our construction program make these added revenues necessary. The PUCO will probably rule on this matter in the summer of 1984.

Total kilowatt-hour sales increased by 3.1 percent over 1982. Industrial sales showed a healthy increase indicating that our service area is recovering from the recession. Leading the way in the industrial category were increases in sales to motor vehicle manufacturers, petroleum refineries and foundries. The increase in industrial sales was due to a surge in manufacturing output. Favorable weather conditions also contributed to the increase.

Fuel and net purchased power decreased in 1983. Greater use of low-cost nuclear fuel resulted in a decrease in fuel expense. This was partially offset by a decline in short-term power sales to other electric utilities. Sales of power under these contracts declined in 1983 because many neighboring utilities had more of their own low-cost generation available.

Operation and maintenance expenses were reduced reflecting an intense cost reduction program during 1983. A well planned and efficiently executed maintenance schedule helped to minimize the costs associated with the Davis-Besse Nuclear Power Station refueling and maintenance outage, which started in late July 1983. The outage schedule included inspection and testing of various components, routine major maintenance and government required changes. The station returned to service in early October.

Depreciation expense increased, due mainly to the increased production from the Davis-Besse unit and the resultant unit-of-production depreciation provision. An increase in depreciable plant assets also contributed to the increase.

State and local taxes increased due to a higher temporary state excise tax rate on increased revenues and to higher property taxes resulting from increases in plant assets. In May 1983, the Ohio public utility tax was temporarily increased from 4.75 percent to 5.28 percent. The effects of this temporary increase expire in April 1984. We are barred by statute from collecting this increase from our customers. The one-time cost to us is $2.5 million, of which $1.7 million was charged to expense in 1983. The increase in federal income taxes resulted from higher taxable earnings.

Allowance for Debt and Equity Funds Used During Construction (collectively known as AFUDC) increased substantially due to a higher CWIP base and higher average AFUDC rates. Through AFUDC, we capitalized a substantial amount of the financing costs associated with our continuing construction program, including a return on equity funds used.

Long-term financings in 1983 resulted in increased interest and preferred stock dividend payments, as well as more common shares outstanding. These financings, which were necessary to fund our construction program, also affected our earnings.

76.5 percent of 1983 common stock dividends are not taxable as current income for federal income tax purposes and will be considered a return of capital instead.

Note 11 explains the effect of inflation on our operations.

Liquidity and Capital Resources

We are engaged in a major nuclear construction program that has been, and will continue to be, modified as necessary for changing economic conditions.

Construction expenditures totaled $294 million for 1983. Most of this was due to the continuing construction on three CAPCO nuclear generating units: Perry No. 1, Perry No. 2, and Beaver Valley No. 2. (See Note 2 for additional discussion regarding Perry No. 2.) These units are currently planned to be in commercial service between 1985 and 1988. However, an on-going review of the construction schedule of Perry No. 2 continues by the members of the CAPCO group. Our ownership share in each of these units is just under 20 percent (see Note 5).

Public and private security markets continue to be a major source of our financing. Long-term external financings provided $231 million in 1983. Of this, we used about $161 million to fund the construction program, $43 million to pay off the short-term debt that existed at the start of 1983, about $14 million to invest in short-term investments at year end and the balance to pay off maturing long-term obligations.

Funding of our construction program in the future is dependent on obtaining external financing at reasonable terms and the amount of cash provided from internal operations. Our ability to obtain external financing and the cost of such funds depends upon financial market conditions, earnings sufficient to maintain debt and preferred stock coverage ratios, and changes in our construction program and credit ratings, among other factors. Rating agencies lowered our security ratings in 1983, making the cost of raising new capital more expensive. Recent adverse developments in the nuclear power industry will probably increase our external financing costs and may result in increased levels of short-term debt. A reversal of our 1981 extraordinary gain (see Note 1) should not affect our ability to issue first mortgage bonds. However, this charge could reduce the amount of preferred stock issuable during the subsequent twelve month period.

The amount of cash that is provided from internal operations depends primarily upon the level of electricity sales, the timing and amount of rate increases and our ability to reduce or contain cash expenses. Although our net income has increased in 1983, a substantial portion of that increase is attributable to AFUDC, a non-cash income credit. We expect this condition to continue until the generating units under construction are completed and included in our rate base.

Our 1984 construction expenditures are estimated to be $328 million. Most of this will be invested in the three CAPCO units discussed above. Net proceeds from long-term debt, preferred and common stock issues are expected to provide about $211 million in external financing for the construction program. In addition, we will need $21 million for long-term debt maturities and preferred stock sinking fund requirements in 1984.

In 1984, nuclear fuel acquisition and related costs will require an estimated $31 million. This estimate excludes financing costs. Nuclear fuel financing arrangements are in place covering these expenditures (see Note 8).

AUDITORS' REPORT

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

We have examined the balance sheets and statements of capitalization of The Toledo Edison Company (an Ohio corporation) as of December 31, 1983 and 1982, and the related statements of results of operations, earnings reinvested and source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed further in Note 1, the PUCO has ordered that the extraordinary gain on an exchange of common stock for bonds recognized in 1981 be reversed and amortized over twenty years. The Company has appealed this decision and cannot predict the outcome of this matter.

In our opinion, subject to the effect on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty discussed in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of The Toledo Edison Company as of December 31, 1983 and 1982, and the results of its operations and the source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1983, all in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.
Toledo, Ohio,
January 30, 1984.

Results of Operations

(thousands of dollars)	For the years ended December 31, 1983	1982	1981
REVENUES AND OTHER INCOME			
Electricity sales to retail customers	478 547	452 687	413 436
Electricity sales to wholesale customers	16 824	20 508	21 417
Gas and steam heating sales	9 245	8 530	7 431
Other income	1 617	1 017	8 852
	506 233	482 742	451 136
EXPENSES			
Fuel and net purchased power	125 975	127 658	122 442
Operating and administrative	77 632	75 834	63 976
Maintenance of equipment and facilities	32 734	38 839	31 908
Depreciation and amortization	51 138	43 838	43 427
State and local taxes	45 210	41 260	36 699
Debt interest	108 612	94 713	86 310
Allowance for debt funds used during construction	(30 443)	(22 505)	(15 491)
	410 858	399 637	369 271
Income Before Federal Income Taxes	95 375	83 105	81 865
Federal income taxes	32 616	26 277	31 226
Income From Operations	62 759	56 828	50 639
Allowance for equity funds used during construction	65 585	48 706	32 498
Net Income	128 344	105 534	83 137
Preferred stock dividends	30 129	26 221	23 542
Earnings Before Extraordinary Item	98 215	79 313	59 595
Extraordinary gain (exchange of common stock for bonds)	–	–	10 807
EARNINGS ON COMMON STOCK	98 215	79 313	70 402
Average Number of Common Shares Outstanding (thousands)	28 040	24 917	21 507
EARNINGS PER COMMON SHARE			
Before extraordinary gain	$3.50	$3.18	$2.77
After extraordinary gain	$3.50	$3.18	$3.27
RETURN ON AVERAGE COMMON EQUITY (before extraordinary gain)	14.5%	13.3%	11.6%

The notes on pages 13 through 18 are an integral part of this statement.

Balance Sheet

(thousands of dollars)

	December 31, 1983	1982
ASSETS		
Property, Plant and Equipment		
Plant in service	1 358 467	1 306 677
Less accumulated provision for depreciation	324 826	285 453
	1 033 641	1 021 224
Construction work in progress	1 118 802	878 535
Nuclear fuel in service, at amortized cost	22 904	18 390
	2 175 347	1 918 149
Current Assets		
Cash and temporary cash investments	16 005	1 639
Accounts receivable – net	51 225	44 550
Fossil fuel, at average cost	25 145	36 818
Materials and supplies, at average cost	11 457	10 680
Prepaid taxes	16 495	14 330
Special deposits and other	15 396	9 126
	135 723	117 143
Other Assets		
Property taxes – subsequent years	20 984	20 947
Deferred charges – cancelled generating projects	38 074	42 902
Quarto coal costs	11 678	11 618
Miscellaneous	19 972	14 064
	90 708	89 531
Total Assets	2 401 778	2 124 823
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareowners' equity	715 584	617 127
Cumulative preferred stock	200 000	170 000
Cumulative preferred stock with mandatory redemption provisions	94 002	95 027
Long-term debt	984 976	8[illegible]5 859
	1 994 562	1 758 013
Nuclear Fuel Obligations		
Nuclear fuel trust	41 513	34 780
Nuclear fuel lease	14 715	10 309
	56 228	45 089
Current Liabilities		
Short-term notes payable	–	43 000
Long-term obligations due within one year	29 508	13 184
Accounts payable	44 152	31 354
Accrued taxes	48 665	46 231
Accrued interest	23 489	20 556
Dividends declared	26 505	22 798
Accrued expenses and other	8 903	7 979
	181 222	185 102
Accumulated Provisions and Other		
Deferred federal income taxes		
Accelerated depreciation and amortization	77 426	66 488
Cancelled generating projects	14 905	16 714
Property taxes and other	21 570	14 755
Investment tax credits	40 164	30 963
Deferred credits and other	15 701	7 699
	169 766	136 619
Total Capitalization and Liabilities	2 401 778	2 124 823

The notes on pages 13 through 18 are an integral part of this statement.

Capitalization

(thousands of dollars)			December 31, 1983	1982
Common Shareowners' Equity				
Common stock, $5 par value, (in thousands) 40,000 shares authorized, (Outstanding shares - 29,669 and 26,223)			148 343	131 116
Premium on capital stock			379 766	325 540
Earnings reinvested in the business			187 475	160 471
			715 584	617 127
Cumulative Preferred Stock				
Annual Dividend Rate	1983 Shares Outstanding (thousands)	Current Redemption Price		
Not subject to mandatory redemption, $100 par value				
$ 4.25 - $ 4.56	310	$101 - $105	31 000	31 000
$ 7.76 - $10.00	590	$103 - $106	59 000	59 000
Not subject to mandatory redemption, $25 par value				
$ 4.28	800	$ 32	20 000	20 000
2.21	1 000	27	25 000	25 000
2.37	1 400	29	35 000	35 000
3.47	1 200	31	30 000	—
			200 000	170 000
Subject to mandatory redemption provisions, $100 par value				
$11.00	60	$111	6 002	7 027
9.38	250	107	25 000	25 000
13.25	130	111	13 000	13 000
12.65	200	113	20 000	20 000
14.80	300	115	30 000	30 000
			94 002	95 027
Long-Term Debt				
First Mortgage Bonds, excluding current maturities				
Maturities	Interest Rates			
1984	3 3/8%		—	14 000
1985	9.35%		50 000	50 000
1986	3 3/8%		15 000	15 000
1988	4%		15 000	15 000
1990 - 1993	13 3/8 - 16 1/4%		265 000	195 000
1997 - 2000	6 1/8 - 10%		66 378	66 378
2002 - 2006	7 1/2 - 9.65%		111 725	111 725
2008 - 2013	9 5/8 - 15%		246 900	186 900
Discount in process of amortization			(727)	(544)
			769 276	653 459
Other Long-Term Debt, excluding current maturities				
Notes, 8.75%, due 1985 - 1997			96 800	103 400
Term bank loan, average interest rate 10.08%, due 1987 - 1989			50 000	50 000
Pollution control notes, 5.71 - 7 7/8%, due 1985 - 2009			37 400	37 500
Pollution control loan agreement, 9.93 - 10%, due 1990 - 2010			31 500	31 500
			984 976	875 859
Total Capitalization			1 994 562	1 758 013

The notes on pages 13 through 18 are an integral part of this statement.

Earnings Reinvested

(thousands of dollars)	For the years ended December 31, 1983	1982	1981
Balance, at the beginning of year	160 471	142 220	122 743
Add – Net Income	128 344	105 534	83 137
Extraordinary gain	—	—	10 807
Deduct – Preferred stock dividends declared	30 803	26 766	24 222
Common stock dividends declared	70 537	60 517	50 245
Earnings Reinvested During The Year	27 004	18 251	19 477
Balance, at the end of year	187 475	160 471	142 220

Source of Funds Invested in Plant and Facilities

(thousands of dollars)	For the years ended December 31, 1983	1982	1981
Provided From Internal Sources			
Net Income	128 344	105 534	83 137
Principal non-cash items:			
Depreciation and amortization	51 138	43 838	43 427
Deferred federal income taxes	18 523	13 380	13 295
Investment tax credits – net	9 201	13 393	9 466
Total allowance for funds used during construction	(96 028)	(71 211)	(47 989)
Other – net	1 818	1 834	1 400
Funds provided from operations	112 996	106 768	102 736
Dividends	(101 340)	(87 283)	(74 467)
Reinvested funds provided from operations	11 656	19 485	28 269
Net change in current assets and liabilities, and other accounts	26 634	(9 998)	3 609
Total allowance for funds used during construction	96 028	71 211	47 989
Provided from internal sources	134 318	80 698	79 867
Provided From External Financing			
Sale of Securities:			
Common stock	71 453	48 700	51 706
Preferred stock	30 000	20 000	30 000
First mortgage bonds	130 000	120 000	70 000
Conversion of short-term debt to a term bank loan	—	—	50 000
Net change in short-term borrowings	(43 000)	20 500	(66 500)
Net change in temporary cash investments	(14 178)	2 533	4 482
Redemption of long-term debt and preferred stock	(7 625)	(40 473)	(15 840)
Net change in nuclear fuel obligations	13 364	44 838	(2 797)
Provided from external financing	180 014	216 098	121 051
Total Sources Of Funds	314 332	296 796	200 918
Construction Expenditures	294 010	248 515	200 918
Increase in Capitalized Nuclear Fuel	20 322	48 281	—
INVESTED IN PLANT AND FACILITIES	314 332	296 796	200 918

The notes on pages 13 through 18 are an integral part of these statements.

Summary of Significant Accounting Policies

General

Our accounting records are maintained in accordance with the Uniform System of Accounts as prescribed by The Federal Energy Regulatory Commission (FERC) and adopted by The Public Utilities Commission of Ohio (PUCO).

Revenues

Customers are billed on a monthly cycle basis, based on rates authorized by the PUCO that are applied to electricity consumption. The larger industrial and wholesale customers are billed on a month-end meter-reading basis.

Fuel

The company collects estimated fuel costs over subsequent six-month time periods through a fuel recovery rate. The rate is based on actual and partially projected costs and generation. The PUCO reviews and approves the projected rate and historical performance. The difference between actual and estimated fuel charges are deferred until they are applied to the customer's bill. This enables us to better match fuel expenses with fuel adjusted revenues.

The company charges the cost of nuclear fuel to fuel expense based on the rate of consumption. In addition, the estimated nuclear fuel disposal costs are included in fuel expense. The company contracted with the Department of Energy (DOE) for permanent disposal of spent nuclear fuel. For fuel used before 1983, we owe the DOE $8.9 million, which will be paid on or after June 1985. We have already collected $4.6 million from our customers and have requested additional revenues of $4.3 million in our current PUCO rate case. For fuel used after April 1983, we are currently collecting the fee from our customers and paying the DOE.

Retirement Income Plan

Our retirement income plan is non-contributory and covers all employee groups. The company funds each year's cost and amortizes unfunded past service costs over a 30-year period. Pension cost is based on estimated salary levels and service years of employees at their retirement. Total pension costs were: $4.5 million in 1983; $4.4 million in 1982; and $3.7 million in 1981. Experience gains and losses are amortized over 15 years.

The actuarial present value of total vested and nonvested plan benefits is based on salary levels and years of employees' service as of January 1 for each year. These were: $42 million and $6 million in 1983; and $39 million and $6 million in 1982. The weighted average assumed rate of return used in determining these values was 8 percent for both 1983 and 1982. Market value of net assets available for benefits amounted to $75 million as of January 1, 1983 and $58 million as of January 1, 1982.

Depreciation and Maintenance

The company provides for the depreciation of the original cost of properties, except for the Davis-Besse Nuclear Power Station, over their estimated useful lives on a straight-line basis. Depreciation expense on the Davis-Besse Nuclear Power Station is based on the unit-of-production method. This includes a provision for our share of the total estimated decommissioning costs of $53 million. The straight-line provisions for depreciation averaged 3.6 percent in 1983, 3.5 percent in 1982 and 3.4 percent in 1981.

Maintenance expense includes repairs of property and renewal of minor items. Costs of replacements and those renewal items that are units of property are charged to the utility plant accounts. For retired property, we take its cost plus removal cost, net of salvage, and charge it to accumulated provision for depreciation.

Taxes

The company provides for deferred federal income taxes as required on the differences between straight-line depreciation and tax depreciation amounts for property additions since December 31, 1973. For tax purposes, all interest costs are deducted as they occur, except for the amounts required to be capitalized for real property. Other depreciation timing differences are considered in rates in the year that they affect taxes payable. We believe such taxes can be recovered in future revenues based on PUCO and Ohio Supreme Court decisions.

For certain property, the company receives investment tax credits that are deferred and added to income over the life of that property. Unrealized investment tax credits from 1980 to 1983 total $33.1 million. We will record them as they are used in future years.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. Included in the costs of construction are such items as related payroll taxes, pensions, fringe benefits, management and general overheads and allowance for debt and equity funds used during construction (AFUDC). AFUDC represents the estimated composite debt interest and equity costs of capital funds used to finance construction. These costs are charged to property, plant and equipment and credited to income as AFUDC on the Results of Operations statement. Our AFUDC rates, net-of-tax, ranged from 10 percent to 10¼ percent in 1983, 9¼ percent to 10¼ percent in 1982, and 8½ percent to 8¾ percent in 1981.

Reclassifications

Certain reclassifications have been made in the prior years' amounts to make them comparable with 1983 classifications.

Notes to Financial Statements

December 31, 1983

(1) Possible Charge Against Earnings

In November 1981, we exchanged 946,293 shares of common stock for $25.6 million of outstanding bonds owned by an investment banking firm. The stock's exchange value was $16.025 per share. This exchange provided a non-taxable extraordinary gain of $10.8 million. This is the difference between the value of the stock traded and the principal amount of the bonds redeemed plus their accrued interest.

As part of the June 1982 and August 1983 rate case decisions, the PUCO prescribed an accounting method different from the one used for this gain. The PUCO required that this gain be treated as a deferred credit and amortized over 20 years. We opposed this decision and have it on appeal to the Ohio Supreme Court.

An unfavorable decision would result in a reversal of the extraordinary gain. This would involve an extraordinary charge against current earnings of $9.5 million, or 32 cents per share, based on the number of common shares outstanding at December 31, 1983.

(2) Petition on Perry No. 2 Construction

In September 1983, the Ohio Office of Consumers' Counsel (OCC) and several other parties filed a petition with the PUCO and the Power Siting Board of Ohio (the board) asking that the PUCO and the board investigate the need for the 1,205 megawatt Perry No. 2. The petition also asked the PUCO and the board to order the Ohio CAPCO companies to stop construction of Perry No. 2 and prevent them from accruing further AFUDC on that unit. Finally, the petition asked the PUCO and the board not to approve the issuance of securities to finance further construction of Perry No. 2. The petition alleges that the completion of Perry No. 2 will result in an unreasonable level of excess capacity and that the resulting rates charged to customers would be excessive.

If the construction of Perry No. 2 is not completed and we are not provided a means to recover our investment in the unit, we could be required to immediately write off that investment including any cancellation charges against current earnings. Our investment in Perry No. 2 approximated $203 million at December 31, 1983. Our net-of-tax write off at December 31, 1983 would be $135 million, which would reduce Earnings Reinvested from $187 million to $52 million. This reduction in Earnings Reinvested would have to be replaced with additional common equity funds. The amount of cancellation charges and other costs payable if work on Perry No. 2 were to be stopped is not presently determinable, but could be substantial. AFUDC related to Perry No. 2, which accrues in increasing amounts, was $16 million in 1983. Any termination of the accrual of such AFUDC before Perry No. 2 is included in rate base would reduce earnings by the amount of AFUDC that would otherwise have been accrued.

(3) Federal Income Tax Details

Supplementary information regarding federal income taxes is set forth in the following tables:

	(thousands of dollars)		
For the years ended December 31,	1983	1982	1981
FEDERAL INCOME TAX EXPENSE WAS COMPUTED AS FOLLOWS:			
Tax at statutory rates on pre-tax income	74 042	60 633	57 578
Increases (reductions) in taxes due to —			
Allowance for funds used during construction	(42 270)	(32 521)	(22 075)
Extraordinary gain from exchange of common stock for bonds	—	—	(4 971)
Accelerated depreciation methods and other depreciation differences	3 286	428	2 375
Miscellaneous	(2 442)	(2 263)	(1 681)
Total federal income tax expense	32 616	26 277	31 226

	(thousands of dollars)		
For the years ended December 31,	1983	1982	1981
FEDERAL INCOME TAX EXPENSE DETAILS ARE AS FOLLOWS:			
Currently payable	2 441	1 930	7 477
Investment tax credits –			
Deferred	13 127	14 334	10 119
Amortized	(1 439)	(940)	(653)
Prior year adjustment	(65)	(2 857)	233
Deferred taxes –			
Accelerated depreciation (net)	11 179	11 806	12 377
Cancelled generating projects	(1 809)	468	(1 118)
Deferred fuel costs	3 276	1 886	2 435
Other provisions	5 906	(350)	356
Total federal income tax expense	32 616	26 277	31 226

(4) Quarto Coal Arrangements

a. Coal Supply Contracts

The CAPCO companies have made long-term arrangements with Quarto Mining Company (Quarto) to supply coal to the Mansfield units. The CAPCO companies each have agreed to guarantee their respective shares of Quarto's debt and lease commitments incurred to develop and equip the mines. As of December 31, 1983, our share of the guarantees was $27.8 million. Our share of these commitments incurred prior to 1983 is 6.89 percent. Our share of commitments incurred after December 31, 1982 will increase in steps from 6.89 percent to 12.4 percent in 1986.

Our coal supply contract with Quarto expires December 31, 1999. Under its terms, the pricing provisions reflect Quarto's production costs and deferred mine development charges. Our total purchases under these contracts amounted to $14.5 million in 1983, $12.4 million in 1982 and $15.5 million in 1981.

Under these arrangements, we expect our minimum yearly payments for fixed charges on debt and lease commitments to decline from $6.6 million in 1983 to $5.8 million in 1988.

b. Coal Cost Deferral

At present, the average cost of Quarto coal is higher than other coal currently available. Prior to July 30, 1982, the PUCO had ordered us not to charge customers more than market prices. We deferred the difference between market price and actual cost. Beginning on July 30, 1982, the PUCO permitted us to recover additional Quarto coal costs plus a portion of cost deferrals under a revised market price formula. We had recovered $3.0 million of deferred Quarto coal costs in rates through July 1983. In August 1983, the PUCO ordered us to discontinue recovery of Quarto coal costs in excess of market price, pending further consideration of this matter. Accordingly, we resumed the deferral of the difference between market price and actual cost.

A January 1984 PUCO order permits us to recover specified Quarto coal costs plus a portion of cost deferrals within a specified six-year period using a "new market price" formula. In the event that we do not recover at least one-sixth of our deferred fuel costs of $11.7 million as of December 31, 1983 in any of the next six years beginning in 1984, the amount of previous cost deferrals not so recovered in that year shall be written off to expense. The "new market price" formula also provides for the recovery of current Quarto coal costs to the extent that such costs do not exceed 125 percent of market price. Quarto coal costs in excess of 125 percent of market price must be written off to expense. We believe current and deferred costs will be recoverable within the periods specified by the PUCO.

(5) CAPCO Power Pooling Arrangements

The company has entered with four other utilities into a power-pooling arrangement (known as CAPCO), in the interest of reliability and economy. This involves substantial commitments for generation and transmission facilities.

CAPCO is currently building three nuclear generating units. We are obligated to pay for our share of each of these units under construction and related nuclear fuel inventory. Our total investment in the three units, based on our ownership share, is currently estimated at completion to be $1.8 billion.

We provide our own financing for this investment. "Expenses" in Results of Operations includes our share of direct expenses for operation of three CAPCO units presently in service.

The following represents our ownership in each of the CAPCO units at December 31, 1983:

Generating Unit	Actual or (Scheduled)	Ownership Share	Ownership Megawatts	Fuel	Plant In-Service	Accumulated Depreciation	Construction Work in Progress
					(thousands of dollars)		
Completed:							
Davis-Besse No. 1	1977	48.62%	428	Nuclear	429 300	52 700	21 200
Mansfield No. 2	1977	17.30%	135	Coal	69 900	11 700	800
Mansfield No. 3	1980	19.91%	159	Coal	128 400	14 900	800
Under Construction:							
Perry No. 1	(1985)***	19.91%	240	Nuclear	—	—	462 400**
Beaver Valley No. 2	(1986)	19.91%	166	Nuclear	15 700*	—	381 900
Perry No. 2	(1988)***	19.91%	240	Nuclear	—	—	203 000

*Common facilities with Beaver Valley No. 1

**Includes common facilities for Perry No. 1 and Perry No. 2

***Currently, construction at the Perry site is being concentrated to complete basic construction of Perry No. 1 in 1985 and to minimize expenditures on Perry No. 2 pending future rescheduling.

(6) Previously Cancelled Generating Projects

In January 1980, the company, along with the other CAPCO companies, cancelled the construction of four nuclear generating units. All cancellation costs related to these units have now been paid.

In April 1981, the PUCO approved rate recovery of these costs over a ten-year period as an operating expense. Since April 1981, we have been amortizing these costs to expense over that ten-year period.

In June 1982, the PUCO disallowed recovery of these costs as an operating expense, based upon a 1981 Ohio Supreme Court decision. This disallowance has been appealed to the Ohio Supreme Court and the decision is still pending. The PUCO did allow continued ten-year amortization on our books and allowed a specific additional risk factor as additional return on common equity in our rates. This treatment was affirmed by the Ohio Supreme Court.

In our August 1983 rate order, the PUCO again provided incremental revenues to recover these costs through the method used to calculate the allowed rate of return on common equity. The PUCO reaffirmed the continued amortization of these costs over a ten-year period ending in 1991.

The amortization of these costs amounted to $4.9 million in 1983, $4.7 million in 1982 and $3.3 million in 1981 and is classified in depreciation and amortization on the Results of Operations statements.

(7) Capitalization

a. Capital Stock Transactions

For the years ended December 31,	1983	1982	1981
CAPITAL STOCK SHARES SOLD (RETIRED):			
Common stock			
Public sales	2 500 000	2 200 000	2 053 707
Exchange of common stock for bonds	—	—	946 293
Shareowner Dividend Reinvestment and Stock Purchase Plan	945 474	574 680	300 201
Total common shares	3 445 474	2 774 680	3 300 201
Cumulative preferred stock			
Public sales, $25 par			
$4.28 series	—	800 000	—
$3.47 series	1 200 000	—	—
Cumulative preferred stock with mandatory redemption			
Public sales, $100 par			
$14.80 series	—	—	300 000
Retirement, $100 par			
$11.00 series	(5 000)	(5 000)	(5 000)
	(thousands of dollars)		
PREMIUM ON CAPITAL STOCK:			
Balance, beginning of year	325 540	290 713	255 508
Premium, net of expense –			
Common stock	52 502	33 783	35 569
Preferred stock	1 724	1 044	(364)
Balance, end of year	379 766	325 540	290 713

b. Cumulative Preferred Stock

We are authorized to issue 3,000,000 shares of $100 par and 8,000,000 shares of $25 par Cumulative Preferred Stock under our amended articles of incorporation. The annual dividend requirement on Cumulative Preferred Stock outstanding at December 31, 1983 is $31.2 million for an average dividend rate of 10.61 percent.

c. Cumulative Preferred Stock With Mandatory Redemption

The company held 10,335 shares at December 31, 1983, and 4,730 shares at December 31, 1982 of the $11.00 series as treasury stock.

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

Dividend Rate	Minimum Yearly Shares	Effective Date
$ 11.00	5 000	1979
9.38	16 650	1985
13.25	8 660	1986
12.65	8 000	1986
14.80	12 000	1987

The shares of the above series may be purchased at the sinking fund redemption price of $100 per share plus accrued and unpaid dividends. Future sinking fund redemption requirements are: $500,000 in 1984; $2,165,000 in 1985; $3,831,000 in 1986 and $5,031,000 in 1987 and 1988.

d. Long-Term Debt

The annual interest requirement on long-term debt outstanding at December 31, 1983 is $109.2 million for an average interest rate of 11.13 percent. This includes amortization of debt discount and expense but excludes interest on the nuclear fuel obligations.

Sinking fund redemption requirements and scheduled maturities for long-term debt, excluding nuclear fuel leases, through 1988 are as follows:

	Sinking Fund Redemption Requirements	Scheduled Maturities
	(thousands of dollars)	
1984	3 600	20 700
1985	3 600	56 700
1986	3 450	21 700
1987	3 450	23 367
1988	3 300	38 367

In addition, the first mortgage bond indenture provides for a required annual payment after certain credits, as defined, to the Trustees as a Maintenance and Replacement Fund. We have been satisfying the requirements under the indenture by pledging more property additions which might have otherwise been used as the basis for the issuance of additional bonds.

The mortgage securing first mortgage bonds issued by us constitutes a direct first mortgage lien on substantially all property and franchises owned by us. This does not include expressly excepted property, such as cash and securities, accounts receivable, fuel, supplies and automotive equipment.

(8) Nuclear Fuel Financings

In November 1982, the CAPCO companies created the Central Area Energy Trust (the trust). The trust will oversee the financing of procurement, conversion and enrichment stages of nuclear fuel for the CAPCO units. Each company's role in the trust is independent of its ownership share of any CAPCO unit. Also, each company's rights and requirements in connection with the trust are separate and distinct from the other companies. As of December 31, 1983, we have an obligation of $41.5 million to the trust. This includes $4.7 million in capitalized interest incurred through December 31, 1983. The 1983 interest was calculated at an average rate of 10.6 percent.

In addition, the company has lease arrangements for nuclear fuel to be loaded into the CAPCO nuclear units. In September 1983, we capitalized our share of the Davis-Besse No. 1 fuel lease related to the portion of the nuclear fuel loaded into the reactor. This is in accordance with the provisions of PUCO orders. Total commitments under the lease arrangements were $123.2 million at December 31, 1983.

Financing under these agreements, including the trust, of up to $298 million is available. We expect our nuclear fuel leasing arrangements to be adequate through 1985. Estimated payments based on burn-up, including interest, are: $12.1 million in 1984; $33.0 million in 1985; $42.0 million in 1986; $45.4 million in 1987; and $69.4 million in 1988.

(9) Short-Term Borrowing Arrangements

We had $96.1 million in unused credit lines at December 31, 1983 with various banks and pay commitment fees for about two-thirds of those lines. The rest are based on informal compensating balance arrangements, whereby banks expect us to maintain average deposits equal to 5 percent to 20 percent of the line of credit, depending on the borrowed amount. The deposits provide operating balances for us and are not legally restricted.

(10) Selected Quarterly Data (Unaudited)

The following quarterly results reflect all adjustments (that are of a normal recurring nature) to ensure a fair statement of results for such periods:

	(thousands of dollars)				(dollars per common share)			
							Market Price*	
Three months ended	Revenues and Other Income	Income before Income Taxes	Net Income	Earnings on Common Stock	Earnings	Dividends Paid	High	Low
1983								
March 31	129 457	20 403	28 845	22 031	.84	.61	22½	20
June 30	126 722	19 259	28 536	20 903	.78	.61	22⅛	20¼
September 30	131 978	35 167	40 064	32 218	1.10	.61	21⅞	19¼
December 31	118 076	20 546	30 899	23 063	.78	.61**	21⅜	17½
1982								
March 31	124 738	23 841	25 650	19 683	.84	.59	17⅞	15¾
June 30	112 217	15 983	24 078	17 387	.72	.59	18½	16½
September 30	126 914	27 757	32 108	25 359	.98	.59	19⅞	16¼
December 31	118 873	15 524	23 698	16 884	.65	.59	21⅛	18⅜

* *The Common Stock is listed on the New York Stock Exchange. The price quotations are from The Wall Street Journal. The number of common stock shareholders as of December 31, 1983 and 1982 were 87,781 and 86,710, respectively.*

** *The dividend declared in December 1983 and paid in January 1984 was increased to 63 cents per share.*

(11) Effects of Changing Prices (Unaudited)

The following financial information shows the effects on our company of general inflation (Constant Dollar Accounting) and changes in prices of specific assets, namely property, plant and equipment (Current Cost Accounting).

Constant dollar amounts represent historical dollars stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI). Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present. The current cost of plant estimates the probable cost of replacing existing plant assets and was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs.

Because our rates are regulated, we cannot recover through revenues any more than the original cost of plant assets, even though the cost to replace such assets will substantially exceed the original cost. In 1983, the added cost, due to inflation, of replacing our plant assets is shown in the following statement under the caption "Inflation effect during 1983 on capital investment."

During a period of inflation, issuers of debt experience an economic gain. This is especially important for us due to the substantial amounts of debt issued to finance our construction program. This gain is shown in the following statement under the caption "Gain from decline in purchasing power of net amounts owed".

The comparative Constant Dollar and Current Cost values of all items on the income statement, except depreciation, represent the amounts recorded in the historical cost income statement. Income taxes are not adjusted because current tax laws do not allow for the inflation effect on capital investment. We have calculated depreciation provisions, for the current year, on the Constant Dollar and Current Cost amounts of property, plant and equipment. We figured this by applying the ratio of the provision for depreciation over the average property, plant and equipment on the Historical Cost basis, to the indexed plant values.

The following table shows the net effect of inflation on common stock equity in 1983:

	Constant Dollar Accounting	Current Cost Accounting
	(millions of dollars)	
Inflation effect during 1983 on capital investment:		
Increase in specific prices to current costs	—	171
Effect of change in general price level	—	(147)
Reduction to net recoverable cost	(52)	(72)
Additional provision for depreciation	(28)	(32)
	(80)	(80)
Gain from decline in purchasing power of net amounts owed (primarily debt)	54	54
Total effect of inflation on common stock equity	(26)	(26)

The table below presents selected operating and financial data for the past five years adjusted for inflation as measured by the CPI. Earnings on common stock and earnings per share are shown as if only the amount reportable as an additional provision for depreciation were deducted from the reported amount of such income. We revised the 1982 data to reflect actual indices.

(millions of dollars except per share amounts)	1983	1982	1981	1980	1979
General Inflation (constant dollars)					
Operating Revenues	505	497	485	486	501
Earnings on Common Stock	70	53	34	36	29
Earnings per Common Share	2.52	2.14	1.59	1.89	1.70
Dividends Declared per Common Share	2.46	2.46	2.52	2.66	3.02
Market Price per Common Share (year-end)	18.00	21.84	17.82	18.69	23.18
Specific Prices (current cost)					
Earnings on Common Stock	66	49	28	32	23
Earnings per Common Share	2.37	1.96	1.30	1.66	1.39
Increase in General Price Level Over (Under) Increase in Specific Prices	(24)	(42)	5	84	77
Net Plant	3,951	3,555	3,177	2,804	2,390
General Information					
Gain From Decline in Purchasing Power of Net Amounts Owed	54	45	93	113	102
Net Assets at Net Recoverable Cost	702	610	532	457	408
Consumer Price Index					
- Annual Average	298.5	289.1	272.4	246.8	217.4
- Year End	304.1	292.4	281.5	258.4	229.6

Financial Review

Revenues and Other Income (thousands of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale	Total Electric	Gas & Steam Heating	Other Income	Total Revenues & Other Income
1983	**161 275**	**105 482**	**169 672**	**42 118**	**478 547**	**16 824**	**495 371**	**9 245**	**1 617**	**506 233**
1982	153 662	101 789	158 930	38 306	452 687	20 508	473 195	8 530	1 017	482 742
1981	138 781	90 863	151 539	32 253	413 436	21 417	434 853	7 431	8 852	451 136
1980	126 085	80 836	137 860	28 458	373 239	21 647	394 886	6 982	879	402 747
1979	113 464	72 354	128 931	25 119	339 868	18 839	358 707	6 414	1 017	366 138
1973	40 696	27 390	43 632	10 426	122 144	4 271	126 415	2 732	227	129 374

Expenses (thousands of dollars)

Year	Fuel & Net Purchased Power	Operation	Maintenance	Depreciation & Amortization	State & Local Taxes	Debt Interest	AFUDC - Debt	Expenses Before FIT	Income Before FIT	Federal Income Taxes
1983	**125 975**	**77 632**	**32 734**	**51 138**	**45 210**	**108 612**	**(30 443)**	**410 858**	**95 375**	**32 616**
1982	127 658	75 834	38 839	43 838	41 260	94 713	(22 505)	399 637	83 105	26 277
1981	122 442	63 976	31 908	43 427	36 699	86 310	(15 491)	369 271	81 865	31 226
1980	155 771	55 842	29 319	26 002	31 202	70 866	(15 148)	353 854	48 893	10 158
1979	146 869	44 691	21 137	29 117	29 760	52 584	(9 991)	314 167	51 971	16 888
1973	42 507	22 098	7 471	12 318	11 822	14 126	— *	110 342	19 032	5 746

Income (thousands of dollars) / **Common Stock** (dollars per share and %)

	Income						Common Stock			Market Price			
Year	Income From Operations	AFUDC–Equity	Net Income	Preferred Stock Dividends	Earnings on Common	Average Shares Outstanding	Earnings	Return on Average Equity	Dividends Declared	High	Low	Year End	Book Value
1983	**62 759**	**65 585**	**128 344**	**30 129**	**98 215**	**28 040**	**3.50**	**14.5**	**2.46**	**22.50**	**17.50**	**18.00**	**24.12**
1982	56 828	48 706	105 534	26 221	79 313	24 917	3.18	13.3	2.38	21.13	15.75	21.00	23.53
1981	50 639	32 498	83 137	23 542	59 595**	21 507	2.77**	11.6**	2.30	18.38	15.00	16.50	23.46
1980	38 735	28 443	67 178	18 021	49 157	19 226	2.56	10.5	2.20	20.75	15.00	15.88	23.77
1979	35 083	23 512	58 595	13 894	44 701	16 848	2.65	10.7	2.20	23.38	17.38	17.50	24.15
1973	13 286	10 282 *	23 568	3 911	19 657	6 282	3.13	14.3	1.94	30.88	23.13	26.88	22.20

*In 1973, allowance for debt funds was included in allowance for equity funds.

**In 1981, excludes extraordinary gain from exchange of common stock for bonds (after gain, earnings on common – $70,402; earnings per share – $3.27; return on average common equity – 13.5 percent).

Statistical Review

Electric Sales (millions of kilowatt-hours)

Year	Residential	Commercial	Industrial	Wholesale	Other	Total
1983	**1 915**	**1 341**	**3 127**	**320**	**428**	**7 131**
1982	1 911	1 325	2 873	395	414	6 918
1981	1 919	1 294	3 080	449	409	7 151
1980	1 971	1 282	3 165	560	410	7 388
1979	1 934	1 256	3 559	559	401	7 709
1973	1 552	1 085	3 249	356	349	6 591

Electric Customers (end of year)

Year	Residential	Commercial	Industrial & Other	Total
1983	**242 959**	**23 694**	**3 864**	**270 517**
1982	241 492	23 495	3 815	268 802
1981	241 663	23 573	3 844	269 080
1980	240 142	23 532	3 818	267 492
1979	238 353	23 636	3 695	265 684
1973	218 105	21 399	4 119	243 623

Residential Usage

Year	Annual KWH Per Customer	Price Per KWH (Cents)	Annual Revenue Per Customer
1983	**7 900**	**8.44**	**665**
1982	7 906	8.04	636
1981	7 966	7.23	576
1980	8 232	6.40	527
1979	8 166	5.87	479
1973	7 187	2.62	188

Load (megawatts)

Year	Net Capability at Time of Peak	Peak Load	Load Factor (%)	Reserve Factor (%)
1983	**1 777**	**1 325**	**66**	**34**
1982	1 790	1 355	62	32
1981	1 773	1 315	66	35
1980	1 760	1 310	68	34
1979	1 825	1 395	67	31
1973	1 358	1 246	64	9

Energy (millions of kilowatt-hours)

Year	Generated			Purchased & Net Interchanged Power	Total
	Fossil	Nuclear	Total		
1983	**4 683**	**2 383**	**7 066**	**593**	**7 659**
1982	5 306	1 569	6 875	510	7 385
1981	5 349	2 142	7 491	157	7 648
1980	5 529	1 031	6 560	1 352	7 912
1979	5 349	1 535	6 884	1 348	8 232
1973	5 376	–	5 376	1 670	7 046

Fuel

Year	Fuel Cost Per KWH (Cents)	Efficiency BTU Per KWH
1983	**1.67**	**10 337**
1982	1.80	10 220
1981	1.68	10 274
1980	1.65	10 246
1979	1.33	10 262
1973	.52	9 880

Investment (thousands of dollars)

Year	Plant In Service	Accumulated Provisions For Depreciation	Net Plant	Construction Work In Progress	Nuclear Fuel In Service	Total Plant	Annual Construction Expenditures	Total Assets
1983	**1 358 467**	**324 826**	**1 033 641**	**1 118 802**	**22 904**	**2 175 347**	**294 010**	**2 401 778**
1982	1 306 677	285 453	1 021 224	878 535	18 390	1 918 149	248 515	2 124 823
1981	1 261 174	252 310	1 008 864	656 999	10 951	1 676 814	200 918	1 869 967
1980	1 208 001	220 629	987 372	518 746	17 644	1 523 762	234 827	1 701 655
1979	979 809	201 895	777 914	519 464	11 786	1 309 164	239 010	1 467 512
1973	407 195	108 467	298 728	192 133	–	490 861	119 524	540 896

Capitalization (thousands of dollars)

Year	Common Shareowners Equity	%	Cumulative Preferred Stock	%	Cumulative Preferred with Mandatory Redemption	%	Long-Term Debt	%	Total
1983	**715 584**	**36**	**200 000**	**10**	**94 002**	**5**	**984 976**	**49**	**1 994 562**
1982	617 127	35	170 000	10	95 027	5	875 859	50	1 758 013
1981	550 176	35	150 000	10	95 500	6	762 584	49	1 558 260
1980	478 993	34	150 000	11	66 500	5	708 295	50	1 403 788
1979	432 554	35	150 000	12	34 000	3	611 137	50	1 227 691
1973	145 665	31	71 000	15	–	–	259 164	54	475 829

Board of Directors

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

Samuel G. Carson (E)(N*)(S)
Chairman
Toledo Trust Company and
Toledo Trustcorporation, Inc.

Richard P. Crouse
Vice President, Nuclear

Robert H. Davies (C*)(O)(S)
Senior Vice President
Owens-Illinois, Inc.

Chester Devenow (A)(C)
Chairman and Chief
Executive Officer
Sheller-Globe Corporation

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

Stanley W. Gustafson (Deceased)
President, Dana Corporation

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

Isabel F. Martin (A)
Consultant
Toledo Area United Way

Donald G. Nicholson
Senior Vice President, Finance

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

Lyman C. Phillips
Vice President, Corporate
Planning and Administration

Paul M. Smart
Senior Vice President
Corporate Development and
General Counsel

Willard I. Webb, III (A*)(E)(S)
Chairman and Chief
Executive Officer
Ohio Citizens Bank

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

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

Key to Directors' Committees

(A) Audit Committee
(C) Compensation Committee
(E) Executive Committee
(N) Nominating Committee
(O) Operations Committee
(S) Strategic Planning
* denotes committee chairman

Directors Emeriti

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

Officers

John P. Williamson
Chairman and
Chief Executive Officer

Wendell A. Johnson
President and Chief
Operating Officer

Anthony A. Bosch, Jr.
Vice President, Customer Services

Richard P. Crouse
Vice President, Nuclear

John R. Dyer
Vice President, Public Relations

Donald G. Nicholson
Senior Vice President, Finance

Lyman C. Phillips
Vice President, Corporate Planning
and Administration

Lowell E. Roe
Vice President, Energy Supply

Paul M. Smart
Senior Vice President,
Corporate Development and
General Counsel

Stratman Cooke
Secretary

Donald H. Saunders
Treasurer

Paul G. Busby
Controller

Executive Offices

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

Dividend Disbursing and Reinvestment Agent

The Toledo Trust Company
Toledo, Ohio 43603

Stock Transfer Agents

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

Stock Registrars

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

Mortgage Trustee

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

Auditors

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

Exchange Listings

Common
New York Stock Exchange (TED)
Midwest Stock Exchange

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

Preferred – \$25 par value – 8.84%,
\$2.365, \$4.28, \$3.47 series
New York Stock Exchange

Preferred – \$100 par value – 4¼%
8.32%, 7.76% and 10% series
American Stock Exchange

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

Director Changes

Chester Devenow, chairman and chief executive officer, Sheller-Globe Corporation, was elected to the board of directors in August, 1983. Sheller-Globe, a Toledo-based company, is a major manufacturer of parts and assemblies for cars, trucks and off-highway equipment. Mr. Devenow is a graduate of New York University.

He replaces **Marvin S. Kobacker,** who was elected director emeritus after 14 years of distinguished board service.

Paul M. Smart, senior vice president, corporate development, was elected to the board of directors in January 1984.

A former senior partner with Fuller & Henry, with specialization in Toledo Edison regulatory matters, Mr. Smart continues as the company's general counsel, with added responsibilities for marketing, rates, area development, and research and development.

He replaced board member **Stanley W. Gustafson,** who died shortly before year's end. We will miss Mr. Gustafson's talent, energy and keen advice.

TOLEDO
EDISON

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300 MADISON AVENUE
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