ANNUAL REPORT 1995

PENN POWER
The Energy Makers

CONTENTS

COMPANY PROFILE

Pennsylvania Power Company provides electric service to more than 143,000 customers in western Pennsylvania. The Company furnishes electric service in 139 communities, as well as rural areas, and also sells electric energy at wholesale to four municipalities. Its service area has an estimated population of 342,000. The Company, with headquarters in New Castle, Pennsylvania, is a wholly owned subsidiary of Ohio Edison Company.

SELECTED FINANCIAL DATA

	1995	1994	1993	1992	1991
			(Dollars in thousands)		
Operating Revenues	$ 314,642	$ 301,965	$ 292,084	$ 315,458	$ 321,845
Operating Income	$ 67,317	$ 63,668	$ 62,777	$ 66,525	$ 81,102
Net Income	$ 38,930	$ 31,260	$ 21,317	$ 30,956	$ 40,197
Earnings on Common Stock	$ 34,155	$ 25,896	$ 15,454	$ 24,457	$ 32,475
Return on Average Common Equity	12.9%	10.0%	5.9%	9.2%	12.2%
Cash Dividends on Common Stock	$ 21,386	$ 21,386	$ 21,386	$ 27,676	$ 27,676
Total Assets	$1,146,404	$1,193,198	$1,180,983	$ 986,158	$1,022,099
CAPITALIZATION:					
Common Stockholder's Equity	$ 271,920	$ 258,973	$ 254,782	$ 261,518	$ 266,058
Preferred Stock—					
Not Subject to Mandatory Redemption	50,905	50,905	50,905	41,905	41,905
Subject to Mandatory Redemption	15,000	15,000	20,500	30,362	34,282
Long-Term Debt	338,670	424,457	440,555	398,630	408,443
Total Capitalization	$ 676,495	$ 749,335	$ 766,742	$ 732,415	$ 750,688
CAPITALIZATION RATIOS:					
Common Stockholder's Equity	40.2%	34.6%	33.2%	35.7%	35.4%
Preferred Stock—					
Not Subject to Mandatory Redemption	7.5	6.8	6.6	5.7	5.6
Subject to Mandatory Redemption	2.2	2.0	2.7	4.2	4.6
Long-Term Debt	50.1	56.6	57.5	54.4	54.4
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%
KILOWATT-HOUR SALES (Millions):					
Residential	1,195	1,178	1,105	1,050	1,061
Commercial	938	891	831	782	772
Industrial	1,558	1,293	1,212	1,674	1,823
Other	151	148	139	138	138
Subtotal	3,842	3,510	3,287	3,644	3,794
Parent Company	250	468	469	786	556
Other Utilities	685	466	748	906	790
Total	4,777	4,444	4,504	5,336	5,140
CUSTOMERS SERVED:					
Residential	126,480	124,951	123 316	121,879	120,537
Commercial	16,317	15,966	15,593	15,348	15,127
Industrial	223	219	221	235	243
Other	97	98	97	100	100
Total	143,117	141,234	139,227	137,562	136,007
Average Annual Residential Kilowatt-Hours Used	9,505	9,501	9,017	8,672	8,839
Cost of Fuel per Million Btu	$ 1.12	$ 1.20	$ 1.28	$ 1.26	$ 1.32
Peak Load (Megawatts)	836	710	690	734	739
Generating Capability:					
Coal	72.1%	72.1%	74.6%	74.6%	74.6%
Oil	3.0	3.0	2.8	2.8	2.8
Nuclear	24.9	24.9	22.6	22.6	22.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
SOURCES OF ELECTRIC GENERATION:					
Coal	65.6%	69.6%	76.8%	68.3%	72.9%
Nuclear	34.4	30.4	23.2	31.7	27.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
NUMBER OF EMPLOYEES	1,220	1,255	1,355	1,432	1,432

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

RESULTS OF OPERATIONS

We continued making significant progress in 1995 as our Company prepares for the rapidly changing environment within the electric utility industry.

For the second consecutive year, our net income increased substantially compared to the prior year. The 1993 results were adversely affected by a $17,029,000 after-tax write-off for the termination of Perry Unit 2 and a charge related to a fuel cost recovery issue. The effect of the 1993 write-off was partially offset by a $5,653,000 after-tax credit from the cumulative effect of a change in accounting to accrue metered but unbilled revenue (see Note 2).

We are achieving good results from our ongoing cost-control efforts. Total operation and maintenance expenses in 1995 were lower than any year since 1988.

Higher operating revenues in 1995 are due to increased retail sales. The following table summarizes the sources of changes in operating revenues for 1995 and 1994 as compared to the previous year:

	1995	1994
	(In millions)	
Increased retail kilowatt-hour sales	$18.6	$15.7
Reduced average retail electric price	(5.1)	(3.8)
Sales to utilities	(0.8)	(2.5)
Other	—	0.5
Net Increase	$12.7	$ 9.9

The 1995 start-up of Caparo Steel Company, which purchased the assets of Sharon Steel Corporation, and an improving local economy helped us achieve a 9.8% increase in retail sales, following a 6.8% gain in 1994. Our customer base continues to grow with nearly 1,900 new retail customers added in 1995, after gaining over 2,000 customers the previous year. Increased weather-related demand during the second half of 1995 contributed to a 1.5% increase in residential sales, which rose 6.6% the previous year. Commercial sales followed the same trend, increasing 5.3% and 7.2% in 1995 and 1994, respectively. Industrial sales increased 20.5% during the year. Excluding Caparo, industrial sales rose 6.3% in 1995 after increasing 6.7% the previous year. Sales to other utilities were relatively flat in 1995 after falling 23.2% in 1994. As a result of these factors, total kilowatt-hour sales were up 7.5% compared with 1994 sales, which were 1.3% lower than the prior year.

Because of higher kilowatt-hour sales, we spent 5.9% more on fuel and purchased power in 1995. The 1993 amount included a $4,950,000 charge related to a fuel cost recovery issue. During the same period, our nuclear expenses fell 2.2% compared to the previous year--nuclear expenses were higher in 1994 mainly due to corrective maintenance work at the Perry Plant. The comparative decrease in other operating costs reflects a charge in 1994 of approximately $8,400,000 for a voluntary retirement program offered to qualifying employees in 1994.

Higher depreciation charges in 1995 resulted primarily from a higher level of depreciable utility plant and an increase in the accrual for nuclear decommissioning costs. The change in net amortization of regulatory assets was because we stopped deferring postretirement benefit costs and provided a reserve in 1994 against the amounts which had been deferred in 1993. The reserve was provided due to contradictory court decisions in Pennsylvania which make future recovery of these costs uncertain. General taxes in 1995 included an adjustment for property taxes.

Interest on long-term debt fell in 1995 compared to 1994 due to the redemption of more than $43,000,000 of first mortgage bonds with a weighted average interest rate of 8.09% and the refinancing of certain pollution control notes in 1995 and late 1994. Preferred stock dividend requirements were down in 1995 due to the redemption of preferred stock in the second half of 1994. The 1994 amount also included a $325,000 charge for premiums paid on preferred stock redeemed in that year.

CAPITAL RESOURCES AND LIQUIDITY

We have significantly improved our financial position over the past five years. Cash generated from operations was 34% higher in 1995 than it was in 1990 due to higher retail sales and aggressive cost controls. Also, we have enhanced our fixed charge coverage ratios and the percentage of common equity to total capitalization. Our SEC ratio of earnings to fixed charges improved to 3.15 at the end of 1995 from 1.88 at the end of 1990. The Company's indenture

ratio, which is used to determine the ability to issue first mortgage bonds, increased from 2.71 at the end of 1990 to 3.91 at the end of 1995. Over the same period, the charter ratio, a measure of our ability to issue preferred stock, improved from 1.32 to 1.97, and our common equity percentage of capitalization rose from approximately 34% at the end of 1990 to slightly over 40% at the end of 1995.

For the third straight year, we improved our cash position compared to the end of the prior year. All cash requirements for the year were met with internally generated funds and all of our financing activities during the year were for redemption and refinancing purposes.

We had about $43,000,000 of cash and temporary investments and no short-term indebtedness on December 31, 1995. We also had $2,000,000 of unused short-term bank lines of credit, and $12,000,000 of bank facilities that provide for borrowings on a short-term basis at the banks' discretion.

At the end of 1995, we had the capability to issue $157,000,000 principal amount of first mortgage bonds and $134,000,000 of preferred stock (assuming no additional debt was issued). However, our cash requirements in 1996 for operations and scheduled debt maturities are expected to be met without issuing additional securities. During 1995, we reduced our total debt by approximately $50,000,000. We expect to pay off in excess of $80,000,000 of debt over the next five years with internal cash, including more than $53,000,000 in 1996.

During 1995, our capital spending (excluding nuclear fuel) totaled approximately $30,000,000. Our capital spending for the period 1996-2000 is expected to be about $105,000,000 (excluding nuclear fuel), of which approximately $24,000,000 applies to 1996. This five year spending level is more than $35,000,000 lower than actual capital outlays over the past five years.

Investments for additional nuclear fuel during the 1996-2000 period are estimated to be approximately $31,000,000, of which about $5,000,000 applies to 1996. During the same periods, our nuclear fuel investments are expected to be reduced by approximately $34,000,000 and $7,000,000, respectively, as the nuclear fuel is consumed.

One of our former municipal customers signed a contract with another energy supplier in November 1995. The Company and the former customer are in dispute over our proposed transmission rate. Both parties have filed proposals with the Federal Energy Regulatory Commission requesting it to establish final terms. No ruling has yet been issued. Sales to this municipality were approximately $1,500,000 in 1995.

OUTLOOK

Many competitive challenges lie ahead as the electric utility industry becomes less regulated and more energy suppliers enter the marketplace. Retail wheeling, which would allow retail customers to purchase electricity from other energy producers, would be one of those challenges, if legislators choose to move in that direction. It is imperative that we continue to find ways to increase revenues and reduce costs. Effective operation of the nuclear facilities we jointly own will also help us meet these competitive challenges.

In 1995, we increased our accrual of the nuclear decommissioning obligation. As discussed in Note 1, the Financial Accounting Standards Board (FASB) is reviewing the accounting for decommissioning costs regarding the recognition, measurement and classification of decommissioning costs in the financial statements of electric utilities. The FASB issued its proposed accounting standard in February 1996.

The Clean Air Act Amendments of 1990, discussed in Note 7, require additional emission reductions by 2000. We are pursuing cost-effective compliance strategies for meeting the reduction requirements that begin in 2000.

Through our Performance Initiatives program -- an ongoing effort to control costs and encourage continuous improvement throughout our Company -- we have identified substantial savings that will better position us to successfully compete in the future. In addition, we are moving forward on a Corporate Strategy program which focuses on our core business by outlining specific strategies in key areas of our business. Through these programs we continue to identify opportunities for revenue enhancement and cost reduction. Our focus is to exceed customers' service expectations by providing superior value and high-quality products and services at competitive prices in order to maximize the value of shareholder investment in the Company.

STATEMENTS OF INCOME

Pennsylvania Power Company

For the Years Ended December 31,	1995	1994	1993
		(In thousands)	
OPERATING REVENUES	$314,642	$301,965	$292,084
OPERATING EXPENSES AND TAXES:			
Fuel and purchased power	63,059	59,529	67,312
Nuclear operating costs	32,759	33,480	30,162
Other operating costs	58,959	65,424	61,125
Total operation and maintenance expenses	154,777	158,433	158,599
Provision for depreciation	33,152	29,108	29,260
Amortization (deferral) of net regulatory assets	—	4,339	(4,339)
General taxes	28,278	23,137	22,591
Income taxes	31,118	23,280	23,196
Total operating expenses and taxes	247,325	238,297	229,307
OPERATING INCOME	67,317	63,668	62,777
OTHER INCOME AND EXPENSE:			
Perry Unit 2 termination (Note 3)	—	—	(24,458)
Income tax benefit from Perry Unit 2 termination	—	—	10,293
Other	2,213	1,811	1,542
Total other income (expense)	2,213	1,811	(12,623)
TOTAL INCOME	69,530	65,479	50,154
NET INTEREST:			
Interest on long-term debt	28,937	32,130	33,208
Interest on nuclear fuel obligations	407	519	401
Allowance for borrowed funds used during construction	(750)	(728)	(772)
Other interest expense	2,006	2,298	1,653
Net interest	30,600	34,219	34,490
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING	38,930	31,260	15,664
Cumulative effect to January 1, 1993, of a change in accounting for unbilled revenues (net of income taxes of $4,108,000) (Note 2)	—	—	5,653
NET INCOME	38,930	31,260	21,317
PREFERRED STOCK DIVIDEND REQUIREMENTS	4,775	5,364	5,863
EARNINGS ON COMMON STOCK	$ 34,155	$ 25,896	$ 15,454

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

At December 31,

	1995	1994
	(In thousands)	
ASSETS		
UTILITY PLANT:		
In service, at original cost	$1,215,274	$1,215,831
Less—Accumulated provision for depreciation	426,974	410,508
	788,300	805,323
Construction work in progress—		
Electric plant	10,997	11,226
Nuclear fuel	7,858	12,389
	18,855	23,615
	807,155	828,938
OTHER PROPERTY AND INVESTMENTS	14,550	8,777
CURRENT ASSETS:		
Cash and cash equivalents	20,984	17,200
Notes receivable from parent company (Note 6)	22,000	25,000
Accounts receivable—		
Customers (less accumulated provisions of $563,000 and $515,000, respectively, for uncollectible accounts)	35,987	32,745
Parent company	14,965	20,777
Other	15,329	12,823
Materials and supplies, at average cost	15,588	17,039
Prepayments	2,113	2,048
	126,966	127,632
DEFERRED CHARGES:		
Regulatory assets	189,900	215,002
Other	7,833	12,849
	197,733	227,851
	$1,146,404	$1,193,198
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See Statements of Capitalization):		
Common stockholder's equity	$ 271,920	$ 258,973
Preferred stock—		
Not subject to mandatory redemption	50,905	50,905
Subject to mandatory redemption	15,000	15,000
Long-term debt—		
Associated companies	11,648	15,155
Other	327,022	409,302
	676,495	749,335
CURRENT LIABILITIES:		
Currently payable long-term debt—		
Associated companies	6,180	9,318
Other	53,817	15,126
Accounts payable—		
Associated companies	10,593	9,440
Other	26,013	25,276
Accrued taxes	16,221	15,421
Accrued interest	8,487	10,108
Other	28,345	21,473
	149,656	106,162
DEFERRED CREDITS:		
Accumulated deferred income taxes	260,458	277,542
Accumulated deferred investment tax credits	30,521	32,209
Other	29,274	27,950
	320,253	337,701
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Notes 4 & 7)		
	$1,146,404	$1,193,198

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

(Dollars in thousands, except per share amounts)

At December 31,	Number of Shares Outstanding 1995	Number of Shares Outstanding 1994	Optional Redemption Price Per Share	Optional Redemption Price Aggregate	1995	1994
COMMON STOCKHOLDER'S EQUITY:						
Common stock, $30 par value, 6,500,000 shares authorized, 6,290,000 shares outstanding					$188,700	$188,700
Other paid-in capital					(422)	(600)
Retained earnings (Note 5a)					83,642	70,873
Total common stockholder's equity					271,920	258,973
PREFERRED STOCK (Note 5b):						
Cumulative, $100 par value—						
Authorized 1,200,000 shares						
Not subject to mandatory redemption:						
4.24%	40,000	40,000	$ 103.13	$ 4,125	4,000	4,000
4.25%	41,049	41,049	105.00	4,310	4,105	4,105
4.64%	60,000	60,000	102.98	6,179	6,000	6,000
7.64%	60,000	60,000	101.42	6,085	6,000	6,000
7.75%	250,000	250,000	—	—	25,000	25,000
8.00%	58,000	58,000	102.07	5,920	5,800	5,800
Total not subject to mandatory redemption	509,049	509,049		$ 26,619	50,905	50,905
Subject to mandatory redemption (Note 5c):						
7.625%	150,000	150,000			15,000	15,000
LONG-TERM DEBT (Note 5d):						
First mortgage bonds—						
9.000% due 1996					50,000	50,000
9.740% due 1999-2019					20,000	20,000
7.500% due 2003					40,000	40,000
6.375% due 2004					50,000	50,000
6.625% due 2004					20,000	20,000
8.500% due 2022					27,250	50,000
7.625% due 2023					19,500	40,000
Total first mortgage bonds					226,750	270,000
Secured notes—						
4.750% due 1998					850	850
6.080% due 2000					23,000	23,000
5.400% due 2013					1,000	1,000
8.125% due 2015					—	14,250
5.400% due 2017					10,600	10,600
7.150% due 2017					17,925	17,925
5.900% due 2018					16,800	16,800
8.100% due 2018					10,300	10,300
8.100% due 2020					5,200	5,200
7.150% due 2021					14,482	14,482
6.150% due 2023					12,700	12,700
6.450% due 2027					14,500	14,500
5.450% due 2028					6,950	6,950
6.000% due 2028					14,250	—
5.950% due 2029					238	238
Total secured notes					148,795	148,795
Other obligations—						
Nuclear fuel					17,828	24,120
Capital leases (Note 4)					6,309	7,456
Total other obligations					24,137	31,576
Net unamortized discount on debt					(1,015)	(1,470)
Long-term debt due within one year					(59,997)	(24,444)
Total long-term debt					338,670	424,457
TOTAL CAPITALIZATION					$676,495	$749,335

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

STATEMENTS OF RETAINED EARNINGS

Pennsylvania Power Company

For the Years Ended December 31,	1995	1994	1993
		(In thousands)	
Balance at beginning of year	$ 70,873	$ 66,392	$ 72,777
Net income	38,930	31,260	21,317
	109,803	97,652	94,094
Cash dividends on common stock	21,386	21,386	21,386
Cash dividends on preferred stock	4,775	5,035	5,639
Premium on redemption of preferred stock	—	358	677
	26,161	26,779	27,702
Balance at end of year (Note 5a)	$ 83,642	$ 70,873	$ 66,392

STATEMENTS OF CAPITAL STOCK AND OTHER PAID-IN CAPITAL

	Common Stock			Preferred Stock			
				Not Subject to Mandatory Redemption		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, 1993	6,290,000	$188,700	$ 41	419,049	$41,905	336,616	$33,662
Sale of 7.75% Preferred Stock			(345)	250,000	25,000		
Redemptions—							
8.24% Series						(45,000)	(4,500)
8.48% Series			(6)	(80,000)	(8,000)		
9.16% Series				(80,000)	(8,000)		
11.00% Series						(8,000)	(800)
11.50% Series						(60,000)	(6,000)
13.00% Series						(10,000)	(1,000)
Balance, December 31, 1993	6,290,000	188,700	(310)	509,049	50,905	213,616	21,362
Minimum liability for unfunded retirement benefits			(290)				
Redemptions—							
11.00% Series						(3,616)	(362)
13.00% Series						(60,000)	(6,000)
Balance, December 31, 1994	6,290,000	188,700	(600)	509,049	50,905	150,000	15,000
Minimum liability for unfunded retirement benefits			178				
Balance, December 31, 1995	6,290,000	$188,700	$(422)	509,049	$50,905	150,000	$15,000

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

STATEMENTS OF CASH FLOWS

Pennsylvania Power Company

For the Years Ended December 31,	1995	1994	1993
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 38,930	$ 31,260	$ 21,317
Adjustments to reconcile net income to net cash from operating activities:			
Provision for depreciation	33,152	29,108	29,260
Nuclear fuel and lease amortization	11,337	10,656	8,812
Deferred income taxes, net	8,144	7,578	10,261
Investment tax credits, net	(1,688)	(1,351)	(1,361)
Allowance for equity funds used during construction	—	(408)	(237)
Deferred fuel costs, net	155	(4,091)	199
Cumulative effect of an accounting change for unbilled revenues	—	—	(5,653)
Perry Unit 2 termination	—	—	24,458
Receivables	64	(1,059)	(5,974)
Materials and supplies	1,451	(601)	4,666
Accounts payable	1,848	(1,686)	4,196
Other	11,003	35,390	(6,178)
Net cash provided from operating activities	104,396	104,796	83,766
CASH FLOWS FROM FINANCING ACTIVITIES:			
New Financing—			
Preferred stock	—	—	24,654
Long-term debt	13,528	11,868	149,867
Redemptions and Repayments—			
Preferred stock	—	6,687	28,970
Long-term debt	67,337	23,655	145,809
Notes payable, net	—	—	15,000
Dividend Payments—			
Common stock	21,386	21,386	21,386
Preferred stock	4,775	5,035	5,639
Net cash used for financing activities	79,970	44,895	42,283
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property additions	29,705	30,072	31,328
Loan to parent	—	25,000	—
Loan payment from parent	(3,000)	—	—
Sale of utility property to parent	(4,249)	—	—
Other	(1,814)	448	999
Net cash used for investing activities	20,642	55,520	32,327
Net increase in cash and cash equivalents	3,784	4,381	9,156
Cash and cash equivalents at beginning of year	17,200	12,819	3,663
Cash and cash equivalents at end of year	$ 20,984	$ 17,200	$ 12,819
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Cash paid during the year—			
Interest (net of amounts capitalized)	$ 30,215	$ 31,738	$ 32,391
Income taxes	26,605	19,873	10,403

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

STATEMENTS OF TAXES

For the Years Ended December 31,	1995	1994	1993
		(In thousands)	
GENERAL TAXES:			
State gross receipts	$ 11,680	$ 11,024	$ 10,754
Real and personal property	11,222	6,699	6,712
State capital stock	2,499	2,440	2,000
Social security and unemployment	2,440	2,590	2,643
Other	437	384	482
Total general taxes	$ 28,278	$ 23,137	$ 22,591
PROVISION FOR INCOME TAXES:			
Currently payable—			
Federal	$ 20,352	$ 11,040	$ 3,292
State	5,783	7,066	716
	26,135	18,106	4,008
Deferred, net—			
Federal	6,222	8,088	10,035
State	1,922	(510)	4,291
	8,144	7,578	14,326
Investment tax credit amortization	(1,688)	(1,351)	(1,361)
Total provision for income taxes	$ 32,591	$ 24,333	$ 16,973
INCOME STATEMENT CLASSIFICATION OF PROVISION FOR INCOME TAXES:			
Operating expenses	$ 31,118	$ 23,280	$ 23,196
Other income	1,473	1,053	(10,331)
Cumulative effect of a change in accounting	—	—	4,108
Total provision for income taxes	$ 32,591	$ 24,333	$ 16,973
RECONCILIATION OF FEDERAL INCOME TAX EXPENSE AT STATUTORY RATE TO TOTAL PROVISION FOR INCOME TAXES:			
Book income before provision for income taxes	$ 71,521	$ 55,593	$ 38,290
Federal income tax expense at statutory rate	$ 25,032	$ 19,458	$ 13,402
Increases (reductions) in taxes resulting from:			
State income taxes, net of federal income tax benefit	5,008	4,261	3,255
Amortization of investment tax credits	(1,688)	(1,351)	(1,361)
Amortization of tax regulatory assets	4,398	2,231	2,376
Other, net	(159)	(266)	(699)
Total provision for income taxes	$ 32,591	$ 24,333	$ 16,973
ACCUMULATED DEFERRED INCOME TAXES AT DECEMBER 31:			
Property basis differences	$178,589	$178,345	$171,581
Allowance for equity funds used during construction	38,894	39,921	41,091
Deferred nuclear expense	8,681	8,914	8,914
Customer receivables for future income taxes	43,801	55,498	56,736
Unamortized investment tax credits	(12,510)	(13,557)	(14,124)
Other	3,003	8,421	9,121
Net deferred income tax liability	$260,458	$277,542	$273,319

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

NOTES TO 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 Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period.

REVENUES—The Company's principal business is providing electric service to customers in western Pennsylvania. The Company's retail customers are metered on a cycle basis. Revenue is recognized for unbilled electric service through the end of the year (see Note 2).

Receivables from customers include sales to residential, commercial and industrial customers located in the Company's service area and sales to wholesale customers. There was no material concentration of receivables at December 31, 1995 or 1994, with respect to any particular segment of the Company's customers.

FUEL COSTS—The Company recovers fuel and net purchased power costs not otherwise recovered through base rates from its customers through an annual "levelized" energy cost rate (ECR). The ECR, which includes adjustment for any over or under collection from customers, is recalculated each year. Accordingly, the Company defers the difference between actual energy costs and the amounts currently recovered from its customers.

UTILITY PLANT AND DEPRECIATION—Utility plant reflects the original cost of construction, including payroll and related costs such as taxes, employee benefits, administrative and general costs and financing costs (allowance for funds used during construction).

The 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 approximately 2.7% in 1995, 1994 and 1993.

Annual depreciation expense includes approximately $1,100,000 for future decommissioning costs applicable to the Company's ownership interest in two nuclear generating units. The Company's share of the future obligation to decommission these units is approximately $72,000,000 in current dollars and (using a 2.8% escalation rate) approximately $142,000,000 in future dollars. The estimated obligation (based on site-specific studies) and the escalation rate were developed using information obtained from consultants. Payments for decommissioning are expected to begin in 2016, when actual decommissioning work begins. The Company has recovered approximately $3,000,000 for decommissioning through its electric rates from customers through December 31, 1995; such amounts are reflected in the reserve for depreciation on the Balance Sheet. If the actual costs of decommissioning the units exceed the funds accumulated from investing amounts recovered from customers, the Company expects that additional amount will be recoverable from its customers. The Company has approximately $4,400,000 invested in external decommissioning trust funds as of December 31, 1995. Earnings on these funds are reinvested with a corresponding increase to the depreciation reserve. The Company has also recognized an estimated liability of approximately $3,900,000 related to decontamination and decommissioning of nuclear enrichment facilities operated by the United States Department of Energy (DOE), as required by the Energy Policy Act of 1992. The Company recovers these costs through its ECR.

The Financial Accounting Standards Board (FASB) is reviewing the accounting for nuclear decommissioning costs. If current electric utility industry accounting practices for decommissioning are changed: (1) annual provisions for decommissioning could increase; (2) the full estimated cost for decommissioning could be recorded as a liability rather than as accumulated depreciation; and (3) income from the external decommissioning trusts could be reported as investment income. The FASB issued its proposed accounting standard in February 1996.

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 costs associated with any jointly owned facility in the same proportion as its interest. The Company's portion of operating expenses associated with 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, 1995, 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 #7	$ 56,900	$ 18,500	$ 300	20.80%
Bruce Mansfield #1, #2 and #3	93,200	40,900	400	5.76%
Beaver Valley #1	225,000	95,000	1,100	17.50%
Perry #1	338,800	66,300	1,100	5.24%
Total	$713,900	$220,700	$2,900	

NUCLEAR FUEL—OES Fuel, Incorporated (OES Fuel), a wholly owned subsidiary of Edison, is the sole lessor for the Company's nuclear fuel requirements.

Minimum lease payments during the next five years are estimated to be as follows:

1996	$6,180,000
1997	5,443,000
1998	3,827,000
1999	1,076,000
2000	647,000

The Company amortizes the cost of nuclear fuel based on the rate of consumption. The Company's electric rates include amounts for the future disposal of spent nuclear fuel based upon the formula used to compute payments to the DOE.

INCOME TAXES—Details of the total provision for income taxes are shown on the Statements of Taxes. Deferred income taxes result from timing differences in the recognition of revenues and expenses for tax and accounting purposes. Investment tax credits, which were deferred when utilized, are being amortized over the recovery period of the related property. The liability method is used to account for deferred income taxes. Deferred income tax liabilities related to tax and accounting basis differences are recognized at the statutory income tax rates in effect when the liabilities are expected to be paid.

The Company is included in Edison's consolidated federal income tax return. The consolidated tax liability is allocated on a "stand-alone" company basis, with the Company recognizing any tax losses or credits it contributed to the consolidated return.

RETIREMENT BENEFITS—The Company's trusteed, noncontributory defined benefit pension plan covers almost all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. The Company uses the projected unit credit method for funding purposes and was not required to make pension contributions during the three years ended December 31, 1995.

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

	1995	1994
	(In thousands)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 98,529	$ 83,789
Nonvested benefits	8,479	5,862
Accumulated benefit obligation	$107,008	$ 89,651
Plan assets at fair value	$136,336	$114,881
Actuarial present value of projected benefit obligation	131,375	108,498
Plan assets in excess of projected benefit obligation	4,961	6,383
Unrecognized net gain	(3,447)	(1,281)
Unrecognized prior service cost	5,057	2,347
Unrecognized net transition asset	(7,372)	(8,426)
Net pension liability	$ 801	$ 977

The assets of the plan consist primarily of common stocks, United States government bonds and corporate bonds. Net pension costs for the three years ended December 31, 1995, were computed as follows:

	1995	1994	1993
		(In thousands)	
Service cost-benefits earned during the period	$ 2,856	$ 3,294	$ 2,802
Interest on projected benefit obligation	8,823	8,158	7,281
Return on plan assets	(30,963)	1,346	(15,653)
Net deferral (amortization)	19,108	(14,092)	2,366
Voluntary early retirement program expense	—	9,134	3,930
Net pension cost	$ (176)	$ 7,840	$ 726

The assumed discount rates used in determining the actuarial present value of the projected benefit obligation were 7.5% in 1995 and 1993, and 8.5% in 1994. The assumed rate of increase in future compensation levels used to measure this obligation was 4.5% in each year. Expected long-term rates of return on plan assets

were assumed to be 10% in 1995 and 1994 and 11% in 1993.

The Company provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee deductibles and copayments, are also available to retired employees, their dependents and, under certain circumstances, their survivors. The Company pays insurance premiums to cover a portion of these benefits in excess of set limits; all amounts up to the limits are paid by the Company. The Company recognizes the expected cost of providing other postretirement benefits to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. The following sets forth the funded status of the plan and amounts recognized on the Balance Sheets as of December 31:

	1995	1994
	(In thousands)	
Accumulated postretirement benefit obligation allocation:		
Retirees	$23,371	$28,056
Fully eligible activ plan participants	1,378	1,817
Other active plan participants	18,988	18,263
Accumulated postretirement benefit obligation	43,737	48,136
Plan assets at fair value	160	—
Accumulated postretirement benefit obligation in excess of plan assets	43,577	48,136
Unrecognized transition obligation	(23,047)	(30,588)
Unrecognized net loss	(5,995)	(6,911)
Net postretirement benefit liability	$14,535	$10,637

Net periodic postretirement benefit costs for the three years ended December 31, 1995 were computed as follows:

	1995	1994	1993
	(In thousands)		
Service cost-benefits attributed to the period	$1,090	$1,109	$ 866
Interest cost on accumulated benefit obligation	3,988	3,496	3,129
Amortization of transition obligation	1,699	1,699	1,699
Amortization of loss	111	196	—
Voluntary early retirement program expense	—	669	1,112
Net periodic postretirement benefit cost	$6,888	$7,169	$6,806

The health care trend rate assumption is 6.0% in the first year gradually decreasing to 4.0% for the year 2008 and later. The discount rates used to compute the accumulated postretirement benefit obligation were 7.5% in 1995 and 1993 and 8.5% in 1994. An increase in the health care trend rate assumption by one percentage point in all years would increase the accumulated postretirement benefit obligation by approximately $6,300,000 and the aggregate annual service and interest costs by approximately $800,000.

The PPUC authorized the Company to defer the incremental costs, resulting from a new accounting standard for postretirement benefits, for future recovery from its retail customers. Similar authorizations relating to some other utilities regulated by the PPUC were appealed by the Office of Consumer Advocate to the Commonwealth Court of Pennsylvania. The Commonwealth Court has issued conflicting opinions and both cases have been appealed to the Pennsylvania Supreme Court. Due to the uncertainty resulting from these conflicting opinions, the Company provided a reserve in the fourth quarter of 1994 of $8,728,000 ($5,066,000 after-tax) against the full amount deferred.

TRANSACTIONS WITH AFFILIATED COMPANIES—Transactions with affiliated companies are included on the Statements of Income as follows:

	1995	1994	1993
		(In thousands)	
Operating revenues:			
Electric sales to Edison	$ 4,374	$ 8,884	$ 8,781
Bruce Mansfield Plant administrative and general charges to Edison	6,118	6,038	5,652
Other transactions with Edison	318	342	355
	$10,810	$15,264	$14,788
Fuel and purchased power:			
Power purchased from Edison	$15,129	$12,673	$ 8,667
Nuclear fuel leased from OES Fuel	12,006	11,529	10,356
	$27,135	$24,202	$19,023
Other operating costs:			
Rental of transmission lines from Edison	$ 1,057	$ 1,102	$ 1,042
Data processing services from Edison	2,572	2,706	3,307
Other transactions with Edison	3,987	3,908	4,345
	$ 7,616	$ 7,716	$ 8,694

SUPPLEMENTAL CASH FLOWS INFORMATION—All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Balance Sheets. The Company reflects temporary cash investments at cost, which approximates their market value. Noncash financing and investing activities included capital lease transactions amounting to $3,744,000, $7,566,000 and $2,357,000 for the years 1995, 1994 and 1993, respectively.

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

	1995		1994	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
Long-term debt	$376	$385	$419	$384
Preferred stock	$ 15	$ 13	$ 15	$ 12
Investments other than cash and cash equivalents	$ 6	$ 6	$ 5	$ 5

The fair values of long-term debt and preferred stock reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective year. The yields assumed were based on securities with similar characteristics offered by a corporation with credit ratings similar to the Company's ratings.

The fair value of investments other than cash and cash equivalents represent cost (which approximates fair value) or the present value of the cash inflows based on the yield to maturity. The yields assumed were based on financial instruments with similar characteristics and terms. Investments other than cash and cash equivalents consist primarily of decommissioning trust investments of approximately $4,400,000. Unrealized gains and losses applicable to the decommissioning trust have been recognized in the trust investment with a corresponding offset to the reserve for depreciation. The Company has no securities held for trading purposes.

REGULATORY ASSETS—The Company recognizes, as regulatory assets, costs which the FERC and PPUC have authorized for recovery from customers in future periods. Without such authorization, the costs would have been charged to income as incurred. The Company's rates currently exclude approximately $61,000,000 of deferred costs. In accordance with expected rate treatment based on PPUC precedent, it is improbable that the Company will be required to terminate application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," in the foreseeable future.

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

	1995	1994
	(In thousands)	
Currently being recovered through rates:		
Customer receivables for future income taxes	$106,862	$132,012
Loss on reacquired debt	11,009	11,967
DOE decommissioning and decontamination costs	4,170	4,582
Deferred fuel costs	7,040	7,195
	129,081	155,756
Not currently recovered through rates:		
Nuclear unit expenses	21,180	21,180
Perry Unit 2 termination	39,639	38,066
	60,819	59,246
Total	$189,900	$215,002

2. CHANGE IN ACCOUNTING FOR UNBILLED REVENUES:

On January 1, 1993, the Company changed its accounting policy to recognize revenue relating to metered sales which remain unbilled at the end of the accounting period. This change was made to more closely match the Company's revenues with the costs of services provided. The cumulative effect to January 1, 1993, was $5,653,000 (net of $4,108,000 of income taxes).

3. PERRY UNIT 2 TERMINATION:

In December 1993, the Company announced that it would not participate in further construction of Perry Unit 2 and abandoned Perry Unit 2 as a possible electric generating plant. The Company expects its Perry Unit 2 investment to be recoverable from its PPUC jurisdictional customers based on Section 520 of the Pennsylvania Public Utility Code. Due to the anticipated delay in commencement of recovery and taking into account the expected PPUC rate treatment, the Company recognized an impairment to its Perry Unit 2 investment of $24,458,000 in 1993, reducing net income by $14,165,000.

4. LEASES:

The Company leases certain transmission facilities, office space and other property and equipment under cancelable and noncancelable leases. Consistent with the regulatory treatment, the rental payments for capital and operating leases are charged to operating expenses on the Statements of Income. Such costs for the three years ended December 31, 1995, are summarized as follows:

	1995	1994	1993
	(In thousands)		
Operating leases			
Interest element	$ 289	$ 208	$ 171
Other	1,006	893	912
Capital leases			
Interest element	818	945	1,070
Other	1,250	1,314	1,273
Total rental payments	$3,363	$3,360	$3,426

The future minimum lease payments as of December 31, 1995, are:

	Capital Leases	Operating Leases
	(In thousands)	
1996	$ 1,850	$ 247
1997	1,580	243
1998	1,352	239
1999	1,179	209
2000	1,079	199
Years thereafter	12,594	3,580
Total minimum lease payments	19,634	$4,717
Executory costs	4,042	
Net minimum lease payments	15,592	
Interest portion	9,283	
Present value of net minimum lease payments	6,309	
Less current portion	817	
Noncurrent portion	$ 5,492	

5. 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 $72,076,000 at December 31, 1995.

(b) PREFERRED STOCK—The Company's 7.625% and 7.75% series of preferred stock have restrictions which prevent early redemption prior to October 1997 and July 2003, respectively. All other preferred stock may be redeemed by the Company in whole, or in part, with 30-60 days' notice.

(c) PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION—The Company's 7.625% series has an annual sinking fund requirement for 7,500 shares beginning on October 1, 2002.

(d) LONG-TERM DEBT—The first mortgage indenture and its supplements, which secure all of the Company's first mortgage bonds, serve as direct first mortgage liens on substantially all property and franchises, other than specifically excepted property, owned by the Company. Maturing long-term debt (excluding capital leases) during the next five years are $53,000,000 in 1996, $850,000 in 1998, $487,000 in 1999 and $23,974,000 in 2000. Amounts for 1996 include $3,000,000 of first mortgage bonds optionally redeemed in January 1996.

The Company's obligations to repay certain pollution control revenue bonds are secured by series of first mortgage bonds and, in some cases, by subordinate liens on the related pollution control facilities.

6. SHORT-TERM FINANCING ARRANGEMENTS:

The Company has lines of credit with banks that provide for borrowings of up to $2,000,000 under various interest rate options. Short-term borrowings may be made under these lines of credit on the Company's unsecured notes. To assure the availability of these lines, the Company is required to pay annual commitment fees of 0.50%. These lines expire at various times during 1996.

The Company also has a credit agreement with Edison whereby either company can borrow funds from the other by issuing unsecured notes at the prevailing prime or similar interest rate. Under the terms of this agreement the maximum borrowing is limited only by the availability of funds; however, the Company's borrowing under this agreement is currently limited by the PPUC to a total of $50,000,000. Either company can terminate the agreement with six months' notice.

7. COMMITMENTS, GUARANTEES AND CONTINGENCIES:

CONSTRUCTION PROGRAM—The Company's current forecast reflects expenditures of approximately $105,000,000 for property

additions and improvements from 1996 through 2000, of which approximately $24,000,000 is applicable to 1996. Investments for additional nuclear fuel during the 1996-2000 period are estimated to be approximately $31,000,000, of which approximately $5,000,000 applies to 1996. During the same periods, the Company's nuclear fuel investments are expected to be reduced by approximately $34,000,000 and $7,000,000, respectively, as the nuclear fuel is consumed.

NUCLEAR INSURANCE—The Price-Anderson Act limits the public liability relative to a single incident at a nuclear power plant to $8,920,000,000. The amount is covered by a combination of private insurance and an industry retrospective rating plan. Based on its present ownership interests in Beaver Valley Unit 1 and the Perry Plant, the Company's maximum potential assessment under the industry retrospective rating plan (assuming the other CAPCO companies were to contribute their proportionate share of any assessments under the retrospective rating plan) would be $18,000,000 per incident but not more than $2,300,000 in any one year for each incident.

The Company is also insured as to its interest in Beaver Valley Unit 1 and the Perry Plant under policies issued to the operating company for each plant. Under these policies, up to $2,750,000,000 is provided for property damage and decontamination and decommissioning costs. The Company has also obtained approximately $61,100,000 of insurance coverage for replacement power costs for its interests in Perry and Beaver Valley Unit 1. Under these policies, the Company can be assessed a maximum of approximately $2,900,000 for incidents at any covered nuclear facility occurring during a policy year which are in excess of accumulated funds available to the insurer for paying losses.

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

GUARANTEES—The Company, together with the other CAPCO companies, has severally guaranteed certain debt and lease obligations in connection with a coal supply contract for the Bruce Mansfield Plant. As of December 31, 1995, the Company's share of the guarantee (which approximates fair market value) was $9,160,000. The price under the coal supply contract which includes certain minimum payments, has been determined to be sufficient to satisfy the debt and lease obligations. The Company's total payments under the coal supply contract amounted to $9,793,000, $10,071,000 and $13,230,000 during 1995, 1994, and 1993, respectively. Under the coal supply contract, the Company's minimum payments in each year during the period 1996 through 1999 are approximately $4,000,000.

ENVIRONMENTAL MATTERS—Various federal, state and local authorities regulate the Company with regard to air and water quality and other environmental matters. The Company has estimated additional capital expenditures for environmental compliance of approximately $2,000,000, which is included in the construction forecast under "Construction Program" for 1996 through 2000.

The Company is in compliance with the sulfur dioxide (SO_2) and nitrogen oxides (NO_x) reductions required for 1995 under the Clean Air Act Amendments of 1990. SO_2 reductions for the years 1995 through 1999 are being achieved by burning lower-sulfur fuel, generating more electricity from lower-emitting plants, and/or purchasing emission allowances. Plans for complying with the reductions required for the year 2000 and thereafter have not been finalized. The Environmental Protection Agency is conducting additional studies which could indicate the need for additional NO_x reductions from the Company's Pennsylvania facilities by the year 2003. The cost of such reductions, if required, may be substantial. The Company continues to evaluate its compliance plan and other compliance options.

Legislative, administrative and judicial actions will continue to change the way that the Company must operate in order to comply with environmental laws and regulations. With respect to any such changes and to the environmental matters described above, the Company expects that any resulting additional capital costs which may be required, as well as any required increase in

operating costs, would ultimately be recovered from its customers.

8. SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED):

The following summarizes certain operating results by quarter for 1995 and 1994.

Three Months Ended	March 31, 1995	June 30, 1995	Sept. 30, 1995	Dec. 31, 1995
	(In thousands)			
Operating Revenues	$73,916	$77,622	$81,318	$81,786
Operating Expenses and Taxes	57,075	60,834	65,783	63,633
Operating Income	16,841	16,788	15,535	18,153
Other Income	756	479	334	644
Net Interest	8,191	7,648	7,433	7,328
Net Income	$ 9,406	$ 9,619	$ 8,436	$11,469
Earnings on Common Stock	$ 8,246	$ 8,318	$ 7,279	$10,312

Three Months Ended	March 31, 1994	June 30, 1994	Sept. 30, 1994	Dec. 31, 1994
	(In thousands)			
Operating Revenues	$78,358	$74,700	$77,055	$71,852
Operating Expenses and Taxes	60,172	60,997	57,437	59,691
Operating Income	18,186	13,703	19,618	12,161
Other Income	414	522	408	467
Net Interest	8,443	8,448	8,802	8,526
Net Income	$10,157	$ 5,777	$11,224	$ 4,102
Earnings on Common Stock	$ 8,801	$ 4,096	$10,057	$ 2,942

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Pennsylvania Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Pennsylvania Power Company (a Pennsylvania corporation and wholly owned subsidiary of Ohio Edison Company) as of December 31, 1995 and 1994, and the related statements of income, retained earnings, capital stock and other paid-in capital, cash flows and taxes for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Power Company as of December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, effective January 1, 1993, the Company changed its method of accounting for unbilled revenues.

Arthur Andersen LLP

Arthur Andersen LLP

Cleveland, Ohio
February 8, 1996

BOARD OF DIRECTORS

H. Peter Burg
Senior Vice President and Chief Financial Officer of the Company's parent, Ohio Edison Company, Akron, Ohio.

Robert H. Carlson
Retired, formerly President and Chief Executive Officer of Universal-Rundle Corporation, a plumbing fixture manufacturer, New Castle, Pennsylvania.

Willard R. Holland
Chairman of the Board and Chief Executive Officer of the Company, and President and Chief Executive Officer of the Company's parent, Ohio Edison Company, Akron, Ohio.

Charles E. Jones
President of the Company, New Castle, Pennsylvania.

Joseph J. Nowak
Retired, formerly Vice President of Armco Inc., a manufacturer of steel products, Pittsburgh, Pennsylvania.

Jack E. Reed
Vice President of the Company, New Castle, Pennsylvania.

Richard L. Werner
Chairman of the Board and President of Werner Co., a manufacturer of aluminum extrusions, ladders and scaffolding, Greenville, Pennsylvania.

DIRECTOR EMERITUS

G. Leo Winger

BOARD/MANAGEMENT CHANGES

Robert H. Carlson, a director of the Company since 1983, will retire from the Board in March 1996. We greatly benefited from his guidance and expertise during his years of service.

Charles E. Jones, former Lake Erie Division manager of the Company's parent, was named president. Mr. Jones replaced H. Peter Burg, who had been serving as interim president.

We are saddened to report the passing of Douglas W. Tschappat, a former board member, in January 1996.

OFFICERS

Willard R. Holland
Chairman of the Board and Chief Executive Officer

Charles E. Jones
President

Jack E. Reed
Vice President

Robert P. Wushinske
Vice President, Secretary, Treasurer, and General Counsel

David W. McKean
Comptroller

Randy Scilla
Assistant Secretary and Assistant Treasurer

Mr. Holland is president and chief executive officer of the Company's parent. The principal employment of all other officers is with the Company.

TRANSFER AGENT and REGISTRAR for Preferred Stock:
Office of the Company's parent
Ohio Edison Company
Investor Services
76 South Main Street
Akron, Ohio 44308-1890

PRINCIPAL OFFICES:
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P. O. Box 891
New Castle, Pennsylvania 16103-0891
(412) 652-5531

Pennsylvania Power Company is an equal opportunity employer.

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1995 Annual Report