The Cincinnati Gas & Electric Company
and Subsidiary Companies

Annual Report
1980

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The Company
(CG&E and its subsidiaries)

The Company primarily is engaged in providing electric and gas service in the southwestern portion of Ohio and adjacent areas in Kentucky and Indiana. The area served with electricity or gas, or both, covers approximately 3,000 square miles with an estimated population of 1.7 million. Among the major communities served are the cities of Cincinnati and Middletown in Ohio, Covington and Newport in Kentucky, and Lawrenceburg in Indiana.

CG&E and its subsidiary companies, The Union Light, Heat and Power Company (Union Light), Miami Power Corporation, The West Harrison Gas and Electric Company, Lawrenceburg Gas Company, and Lawrenceburg Gas Transmission Corporation, operate in contiguous territories. Tri-State Improvement Company is a wholly-owned real estate development company and YGK Inc. is a wholly-owned rail and barge terminal company organized to service Zimmer Nuclear Station. All of the companies are managed by substantially the same officers.

William H. Dickhoner
President and
Chief Executive Officer

B. John Yeager
Chairman of the Board

Annual Report 1980

This annual report and the financial statements contained herein are submitted to the shareholders of the Company for their general information and not in connection with any sale, or offer to sell, or solicitation of an offer to buy any securities.

The annual meeting of shareholders of the Company will be held at the office of the Company in Cincinnati, Ohio on April 22, 1981, at 11 A.M.

PROXIES for the annual meeting will be requested from shareholders when notice of meeting, proxy statement and form of proxy are mailed on or about March 20, 1981.

The Cincinnati Gas & Electric Company
139 East Fourth Street, Cincinnati, Ohio 45202
Telephone 513-381-2000

To Our Shareholders:

Earnings on common shares totaled $69.2 million compared to 1979 earnings of $69.8 million. As a result of this decrease in earnings and a greater number of common shares in 1980, earnings per share of common stock were $2.25, compared with $2.59 in 1979. The quarterly cash dividend per common share was increased from 49¢ to 51¢ during 1980.

CG&E's efforts for short-term improvement of our investment climate include delaying electric generation construction, aggressively pursuing more timely rate relief, working to repeal or reduce non-productive governmental regulations, using nuclear technology to generate electricity, and increasing public understanding of the energy situation. We believe we have made progress in 1980 toward achieving these ends.

Construction Plans Revised

We have adjusted our electric construction schedule to reflect a lower rate of growth in sales, and thereby reduced our projected cash requirements for the next four year period (1981-1984). We do not expect any threat to our level of service because of these changes.

Today's combination of rising construction costs, high cost of capital and lagging rate adjustments tend to make saving a unit of energy a more attractive investment than generating a unit of energy. Through load management programs and appeals to our customers to conserve energy, we hope to influence a slower rate of growth in energy demand, especially during peak demand periods. This will enable us to accommodate our customers' needs while adding necessary new capacity at a slower and more manageable rate.

Rates

Earnings, and dividends, have not kept pace with inflation. The entire utility industry suffers from regulatory lag and the resulting failure to receive and earn a rate of return adequate to cover the rising costs of doing business. Not only do rates of return allowed by regulatory authorities fail to keep up with inflation, rates actually earned are even lower than those allowed. In the current inflationary climate we never "catch up".

In 1980, the Public Utilities Commission of Ohio (PUCO) authorized a smaller rate increase than we had requested, and also reduced the return on equity we had sought. The problem was compounded when actual returns experienced during the year were lower than those authorized. In an order issued by the PUCO in January 1980, CG&E was allowed a rate of return on common equity of 14.39%; however, the actual return earned on average common equity was 11.68% in 1980.

CG&E is committed to an aggressive pursuit of realistic rates which will provide a satisfactory return to our shareholders. The PUCO has been informed of our intention to request annual rate increases.

Inflation

Persistent inflation is a serious threat to our economic system and our free society. It is a particularly heavy burden on such capital intensive enterprises as regulated utilities. In addition to driving up the costs of labor, materials and services used in building new facilities and conducting our daily operations, inflation increases the cost of money in capital markets.

The following pages contain an analysis of the impact of inflation on our financial condition and costs of operation. The inflation-adjusted figures form a clear demonstration of the spiraling costs of maintaining productive capacity. We are convinced that there are vast areas of non-essential government spending which can and must be reduced. Stemming the tide of the federal deficit is a first step in ridding ourselves of the crippling effects of inflation.

Regulations

Over-regulation by government agencies is a major factor in inflation. Difficult to quantify, but tremendously expensive, are the growing requests for information and directives to take action from state and federal levels of government. The increased workload inflates our operating expenses and ultimately drives up our customers' utility bills. Of more serious consequence is the fact that many of the regulations are arbitrary in nature, questionable in intent, and produce results in no way commensurate with the costs.

Electric Reliability

The unrelenting effects of inflation and regulation have forced electric utilities, with great reluctance, to accept the possibility that the traditional high level of our electric service reliability will have to be downgraded. Although CG&E can foresee no deterioration in service in the immediate future, we cannot be optimistic about the long-term future. Customers' growing unhappiness with higher and higher utility bills may increase their willingness to accept the inconveniences and disruptions of a less reliable delivery system. A recent survey showed that 75% of CG&E's customers believe that we will be able to supply all the electric energy they want in the next ten years. It is not clear to them — and CG&E's public education efforts will try to make it clear — that if we fail to get the timely rate increases we need, there could be a serious degradation of service by the late 1980's.

We are sure that most customers, when actually faced with electric shortages, will support constructive courses of action. Unfortunately, our national history implies that we will have to experience the crisis of a shortage before we fully understand its implications to the economy, to our jobs, and to our way of life.

Nuclear

CG&E's Zimmer nuclear power station is scheduled to go into commercial operation in 1982. Recent delays in our construction schedule have come about primarily because of the effects of the accident at Three Mile Island, and the resulting requirements for additional construction work, for a more complex emergency plan, and for changes in engineering design.

Nuclear power plants have proven that they are capable of producing large quantities of electric energy at a lower cost and with a minimum impact on the environment and public health. The economic and environmental benefits of nuclear power are well established.

The point seems clear to leaders of our scientific and technical communities, but has not been grasped by the general public and government policy makers. The unbelievable complexities of governmental regulations, many of them contradictory, have ballooned the costs and construction times of nuclear power plants.

The major unresolved problems relating to nuclear power are the reprocessing and storage of nuclear wastes. These problems are political, not technical. Governmental indecision alone has delayed the adoption of safe and economically feasible methods of dealing with the waste disposal problem.

Hard scientific evidence supports our contention that nuclear power is safe, clean, reliable and economical. It is a proven technology. In combination with coal, and conservation, it can provide the electric energy needed to sustain our standard of living well into the 21st Century.

Communications

Effective communications with our customers has a high priority on our agenda. We will try to improve our customers' understanding that they will have to pay a fair price for the energy services they use. Customers should be informed why utility rates must be adjusted in a more timely manner. Rates, based on operating expenses incurred in the past, simply are not realistic.

Many special interest groups in our society, without any legal responsibility to furnish energy, presume to speak on the consumers' behalf. None of them is as close to the needs and desires of customers as the local utility. Our public messages point out that we are acting in the consumers' interest when we plan for the future energy needs of their community.

National Energy Policy

Since the oil embargo of the early 70's, our government has tried and failed to formulate a coherent national energy policy to protect our position in world markets and to shore up our defenses against the economic disaster of a major energy shortage. Attempts to increase domestic production of oil and gas, and to encourage the substitution of coal and uranium, in order to reduce the nation's dependence on imported oil, have been only partially successful.

We will continue to encourage our government to set rational energy goals, to develop practical energy guidelines, and to display the political backbone necessary to implement them. The nation desperately needs a balanced energy program to encourage conservation, to research and develop promising alternate energy sources, and to utilize plentiful domestic resources such as coal and uranium.

You are encouraged to join us in our efforts to communicate our concerns about the future of free enterprise to government leaders. Support political candidates, at all levels of government, who have demonstrated their understanding of, and confidence in, the American system.

Management

On behalf of the more than 5,000 employees of CG&E, we express our sincere appreciation to you, our shareholders, for your confidence and support. Your replies to our recent shareholders' survey contained helpful advice and welcome support. We plan to share the results of the survey with you in a future mailing.

The management of your Company is prepared to meet the challenges of the future. We fully accept the need to maintain a greater control over our destiny, to influence events rather than react to them, to nurture the balanced judgment necessary to keep problems in perspective, and to take advantage of every opportunity to improve our financial position.

In the following pages, our vice presidents review their operations during 1980. We hope you will read of their accomplishments in operating under a tight budget, and share our pride in a competent and productive managerial staff. Their past performance gives us confidence that they will adapt well to new circumstances and successfully meet the challenges of the years ahead.

Sincerely,

W H Dickhoner　　B. John Yeager

William H. Dickhoner
President and
Chief Executive Officer

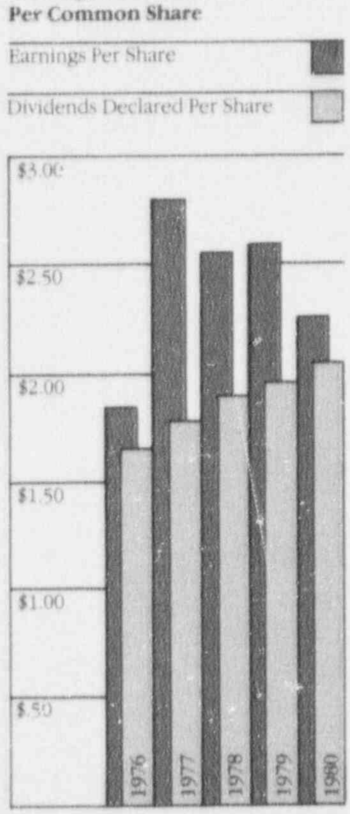
B. John Yeager
Chairman of the Board

January 23, 1981.

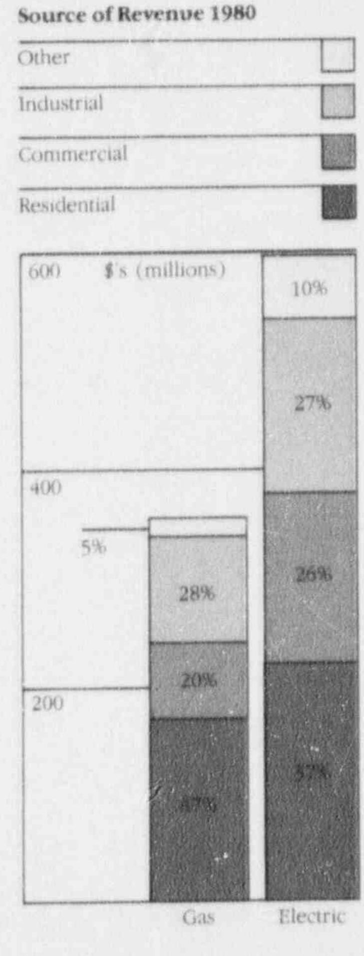
Summary

	1980	1979	% Increase (Decrease)
Earnings on Common Shares (000 omitted)	$ 69,183	$ 69,824	(.9)
Average Number of Common Shares Outstanding (000 omitted)	30,765	26,964	14.1
Earnings per Common Share	$ 2.25	$ 2.59	(13.1)
Year End Annual Dividend Rate	$ 2.04	$ 1.96	4.1
Number of Holders of Common Shares	75,000	69,000	8.7
Electric Sales (million Kwh)			
Residential	5,277	4,822	9.4
Commercial	3,333	3,182	4.8
Industrial	4,493	4,757	(5.6)
Other Retail	1,242	1,155	7.5
Total Retail	14,345	13,916	3.1
Other Utilities	174	172	.9
Total	14,519	14,088	3.1
Gas Sales (million cu. ft.)			
Residential	45,746	48,213	(5.1)
Commercial	21,071	21,837	(3.5)
Industrial	32,390	35,929	(9.9)
Other	4,403	4,104	7.3
Total	103,610	110,083	(5.9)
Electric Net System Peak Load (thousand Kw)	3,154	2,978	5.9
Construction Expenditures (000 omitted)	$ 296,957	$ 269,298	10.3
Gross Plant—Year End (000 omitted)	$2,499,083	$2,213,749	12.9

Earnings and Dividends Per Common Share



Source of Revenue 1980



Electric Production and Engineering Services

Earl A. Borgmann
Senior Vice-President

Because of reduced customer demands, primarily due to energy conservation efforts, we have made significant changes in our electric generation construction schedule.

A planned second unit at the new Killen Generating Station in Ohio has been cancelled; and the completion of the second unit of the East Bend Station in Kentucky has been delayed for three years, until 1988. CG&E's interest in the delayed unit will be increased from 69% to 75%. Both these projects are a part of CG&E's joint construction program with the Dayton Power and Light Company.

The margin of reserve generating capacity over the next four years will be slightly above the 20% of system demand target which is considered prudent. The projected margin during the last five years of the 80's will dip slightly below 20%. This is not an insurmountable problem because, if necessary, we can delay the scheduled retirements of some of our older generating units, purchase power from other utilities, or accelerate construction schedules for new generating units, whichever is the most economical course to pursue at the time.

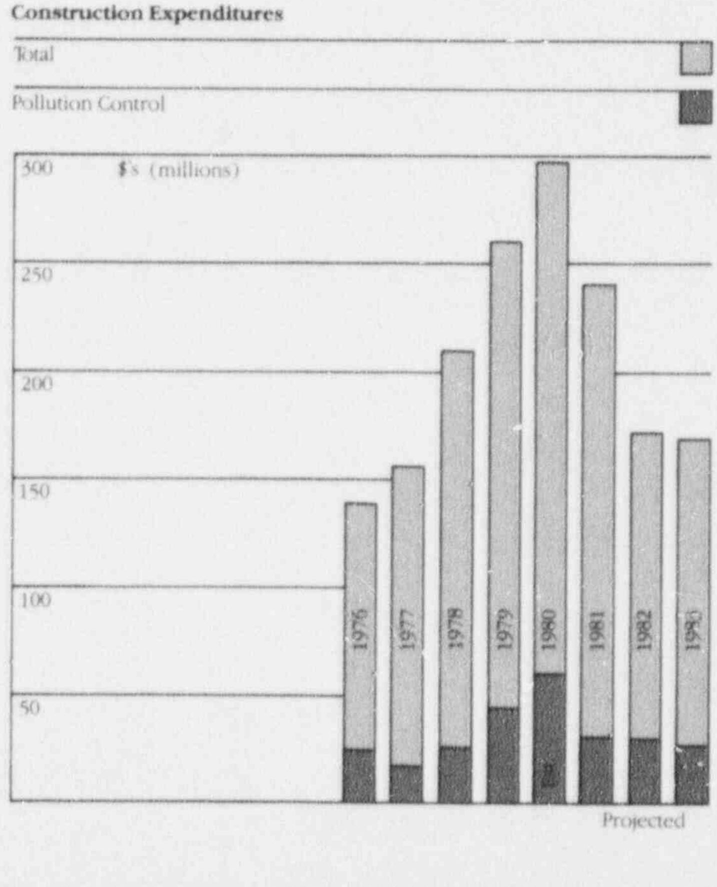
The change in generation construction schedule will reduce our planned construction budget for the next four years by $252 million and delay the need for borrowing funds. Total construction expenditures for 1981 are estimated to be $239 million. For the five years 1981-1985, construction expenditures will be $1,053 million.

Construction work continues on the Wm. H. Zimmer Nuclear Power Station Unit 1, located in Moscow, Ohio, 25 miles east of the city of Cincinnati. The estimated cost of this facility is $1 billion. CG&E owns a 40% share of this unit. Construction is approximately 95% complete. Various stages of the licensing hearings are expected to be held during the course of 1981. We anticipate loading fuel in late 1981, and to begin commercial operation of the plant in 1982. Zimmer will supply about 10% of our generating requirements, when placed into commercial service.

The principal engineering emphasis during the past eighteen months has been on the numerous modifications and reanalyses prompted by a difficult regulatory climate. The Three Mile Island (TMI) accident and its aftermath added greatly to the scope of work required on the Zimmer Project, including a substantial addition to the service building to accommodate facilities for the Nuclear Regulatory Commission and a Technical Support Center. Major additions to the plant's instrumentation and communication systems have been mandated by lessons learned at TMI, and a complete revamping of emergency planning was required. Increased staffing and training requirements were also a result of TMI. An augmented in-depth training program for plant operators and technical staff has been formulated and is being implemented in conjunction with the University of Cincinnati, General Electric Company, and other industry consultants.

We have been negotiating with local and state government officials on the installation and financing of community emergency notification systems, communication networks, and

Construction Expenditures



radiological monitoring equipment. It is much more likely that warning sirens and radio alert systems would be utilized more for natural disasters, such as tornadoes, than for a nuclear emergency. Therefore, it would appear to be more equitable to have the costs shared by the communities involved, rather than have them borne completely by our shareholders and electric customers. We are confident that a satisfactory agreement with government officials will be reached soon.

Because of sharply rising costs, and increasingly more complex regulatory requirements, our existing generating plants are increasing in their relative value to our system. Therefore, we are accelerating our efforts to prolong the efficient operating lives of our older installations through upgrading both equipment and personnel. Well trained, dedicated people are essential to the efficient and reliable operation of our generating plants. This valuable resource is being increasingly recognized; and to that end, a significant effort is being expended in retraining and developing technical, operating, and maintenance personnel. Both classroom and hands-on training programs have been instituted and have been paying dividends.

New environmental protection facilities for existing units include opacity monitors for several of the stacks and flue gas conditioning agents, where required to improve the performance of electrostatic precipitators in the collection of particles from the boiler flue gas. We have also developed new ash storage basins, and accelerated the search for additional locations which are environmentally acceptable for the disposal of this material.

The first unit of East Bend Station, located in Kentucky, is scheduled for commercial operation in March, 1981. CG&E owns 69% of this 600 megawatt coal-fired steam generating unit, and therefore will have 414 megawatts of new capacity added to our system.

East Bend is the first generator in our system constructed with a "scrubber" to remove sulfur dioxide from the exit flue gases. The "scrubber" and other pollution control devices cost $121 million, or 32% of the total construction cost of the unit.

Coal is used for 99% of our electric production, and will continue to be our major fuel even after the Zimmer Nuclear Station begins operating in 1982.

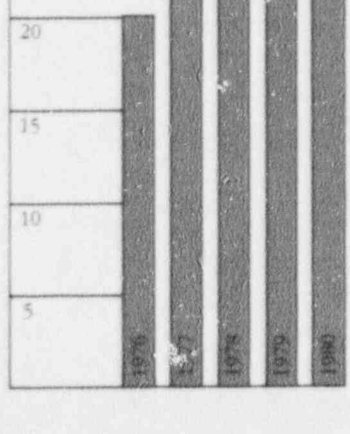
Cost of fuel continues to escalate. Over the past five years, fuel cost per kilowatt hour has increased 55%, and we expect the cost of fuel to continue to increase in the future. Our average cost of coal has risen from $30.06 a ton to $34.72 a ton during 1980.

Price increases are due to increased mining and transportation costs, and a government mandate to meet applicable emission standards which has forced CG&E to use higher priced low sulfur content coal in several of our units. CG&E is fortunate to be located along the Ohio River, in close proximity to Appalachian coal fields. Barge transport keeps our hauling costs at a minimum. Despite this natural geographic advantage, our coal costs will continue to rise.

In anticipation of a possible strike by United Mine Workers (UMW) at the end of their current contract in March, 1981, CG&E has built up its coal piles to a 90-day supply from the normal 60-day inventory. The last strike by the UMW in 1978 lasted a record 111 days.

In order to help reduce our nation's reliance on foreign oil, we have continued to cut down the proportion of oil used in electric generation. In 1980, oil accounted for less than 1% of generating fuel, down from 4% in 1977.

Cost of Coal Per Ton



Electric Operations

Robert P. Wiwi
Vice-President

Total electric kilowatt-hour (Kwh) sales were up in 1980, 3.1% over 1979. Industrial sales were down 5.6%, due to the economic recession; commercial sales were up 4.8%; and residential sales were up 9.4%.

A new record system electric peak load of 3,154 megawatts was established on July 16, 1980. This peak was 2.8% higher than the previous peak of 3,068 megawatts, established on July 15, 1980, and 5.9% higher than the 2,978 megawatt peak of August 8, 1979.

Our revised forecast indicates a 3.4% average annual increase in electric Kwh sales and a 2.8% average annual increase in electric peak demand during the 1981-1985 period. Load growth is expected to average about 3% per year in the decade of the 80's.

The summer of 1980 will go into Cincinnati's record books as one of the stormiest of this century. During a typical summer, CG&E expects to deal with four severe thunderstorms. This year, we had to deal with the effects of twelve such storms.

The most violent of the storms struck our area during July 8 through July 10. Service to 150,000 customers was interrupted. Customer inquiries about electric outages were up approximately 250% over the comparable period in 1979. Our field crews worked 16-hour shifts per day for three consecutive days during this period. Their dedication to a difficult and dangerous task exemplifies a tradition of outstanding public service.

High winds and lightning were the major causes of the number and length of service interruptions. Another contributing factor was trees. Tree limbs in close proximity to our distribution circuits were blown into contact with wires, and widespread service outages occurred.

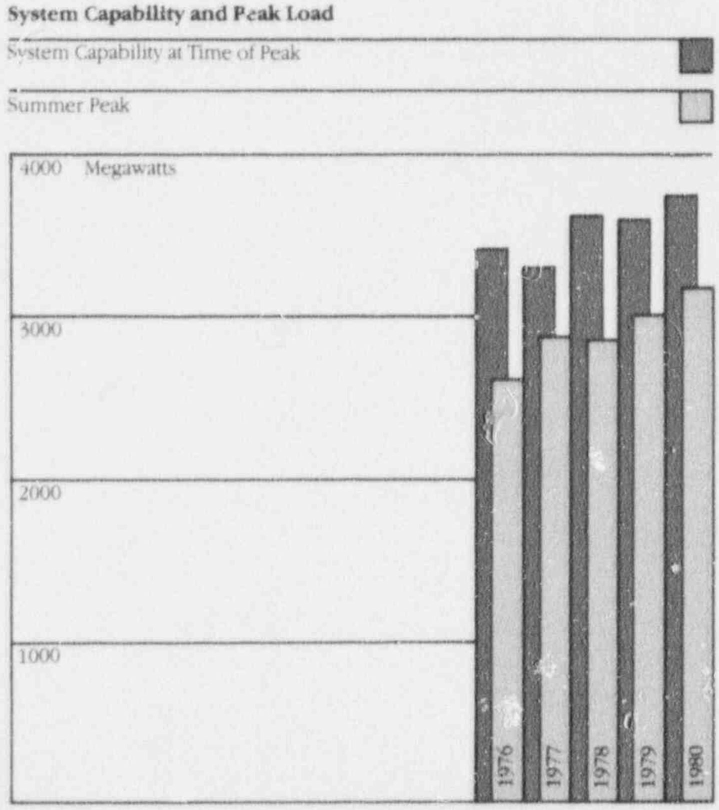
In order to minimize future outages caused by tree contacts, CG&E has expanded an already ambitious tree trimming program. We spent $3.5 million in 1980, and plan to spend more than $4 million in 1981 on trimming back trees. This expenditure is necessary to insure the reliability of our distribution system.

1980 marked the completion of several long term projects to improve our 345,000 volt electric transmission system. Construction projects on approximately 130 circuit miles, some of which began in 1973, were completed this year, after the resolution of many complex environmental and regulatory issues, and problems of right-of-way acquisition.

In our continuing evaluation of alternate forms of energy production, we are assisting several customers with the installation of wind-powered generators. Funded by the Department of Energy/the National Aeronautic Space Administration, the installations are designed to test the practicability of wind-powered electric generators within our service areas.

The rising costs of all forms of energy has prompted several inquiries from our customers about wind-generation. Through our cooperative efforts, the Company will obtain much useful information on the

System Capability and Peak Load



impact of such devices on our distribution system, and enable us to give better advice to our customers on such installations.

Major components of a new Power Management System (PMS) were completed on schedule. The PMS is comprised of six computers and 73 remote substation controllers, and should be in full operation early in 1981. The new system will reduce our fuel costs to the practical minimum and improve the reliability of our electric power system.

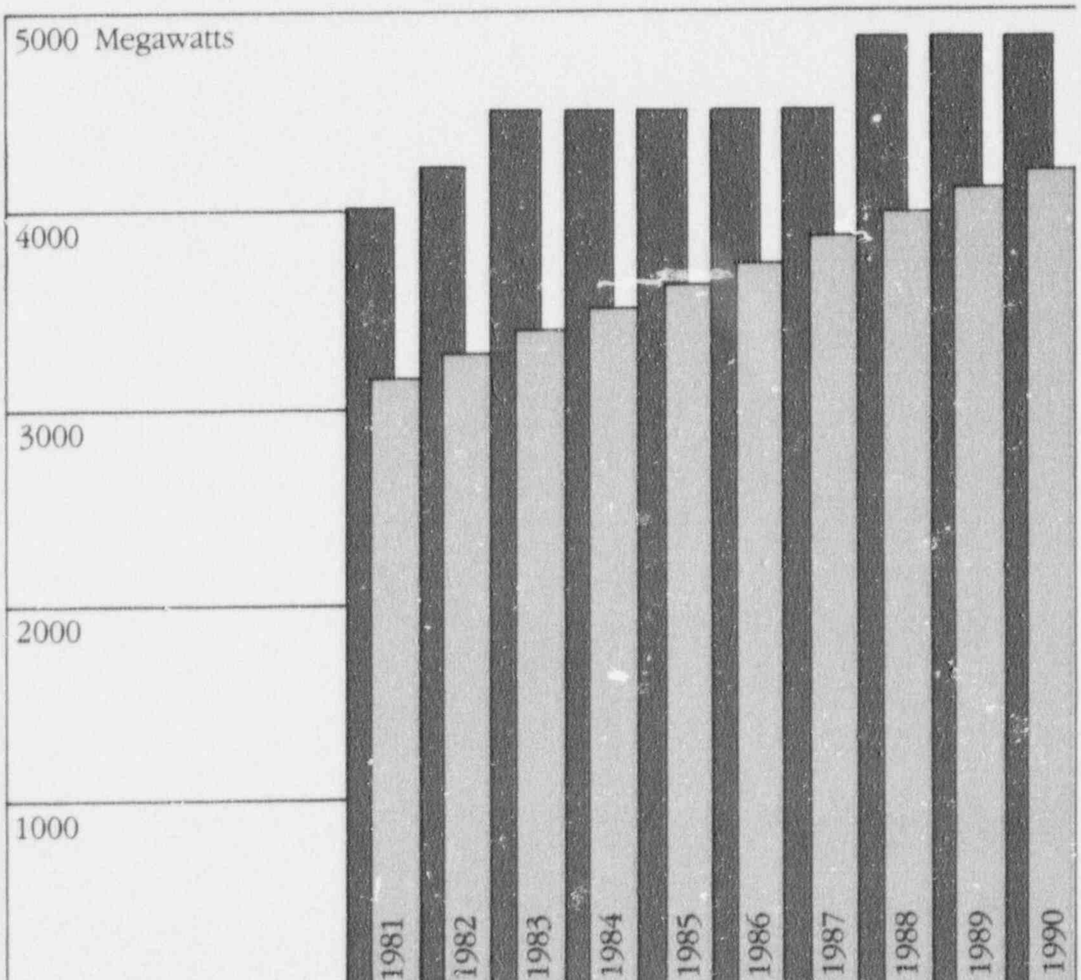
Numerous power system studies, using improved computer techniques, were made in 1980. All computer tasks are now assigned through remote control terminal equipment, reducing the time required to assemble detailed input information. Output can also be returned to the terminal for quick review of the program results. The use of the terminal, and the new programs implemented in 1980, will improve efficiency in planning for the needed expansion of our transmission system.

Better forecasting of demand and energy has been assured by the completion in early 1980 of a new computer system. Programs have been designed to format and print all the tables required for the annual "Electric Sales and Load Forecast." The automation of this primary informational booklet will help to insure the accuracy, consistency and timeliness of this important planning tool.

System Capability and Peak Load Forecast

System Capability

System Peak



Finance

William H. Zimmer, Jr.
Senior Vice-President

In order to provide adequate energy to our customers in the future, CG&E must continually build additional facilities and replace old plant and equipment. During 1980, CG&E and its subsidiaries invested $297 million for both new facilities and the replacement and upgrading of existing facilities. Of this amount, $275 million was for electric facilities, $19 million for gas facilities, and the remaining $3 million for common facilities used in both electric and gas operations.

Construction expenditures for 1981 are expected to be $239 million. Over the next five years (1981-1985), construction expenditures are expected to total $1,053 million, primarily for electric generating, transmission, and distribution facilities ($885 million). An estimated $132 million will be spent for gas facilities.

The financing of this construction program will continue to be one of the major problems management must face in the future. Inflation has resulted in higher construction costs and an increased need for external funding.

Despite high interest costs, CG&E was required to sell securities to the public several times during 1980 to obtain the construction funds necessary to assure our customers continued reliability of service. In January, 1980, CG&E offered to the public through underwriters 500,000 shares of 10.20% series $100 par value Cumulative Preferred Stock and an additional 3.4 million shares of common stock at a price of $16.125 per share. In May, $100 million of 30-year First Mortgage Bonds bearing interest at a rate of 12% were sold through underwriters.

To assist in financing certain air pollution control facilities at the Walter C. Beckjord Generating Station, CG&E obtained a loan in May of $5 million from the Ohio Air Quality Development Authority. The loan was obtained in connection with the Authority's issuance of $5 million of 8.50% State of Ohio Air Quality Development Revenue Bonds Series 1980 due May 1, 2000.

Additional equity capital of $13.9 million was provided by the issuance of 841,124 shares of CG&E common stock through the Dividend Reinvestment and Stock Purchase Plan, the Employee Incentive Thrift Plan, and the Employee Stock Ownership Plan.

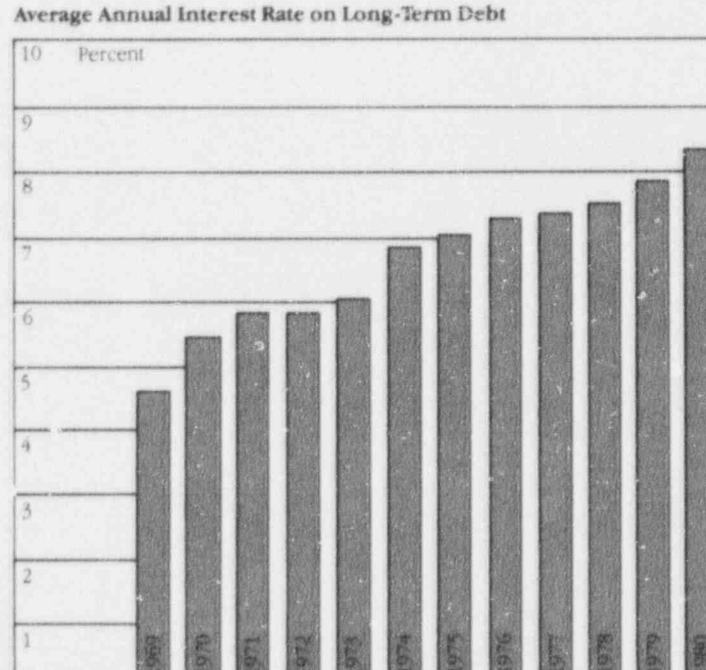
In January, 1981, CG&E sold through underwriters 300,000 shares of 12.52% series $100 par value Cumulative Preferred Stock. As of the date of this Report, CG&E plans to offer through underwriters 2,500,000 shares of new common stock in late January, 1981, subject to market conditions.

Plans are to obtain the balance of the 1981 external capital requirements from the sale of debt securities and the issuance of common shares through the Plans mentioned above. Any additional requirements will be obtained through the issuance of short-term indebtedness.

Rate increases and additional financing will be required every year in the foreseeable future. However, in order to minimize these requirements, management is exercising tight controls on expenditures and continually seeks new and better ways to operate.

The importance of CG&E's internal audit function has increased as CG&E

Average Annual Interest Rate on Long-Term Debt



grows, operations become more complex, regulatory demands become more stringent, and consumers become more active. CG&E has embarked upon a program to update and document all procedures pertaining to internal accounting controls. In 1980, the Internal Audit staff worked and consulted with all CG&E departments toward the completion of this long-term program.

Comprehensive internal audits are performed on operations and on expenditures incurred by CG&E for commonly-owned facilities with neighboring utilities. Additional reviews included audits of price adjustment clauses contained in long-term coal supply and barging contracts, and reviews of contracts and expenditures incurred by the prime contractor at the Zimmer Nuclear Station.

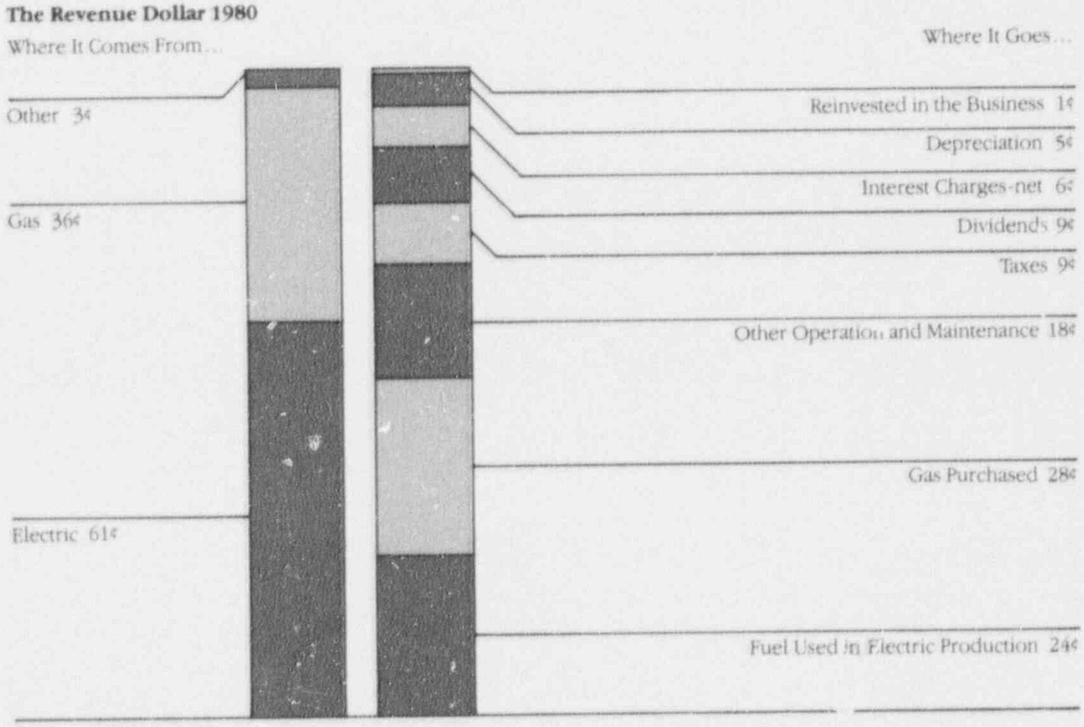
The Committee on Audit of the Board of Directors, consisting entirely of outside Directors, met three times in 1980 with representatives of Management, Internal Audit and the Independent Accountants. Internal Audit continues to coordinate its schedules with the Independent Accountants.

Electronic Data Processing auditing is growing in importance due to the increasing reliance on computer-based systems for the daily operations and financial reporting of CG&E. Growth in the use of computers has enabled CG&E to operate more efficiently and reduced the rate at which the costs of doing business increase. The use of computers will accelerate in the future.

This growth requires careful planning by the personnel in our Information Services Department, a service-related group which coordinates the efforts of all departments in the use of electronic data processing equipment. Larger computers, more peripheral equipment, new systems, revisions of existing systems, and more space are required. To utilize this valuable tool efficiently and effectively and to service future requirements, computer capacity studies are being performed on a continuous basis.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sale Prices of CG&E's Common Stock (Stock Symbol — CIN)				
1979 — High	21⅛	20¾	20½	19
— Low	19½	18	18	16½
1980 — High	17½	19⅛	19⅛	18⅛
— Low	14¾	15⅜	15½	14
Dividends Paid per Common Share in				
1979	$.49	$.49	$.49	$.49
1980	$.49	$.51	$.51	$.51

The Revenue Dollar 1980



Rates And Economic Research

Jackson H. Randolph
Vice-President

In January, 1980, the Public Utilities Commission of Ohio (PUCO) issued an order authorizing CG&E to increase annual electric revenues by $35.1 million. The City of Cincinnati and the Ohio Office of Consumers' Counsel have filed an appeal before the Supreme Court of Ohio, contesting PUCO's inclusion in CG&E's rate base of 50% of the amount allowable under Ohio law of the investment in the Zimmer Nuclear Unit No. 1.

In May, 1980, CG&E applied to the PUCO for a $55 million annual increase in electric rates. The PUCO Staff has recommended that CG&E receive between $33 and $41 million of the $55 million requested. The major difference is in the amount of working capital to be allowed in the rate base.

The United States Department of Energy (DOE) has intervened in the case for the purpose of initiating, or participating in the consideration of ratemaking standards required by the Public Utility Regulatory Policies Act of 1978 (PURPA). The DOE will not take a position on the amount of rate relief requested.

Rate increases in Ohio can be placed in effect, subject to refund, nine months after the filing date, unless the PUCO issues an order authorizing an earlier effective date. Public hearings on the application for new rates began in December, 1980. New rates are expected to be placed in effect about March 1, 1981.

In January, 1981, CG&E notified PUCO and various government officials of our intention to file an application for an additional annual increase in electric rates of approximately $100 million, and an increase in gas rates of approximately $20 million. The increases are necessary because of the effect of inflation on our operations, and the anticipated electric rate increase is required because of increases in operating expenses and construction costs incurred by the addition of the first unit at the new East Bend Station. Any increases granted are not expected to go into effect until early 1982.

CG&E filed an application with the Federal Energy Regulatory Commission (FERC) in November, 1980, requesting an annual increase in wholesale electric rates of $11.5 million. The rates will apply to CG&E's subsidiaries, Union Light, Heat and Power Company (Union Light), West Harrison Gas and Electric Company, and to five villages which are wholesale customers.

In November, 1980, Union Light applied to the Energy Regulatory Commission of Kentucky (ERCKy) for a $13 million increase in retail electric rates. The amount reflects the requested FERC increase in wholesale rates of $10.9 million, applicable to Union Light, and an increase in Union Light's other operating costs. The new rates are expected to become effective in June, 1981, subject to refund.

The Ohio Legislature has passed a law to eliminate the fuel adjustment clause now in effect for Ohio's electric utility companies. The law permits electric base rates to be adjusted after semi-annual public hearings are held to review fuel costs.

A new PUCO rule, effective in January, 1980, changed the manner in which CG&E applies the purchased gas adjustment clause. In conjunction with this change, CG&E expenses gas costs as they are recovered in revenue. The portion of gas costs recoverable, or refundable, in future periods, is deferred on the books until recognized in rates.

As a result of this rule, CG&E, early in 1980, requested the PUCO to authorize recovery of previously unrecovered gas costs amounting to approximately $12.6 million. At December 31, 1980, $6.6 millon of that amount had been billed to customers and is included in Deferred Credits in the accompanying Balance Sheet. On receipt of the PUCO order covering this request, appropriate portions of these contingent gas revenues will be reflected in income or refunded to customers.

A comprehensive load research program has been established to determine how and when customers use our electric service. The information is required by PURPA, in order to encourage (1) conservation of energy, (2) the highest possible efficiency in the use of facilities and resources, and (3) equitable rates. To accomplish these purposes, state regulatory Commissions must consider and determine the appropriateness of numerous ratemaking standards. Among the standards to be considered are time-of-day (T-O-D) rates, seasonal rates, cost of service, load management techniques, elimination of declining block rates, and interruptible rates.

CG&E has compiled a massive body of information for use in hearings on the PURPA standards. We have completed a load study based on usage by residential electric customers, and are now conducting a study of usage by smaller commercial customers. Because large commercial and industrial users have more sophisticated metering installations, they are included in our on-going studies by examination of usage information from customer billing records.

During 1980, CG&E completed a residential T-O-D rate experiment involving 150 customers. Each customer was encouraged, through lower rates, to use electricity during off-peak hours. Preliminary results show that the T-O-D rate structure is not preferred by our customers. We are conducting a cost-benefit analysis to determine the effect of the rate on both the customer and the Company. Our preliminary conclusion is that, although customers did respond to the price differential, the costs to both the customer and to CG&E are greater than the benefits.

We are making a cost-benefit analysis of the results of a residential electric air conditioning interrupt study, which was completed prior to the T-O-D experiment. The study involved the periodic cycling of some customers' air conditioning compressors by remote radio control during times of high system peak loads. In return, the selected customers were given a discount on their bills.

Early results indicate that, while the mechanics of the interrupt system are effective, the total amount of deferrable load would depend on the number of participants, and the actual amount of the customer load which is deferrable. The amount of the deferrable load will have a direct bearing on the cost-benefit analysis of this project. Final determination of the feasibility of the T-O-D and interrupt studies will be made in 1981.

The increasing degree of governmental incursion in the regulatory process under PURPA, and the growing number of intervenors in our rate cases, will require a continuing expansion of our rate and economic research efforts.

Gas Operations

Paul W. Herking
Vice-President

Total gas sales in 1980 were 103.6 million Mcf, 5.9% less than sales in 1979.

Residential sales were down 5.1%; commercial sales down 3.5%; and industrial sales were off 9.9% from 1979. The primary reason for the decrease in gas usage was the economic recession which affected industrial activity within our service area.

A contributing factor to the decreased gas sales was conservation by our customers. Since 1973, our residential and commercial customers have reduced their use of gas for space heating by approximately 17%. In the face of constantly rising prices, we expect this trend to continue, but at a slower rate.

Our largest gas customer in Kentucky, Interlake Steel, closed its Northern Kentucky operations and requested cancellation of its Special Gas Service Contract effective August 1, 1980. There is no indication at this time when or if the plant will resume operations. Although Interlake accounted for 10% of our gas sales in Kentucky, it represented only 1% of the sales of CG&E's total system in 1979.

System-wide gas Mcf sales are projected to grow at an average annual rate of 2.1% over the next five years.

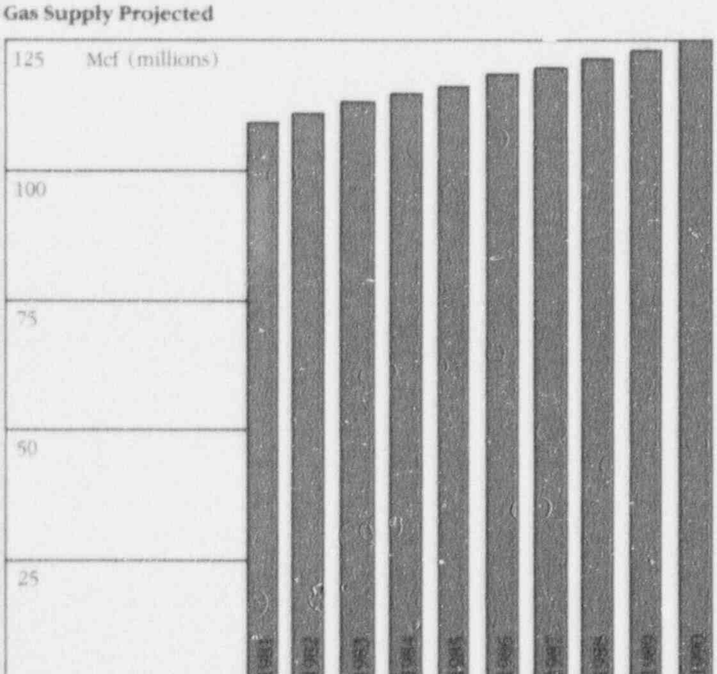
We installed 54 miles of new gas distribution mains and added 4,100 gas customers to our lines in 1980. Upon the improvement in gas supply in 1979, state regulatory commissions of Ohio and Kentucky approved the addition of new customers, and increased service to existing customers, except new boiler loads in excess of 300,000 cubic feet a day. In July, 1980, our Indiana subsidiary was granted authority to accept new customers whose premises were adjacent to existing mains, and who did not require more than 50,000 cubic feet a day.

New building construction in Greater Cincinnati was at a very low level during 1980. Most of our new gas customers installed gas service into existing buildings previously heated by oil. Based on the current cost differential, we estimate the average residential customer who changes from oil to gas for space heating will save more than $600 a year.

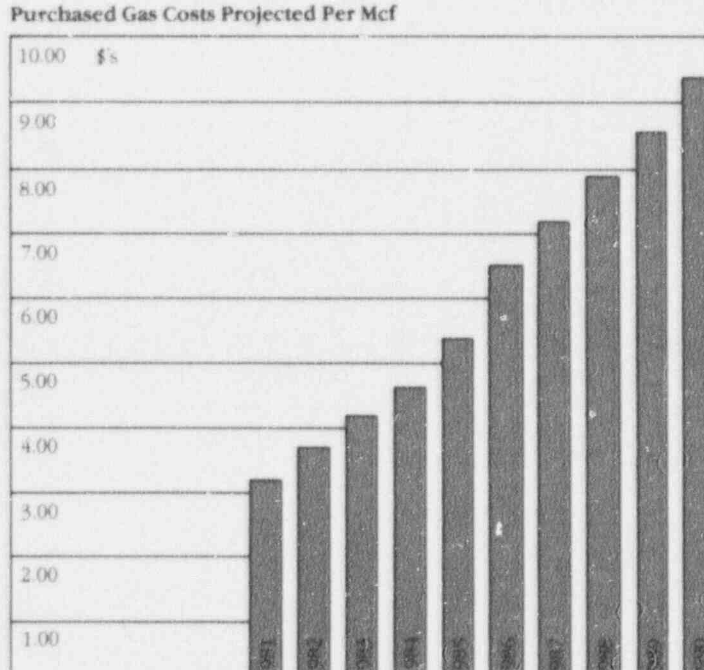
Columbia Gas System, Inc., which supplies CG&E with most of its gas supply, will be able to furnish us with all our gas requirements during the next ten years, including the necessary amount for winters up to 10% colder than normal. We expect a steadily increasing supply of gas annually over the next ten years. No gas will be available for new boiler loads in excess of 300,000 cubic feet a day.

The price we must pay for gas will continue to increase. Our suppliers forecast that our cost of natural gas in 1990 will be 3½ times the 1980 level.

Gas Supply Projected



Purchased Gas Costs Projected Per Mcf



Administrative Services

Arthur R. Ehrnschwender
Vice-President

The performance of our 5,000 employees during 1980 reflected CG&E's tradition of pride in public service. Through a variety of programs, the Company has provided the working conditions, developed the skills, and encouraged the attitudes which are conducive to high productivity in a safe work environment.

A detailed employee opinion survey was conducted this year. More than 90% of CG&E employees communicated to management their attitude toward Company policies, programs, working conditions and operations. The results of the survey were carefully analyzed and reported in management information meetings and, through audio-visual presentations, to all employees.

The second phase of our management effectiveness training course was completed this year. Approximately 800 supervisory and management employees received sixteen hours of instruction. Topics included leadership, planning, organizing, controlling, time management, setting objectives and overcoming resistance to change. The third phase of the program, revised to address results of the employee survey, is scheduled for the spring of 1981.

CG&E's Mutual Benefit Association, a volunteer employee organization, to which 90% of our employees belong, contributes to harmonious relationships among employees. For many of our employees, a close connection with the Company does not stop with retirement. A great number of retirees and their spouses attend monthly luncheons, and are briefed on current Company activities by members of the management team.

National, regional, and local safety organizations recognized the outstanding records set in 1979 by CG&E employees. Highlighting the awards was the first-time receipt of the First Place Frequency Rate Safety Award from the Edison Electric Institute.

The Company also received the Ohio Electric Utility Institute (OEUI) Award for having the lowest injury frequency rate, and the OEUI Award for the longest period without a lost-time injury. This was the fifth consecutive year our employees have won the lowest frequency award, and the sixth consecutive year they have won the award for the longest period without a lost-time injury.

Two major Occupational Safety and Health Act (OSHA) inspections of our facilities were made this year. They resulted in preliminary charges of willful violations, various other citations, and fines. Following an intensive investigation and the establishment of facts of these cases, all charges, fines, and penalties were either dropped or reduced to a minimum or nonserious nature. The Company will continue, by policy and practice, its commitment to safe and healthful working conditions for its employees regardless of OSHA activities.

During 1980 the Ohio Civil Rights Commission (OCRC) and the Office of Federal Contract Compliance Programs (OFCCP) conducted extensive reviews into the Company's equal opportunity employment and affirmative action compliance posture. In January the Company was notified by the OCRC that the Black Elected Democrats of Ohio requested the Commission to self-initiate charges of employment discrimination against major public utilities in the State. Cooperating fully in the subsequent investigation, the Company supplied voluminous personnel records and responded to a broad array of discovery inquiries. A report on the findings is expected from the OCRC in 1981. Complying with OFCCP requirements, in June the Company submitted to the Department of Labor a comprehensive Affirmative Action Plan for the Miami Fort Electric Generating Station. This plan is designed to facilitate the employment at Miami Fort of minorities, women, Vietnam Veterans, and handicapped persons.

Customer Relations

R. Gregory Graham
Vice-President

Continued growth in demand for electric service in 1980 was reflected by a 1.4% increase in the total number of customers over 1979. The number of gas customers increased by 1.1%.

On December 31, 1980, CG&E and its subsidiaries served 591,459 electric customers and 365,313 gas customers.

Residential customers accounted for 36.3% of total electric Kwh sales in 1980; commercial customers 23.0%; and industrial customers 30.9%. Street lighting and other electric sales accounted for the remaining 9.8%.

Residential customers accounted for 44.2% of total gas Mcf sales; commercial customers 20.3%; and industrial customers 31.3%. Public authorities and other gas sales accounted for the remaining 4.2%.

In January, 1980, the Company returned to monthly meter reading for all customers, after reading our customers' meters every other month for more than twelve years. The change was made for several reasons: new state and federal legislation requires us to read more meters on a monthly schedule; many of our customers told us they were confused by interim estimated bills; and an increasing number of customers, trying to conserve energy, want to see the results of their efforts on a monthly basis. Monthly readings also afford greater opportunities to monitor a growing problem — the theft of energy. We believe the results of the reinstitution of monthly meter reading are well worth the additional annual cost of $1 million.

Customers, citizen groups and legislators have requested us to allow more time for the payment of their utility bills. We have extended the period between the mailing date of the bill and the due date from 14 days to 21 days.

A teleprinter was installed in May for customers with voice or hearing impairment. Similar equipment in their homes enables them to communicate with us over telephone lines about billing, credit and service matters, including reports of gas and electric trouble. An estimated 15,000 customers in our service area have hearing or speaking problems, and we expect an ever-increasing number of them to install telecommunications print equipment in their homes. About 300 customers are now using this service.

As mandated by the National Energy Conservation Policy Act of 1978, we intend to implement a five-year energy audit program for our residential customers. This will be a major element in our continuing effort to help customers get the most efficient usage from their gas and electric services. Federal regulations will require the Company's customers to subsidize about 95% of the total cost of the program, estimated to be $5.4 million over the life of the program.

Customer information messages in local media — newspapers, radio, television, magazines, and transit ads — were increased in 1980. The ads featured Company employees explaining, in their own words, the rates, services, and bill-paying assistance available to our customers. The messages were tailored specifically to answer the most frequently asked questions from our customers. Another series of ads featured Company executives in discussions of major utility issues, including need for construction, the rate-making process, and utility financing.

In order to help our customers understand the changing energy situation and how it affects their lives, members of the Company's top management meet regularly with community leaders, government officials, media editors, consumer groups and industrial customers. An active Speakers Bureau, and the Media Services Group, effectively assist in maintaining open communications with our customers. Our investment of monetary and human resources in better communications has paid dividends in increased customer understanding of the Company's operations, and in a more efficient delivery of customer services.

Despite the general downturn of the economy in 1980, plans for industrial and commercial expansion in our area remain vigorous. Non-residential construction contracts let in Greater Cincinnati during 1980 totaled $340 million, compared with $428 million last year.

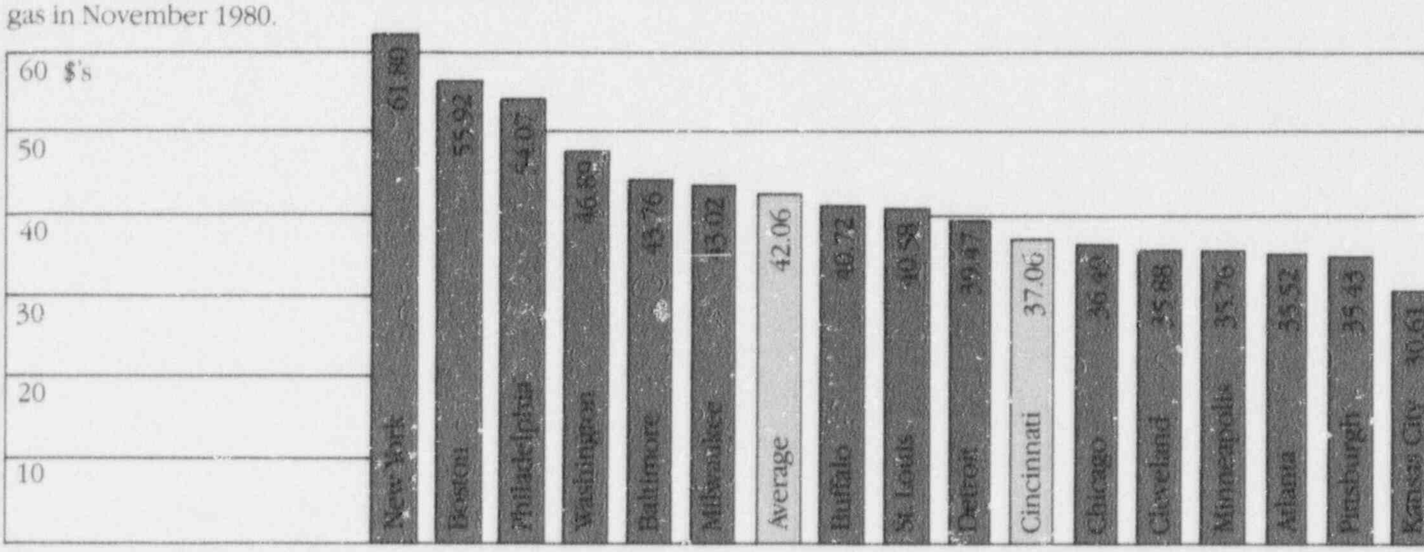
Construction in the downtown Cincinnati area accounted for most of the dollars expended. The $80 million First National Bank Center on Fountain Square will be completed in early 1981. The complex includes: a 26-story office tower, in which First National will be the major tenant, occupying 38% of the office space; a 450-room Western International Hotel; and retail stores. A $20 million renovation of the City's historic Union Terminal created a mini-mall with a variety of retail stores and a restaurant. Atrium I, a $30 million multi-tenant office building, with Cincinnati Bell as the major tenant, will be ready for occupancy in the summer of 1981.

Foreign industrial investments in the area in 1980 included a $2 million expansion of the Yamazaki Machine Works, Ltd. in Northern Kentucky.

Comparative City Rates — Gas

(U.S. Department of Labor, Bureau of Labor Statistics — November 1980)

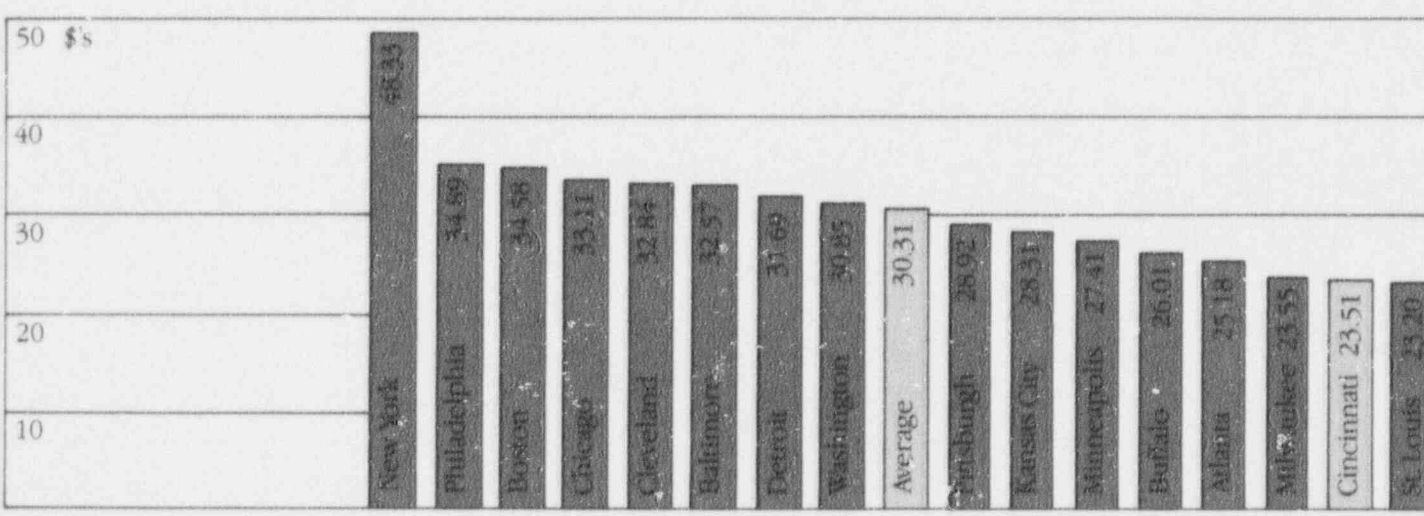
Figures reflect the average price paid by residential customers for 10,000 cubic feet of gas in November 1980.



Comparative City Rates — Electric

(U.S. Department of Labor, Bureau of Labor Statistics — November 1980)

Figures reflect the average price paid by residential customers for 500 Kilowatt hours of electricity in November 1980.



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

The decrease in earnings per common share for 1980 compared to 1979 was due to several factors including the following: an increase in the number of common shares outstanding; decreases in both gas and electric industrial sales volumes (reflecting the effects of the recession); conservation by our customers; increased maintenance costs on electric generating units; an increase in purchased power; higher interest charges and preferred dividends due to the issuance of additional securities at higher rates; and general inflation which caused increases in labor and material costs. For further discussion of the effects of inflation, see Note 11 to the Consolidated Financial Statements.

Operating Revenues

Increases in operating revenues in 1979 and 1980 primarily were due to the operation of fuel adjustment clauses reflecting changes in the cost of fuel used for electric production, to the operation of escalation clauses reflecting changes in the cost of gas purchased, to increases in 1979 and 1980 in total electric sales volumes, to an increase in total gas sales volumes in 1979, and to rate increases granted by regulatory bodies.

Operating Expenses

Increases in gas purchased expense resulted from increases in average cost per Mcf purchased in 1979 and 1980, and from an increase in quantities purchased in 1979. Increases in fuel used in electric production resulted from increased fuel prices in 1979 and 1980, and from increased electric generation in 1979.

Other operation expense increased in 1980 due to a number of factors including significant purchases of electricity, wage increases, and the general effects of inflation. The decrease in other operation expense in 1979 resulted primarily from a decrease in purchases of electricity.

The increases in maintenance costs largely were attributable to increased maintenance on electric generating units.

For a discussion of the fluctuations in income taxes, see Note 1 to the Consolidated Financial Statements.

Allowance for Funds Used During Construction

The allowance for funds used during construction increased due to higher levels of construction work in progress and to an increase in the allowance for funds rate from an annual pre-tax rate of 7½% to 8½% effective January 1, 1979 and to a net-of-tax rate of 8¼% compounded semi-annually effective January 1, 1980.

Interest Charges

Interest on long-term debt increased due to the issuance of additional securities to finance a portion of the construction program. The increase in other interest in 1979 occurred due to greater amounts of short-term borrowings at higher interest rates.

1981 Earnings

CG&E expects to experience a deterioration in earnings per common share at least during 1981 and until adequate rate relief is obtained. Pending rate applications totaling $69 million are not expected to cure the anticipated deterioration. CG&E has informed the PUCO that it will be seeking rate increases on an annual basis for the next several years. In January, 1981, plans were announced to the PUCO to request additional rate increases. Reference is made to "Rates and Economic Research" herein with respect to additional rate information. Costs are escalating primarily as a result of continuing inflation. In addition, increased depreciation and other costs associated with the first unit at the East Bend Generating Station will have an adverse effect on earnings during 1981 and until fully reflected in rates. CG&E also expects the allowance for funds used during construction component of earnings to increase as a percentage of total earnings until adequate rate relief is obtained and the amount of construction work in progress is reduced.

Liquidity and Capital Resources

The construction expenditures for CG&E and its subsidiaries for 1981 are expected to be $239 million. Over the next five years (1981-1985) construction expenditures are expected to be $1,053 million. CG&E contemplates continuing debt and equity financings in the capital markets. The amount of these financings is subject to the amount and timing of rate increases, sales volumes, changes in construction plans, and market conditions. For further discussion of financings, see "Finance" herein. Short-term indebtedness will be used to supplement internal sources of funds for the interim financing of the construction program. CG&E and its subsidiaries presently have authorized a maximum amount of short-term indebtedness of $110 million and $69 million of short-term borrowings were outstanding at December 31, 1980.

Consolidated Statement of Income

for the years ended December 31,

The Cincinnati Gas & Electric Company
And Subsidiary Companies

(Thousands of Dollars)	**1980**	1979	1978
OPERATING REVENUES			
Electric	**$599,142**	$518,916	$493,323
Gas	**355,893**	306,910	279,353
Total operating revenues	**955,035**	825,826	772,676
OPERATING EXPENSES			
Gas purchased	**280,168**	232,055	199,309
Fuel used in electric production	**234,938**	216,279	194,126
Other operation	**109,877**	83,673	92,896
Maintenance	**65,131**	50,337	43,822
Provision for depreciation	**52,740**	49,711	47,693
Taxes other than income taxes (Schedule on page 23)	**65,542**	59,941	55,139
Income taxes (Schedule on page 23)	**36,942**	21,442	33,299
Total operating expenses	**845,338**	713,438	666,284
OPERATING INCOME	**109,697**	112,388	106,392
OTHER INCOME AND DEDUCTIONS			
Allowance for other funds used during construction (Note 1)	**31,051**	19,218	11,243
Income taxes — credit (Schedule on page 23 and Note 1)	**10,264**	(442)	(38)
Other — net	**2,187**	1,056	253
Total other income and deductions	**43,502**	19,832	11,458
INCOME BEFORE INTEREST CHARGES	**153,199**	132,220	117,850
INTEREST CHARGES			
Interest on long-term debt	**73,484**	61,052	50,133
Other interest	**3,529**	2,977	1,290
Amortization of debt discount, premium and expense	**59**	20	27
Allowance for borrowed funds used during construction — credit (Note 1)	**(13,854)**	(17,577)	(11,332)
Net interest charges	**63,218**	46,472	40,118
NET INCOME	**89,981**	85,748	77,732
Preferred dividends	**20,798**	15,924	15,924
EARNINGS ON COMMON SHARES	**$ 69,183**	$ 69,824	$ 61,808
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000 omitted)	**30,765**	26,964	24,253
EARNINGS PER COMMON SHARE	**$ 2.25**	$ 2.59	$ 2.54
DIVIDENDS DECLARED PER COMMON SHARE	**$ 2.04**	$ 1.96	$ 1.90

The accompanying notes are an integral part of the financial statements and schedules.

Consolidated Statement of Sources of Funds for Construction Expenditures

for the years ended December 31.

(Thousands of Dollars)	1980	1979	1978
SOURCES OF FUNDS			
Operations			
Net income	**$ 89,981**	$ 85,748	$ 77,732
Non-cash provisions deducted in arriving at net income			
Deferred gas costs—net	**(2,820)**	—	—
Depreciation	**52,740**	49,711	47,693
Deferred income taxes—net	**3,904**	150	1,105
Investment tax credits—net	**20,438**	24,719	15,248
Total allowance for funds used during construction	**(44,905)**	(36,795)	(22,575)
Funds provided by operations	**119,338**	123,533	119,203
Less—Dividends declared on common shares	**63,583**	52,964	46,639
Dividends declared on preferred shares	**20,798**	15,924	15,924
Net Funds provided by operations	**34,957**	54,645	56,640
Financing			
Common shares			
Public offering	**54,825**	—	55,300
Dividend Reinvestment and Stock Purchase Plan	**3,359**	2,210	707
Employee Incentive Thrift Plan	**4,667**	3,885	2,163
Employee Stock Ownership Plan	**5,895**	2,859	2,582
Cumulative preferred shares	**50,000**	—	—
First mortgage bonds	**100,000**	100,000	85,000
Other long-term debt	**5,149**	48,109	8
Repayment of long-term debt	**(611)**	(5,545)	(15,507)
Increase (decrease) in short-term debt—net	**(8,073)**	53,705	17,073
Funds provided by financing	**215,211**	205,223	147,326
Other Sources of Funds—net			
Decrease (increase) in net current assets (excluding short-term debt and temporary investments)	**(141)**	(43,389)	(21,580)
Decrease (increase) in temporary investments	**300**	2,666	(2,966)
Refunds from gas suppliers received (distributed)—net	**(6,493)**	12,100	4,470
Other—net	**8,218**	1,258	411
Funds provided from other sources	**1,884**	(27,365)	(19,665)
Total Funds for Construction from above Sources	**252,052**	232,503	184,301
Total Allowance for Funds used during Construction	**44,905**	36,795	22,575
CONSTRUCTION EXPENDITURES	**$296,957**	$269,298	$206,876

The accompanying notes are an integral part of the financial statements and schedules.

(Thousands of Dollars)	1980	1979
ASSETS		
PROPERTY, PLANT AND EQUIPMENT, at original cost (Notes 2, 7 and 8)		
In service—		
Electric	**$1,457,684**	$1,370,612
Gas	**229,511**	211,841
Common	**38,125**	36,331
	1,725,320	1,618,784
Less—Accumulated provisions for depreciation	**529,209**	484,906
Net property, plant and equipment in service	**1,196,111**	1,133,878
Construction work in progress	**773,763**	594,965
	1,969,874	1,728,843
OTHER PROPERTY AND INVESTMENTS	**9,502**	8,827
CURRENT ASSETS		
Cash (Note 6)	**5,698**	6,199
Short-term investments, at cost	**—**	300
Construction funds (pollution control) held in escrow	**2,514**	21,475
Accounts receivable, less accumulated provision of $2,810,000 in 1980 and $2,307,000 in 1979 for doubtful accounts	**99,502**	81,256
Materials, supplies and fuel, at average cost—		
Fuel for use in electric production	**74,785**	51,696
Other	**31,081**	26,637
Taxes applicable to subsequent year	**33,479**	28,739
Prepayments	**26,595**	22,632
Other	**337**	288
	273,991	239,222
OTHER ASSETS	**8,901**	3,943
	$2,262,268	$1,980,835
LIABILITIES AND SHAREHOLDERS' EQUITY		
CAPITALIZATION (Schedules on pages 21 and 22)		
Common shareholders' equity	**$ 628,138**	$ 556,504
Cumulative preferred shares (Note 4)—		
Not subject to mandatory redemption	**200,000**	200,000
Subject to mandatory redemption	**50,000**	—
Long-term debt (Note 2)	**948,864**	846,652
	1,827,002	1,603,156
CURRENT LIABILITIES		
Current portion of bonds	**1,450**	58
Notes payable (Note 6)—bank	**22,800**	25,290
—commercial paper	**45,790**	51,350
—other	**518**	554
Accounts payable	**85,565**	75,446
Dividends payable on common shares	**16,055**	13,347
Dividends payable on preferred shares	**5,256**	3,981
Accrued taxes	**60,846**	45,589
Accrued interest on debt	**14,295**	13,214
Other current and accrued liabilities	**17,582**	13,094
	270,157	241,923
DEFERRED CREDITS AND OTHER		
Deferred income taxes	**38,190**	31,249
Investment tax credits	**106,695**	86,257
Other liabilities and deferred credits	**20,224**	18,250
	165,109	135,756
	$2,262,268	$1,980,835

The accompanying notes are an integral part of the financial statements and schedules.

Consolidated Statement of Changes in Shareholders' Equity

for the years ended December 31,

(Thousands of Dollars)	1980	1979	1978
COMMON SHARES			
Balance, beginning of year	**$231,484**	$227,392	$201,450
$8.50 par value of 4,241,124, 481,403 and 3,051,996 shares sold in 1980, 1979 and 1978, respectively	**36,049**	4,092	25,942
Balance, end of year	**$267,533**	$231,484	$227,392
PREMIUM ON COMMON SHARES			
Balance, beginning of year	**$144,930**	$140,068	$105,258
Premium on sale of common shares	**32,697**	4,862	34,810
Balance, end of year	**$177,627**	$144,930	$140,068
RETAINED EARNINGS			
Balance, beginning of year	**$190,930**	$174,070	$158,901
Net income	**89,981**	85,748	77,732
Cash dividends declared on capital shares—			
Cumulative preferred (See page 21 for rates)	**(20,798)**	(15,924)	(15,924)
Common (See page 17 for rates)	**(63,583)**	(52,964)	(46,639)
Balance, end of year	**$196,530**	$190,930	$174,070
CAPITAL STOCK EXPENSE			
Balance, beginning of year	**$ 10,840**	$ 10,715	$ 8,760
Common stock expense	**2,050**	125	1,955
Preferred stock expense	**662**	—	—
Balance, end of year	**$ 13,552**	$ 10,840	$ 10,715
CUMULATIVE PREFERRED SHARES			
Balance, beginning of year	**$200,000**	$200,000	$200,000
Sale of 500,000 shares in 1980	**50,000**	—	—
Balance, end of year	**$250,000**	$200,000	$200,000

The accompanying notes are an integral part of the financial statements and schedules.

Schedule of Shareholders' Equity

December 31, 1980 and 1979

(Thousands of Dollars)	1980	1979
COMMON SHAREHOLDERS' EQUITY		
Common shares, par value $8.50 per share (Note 3)–		
Authorized—40,000,000 shares		
Outstanding—31,474,523 and 27,233,399 shares, respectively	**$267,533**	$231,484
Premium on common shares	**177,627**	144,930
Retained earnings	**196,530**	190,930
Capital stock expense	**(13,552)**	(10,840)
Total common shareholders' equity	**$628,138**	$556,504
CUMULATIVE PREFERRED SHARES, par value $100 per share (Note 4)—		
Authorized—3,000,000 shares		
Outstanding—not subject to mandatory redemption		
4% series—270,000 shares (redeemable, upon call, at $108)	**$ 27,000**	$ 27,000
4¾% series—130,000 shares (redeemable, upon call, at $101)	**13,000**	13,000
9.30% series—350,000 shares (redeemable, upon call, prior to July 1, 1985 at $105; reduced amounts thereafter)	**35,000**	35,000
7.44% series—400,000 shares (redeemable, upon call, prior to April 1, 1982 at $105; reduced amounts thereafter)	**40,000**	40,000
9.28% series—400,000 shares (redeemable, upon call, prior to July 1, 1984 at $106; reduced amounts thereafter)	**40,000**	40,000
9.52% series—450,000 shares (redeemable, upon call, prior to January 1, 1986 at $106; reduced amounts thereafter)	**45,000**	45,000
	200,000	200,000
Outstanding—subject to mandatory redemption		
10.20% series—500,000 shares (redeemable, upon call, prior to January 1, 1985 at $110.20; reduced amounts thereafter)	**50,000**	—
Total cumulative preferred shares	**$250,000**	$200,000

The accompanying notes are an integral part of the financial statements and schedules.

Schedule of Long-Term Debt
December 31, 1980 and 1979

(Thousands of Dollars)	1980	1979
The Cincinnati Gas & Electric Company		
First mortgage bonds—		
3¼ % series due 1982	$ 20,000	$ 20,000
3¾ % series due 1983	20,000	20,000
4⅛ % series due 1987	25,000	25,000
5 % series due 1990	30,000	30,000
4⅜ % series due 1992	25,000	25,000
5⅞ % series due 1997	30,000	30,000
7⅜ % series due 1999	50,000	50,000
8⅝ % series due 2000	60,000	60,000
7⅜ % series due 2001	60,000	60,000
8⅛ % series due 2003	60,000	60,000
9.15 % series due 2004	60,000	60,000
9.85 % series due 2005	60,000	60,000
8.55 % series due 2006	75,000	75,000
9⅛ % series due 2008	75,000	75,000
10 % series due 2009	100,000	100,000
12 % series due 2010	100,000	—
	850,000	750,000
Notes payable—		
4% due through 1985	1,890	2,303
6%-7½% due through 1984	76	126
Other long-term debt—		
6.70% due 1997 through 2006	10,000	10,000
7.10% due 2004	10,500	10,500
7.20% due 2005 through 2009	37,500	37,500
8½ % due 2000	5,000	—
	914,966	810,429
The Union Light, Heat and Power Company		
First mortgage bonds—		
3⅜ % series due 1981	1,400	1,400
3½ % series due 1984	1,500	1,500
5 % series due 1989	6,100	6,100
4¾ % series due 1993	6,500	6,500
8 % series due 2003	10,000	10,000
9½ % series due 2008	10,000	10,000
	35,500	35,500
Less 3⅜% series due 1981	1,400	—
	34,100	35,500
Other Subsidiary Companies' Debt	468	446
Unamortized premium and discount (net)	(670)	277
Total long-term debt	$948,864	$846,652

The accompanying notes are an integral part of the financial statements and schedules.

Schedule of Taxes

for the years ended December 31,

(Thousands of Dollars)	1980	1979	1978
TAXES OTHER THAN INCOME TAXES			
Property	**$ 32,304**	$ 28,396	$ 26,702
Public Utility Gross Receipts	**27,010**	25,904	23,608
Payroll	**4,356**	3,850	3,283
Other	**1,872**	1,791	1,546
	$ 65,542	$ 59,941	$ 55,139
INCOME TAXES			
Included in operating expenses—			
Currently payable	**$ 9,231**	$ (6,708)	$ 14,693
Deferred—net			
Accelerated amortization	**(462)**	(563)	(716)
Liberalized depreciation	**4,109**	1,061	988
Contingent gas revenues	**(3,036)**	—	—
Other	**3,293**	(348)	833
Investment tax credits—net	**23,807**	28,000	17,501
Total	**36,942**	21,442	33,299
Included in other income and deductions—			
Currently payable	**(10,218)**	489	79
Deferred—net	**(46)**	(47)	(41)
Total	**(10,264)**	442	38
Total provision	**$ 26,678**	$ 21,884	$ 33,337
Analysis of provision			
Federal income taxes	**$ 26,023**	$ 21,269	$ 32,804
State income taxes	**655**	615	533
	$ 26,678	$ 21,884	$ 33,337
COMPUTATION OF FEDERAL INCOME TAX PROVISION			
Pre-tax income	**$116,004**	$107,017	$110,536
Tax at statutory Federal income tax rate applied to pre-tax income	**$ 53,362**	$ 49,228	$ 53,057
Reductions in Federal income taxes resulting from—			
Allowance for funds used during construction which does not constitute taxable income	**(20,657)**	(16,926)	(10,836)
Excess of tax depreciation over book depreciation	**(3,244)**	(5,885)	(7,077)
Cost of removal for property retired	**(1,061)**	(1,190)	(866)
Amortization of investment tax credits	**(1,777)**	(1,503)	(1,386)
Other—net	**(600)**	(2,455)	(88)
Federal income tax provision	**$ 26,023**	$ 21,269	$ 32,804

The accompanying notes are an integral part of the financial statements and schedules.

Notes to Consolidated Financial Statements

The Cincinnati Gas & Electric Company
And Subsidiary Companies

(1) Summary of Significant Accounting Policies:

CG&E and its subsidiaries follow the Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The more significant accounting policies are summarized below:

Principles of Consolidation. All subsidiaries of CG&E are included in the consolidated statements. Intercompany items and transactions have been eliminated.

Utility Plant. Property, plant and equipment is stated at the original cost of construction, which includes payroll and related costs such as taxes, pensions and other fringe benefits, general and administrative costs, and an allowance for funds used during construction.

Revenues and Fuel. Revenues are included in income as billed to customers on a cycle basis. The companies charge to expense the cost of fuel used to generate electricity as it is consumed and prior to 1980 the cost of gas as it was purchased. Effective in January 1980, The Public Utilities Commission of Ohio (PUCO) implemented a rule which changed the manner in which CG&E applies the purchased gas adjustment clause. In conjunction with this change, CG&E began expensing gas costs as recovered through revenue and deferring the portion of gas costs recoverable or refundable in future periods.

Depreciation and Maintenance. The companies determine their provision for depreciation using the straight-line method and by the application of rates to various classes of property, plant and equipment. The rates are based on periodic studies of the estimated service lives of the properties. The percentages of the annual provisions for depreciation to the weighted average of depreciable property during the three years ended December 31, 1980, were equivalent to:

	1980	1979	1978
Electric	**3.3**	3.4	3.4
Gas	**2.9**	2.9	2.9
Common	**2.3**	2.2	2.3

All expenditures for maintenance and repairs of units of property, including renewals of minor items, are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of property, plant and equipment. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal.

Income Taxes. For income tax purposes, CG&E and its subsidiaries use liberalized depreciation methods including ADR depreciation and cost of removal deductions. In February 1980, pursuant to a PUCO electric rate order, CG&E began providing for income tax deferrals resulting from the difference between liberalized tax depreciation and straight-line (guideline lives) tax depreciation for property additions from October 1978 forward. CG&E does not provide for income tax deferrals resulting from the use of liberalized depreciation methods for property additions prior to October 1978 in accordance with an order of the PUCO. Based on a decision of the Supreme Court of Ohio, CG&E will be allowed to collect through future rates the income taxes payable in the future as a result of currently using liberalized depreciation methods for pre-October 1978 property additions. CG&E and its subsidiaries provide for deferred taxes arising from the use of liberalized depreciation for operations regulated by utility commissions other than the PUCO.

In January 1980, pursuant to a PUCO electric rate order, CG&E began allocating the tax benefits associated with borrowed funds used during construction to other income and deductions rather than as a reduction in income taxes included in operating expenses.

Investment tax credits are deferred and amortized over the estimated useful lives of the applicable properties.

Retirement Income Plan. CG&E and its subsidiaries have a trusteed non-contributory retirement income plan covering substantially all regular employees. The total accrued pension expense, including administrative expense, for 1980, 1979 and 1978 was $6,300,000, $5,310,000 and $4,600,000, respectively, which includes amortization of the unfunded actuarial liability over periods ranging from 15 to 40 years. The companies make annual contributions to the plan equal to the amounts accrued for pension expense (exclusive of administrative expenses which are paid directly by the companies). Accumulated plan benefits and plan net assets are as follows:

	January 1, 1981
	(Thousands)
Actuarial present value of accumulated plan benefits (based on salary rates and years of service at present time and does not include the additional actuarial liability for future service and salary increases):	
Vested	$ 88,000
Nonvested	5,000
	$ 93,000
Net assets at market value available for benefits	$163,000

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits as of January 1, 1981 was 7.5%.

Allowance for Funds Used During Construction. The applicable regulatory uniform systems of accounts define "allowance for funds used during construction" (AFC) as including "the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used." This amount of AFC constitutes an actual cost of construction and, under established regulatory rate practices, a return on and recovery of such costs heretofore has been permitted in determining the rates charged for utility services. AFC was accrued at an annual pre-tax rate of 7½% for 1978 and 8½% for 1979, and at a net-of-tax rate of 8¼% compounded semi-annually for 1980.

(2) Long-Term Debt:

Under the terms of the respective mortgage indentures securing first mortgage bonds issued by CG&E and its subsidiaries, substantially all property is subject to a direct first mortgage lien, except that a portion of CG&E's headquarters property is pledged as collateral for a purchase-money 4% note payable in installments through 1985.

Improvement and sinking fund provisions contained in the indentures applicable to the First Mortgage Bonds of CG&E and Union Light, except CG&E's 12% Series due 2010, require deposits with the Trustee, on or before April 30 of each year, of amounts in cash and/or principal amounts of bonds equal to 1% ($7,855,000) of the principal amount of bonds of the applicable series originally outstanding less certain designated retirements.

In lieu of such cash deposits or delivery of bonds and as permitted under the terms of the indentures, the companies have been following and plan to continue the practice of pledging unfunded property additions to the extent of 166⅔% of the annual sinking fund requirements.

The amount of maturities of Notes Payable during the next five years will be approximately $520,000 in 1981, $480,000 in 1982, $470,000 in 1983, and $1,030,000 in 1984. First Mortgage Bonds of either CG&E or Union Light will mature as follows: $1.4 million in 1981; $20 million in 1982; $20 million in 1983; and $1.5 million in 1984. The annual sinking fund requirements with respect to the First Mortgage Bonds of Lawrenceburg Gas are approximately $50,000 in 1981 through 1985. The amounts due during the 12 months after the balance sheet date are reflected in Current Liabilities in the accompanying Balance Sheet.

(3) Common Stock:

CG&E issued authorized but previously unissued shares of Common Stock pursuant to three plans as follows:

	Shares Issued		Shares Reserved for Issuance at
	1980	1979	**December 31, 1980**
Dividend Reinvestment and Stock Purchase Plan	**208,510**	121,850	1,535,785
Employee Incentive Thrift Plan	**286,225**	208,315	202,658
Employee Stock Ownership Plan	**346,389**	151,238	687,034
	841,124	481,403	2,425,477

Reference is made to "Finance" herein for information concerning the proposed sale of additional common stock on or about January 28, 1981.

(4) Cumulative Preferred Stock — Subject to Mandatory Redemption (Redeemable Preferred Stock):

On January 15, 1981, CG&E sold through Underwriters 300,000 shares of Cumulative Preferred Stock, 12.52% Series $100 Par Value. The proceeds from the sale were used to repay a portion of CG&E's short-term indebtedness incurred in connection with its construction program. Under a restriction imposed by CG&E's Articles of Incorporation which requires consolidated income (as defined) to be at least 1½ times the sum of annual interest charges on consolidated debt and annual dividend requirements on Preferred Stock, CG&E would have been able to issue approximately 140,000 additional shares of Preferred Stock on January 15, 1981.

The Cumulative Preferred Stock, 10.20% Series and 12.52% Series are subject to mandatory redemption in an amount sufficient to retire on each January 1, beginning in 1985 and 1987, respectively, 15,000 shares and 9,000 shares, respectively, at $100 per share plus accrued dividends, and CG&E will have the noncumulative option to redeem up to a like amount of additional shares in each year. CG&E will have the option to satisfy the mandatory redemption requirement in whole or in part by crediting shares of the applicable series acquired by CG&E. To the extent CG&E does not satisfy its mandatory sinking fund obligation in any year such obligation must be satisfied in the succeeding year or years. If CG&E is in arrears in the redemption of either series pursuant to the mandatory sinking fund requirements, CG&E shall not purchase or otherwise acquire for value, or pay dividends on, Common Stock.

(5) Rates:

Reference is made to "Rates and Economic Research" herein with respect to electric and gas rate matters.

(6) Compensating Bank Balances and Notes Payable:

Substantially all of the cash balances of CG&E and its subsidiaries are maintained to compensate the respective banks for banking services and to obtain lines of credit; however, no specific amounts have been designated as compensating balances and CG&E and its subsidiaries have the right of withdrawal of such funds. Unused lines of credit under agreements in effect at December 31, 1980, totaled $20 million. The maximum amount of outstanding short-term notes payable, including commercial paper, authorized by CG&E's Board of Directors and approved by the PUCO to be incurred at any time in 1981 is $100 million and, in addition, FERC authorized Union Light to issue a maximum of $10 million of short-term notes payable through December 31, 1982.

(7) Common Ownership of Electric Utility Plant:

CG&E, Columbus and Southern Ohio Electric Company, and The Dayton Power and Light Company (DPL) have constructed or have made commitments for the construction of electric generating units and related transmission facilities on varying common ownership bases as set forth below:

		CG&E's share at December 31, 1980		
	% owned by CG&E	Property, Plant and Equipment, in service (a)	Accumulated Provisions for Depreciation	Construction Work in Progress (b)
		(Thousands of Dollars)		
Production				
Miami Fort Generating Station (Units 7 and 8)	64	$165,272	$22,377	$ 2,350
W.C. Beckjord Generating Station (Unit 6)	37½	$ 28,897	$ 8,396	$ 23
J.M. Stuart Generating Station	39	$184,518	$34,352	$ 6,831
Conesville Generating Station (Unit 4)	40	$ 53,222	$14,170	$ 723
Wm. H. Zimmer Nuclear Power Station (Unit 1)	40	$ —	$ —	$334,260 (c)
East Bend Generating Station (Units 1 and 2)	69 (d)	$ 14,093	$ —	$247,656
Killen Generating Station	33	$ —	$ —	$107,782 (e)
Transmission	various	$ 55,514	$ 8,374	$ 1,409

(a) The Consolidated Statement of Income reflects CG&E's portion of all operating costs associated with the commonly owned facilities.
(b) Each participant must provide funds for its share of the construction project.
(c) Excludes cost of nuclear fuel.
(d) In September 1980, CG&E announced plans to increase its interest in Unit 1 from 69% to 75%.
(e) Includes $8.5 million related to the cancelled second Unit. Reference is made to "Electric Production and Engineering Services" herein. CG&E and DPL are studying various options available with regard to existing contracts covering certain components for the Unit. If the contracts are cancelled, additional costs will be incurred. CG&E believes these costs will not result in any material adverse effect on its financial condition or results of operations.

(8) Commitments:

The companies estimate that their construction programs will require expenditures of approximately $1.1 billion during the period 1981 through 1985. Reference is made to Note 7 above and "Electric Production and Engineering Services" herein for further information.

CG&E owns 9% of the common stock of Ohio Valley Electric Corporation (OVEC) which has a long-term contract to supply power to the Department of Energy (DOE). The proceeds from the sales of power by OVEC are to be sufficient to meet all of its costs, including amortization of debt capital. As of December 31, 1980, debt capital of approximately $4 million remains to be amortized over a period ending 1981. CG&E and other sponsoring utilities are entitled to receive, and are obligated to pay for the right to receive, any available power from OVEC's facilities not required by DOE; CG&E's portion of available OVEC capacity is 9%.

(9) Quarterly Financial Data (Thousands):

Quarter Ended	Total Operating Revenues	Operating Income	Net Income	Earnings on Common Shares	Average Number of Common Shares Outstanding	Earnings per Common Share
March 31, 1979	$265,396	$ 41,509	$35,218	$31,237	26,796	$1.16
June 30, 1979	179,237	24,909	18,345	14,364	26,868	.53
September 30, 1979	168,758	25,697	19,008	15,027	26,996	.55
December 31, 1979	212,435	20,273	13,177	9,196	27,197	.33
	$825,826	$112,388	$85,748	$69,824		(a)
March 31, 1980	$304,210	$ 36,246	$33,221	$28,192	29,583	$ .95
June 30, 1980	205,610	22,348	17,590	12,334	30,839	.40
September 30, 1980	208,948	30,091	24,071	18,815	31,219	.60
December 31, 1980	236,267	21,012	15,099	9,842	31,418	.31
	$955,035	$109,697	$89,981	$69,183		(a)

(a) Total does not equal annual earnings per share due to change in shares outstanding.

(10) Financial Information By Business Segments (Thousands of Dollars):

	Operating Revenues	Operating Income	Income Taxes	Provision for Depreciation	Construction Expenditures (a)
Year Ended December 31, 1978					
Electric	$493,323	$ 87,316	$21,659	$41,486	$199,065
Gas	279,353	19,076	11,640	6,207	7,278
Total	$772,676	$106,392	$33,299	$47,693	$206,343
Year Ended December 31, 1979					
Electric	$518,916	$ 95,258	$14,319	$43,358	$256,771
Gas	306,910	17,130	7,123	6,353	12,731
Total	$825,826	$112,388	$21,442	$49,711	$269,502
Year Ended December 31, 1980					
Electric	$599,142	$ 95,735	$31,283	$46,019	$276,655
Gas	355,893	13,962	5,659	6,721	19,834
Total	$955,035	$109,697	$36,942	$52,740	$296,489

(a) Excludes construction expenditures for non-utility plant of $533,000 in 1978, $(204,000) in 1979, and $468,000 in 1980.

	Years Ended December 31		
	1980	1979	1978
Property, Plant and Equipment, net —			
Electric	**$1,808,530**	$1,580,541	$1,368,364
Gas	**161,344**	148,302	142,271
	1,969,874	1,728,843	1,510,635
Other Corporate Assets	**292,394**	251,992	208,638
Total Assets	**$2,262,268**	$1,980,835	$1,719,273

(11) Supplemental Information Concerning the Effects of Inflation (Unaudited):

The estimates of the effects of inflation on the operations of CG&E and its subsidiaries, as set forth below, were prepared on the basis prescribed by the Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices". This Statement requires adjustments to historical costs to estimate the effects that general inflation, "Constant Dollar," and changes in specific prices, "Current Cost," have had on the Company's results of operations.

This data is not intended as a substitute for earnings reported on a historical cost basis. It offers some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

Statement of Income Adjusted for Changing Prices
For the Year Ended December 31, 1980

	Conventional Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
		(Thousands of Dollars)	
Total operating revenues	$955,035	$ 955,035	$ 955,035
Gas purchased	280,168	280,168	280,168
Fuel used in electric production	234,938	234,938	234,938
Provision for depreciation	52,740	109,115	118,139
Other operating expenses	240,550	240,550	240,550
Income taxes	36,942	36,942	36,942
Total other income and deductions	(43,502)	(43,502)	(43,502)
Net interest charges	63,218	63,218	63,218
	865,054	921,429	930,453
Net income	89,981	33,606	24,582
Preferred dividends	20,798	20,798	20,798
Earnings on common shares	$ 69,183	$ 12,808 (a)	$ 3,784
Increase in specific prices (current cost) of property, plant and equipment held during the year (b)			$ 303,404
Reduction to net recoverable cost		$(162,187)	(37,941)
Effect of increase in general price level			(418,626)
Excess of increase in general price level over increase in specific prices, after reduction to net recoverable cost			(153,163)
Gain from decline in purchasing power of net amounts owed		148,759	148,759
Net		$ (13,428)	$ (4,404)

(a) Including the reduction to net recoverable cost, the earnings on common shares on a constant dollar basis would have been $(149,379,000) for 1980.
(b) At December 31, 1980, current cost of property, plant and equipment, net of accumulated depreciation, was $3,798,136,000 while historical cost was $1,969,874,000.

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

	Years Ended December 31				
	1980	1979	1978	1977	1976
	(Thousands of Average 1980 Dollars, Except as Specified)				
Total operating revenues					
Actual	**$955,035**	$825,826	$772,676	$689,866	$547,133
Adjusted to average 1980 dollars	**$955,035**	$937,886	$976,324	$938,446	$792,300
Constant dollar information					
Earnings on common shares	**$ 12,808**	$ 29,078			
Earnings per common share	**$ .41**	$ 1.08			
Net assets at year end at net recoverable cost	**$599,487**	$598,436			
Current cost information					
Earnings on common shares	**$ 3,784**	$ 14,361			
Earnings per common share	**$ .12**	$ .53			
Excess of increase in general price level over increase in specific prices, after reduction to net recoverable cost	**$153,163**	$163,014			
Net assets at year end at net recoverable cost	**$599,487**	$598,436			
General information					
Gain from decline in purchasing power of net amounts owed	**$148,759**	$151,288			
Cash dividends declared per common share					
Actual	**$ 2.04**	$ 1.96	$ 1.90	$ 1.79	$ 1.64
Adjusted to average 1980 dollars	**$ 2.04**	$ 2.23	$ 2.40	$ 2.43	$ 2.37
Market price per common share at year end					
Actual	**$ 15.250**	$ 16.625	$ 20.000	$ 23.125	$ 22.875
Adjusted to average 1980 dollars	**$ 14.554**	$ 17.854	$ 24.337	$ 30.680	$ 32.403
Average consumer price index (1980 projected)	**246.9**	217.4	195.4	181.5	170.5

Property, Plant and Equipment (Plant). Estimated plant primarily consisting of plant in service and construction work in progress, was determined in constant dollars by applying the Consumer Price Index for All Urban Consumers to the his-

torical cost of plant. The current cost estimates were determined by applying the Handy-Whitman Index of Public Utility Construction Costs to plant accounts. Current cost is an estimate of the cost of currently replacing existing plant. The resulting adjusted data for plant under either of the above methods is not indicative of the Company's future capital requirements because the actual replacement of existing plant will take place over many years and is not likely to be a reproduction of presently existing plant.

The difference between current cost and the constant dollar data results from specific prices of plant increasing at a rate different from the rate of general inflation.

Accumulated Depreciation. The accumulated provisions for depreciation under both of the methods described above were developed by applying the same percentage relationship that existed between gross plant and accumulated provision for depreciation on a historical cost basis to the respective adjusted plant data.

Depreciation Expense. Depreciation expense for both methods was determined by applying the Company's depreciation rates to the respective indexed plant amounts.

Writedown of Property, Plant and Equipment to Net Recoverable Cost. The regulatory process limits the Company to the recovery of the historical cost of plant in its rates. Therefore, any excess of the value of plant stated in constant dollars or current cost must be reduced to the net recoverable cost, which is historical cost. The amount of this excess that occurred in the current year is reflected as a writedown of plant to net recoverable cost.

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

Other Items. As permitted by FASB Statement No. 33, items in the income statement, other than depreciation expense, were not adjusted. The cost of fuel used in electric production and gas purchased were not adjusted because the effect on earnings on common shares was not material due to the relatively short turnover period.

The regulatory process limits the amount of depreciation expense included in the Company's revenue allowance and the amount of plant in rate base to the original cost investment. Such amounts produce cash flows which are inadequate to replace such property in the future or preserve the purchasing power of common equity capital previously invested. While this effect is partially mitigated by the benefit derived from holding long-term debt and preferred stock, the Company has a net purchasing power loss in 1980 which is experienced by the common shareholder and can only be overcome as a result of adequate rate relief. However, the Company expects that it will be able to establish rates which will cover the increased costs of new plant.

Auditors' Report

To the Shareholders of The Cincinnati Gas & Electric Company:

We have examined the consolidated balance sheet and schedules of shareholders' equity and long-term debt of THE CINCINNATI GAS & ELECTRIC COMPANY (an Ohio corporation) and its subsidiary companies as of December 31, 1979, and December 31, 1980, and the related consolidated statements of income, changes in shareholders' equity, and sources of funds for construction expenditures and schedule of taxes for each of the three years in the period ended December 31, 1980. 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 accompanying consolidated financial statements and schedules referred to above present fairly the financial position of The Cincinnati Gas & Electric Company and its subsidiary companies as of December 31, 1979, and December 31, 1980, and the results of their operations and their sources of funds for construction expenditures for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Cincinnati, Ohio,
January 23, 1981.

Consolidated Statistics: 1970-1980

		1980	1979
GENERAL	Earnings on common shares ($000 omitted)	**69,183**	69,824
	Average number of common shares outstanding (000 omitted)	**30,765**	26,964
	Earnings per common share ($)	**2.25**	2.59
	Cash dividends declared per common share ($)	**2.04**	1.96
	Pay out ratio (%)	**90.7**	75.7
	Total assets ($000 omitted)	**2,262,268**	1,980,835
	Construction expenditures ($000 omitted)	**296,957**	269,298
	Plant retirements ($000 omitted)	**10,943**	13,802
	Long-term debt and redeemable preferred stock ($000 omitted)	**998,864**	846,652
ELECTRIC DEPARTMENT	Electric revenues ($000 omitted)		
	Residential	**222,952**	186,216
	Commercial	**157,551**	135,705
	Industrial	**159,051**	146,490
	All other	**59,588**	50,505
	Total revenue	**599,142**	518,916
	Electric sales (million kwh)		
	Residential	**5,277**	4,822
	Commercial	**3,333**	3,182
	Industrial	**4,493**	4,757
	All other	**1,416**	1,327
	Total sales	**14,519**	14,088
	Number of customers December 31	**591,459**	583,195
	Average annual sales per residential customer (kwh)	**9,994**	9,303
	Electricity generated—net (million kwh)	**14,664**	14,879
	Electricity purchased and interchanged—net (million kwh)	**942**	240
	Total available (million kwh)	**15,606**	15,119
	KW capability at 12/31—net (thousand kw)	**3,867**	3,880
	System peak load—net (thousand kw)	**3,154**	2,978
	Fuel cost per kwh generated (cents)	**1.602**	1.454
	Btu per kwh sendout	**10,364**	10,409
	Load factor—electric	**56.2**	57.8
GAS DEPARTMENT	Gas revenues ($000 omitted)		
	Residential	**166,271**	143,657
	Commercial	**72,462**	61,166
	Industrial	**100,383**	89,250
	All other	**16,777**	12,837
	Total revenue	**355,893**	306,910
	Gas sales (million cu. ft.)		
	Residential	**45,746**	48,213
	Commercial	**21,071**	21,837
	Industrial	**32,390**	35,929
	All other	**4,403**	4,104
	Total sales	**103,610**	110,083
	Annual degree days—billing	**5,686**	5,669
	Number of customers December 31	**365,313**	361,190
	Average annual sales per residential customer (thousand cu. ft.)	**140**	149
	Gas purchased (million cu. ft.)	**106,541**	111,890
	Gas produced (million cu. ft.)	**12**	28
	Total available (million cu. ft.)	**106,553**	111,918
	System maximum day sendout (million cu. ft.)	**736**	747
	Average cost per Mcf purchased (cents)	**263.0**	207.4
	Mean temperature on maximum day (°F)	**10**	13
	Load factor—gas	**39.5**	41.0

(a) See Note 10 to the Consolidated Financial Statements for additional financial information by business segments.

1978	1977	1976	1975	1974	1973	1972	1971	1970
61,808	60,191	38,639	38,097	35,736	42,241	40,108	32,771	33,687
24,253	21,450	21,000	20,233	18,700	18,700	17,000	16,001	15,502
2.54	2.80	1.84	1.88	1.91	2.25	2.35	2.04	2.17
1.90	1.79	1.64	1.64	1.64	1.64	1.58	1.56	1.51½
74.8	63.9	89.1	87.2	85.9	72.9	67.2	76.5	69.8
1,719,273	1,537,614	1,442,918	1,304,551	1,191,566	1,061,279	973,598	877,686	759,280
206,876	154,231	133,828	142,294	136,578	126,004	113,500	141,710	107,658
8,371	20,042	26,632	14,825	11,806	17,953	10,139	15,496	6,209
698,974	618,876	644,333	560,753	501,936	487,793	416,746	417,212	357,382
180,476	161,531	132,093	125,887	100,899	89,097	81,155	74,976	67,501
129,402	120,399	91,534	83,786	69,758	61,109	53,981	47,824	41,877
136,903	123,721	94,748	83,188	73,151	59,870	53,788	47,988	41,822
46,542	44,531	34,044	31,649	29,707	21,439	19,174	17,208	15,041
493,323	450,182	352,419	324,510	273,515	231,515	208,098	187,996	166,241
4,728	4,569	4,068	3,969	3,574	3,510	3,228	3,042	2,808
3,069	3,057	2,873	2,755	2,644	2,632	2,398	2,209	2,124
4,517	4,487	4,295	3,938	4,334	4,373	4,118	3,926	3,722
1,254	1,312	1,193	1,178	1,319	1,059	961	910	858
13,568	13,425	12,429	11,840	11,871	11,574	10,705	10,087	9,512
570,536	560,551	553,915	544,494	533,079	521,833	510,324	499,797	491,676
9,328	9,149	8,251	8,183	7,551	7,574	7,117	6,836	6,406
14,196	13,848	13,247	12,352	11,886	11,830	10,936	9,899	8,814
332	586	189	476	899	684	685	1,001	1,520
14,528	14,434	13,436	12,828	12,785	12,514	11,621	10,900	10,334
3,800	3,480	3,492	3,739	3,482	3,254	2,934	2,461	2,146
2,835	2,841	2,598	2,511	2,402	2,439	2,243	2,093	2,011
1.383	1.172	1.034	.944	.761	.444	.411	.382	.319
10,555	10,500	10,252	10,183	10,262	10,024	10,178	10,308	10,667
58.4	57.8	58.4	58.1	[illegible]	58.2	58.8	59.3	58.6
137,440	123,082	94,775	76,038	63,567	54,745	57,736	51,528	47,435
58,010	50,105	40,381	32,322	27,478	23,256	23,783	20,481	18,454
72,756	56,856	49,321	37,369	40,161	30,716	27,805	25,734	20,782
11,147	9,641	10,237	9,629	11,365	8,989	8,613	8,633	8,717
279,353	239,684	194,714	155,358	142,571	117,706	117,937	106,376	95,388
50,312	48,769	50,156	48,527	50,201	50,137	55,182	53,044	51,646
22,589	21,238	22,902	22,356	24,114	24,072	26,047	24,463	23,269
32,004	27,465	33,823	31,433	47,687	47,474	47,945	47,641	40,185
3,747	3,484	5,536	6,150	12,353	11,138	10,912	13,587	16,956
108,652	100,956	112,417	108,466	134,355	132,821	140,086	138,735	132,056
6,145	5,749	5,360	4,712	5,034	4,725	5,362	4,928	5,094
360,988	363,275	366,288	367,427	369,329	370,441	366,277	361,661	356,745
155	149	152	147	151	152	169	165	163
109,753	100,352	115,723	110,216	134,485	134,350	142,026	137,907	132,705
36	1,353	77	—	20	135	540	661	2,431
109,789	101,705	115,800	110,216	134,505	134,485	142,566	138,568	135,136
803	832	770	720	767	781	900	884	886
181.6	167.8	121.5	106.1	71.1	56.2	53.2	49.9	43.6
1	− 17	6	16	20	14	− 5	6	− 2
37.4	33.5	41.1	41.9	48.0	47.2	43.3	43.0	41.8

Executive Officers

William H. Dickhoner
President and
Chief Executive Officer

B. John Yeager
Chairman of the Board

Earl A. Borgmann
Senior Vice-President
Engineering Services and
Electric Production

William H. Zimmer, Jr.
Senior Vice-President
Finance

Donald R. Blum
Secretary

Arthur R. Ehrnschwender
Vice-President
Administrative Services

C. Robert Everman
Treasurer

R. Gregory Graham
Vice-President
Customer Relations

Paul W. Herking
Vice-President
Gas Operations

William J. Moran
General Counsel

Jackson H. Randolph
Vice-President
Rates and Economic Research

Milton L. Van Schoik
Controller

Robert P. Wiwi
Vice-President
Electric Operations

Organizational Changes

Mr. George C. Juilfs was elected to our Board of Directors in April, 1980. Mr. Juilfs is President and Chief Executive Officer, Senco Products, Inc., Cincinnati manufacturer and distributor of fastening systems.

At the April, 1980 organization meeting of the Board, following the Annual Meeting of Shareholders, William H. Zimmer, Jr. was elected Senior Vice-President — Finance. Mr. Zimmer formerly served as Vice-President — Finance. The Board also appointed Daniel R. Herche and William L. Sheafer as Assistant Controllers.

Board of Directors

Neil A. Armstrong (2) (5)
Chairman,
Cardwell International Ltd.,
Lebanon, Ohio

William Beckett (1) (4)
Retired President,
The Beckett Paper Company,
Hamilton, Ohio

Elmer R. Best (2) (3)
Retired President,
The Union Central Life
Insurance Company, Cincinnati

Oliver W. Birckhead (3) (4)
President and Chief
Executive Officer,
The Central Bancorporation, Inc.
and Chairman of the Board and
Chief Executive Officer,
The Central Trust Company, N.A.,
Cincinnati

Sanford M. Brooks (1) (5)
Chairman of the Board and
Chief Executive Officer,
Xtek, Inc., Cincinnati

William H. Dickhoner (1) (3)
(6) President and Chief Executive
Officer, CG&E

James P. Herring (4)
Retired Chairman of the Board,
The Kroger Co., Cincinnati

Harry Holiday, Jr. (1) (5)
Chief Executive Officer,
Armco Inc., Middletown, Ohio

George C. Juilfs (2)
President and Chief Executive
Officer, Senco Products, Inc.,
Cincinnati

William N. Liggett (3) (4)
Chairman of the Board and
Chief Executive Officer, First
National Cincinnati Corporation
and The First National Bank of
Cincinnati

Donald I. Lowry (4) (5)
Senior Vice-President,
The Procter & Gamble Company,
Cincinnati

Jane L. Rees, Ph.D. (5)
Professor and Chair of the
Department of Home Economics
and Consumer Sciences, Miami
University, Oxford, Ohio

William S. Rowe (1) (3)
Chairman of the Board,
Fifth Third Bancorp and
The Fifth Third Bank, Cincinnati

Richard E. Wagner (4) (5)
Former President, and
Consultant, Pepsi-Cola Bottling
Company of Cincinnati

B. John Yeager (1)
Chairman of the Board,
CG&E

(1) Member of Executive Committee
(2) Member of Committee on Audit
(3) Member of Finance Committee
(4) Member of Management Compensation Committee
(5) Member of Nominating Committee
(6) Ex-officio member of all standing committees

Outside Directors

Executive Committee
(L to R)
William Beckett
William S. Rowe
Sanford M. Brooks
Harry Holiday, Jr. (seated)

Finance Committee
(L to R)
William S. Rowe
Oliver W. Birckhead
William N. Liggett (Chairman)
Elmer R. Best (seated)

Committee on Audit
(L to R)
Elmer R. Best (Chairman)
Neil A. Armstrong
George C. Juilfs (seated)

Nominating Committee
(L to R)
Richard E. Wagner
Jane L. Rees
Sanford M. Brooks (Chairman)
Neil A. Armstrong (seated)
*(Donald I. Lowry)
*(Harry Holiday, Jr.)

Management Compensation Committee
(L to R)
Richard E. Wagner
Oliver W. Birckhead
William Beckett (Chairman)
William N. Liggett (seated)
*(Donald I. Lowry)
*(James P. Herring)

*(Not available for photograph)

The Cincinnati Gas & Electric Company
139 East Fourth Street, Cincinnati, Ohio 45202
Telephone 513-381-2000

Shareholders' Inquiries

Communications regarding stock transfer requirements or lost certificates may be directed to either Stock Transfer Agent. All communications regarding a Shareholder's account, dividends and changes of address should be directed to The Cincinnati Gas & Electric Company, Attention: Corporate Department, P.O. Box 960, Cincinnati, Ohio 45201.

SEC Form 10-K to be Available

A copy of CG&E's annual report on SEC Form 10-K will be available, without charge, on or about April 1, 1981 to each holder of common shares upon written request to C. Robert Everman, Treasurer, P.O. Box 960, Cincinnati, Ohio 45201.

Public Accountants:
Arthur Andersen & Co.
425 Walnut Street,
Cincinnati, Ohio 45202

Trustee for Bonds and Interest Paying Agent:
Irving Trust Company
One Wall Street,
New York, N.Y. 10015

Preferred Shares Listed on:
New York and
Cincinnati Stock Exchanges

Common Shares Listed on:
New York, Cincinnati, Midwest
and Pacific Stock Exchanges

Transfer Agents and Registrars for Common Shares:
The First National Bank of
Cincinnati, P.O. Box 2058,
Cincinnati, Ohio 45201

Manufacturers Hanover Trust Company
Four New York Plaza,
New York, N.Y. 10015

Transfer Agents for Preferred Shares:
The First National Bank of
Cincinnati, P.O. Box 2058,
Cincinnati, Ohio 45201

Manufacturers Hanover Trust Company
Four New York Plaza,
New York, N.Y. 10015

Registrars for Preferred Shares:
The Central Trust Company, N.A.
Fifth and Main Streets,
Cincinnati, Ohio 45202

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

Administrator of Dividend Reinvestment and Stock Purchase Plan:
The Central Trust Company, N.A.
Corporate Trust, P.O. Box 1198,
Cincinnati, Ohio 45201