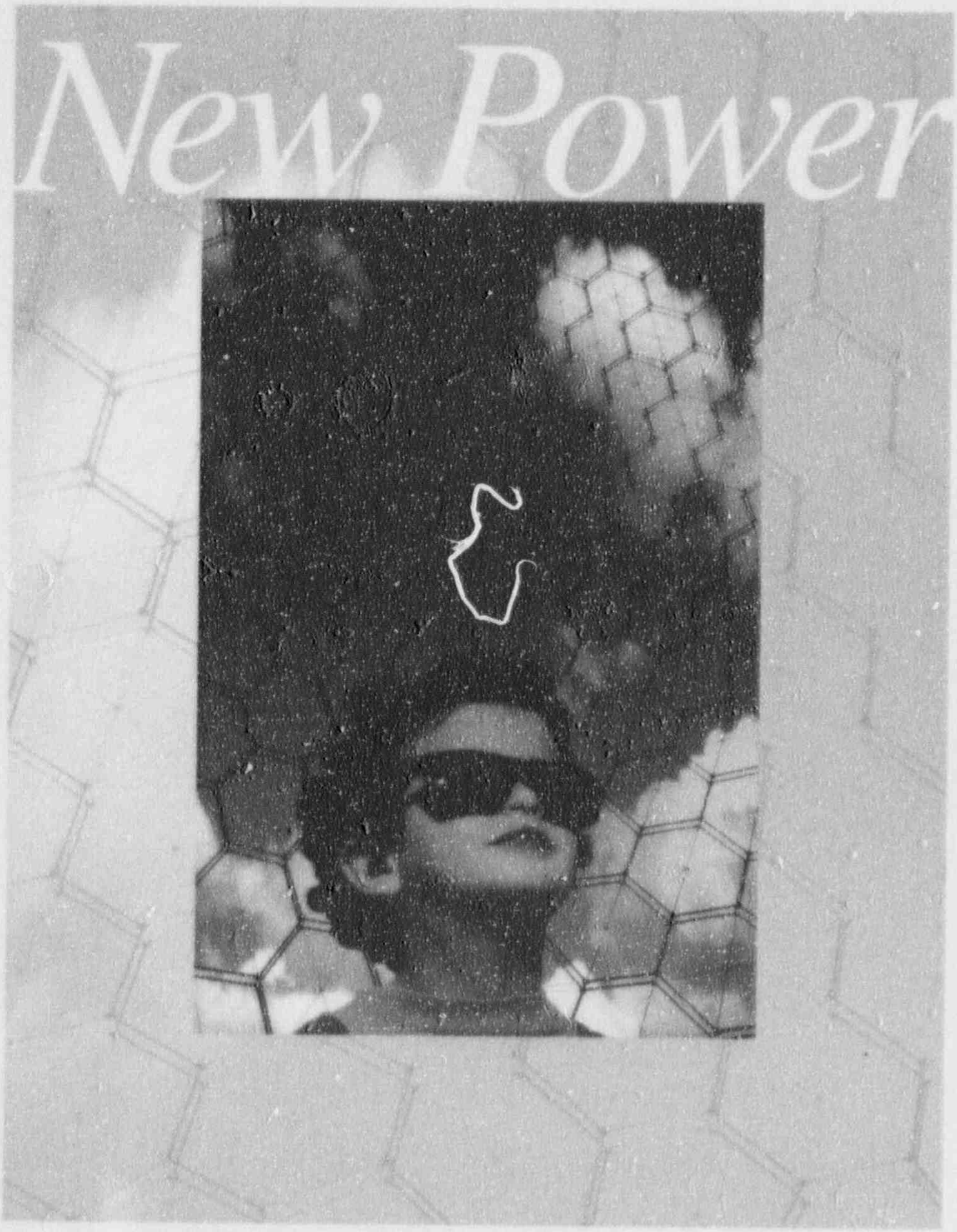
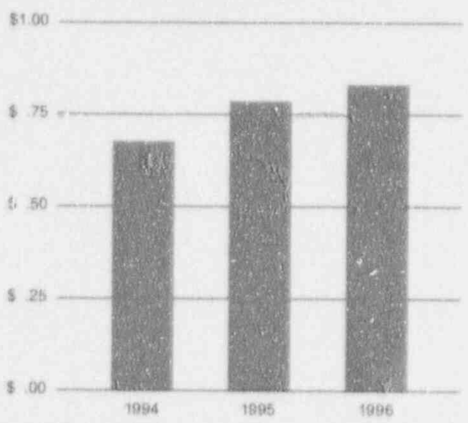
CENTERIOR ENERGY



1996 Annual Report

Company **Profile**

Basic earnings per common share from operations*



*Excludes regulatory accounting, price increase, one-time charges.

	1994	1995	1996
Total earnings	**$1.38**	**$1.49**	**$.82**
Regulatory accounting	(.70)	(.70)	.19
Price increase	–	–	(.32)
One-time charges	–	–	.15
Basic earnings per common share	**$.68**	**$.79**	**$.84**

(All amounts are per common share).

Centerior Energy Corporation is a full-service supplier of electricity and energy-related services. Its strategic business groups generate, transmit and distribute electricity through two operating subsidiaries, The Cleveland Electric Illuminating Company and The Toledo Edison Company. Centerior serves more than 1 million customers across a 4,200-square-mile service area in Northeast and Northwest Ohio. The Company's common stock is traded on the New York Stock Exchange under the symbol "CX".

With 6,200 employees, Centerior is one of the largest employers in northern Ohio. The Company is the single largest taxpayer in the State of Ohio, contributing 2 percent of all taxes administered by the State.

On September 16, 1996, the Company announced its intent to merge with Ohio Edison Company, a neighboring electric utility, to form a new company named FirstEnergy Corp.

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The Cover: Photograph is from our "New Power" advertising campaign.

Printed on recycled paper

Financial Summary

	1996	1995	% Change
Earnings Per Share of Common Stock	**$ .82**	$ 1.49	(45)
Dividends Declared Per Share of Common Stock	**$ .80**	$ .80	–
Book Value Per Share of Common Stock at Year End	**$ 13.42**	$ 13.40	–
Closing Common Stock Price at Year End	**$ 10 3/4**	$ 8 7/8	21
Common Stock Share Owners at Year End	**122,820**	137,396	(11)
Common Stock Shares Outstanding at Year End (millions)	**148**	148	–
Operating Revenues (millions)	**$ 2,553**	$ 2,516	1
Operating Expenses (millions)	**$ 2,037**	$ 1,927	6
Net Income (millions)	**$ 121**	$ 220	(45)
Return on Average Common Stock Equity	**6.1%**	11.4%	(46)
Kilowatt-hour Sales (Millions)			
Residential	**7,103**	7,227	(2)
Commercial	**7,698**	7,694	–
Industrial	**12,278**	12,168	1
Wholesale	**2,804**	2,626	7
Other	**1,011**	1,050	(4)
Total	**30,894**	30,765	–
Employees at Year End	**6,204**	6,821	(9)

Quarterly Range of Common Stock Prices

1996	*High*	*Low*
1st Quarter	$ 9 5/8	$ 7 5/8
2nd Quarter	8	6 3/4
3rd Quarter	9 1/2	6 3/4
4th Quarter	10 3/4	9 1/8

1995	*High*	*Low*
1st Quarter	$ 10	$ 8 11/16
2nd Quarter	9 7/8	8 5/8
3rd Quarter	11	9 1/2
4th Quarter	11 1/4	8 1/2

Share Owner Letter

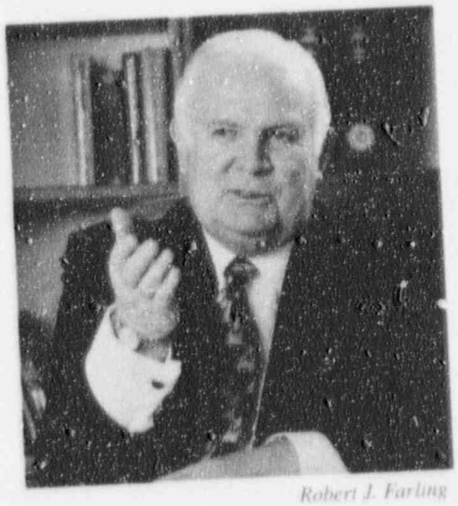
Dear fellow share owner:

It's been an exciting, eventful year. I am pleased to report to you the successful completion of our rate case and our proposed merger with Ohio Edison Company to form FirstEnergy Corp. More importantly, good operating performance, the successful rate case, the accelerated paydown of debt and the proposed merger resulted in a significant stock price gain, which produced a total return for our common stock share owners of 33 percent during 1996. The stock price rose from $8 7/8 to $10 3/4 at year end, while the dividend was maintained at an annual rate of 80 cents per share.

Our earnings were lower in 1996 than in 1995 – $121 million, or 82 cents per share, this year, compared with $220 million, or $1.49 per share, in 1995 – because of the impact of regulatory accounting measures and one-time charges. However, we continue to make progress in improving our overall financial position. Basic earnings from operations – results excluding the impact of ceasing certain regulatory accounting measures, the one-time charges, and higher revenues from the $119 million price increase – were up 5 cents per share in 1996. *(See table at the front of this report.)*

A changing Centerior Energy

As you might expect, given the events of 1996 and their influence on our future, this annual report is about change – a changing industry and a changing Centerior Energy. Change is making Centerior stronger for its share owners, customers and employees.



Robert J. Farling

Across the country, from New Hampshire to California, government regulations that restrained competition among utilities are changing. Already in limited experiments in other parts of the country, retail customers have their choice of electricity providers. In the future, the experiments will be expanded and retail competition will become a reality in Ohio, giving retail consumers a variety of electricity providers from which to choose.

In short, there will be deregulation of the industry and "retail wheeling" of power – all resulting in intense competition.

We cannot predict when these changes will occur nor the impact they will have on our ability to recover our investments. However, your Company's Board of Directors and top management have spent the last several years preparing for this competitive vision of the future. The merger with Ohio Edison to form FirstEnergy is perhaps the most dramatic and important action we've taken. The benefits to our share owners from this merger are significant. But equally important, the merger would help ensure our enterprise will move strongly and purposefully into this new competitive environment, with more resources and more opportunities for our Company and our employees to succeed than if we remained an independent entity.

Two paths of strategic change

Our newly launched advertising campaign talks about "New Power to You." The slogan is directed toward our retail customers, but it also applies to our Company. There's a "New Power" at Centerior Energy – the power to compete.

In 1994, we adopted our Strategic Plan to serve as a road map to enhanced competitiveness. Each year we establish measurable objectives that continue us on our path of successfully executing the Strategic Plan and becoming a stronger, more competitive utility. Achieving this ultimate objective is the single greatest challenge this Company has faced. It is an objective that has been carefully considered in light of our share owners, customers, the communities we serve and our employees.

We made meaningful progress in 1996 toward our overall Plan objectives. On some measures – such as debt reduction – we are now ahead of schedule. In other areas – revenue growth, for example – our efforts lag behind our interim objectives.

The year 1996 brought us to this important juncture. One course, the preferred choice, leads to the combination with Ohio Edison. The other calls for us to stay the course of independence.

Monthly price performance

Reflects closing price of Centerior common stock at end of last day of trading of each month.

FirstEnergy, the best choice

Simply put, FirstEnergy represents the best opportunity we have to accelerate our success in achieving competitiveness and enhanced share owner value. It will also provide our customers with reliable service at more stable and competitive prices and our employees with more opportunities than if we and Ohio Edison remained separate companies.

The combination of Centerior and Ohio Edison is a natural alliance of two companies with adjoining service areas who already share many major generating units, including two nuclear power plants. The new company will be the 11th largest investor-owned electric utility in the United States, with combined assets of more than $18 billion, a customer base of 2.1 million, annual revenues of roughly $5 billion and annual electric sales of 64 billion kilowatt-hours. Our service territory will stretch across all of northern Ohio and a portion of western Pennsylvania.

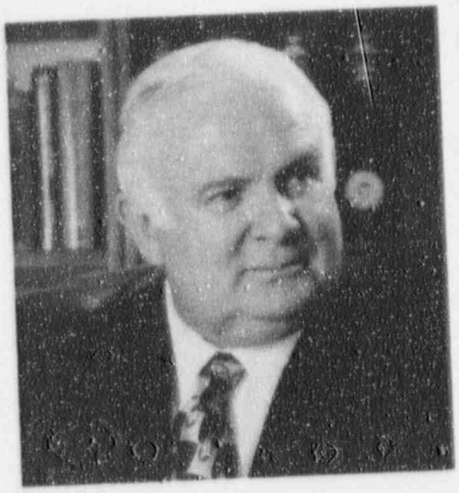
The merger is anticipated to produce substantial savings for the combined companies, estimated at approximately $1 billion over 10 years.

The benefits expected to be achieved from the merger include:

- competitive rates for our customers that will provide us with new sales opportunities;
- improved coordination, control and operation of major generating plants and transmission facilities;
- enhanced cash flow;
- accelerated debt reduction;
- elimination of duplicative activities;
- reduced operating expenses and cost of capital;
- elimination or deferral of certain capital expenditures;

- development of opportunities for sales of energy-related products and services; and
- enhanced purchasing capabilities for goods and services.

In addition to approval by share owners, the merger remains subject to a number of regulatory reviews. We cleared a very important hurdle in January 1997 when The Public Utilities Commission of Ohio (PUCO) approved FirstEnergy's rate reduction and economic development plan for customers of our two operating subsidiaries, The Cleveland Electric Illuminating Company and The Toledo Edison Company. The plan, which becomes effective only if the merger is consummated, will result in significant savings for our customers and enhance our position as the energy supplier of choice as we enter a more competitive era.



We expect the merger to be completed by the end of 1997.

1996 progress

As enthusiastic as we are about our future as part of FirstEnergy, we are also pleased with continuing actions taken within Centerior in 1996 to prepare for the future and enhance share owner value. It's becoming increasingly clear that our Company brings tremendous value to the new FirstEnergy.

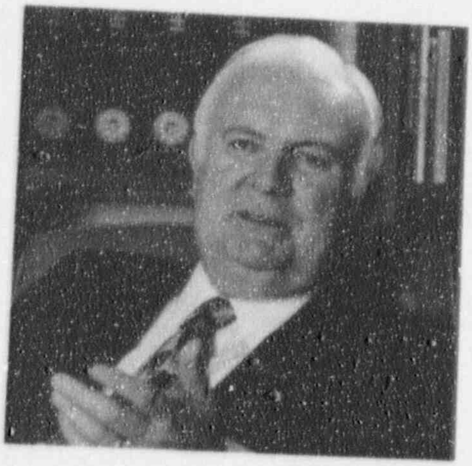
As outlined in our 1994 Strategic Plan, enhancing share owner value is driven by four imperatives: developing more competitive and efficient operations, building profitable revenues and reducing fixed costs, while improving customer service.

Developing more competitive and efficient operations. Our core operations – those that relate to the generation, transmission and distribution of electricity – are the areas of our keenest focus in preparing for change. This focus led to the creation in late 1995 of separate Strategic Business Groups (SBGs) directly responsible for these core operations, as well as for the corporate services that support them and for the identification of new business opportunities. The year 1996 was our first full year under this structure, and the results are helping to move the Company toward its goals and produce value for the new FirstEnergy enterprise.

For example, our **Generation Group's** aggressive business plan is designed to enhance the competitiveness of our fossil-fired and nuclear power plants. The plan establishes clear performance goals for every generation facility in the areas of safety and regulation, production and plant performance, and cost reduction. As a result, our generating units are performing well, while the total cost of operating our plants declined in 1996 by $74 million.

Our **Distribution Group**, meanwhile, is focusing on delivering better service to our customers, achieving operational excellence, and retaining and growing our core electric business, among other initiatives.

Our **Transmission Group** is moving aggressively to sell bulk power on the wholesale power market as a result of new federal rules that make such transactions easier, while our **Enterprises Group** entered into a telecommunications alliance with one of the largest and most respected corporations in the world, AT&T.



The **Business Services Group** is helping the Company reduce costs while improving the internal services it provides to the other SBGs.

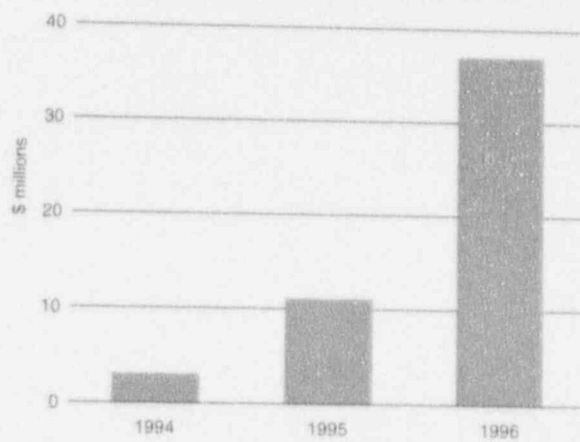
Our **Administration Group** insures that while each of the SBGs pursues its respective vision, we maintain our corporate perspective of creating value for our share owners. The Group brought our price increase request to a successful conclusion in 1996 and continues to help improve the Company's financial condition through tax and debt reduction. The Group also represents the Company in proactively shaping the industry.

Build revenues. In April, the PUCO granted Cleveland Electric and Toledo Edison the full $119 million price increase for which we filed in 1995. This was the first price increase for either of our operating units since 1991. The rate order represents a crucial step in helping the Company prepare for a more competitive future because it is helping generate cash to retire debt, allowing for recovery of deferred costs and improving the quality of earnings. And it puts the Company in a position to reduce prices in the future. Centerior's marketing and economic development efforts secure major new customers for our electricity, create jobs and help ensure a vibrant economic outlook for our service area. During 1996, we also made strides in our ongoing effort to secure multi-year contracts for service with the Company's major industrial customers.

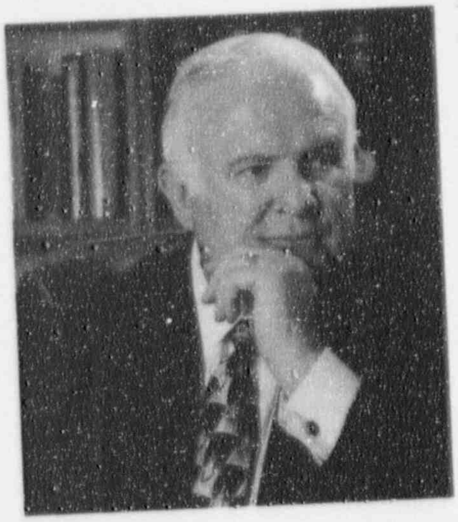
We renewed and extended for as long as 10 years contracts with many of our large industrial customers, including the six largest. As a result, at the end of 1996 more than half our industrial base revenues was under long-term contracts. While this strategy has resulted in lower prices for these customers, in the long run it is expected to maximize share owner value by retaining our customer base in a changing industry.

Reduce fixed costs. To become more competitive, we have also been focusing on reducing fixed costs. The year 1996 was our third consecutive year of significant reduction of debt, lease and preferred stock obligations. The Company reduced these obligations by a net of $227 million in 1996. Interest expense and preferred dividends were lower by $26 million, or 13 cents per share. Since our Strategic Plan was adopted, we have reduced our fixed obligations by $523 million. By continuing on this track, we expect to achieve our stand-alone goal of a total reduction of $1.3 billion by the year 2000. The merger may allow us to exceed that amount.

Cumulative total interest and preferred dividend reductions



Importantly, 1996 marked our first full fiscal year since we stopped deferring certain costs and began amortizing the accumulated balance. Although this results in lower earnings, the quality of earnings is better because they are more cash-based. It is cash that allows us to retire debt, to improve service and to invest prudently in growing our business. And it is cash that makes us more competitive. The Company's performance on this measure is strong and will improve even further. Free cash flow – cash after interest expense, preferred dividends, capital expenditures, operation and maintenance expenses, and taxes – has grown moderately since 1993. But in 1997 it is expected to increase substantially due to a full year of the price increase and additional operating and interest cost savings.



During 1996, we reduced our work force by 9 percent, from 6,821 to 6,204. We met and exceeded our reduction target of 500 for the year. Separation expenses associated with the employment reduction had a negative effect on earnings in 1996, but our smaller work force will significantly reduce future costs. Eliminating jobs is never easy or pleasant. However, it is vital if we are to continue as a viable enterprise and provide diverse employment opportunities in the future.

Improving customer service. We advanced a number of initiatives in 1996 to enhance our delivery of service to customers and improve their perception of the Company. For instance, we're clearing more tree branches from our lines and improving the speed and effectiveness of our responses to customer telephone inquiries. We're also automating part of our distribution system to reduce the length of service interruptions. As a result of our pending merger with Ohio Edison, we have formed a joint action team to further improve storm restoration activities.

Poised for success

Centerior continues to face powerful and complex challenges. As we said to you in last year's report, it is not going to be easy. However, we are very enthusiastic about the opportunity presented by the FirstEnergy merger, and we are also encouraged by developments within Centerior: by continuing progress; by the attainment of steps, both small and large, along the path to competitiveness; and by the spirit of change that is evident throughout our organization.

Many other examples of change follow in the pages of this annual report. As we assertively address the future and move the Company forward, we are continually grateful for the hard work of all of our employees, the privilege of serving our customers and, as always, the support of you, our share owners.

This was a watershed year for share owner value. We increased your stock price. We maintained your dividend. And either as part of the FirstEnergy family of companies or as a stand-alone company, we face the future poised for success.

Sincerely,

Robert J. Farling

Robert J. Farling
Chairman, President and Chief Executive Officer
February 24, 1997

What is New Power?

power

New Power is energy, strength and desire.

New Power is movement, transformation and change.

New Power is an enhanced commitment to customer service.

It is success.

New Power is Centerior Energy Corporation.

Our Company is embracing the changes in our industry, performing the hard tasks necessary to prepare us for this new reality. We are growing revenues through marketing initiatives and a price increase. We are securing our largest customers through long-term agreements that give us revenue stability. We are cutting operating costs through fiscal discipline and employment reductions.

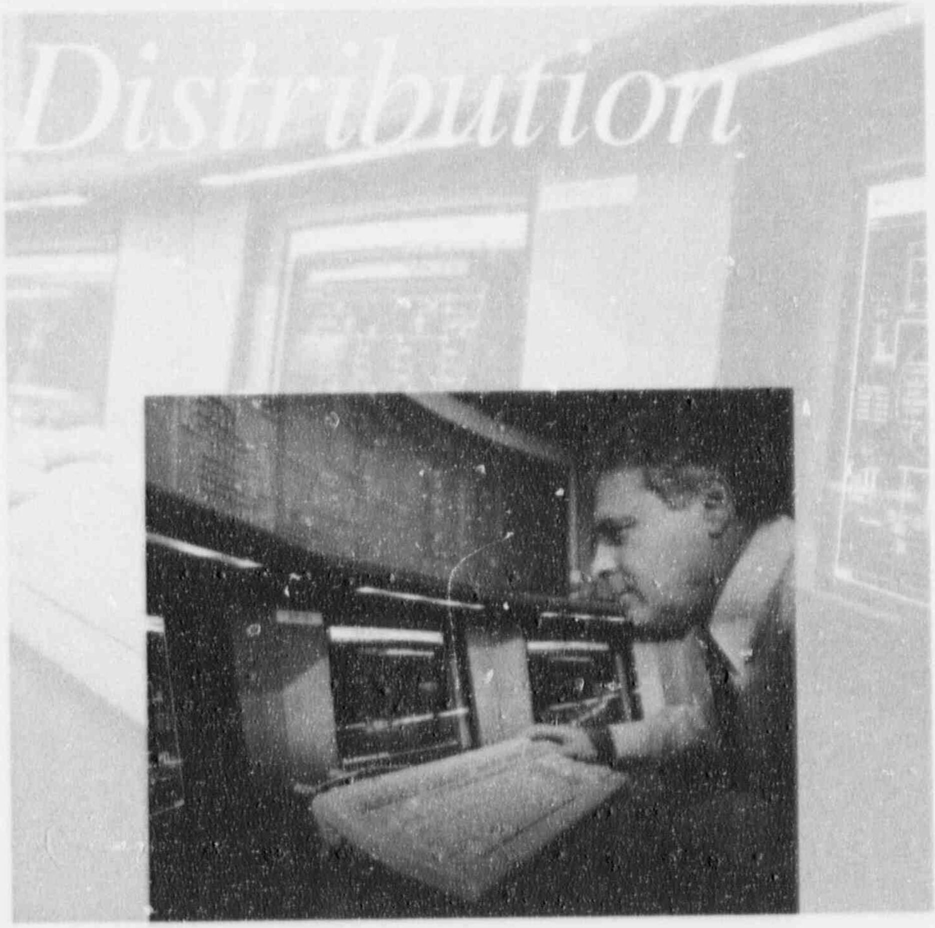
We are rethinking and improving the ways we operate our generating plants, deliver service to our customers and manage the supply of goods and services internally. We are using our core skills and assets to develop new opportunities in telecommunications. We are establishing fertile working relationships with top companies in other industries.

We are preparing for the future.

And we are making real progress.

That's the New Power of Centerior Energy Corporation.

The Power of Service



Distribution is the front line. It's where our Company meets our customers. It is one of many crucial elements in making our Company competitive. In its strategic business plan, the Distribution Group is focusing its efforts on:

- Delivering better service to our customers.
- Achieving operational excellence.
- Retaining and growing our core business.

Customer service

In the fourth quarter of 1996, we launched a major reengineering initiative to improve our customer service. The program aims to save the Company up to $20 million a year while greatly enhancing our ability to meet and exceed customers' expectations. We have targeted several specific areas for improvement, such as streamlining the customer billing and payment process, expediting the new-service installation process and redesigning our entire field work management effort. This initiative is continuing as part of the transition to FirstEnergy.

Our new INFORM computer system allows our customer service phone representatives to respond faster and more effectively to customer orders and requests for information. Instead of having to access several different computer screens during a typical customer call,

Achieving operational excellence is a key component of the Distribution Group's strategic business plan.

customer service representatives now can process many customer calls with just one screen. Our storm restoration efforts improved during 1996, as did the level of satisfaction our customers have with our service. We have established a goal for 1997 of raising customer satisfaction ratings by 35 percent over 1996 levels. Customer satisfaction is absolutely essential as we attempt to retain and expand our customer base in an increasingly competitive environment.

Operational excellence

Excellent operations means working safely to keep the lights on. The Distribution Group intends to be among the industry's leaders in service reliability, while maintaining a safe work environment for our employees. In 1996, we greatly expanded our commitment to trimming trees, which should reduce the frequency of system interruptions. To reduce the length of outages, we are installing a system to remotely control some of our larger distribution power lines, allowing us to bring them back on line without having to send out a work crew.

Retention and growth of our core business

We are seeking to grow our core business through economic development, winning customers from competitors, aggressive sales and marketing and a proactive contracting strategy aimed at our largest customers.

Economic development. We continue to view economic development as an important means of achieving sustained revenue growth. In 1996, we gained commitments on 47 economic development projects, representing almost $11 million in new and retained annual base rate revenues. These projects represent $407 million in new capital investment and almost 7,000 new and retained jobs for northern Ohio. We helped convince Delafoil/Phillips to build a 250,000-square-foot plant to produce television components near Toledo. In September, we saw the benefit of an earlier effort when Birmingham Steel's American Steel & Wire division unveiled its new $109 million precision rod and bar mill expansion in the Cleveland suburb of Cuyahoga Heights. At the opening ceremony, Ohio Governor George Voinovich publicly complimented Centerior for its vital role in economic development.

Competition. The Distribution Group is facing competitive challenges from a number of municipal systems – and

Customer satisfaction is essential as we enter an increasingly competitive environment.

Our storm restoration efforts improved during 1996, despite a devastating early November snow storm in Northeast Ohio.

we're more than holding our own. Our sales and marketing efforts proved successful in the retention of approximately $25 million in base rate revenues threatened by competition from alternate energy sources and municipal expansion.

The Cleveland Public Power (CPP) expansion program is falling far short of its goals for switching customers from Cleveland Electric. We have been successful in winning several new large customers, including a new federal office building in downtown Cleveland and the new Regional Transit Authority water-front rail line in Cleveland.

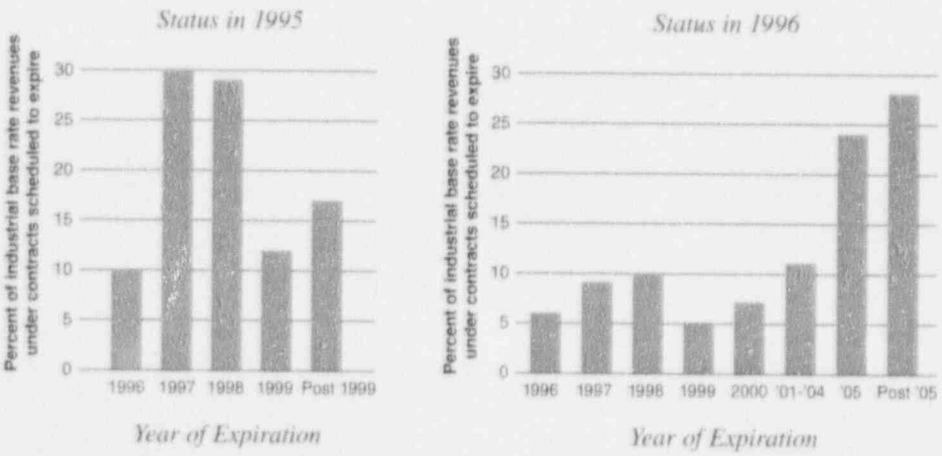
We also won a contract to serve 20 Cuyahoga County government buildings in the city – 10 of which were CPP customers.

Sales and marketing. During 1996, our sales and marketing efforts closed sales which will provide approximately $15 million annually in base rate revenues. These sales derive from a variety of initiatives, such as Night Vision (outdoor lighting); Recipe for Success (food service); process heating; sales of garage and other supplemental electric heaters; sales of carbon monoxide detectors; a renewed focus on marketing electric heating appliances and technologies in new home construction; and sales of electric devices and technology to individual, commercial and industrial customers.

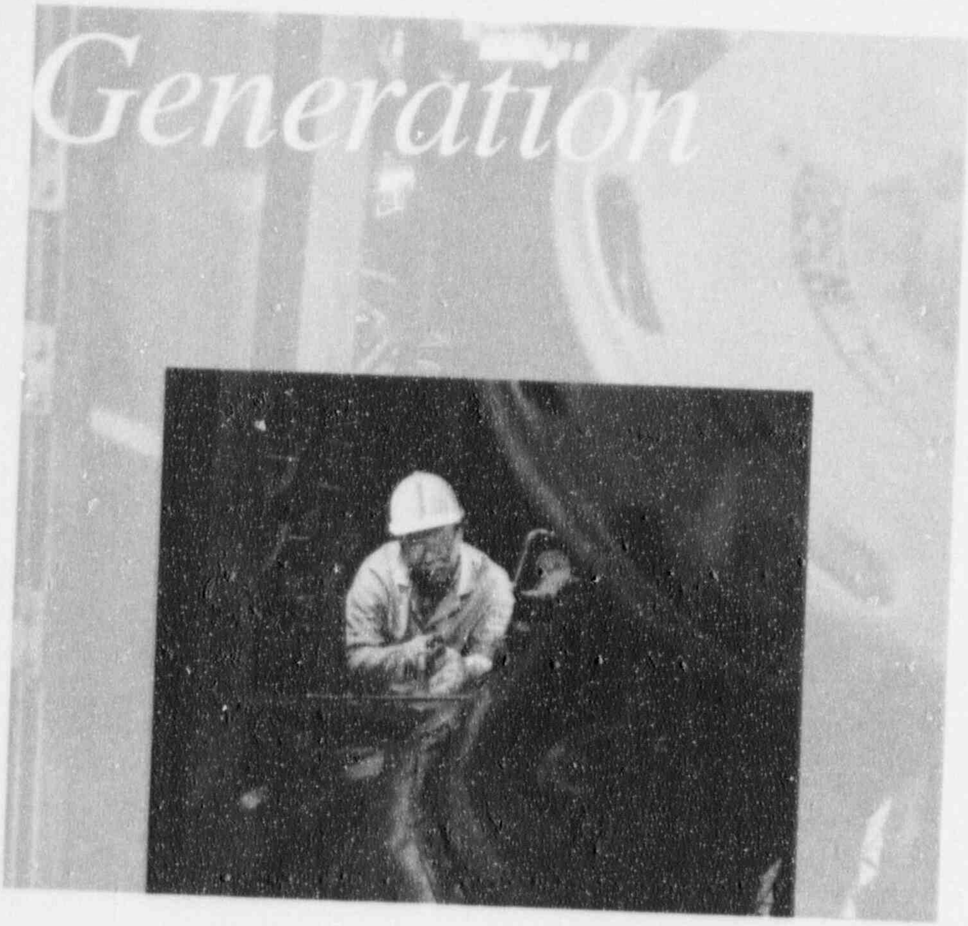
Contracts. In 1996, we continued to pursue a proactive contract strategy aimed at retaining and expanding sales to our largest industrial customers by renewing and extending contracts. Prior to these renewals, 69 percent of our industrial base rate revenues under contract was scheduled for renewal before 1999. Through our contract renewal activity, now only 19 percent of those contracted revenues is up for renewal before 1999 and 54 percent is secured under longer-term contracts.

By delivering better service, achieving operational excellence and retaining and growing our core business, our Distribution Group is playing a significant role in our strategy to become more competitive.

Revenue retention and expansion:
Major contract expirations advanced to beyond 2004



The Power of Change



Proper maintenance is important in improving plant performance.

The Generation Group continued to pursue strategies to safely improve plant performance while reducing operating costs.

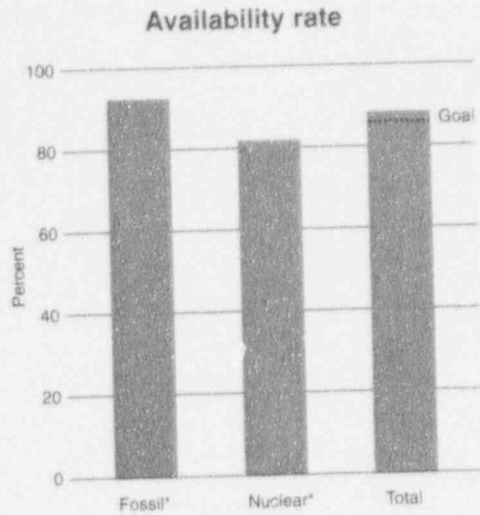
Since 1994, our cost to produce a kilowatt-hour of electricity has fallen nearly 14 percent, to 2.23 cents in 1996. Meanwhile, production remained essentially unchanged from 1995 – at approximately 32 million megawatt-hours of electricity – even though planned refueling outages were performed at all three nuclear units in 1996.

Nuclear

Our nuclear generating units had an excellent year, in terms of safety, regulation and performance. The Davis-Besse Nuclear Power Station continued to achieve the high marks that have made it a "world-class" nuclear performer, producing more than 6.4 million megawatt-hours in 1996, the most ever for the plant in a refueling outage year. Its scheduled refueling shutdown in the second quarter came after 509 days of continuous operation, the longest run in the plant's history. The refueling period lasted 55 days, which was the second shortest in the plant's history. Excluding the refueling period, Davis-Besse had an availability rate of 96 percent (85 percent including the refueling shutdown).

The Perry Nuclear Power Plant, meanwhile, continued its focus on improving operational and regulatory performance. Perry produced nearly 7.5 million megawatt-hours of electricity, the most ever by the plant in a refueling outage year. Its first-quarter scheduled refueling outage of 74 days was the shortest in plant history. At year-end, Perry had run 204 consecutive days, its third longest run ever. Excluding the scheduled refueling shutdown, Perry had an availability rate of 95 percent (79 percent including the refueling period). In the fourth quarter, the Nuclear Regulatory Commission characterized Perry operations as good overall and continuing to improve.

While the performance of Beaver Valley Power Station Unit 2 – of which we own and lease a portion but do not operate – was below expectations, management of the plant is taking positive steps to improve operations. The unit produced 2.13 million megawatt-hours of electricity as Centerior's share and was available 70 percent of the time overall. Beaver Valley Unit 2's 1996 refueling outage lasted 107 days.



*Does not include units [we] partially own and lease but do not operate.

Fossil

The Generation Group began implementation of its Fossil Operations Performance Improvement Program (FOPIP) in 1996. Key initiatives included the shutdown of the Acme Power Station and two high-production cost units at the Ashtabula Plant, and modified operations at other units. Unit 9 at our Avon Lake Plant, one of our largest fossil-fired units, had its best year ever with a 95 percent availability rate and the lowest production costs in its history. Eastlake Unit 1, a smaller unit, produced at an availability rate of 98 percent. At the Lake Shore Plant in Cleveland, placed in cold storage in 1993, we experimented with low-cost, low-sulfur coal from the western U.S. and a plant operation redesign.

The plant and employees performed extremely well in the experiment, demonstrating that the use of Western coal may provide future power marketing opportunities for Lake Shore.

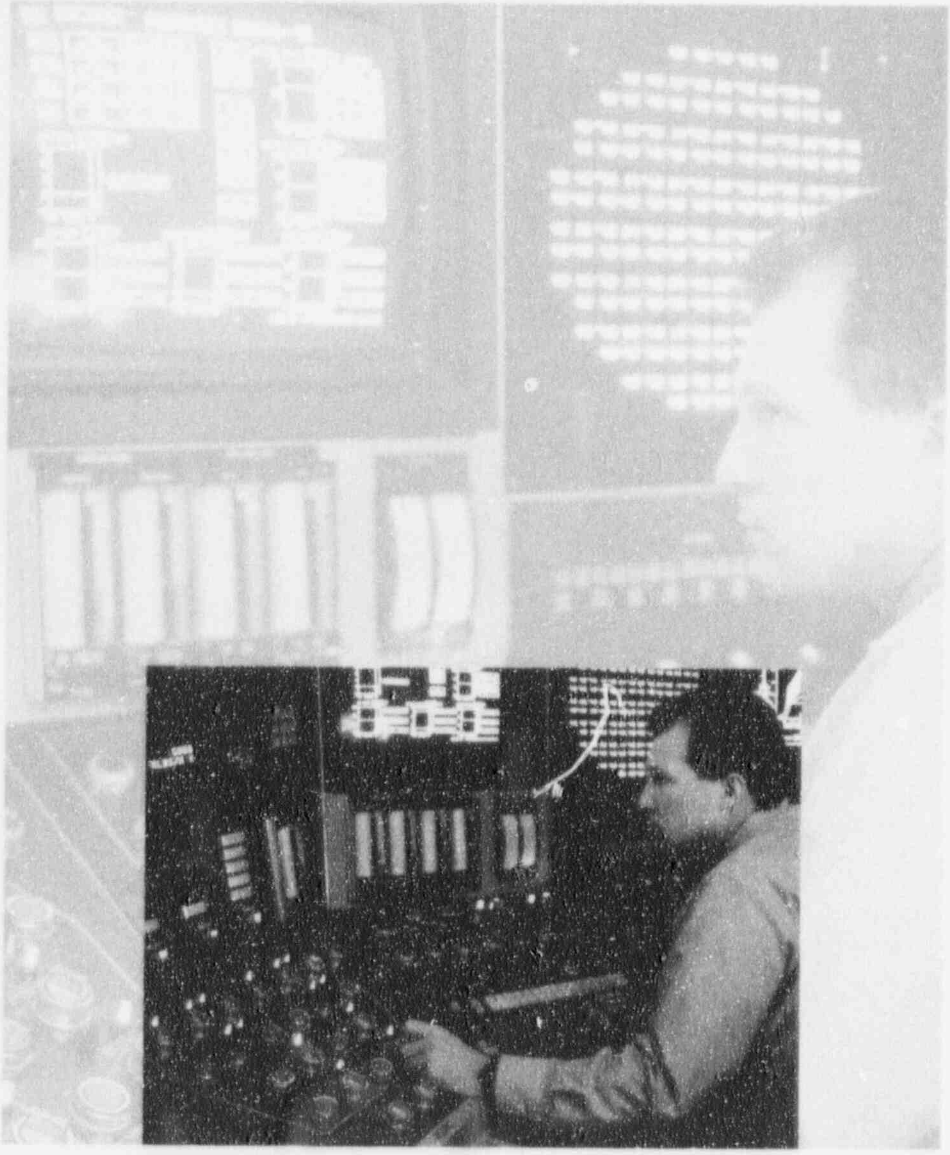
Reducing our costs remains critical if we intend to be competitive in a deregulated environment. During the year, the Generation Group reduced its total expenditures, including everything from operation and maintenance to capital and overhead, by $74 million. The group reduced its work force by 438 during the year.

1997

In 1997 and beyond, the Generation Group will continue to implement its strategic business plan focusing on:

- Maintaining world-class performance at Davis-Besse.
- Continuing improvement of operations and regulatory performance at Perry.
- Continuing implementation of FOPIP.
- Working closely with our power marketing unit to sell more electricity in the wholesale market.
- Continuing creative fuel supply options.
- Supporting and executing options and initiatives to reduce costs.

Among its goals for 1997 are to reduce production costs – operation and maintenance and fuel – by 11 percent and to lower total costs by 9 percent. The goals are aggressive, but significant progress is necessary if the Generation Group is to continue on its path toward enhanced competitiveness.



Our nuclear plants performed well in 1996.

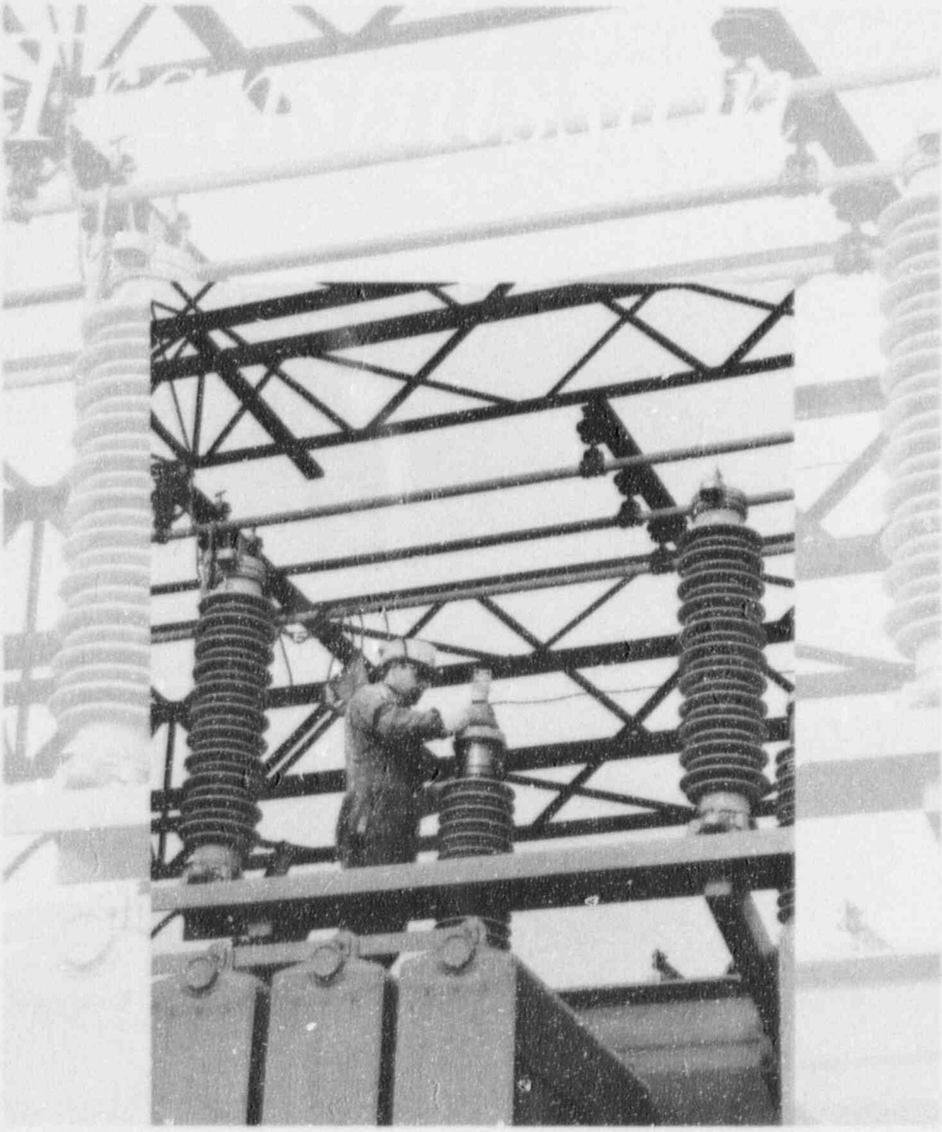
Nuclear plants receive honors

Davis-Besse was honored as "Outstanding Organization of the Year" by the Pacific Institute in Seattle. The Institute, an educational corporation that seeks to improve the effectiveness of individuals and organizations, works with more than 60 percent of the Fortune 500 companies and many international organizations.

Both Perry and Davis-Besse received positive recognition in 1996 from *Nucleonics Week*, a respected independent trade publication. The magazine ranked Davis-Besse second in the U.S. and sixth in the world in efficiency for producing 100 percent of its capacity in 1995. Perry, meanwhile, ranked 10th in the U.S. and 23rd in the world in production, generating a gross of 9.6 million megawatt-hours of electricity in 1995.

While we're pleased with the recognition, we're aware that the most difficult part -- maintaining and exceeding that high level of performance we have come to expect – has just begun.

The **Power** of Movement

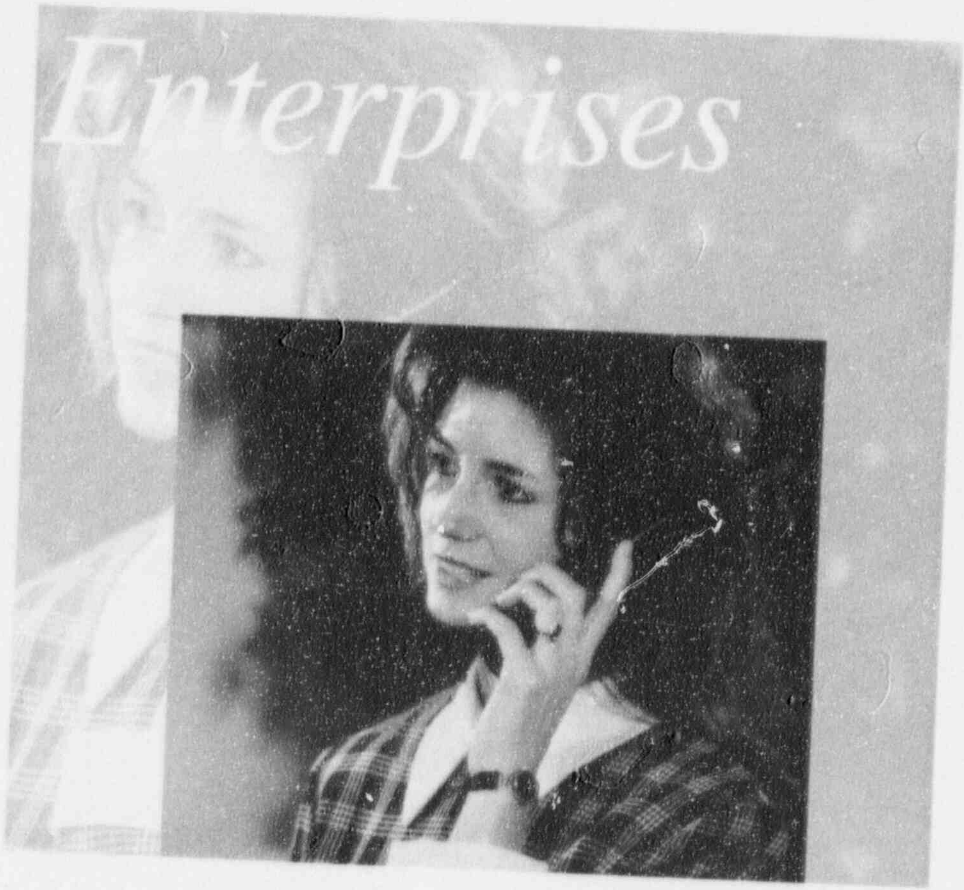


The Transmission Group's more aggressive power marketing program helped increase wholesale sales 7 percent.

The Transmission Group moved aggressively in 1996 to take advantage of new opportunities to actively buy and sell wholesale power on the open market. Under new orders from the Federal Energy Regulatory Commission (FERC), utilities must open their transmission systems to competitors under the same terms as their own internal transactions. Plus, the utilities must establish an Internet-based system to share information about transmission capacity and pricing with competitors.

In July, we filed an open-access tariff with the FERC so we can fully pursue power marketing transactions. We moved quickly to establish a separate, fully functioning power marketing entity that is already producing results. Wholesale power sales grew 7 percent in 1996.

The Power of Opportunity



Wireless telecommunications represents an enormous opportunity for the Company.

Our Enterprises Group is putting our core competencies and assets to work in non-traditional areas of business. In 1996, the Enterprises Group established an important alliance with telecommunications giant AT&T to build a highly sophisticated wireless telecommunications network in Northeast Ohio and western Pennsylvania.

Centerior owns a 25-percent equity stake in AT&T PCS Cleveland. The partnership has access to a license to supply personal communications services (PCS). PCS is the next wave of portable telecommunications, offering voice and data transmission that is more flexible, feature-filled and economical than cellular service.

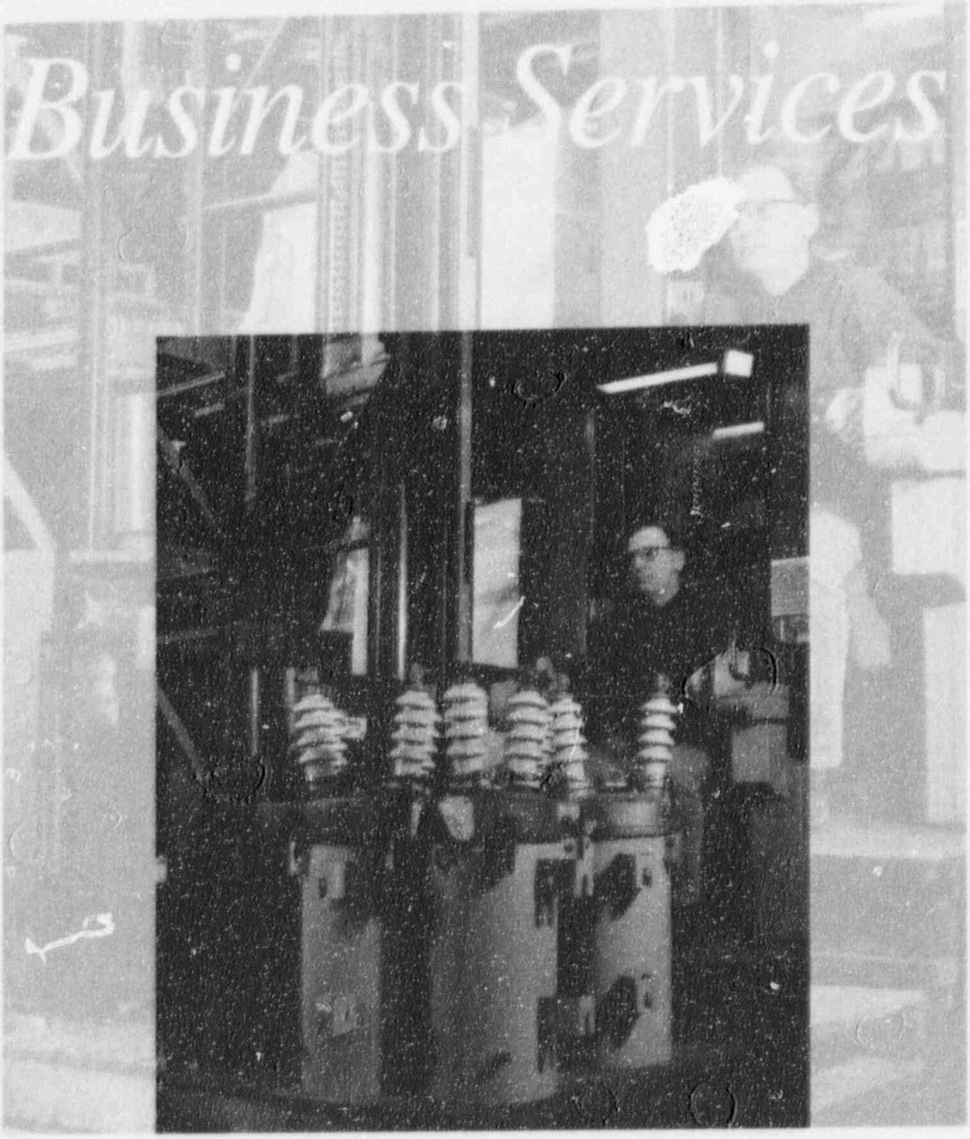
The network will improve our internal communications and serve as a springboard for Centerior to enter into the wholesale or retail telecommunications business. In 1996, the partnership began erecting telecommunications towers necessary to begin offering its services to the Cleveland area. The first commercial offering of the service is expected in the first half of 1997, and the partnership expects to be profitable by 1998.

The Power of Support

The Business Services Group worked actively to improve operating efficiencies and reshape public perceptions of the Company.

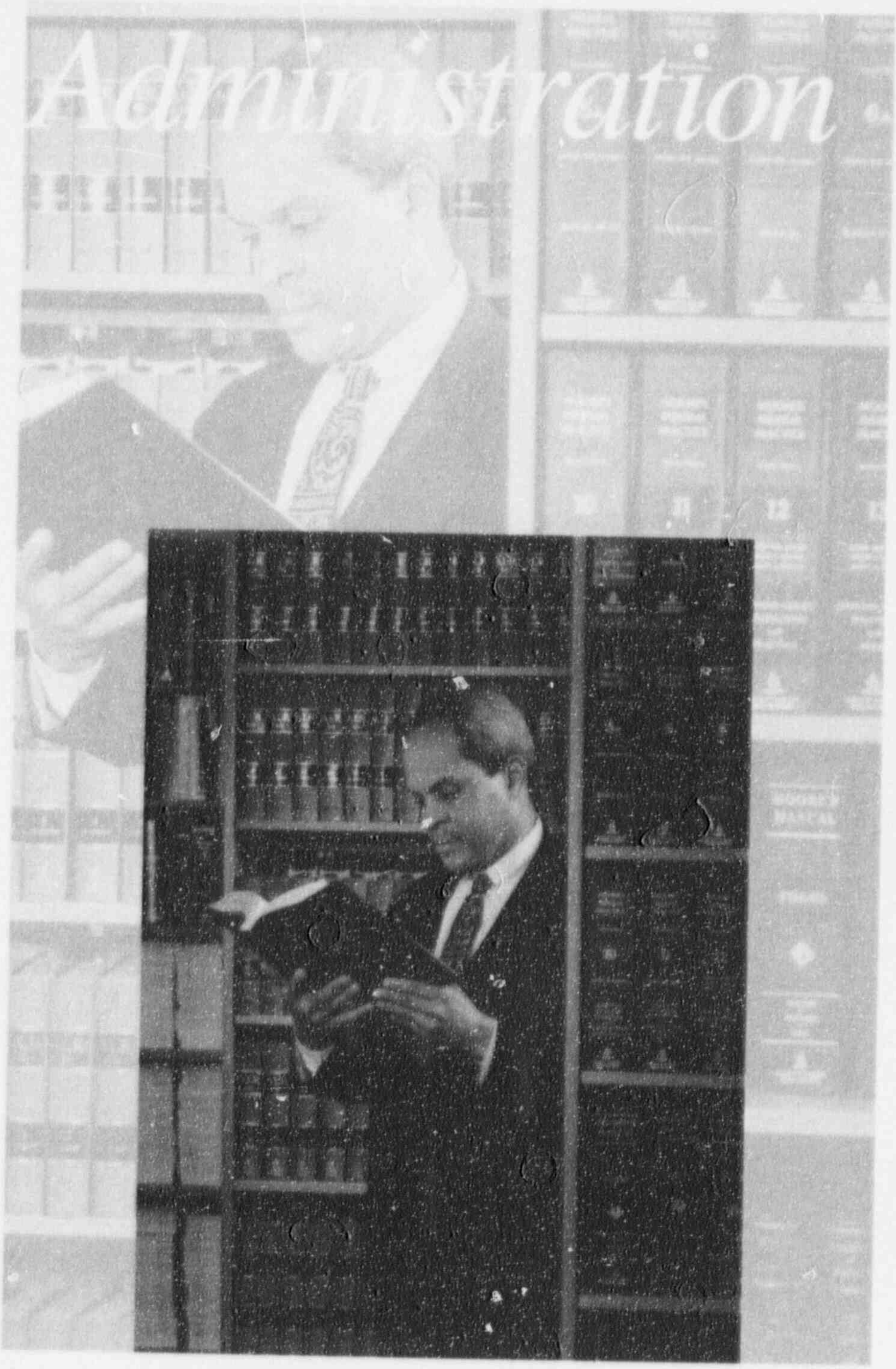
In 1996, our supply chain management program to reengineer the way the Company buys, delivers and stores goods and services made great strides in inventory management. The effort reduced our owned inventory balance by $66 million, and will provide $7 million in annual property tax savings in 1997 and beyond.

The Group also initiated a vibrant, energetic new advertising campaign for the Company, "New Power to You," that seeks to cement our position as the electricity supplier of choice in the Toledo and Cleveland markets. The advertising has been well received by consumers.



Our supply chain management program reengineered the way the Company buys, delivers and stores goods and services, saving the Company millions of dollars in the process.

The **Power** of Management



The Administration Group guided our price increase request to a successful completion in 1996, helping form a strong financial foundation for the Company.

Through its financial activities, the Group also helped reduce costs. Tax reduction ideas saved the Company $4 million annually starting in 1997. In July, we raised $150 million to retire debt through the sale of securities backed by the monthly electric bills owed to us by our customers. Most of the net proceeds were used to retire higher-cost debt. The action, unusual for our industry but used regularly in others, should save us more than $3 million in annual interest payments.

The Group is actively participating in efforts in the state and national capitals to reshape the electric utility industry. In August, the Administration Group shared our vision of the future of the electric utility industry in Ohio by introducing *"EnergyChoice"* to the PUCO-sponsored Ohio Roundtable on Competition in the Electric Industry. *"EnergyChoice"* advocates that, as part

The Administration Group is playing an active role in reshaping the laws and regulations governing our industry.

of the introduction of retail wheeling, we need to achieve fair resolutions to two key issues: stranded investment recovery and tax reform. (See accompanying story for more details.)

The Group is committed to providing a fair and equitable opportunity for all employees to grow and contribute to the Company's future. It continued the implementation of a performance-based management program to facilitate employee development.

Utilities have spent billions of dollars to provide electric power for customers' current and future needs, investments that could be stranded unless the transition to a competitive industry includes provisions for fair and equitable cost recovery.

Stranded costs and tax reform: A closer look

Stranded costs. Currently, investor-owned electric utilities are assigned designated service areas in Ohio and are required to provide electric power for customers' current and future energy needs. To meet this obligation to serve, electric utilities invested billions of dollars in generation, transmission and distribution facilities.

As the industry is deregulated and multiple utility and non-utility power sources are made available, customers could choose different suppliers, leaving behind – or stranding – investments made by share owners in order for the utilities to serve their customers' needs. Investor-owned electric utilities have met their obligation to serve, as required under the regulatory compact. That compact is crumbling now, and retail competition is coming. We accept that. But share owners are entitled to a fair return on the investments they made under the old rules.

Tax reform. Investor-owned electric utilities in Ohio are charged higher tax rates than similar companies in surrounding states and municipally-owned electric utilities in the state. Taxes take away money from utilities that would go to other uses, such as investing in new equipment or lowering rates. This situation seriously impedes the ability of investor-owned utilities in Ohio to compete in an open market and acts as a drag on economic growth in the State.

Management's Financial Analysis

Outlook

Strategic Plan

In early 1994, we created a strategic plan to achieve the twin goals of strengthening our financial condition and improving our competitive position. To meet these goals, we seek to maximize share owner return, achieve profitable revenue growth, become a leader in customer satisfaction, build a winning employee team and attain increasingly competitive supply costs. During 1996, the third year of the eight-year plan, we made strong gains toward reaching some plan objectives but need significant improvement on others.

A major step taken to reach the twin goals was our agreement to merge with Ohio Edison Company (Ohio Edison) to form a new holding company called FirstEnergy Corp. (FirstEnergy). The proposed merger, combined with good operating performance, our successful price increase and the accelerated paydown of debt, resulted in a significant stock price gain, such that the total return to our common stock share owners during 1996 was 33%. The merger is expected to better position both companies to meet coming competitive challenges.

Revenue growth is a key objective of our plan, from pricing actions as well as market expansion.

In April 1996, The Public Utilities Commission of Ohio (PUCO) approved in full the $119 million price increases requested by our subsidiaries, The Cleveland Electric Illuminating Company (Cleveland Electric) and The Toledo Edison Company (Toledo Edison) (collectively, the Operating Companies). The primary purpose of the increases was to provide additional revenues to recover all the costs of providing electric service, including deferred costs, and provide a fair return to our common stock share owners. The additional revenues also provided cash to accelerate the redemption of debt and preferred stock.

Kilowatt-hour sales to retail customers were virtually unchanged compared to 1995 results, while wholesale sales increased by 6.8% from 1995 as a result of the good availability of our generating units and a more aggressive bulk power marketing effort. Adjusted for weather, however, kilowatt-hour sales to residential and commercial customers increased by 1% and 1.7%, respectively, from 1995.

Another key element of our revenue strategy is to offer long-term contracts to large industrial customers who might otherwise consider changing power suppliers. During 1996, we renewed and extended for as long as ten years contracts with many of our large industrial customers, including the six largest. While this strategy has resulted in lower prices for these customers, in the long run, it is expected to maximize share owner value by retaining our customer base in a changing industry. Prior to these renewals, 69% of our industrial base rate (nonfuel) revenues under contract was scheduled for renewal before 1999. Following the renewals, the comparable percentage is 19%. At year-end 1996, 54% of our industrial base rate revenues was under long-term contracts.

Northwest Ohio is recognized as one of the nation's leading areas in job creation and economic growth. New and expanded operations at businesses such as Delafoil/Phillips and Alcoa, as well as the development surrounding a new, major North Star BHP Steel facility, are adding to our opportunities for revenue growth. In 1996, we gained commitments on 47 economic development projects, representing almost $11 million in new and retained annual base rate revenues and nearly 7,000 new and retained jobs for Northern Ohio.

Under the strategic plan, we are structured in six strategic business groups to better focus on our competitiveness. During 1996, we reduced employment from about 6,800 to 6,200, below our goal of 6,300. Further reduction in our work force to about 5,800 is planned by year-end 1997. We also plan to reduce expenditures for operation and maintenance activities (exclusive of fuel and purchased power expenses) and capital projects from $954 million in 1996 to approximately $900 million in 1997 by continuing to streamline operations. We will continue to reduce our unit cost of fuel used for generating electricity, while safely improving the operating performance of our generation facilities.

Reducing fixed financing costs is another primary objective in strengthening our financial and competitive position. In 1996, we reduced our fixed obligations for debt, preferred stock and generation facilities leases (partially offset by the new accounts receivable securitization) by $227 million. See Notes 1(i) and 2. Interest expense and preferred dividends dropped $26 million. In the last three years, fixed obligations were reduced by $523 million which is ahead of the schedule in our strategic plan to reduce these obligations by $1.3 billion by 2001.

In 1996, we reported earnings per common share of $.82 compared to $1.49 in 1995. The reported decrease masks a $.05 per share increase in basic earnings from operations and a significant improvement in the quality of reported earnings. The decline in reported earnings is primarily attributable to the delay in implementing our price increase until late April, while we began at the end of 1995 to charge earnings for operating expenses and amortization of deferrals which the price increase was designed to recover. The price increase contributed approximately $47 million after tax, or $.32 per share, more cash to our earnings in 1996. In addition, 1996 results included noncash charges against earnings of $22 million after tax, or $.15 per share, for the disposition of inventory and write-down of inactive production facilities. The full benefit of our $119 million price increase, substantial reductions in operation and maintenance expenses and a continuing decline in interest charges are expected to result in improvement in earnings and cash flow from operations in 1997.

Pending Merger with Ohio Edison

On September 16, 1996, we announced the merger with Ohio Edison in a stock-for-stock transaction. Our share owners will receive 0.525 of a share of FirstEnergy common stock for each share of Centerior Energy common stock owned, while Ohio Edison share owners will receive one share of FirstEnergy common stock for each share of Ohio Edison common stock owned. FirstEnergy plans to account for the merger as a purchase in accordance with generally accepted accounting principles.

We believe that the merger will create a company that is better positioned to compete in the electric utility industry than either we or Ohio Edison could on a stand-alone basis, enhancing long-term share owner value and providing customers with reliable service at more stable and competitive prices.

The combination of Centerior Energy and Ohio Edison is a natural alliance of two companies with adjoining service areas who already share many major generating units. FirstEnergy expects to reduce costs, maximize efficiencies and increase management flexibility in order to enhance revenues, cash flows and earnings and be a more effective competitor in the increasingly competitive electric utility industry.

FirstEnergy anticipates the merger will result in net savings for the combined companies of approximately $1 billion over ten years, in addition to the impact of cost reduction programs underway at both companies. The additional savings, which we believe could not be achieved without the merger, will result primarily from the reduction of duplicative functions and positions, joint dispatch of generating facilities and procurement efficiencies. We expect reductions in labor costs to comprise slightly over half the estimated savings. In addition, FirstEnergy expects to reduce system-wide debt by at least $2.5 billion through the year 2000, yielding additional long-term savings in the form of lower interest expense.

The Operating Companies' share of the $1 billion of savings will permit them to reduce prices to their customers as discussed below under FirstEnergy Rate Plan. Absent the merger, the Operating Companies plan to achieve savings as well, but at a lower level, which is expected to allow prices to be frozen at current levels until at least 2002 despite inflationary pressures.

Ohio Edison currently has an indicated annual common stock dividend of $1.50 per share and Centerior Energy currently has an indicated annual common stock dividend of $.80 per share. FirstEnergy expects that its dividend at the time of consummation of the merger will be at least equivalent to an indicated annual dividend of $1.50 per share of Ohio Edison common stock and $.7875 per share of Centerior Energy common stock. Dividend action by Centerior Energy prior to the merger and dividend action by FirstEnergy after such time will be determined by their respective Boards of Directors. The merger agreement limits the indicated annual dividends prior to the merger to $.80 per share of Centerior Energy common stock and $1.60 per share of Ohio Edison common stock. See Capital Resources and Liquidity-Liquidity below.

Various aspects of the merger are subject to the approval of the Federal Energy Regulatory Commission (FERC) and other regulatory authorities. Common stock share owners of Centerior Energy and Ohio Edison are expected to vote on approval of the merger agreement on March 27, 1997. The merger must be approved by the affirmative votes of the share owners of at least two-thirds of the outstanding shares of Ohio Edison common stock and a majority of the outstanding shares of Centerior Energy common stock. The merger is expected to be effective in late 1997.

FirstEnergy Rate Plan

On January 30, 1997, the PUCO approved a Rate Reduction and Economic Development Plan (Plan) for the Operating Companies to be effective upon the consummation of the merger. The Plan would be null and void if the merger is not consummated. The rate order granting the April 1996 price increase will remain in full force and effect during the pendency of the merger or if the merger is not consummated.

The Plan calls for a base rate freeze through 2005 (except to comply with any significant changes in environmental, regulatory or tax laws), followed by an immediate $310 million (which represents a decrease of approximately 15% from current levels) base rate reduction in 2006; interim reductions beginning seven months after consummation of the merger of $3 per month increasing to $5 per month per residential customer by July 1, 2001; $105 million for economic development and energy efficiency programs; earnings caps for regulatory purposes for the Operating Companies; a commitment by FirstEnergy for a reduction, for regulatory accounting purposes, in nuclear and regulatory assets by the end of 2005 of at least $2 billion more than it otherwise would be, through revaluing facilities or accelerating depreciation and amortization; and a freeze in fuel cost factors until December 31, 2005, subject to PUCO review at year-end 2002 and annual inflation adjustments. The Plan permits the Operating Companies to dispose of generating assets subject to notice and possible PUCO approval, and to enter into associated power purchase arrangements.

Total price savings for the Operating Companies' customers of about $391 million are anticipated over the term of the Plan, as summarized below, excluding potential economic development benefits and assuming that the merger takes place on December 31, 1997.

Year	Amount (millions of dollars)
1998	$ 21
1999	37
2000	43
2001	54
2002	59
2003	59
2004	59
2005	59
Total	$391

Under the Plan's earnings cap, the Operating Companies will be permitted to earn up to an 11.5% return on common stock equity for regulatory purposes during calendar years prior to 2000, 12% during calendar years 2000 and 2001, and 12.59% during calendar years 2001 through 2005. The regulatory return on equity is generally expected to be lower than the return on equity calculated for financial reporting purposes due to the calculation methodology defined by the Plan and, as discussed in the next paragraph, anticipated differences in accounting for the Plan for financial reporting versus regulatory purposes. If for any calendar year the regulatory return on equity exceeds the specified level, the excess will be credited to customers, first through a reduction in Percentage of Income Payment Plan (PIPP) arrearages and then as a credit to base rates. PIPP is a deferred payment program for low-income residential customers.

The Plan requires, for regulatory purposes, a revaluation of or an accelerated reduction in the Operating Companies' investment in nuclear plant and certain regulatory assets (excluding amounts due from customers for future federal income taxes) by at least $2 billion by the end of 2005. Only a portion of the $2 billion of accelerated costs is expected to be charged against earnings for financial reporting purposes by 2005.

FirstEnergy believes that the Plan will not provide for the full recovery of costs and a fair return on investment associated with the Operating Companies' nuclear operations. Pursuant to the PUCO's order, FirstEnergy is required to submit to the PUCO staff the regulatory accounting and cost recovery details for implementing the Plan. After approval of such details by the PUCO staff, FirstEnergy expects that the Operating Companies will discontinue the application of Statement of Financial Accounting Standards (SFAS) 71 for their nuclear operations if and when consummation of the merger becomes probable. The remainder of their business is expected to continue to comply with the provisions of SFAS 71. At the time the merger is probable, the Operating Companies would be required to write off certain of their regulatory assets for financial reporting purposes. The write-off amounts would be determined at that time. FirstEnergy estimates the write-off will be approximately $750 million. Under the Plan, some or all of this write-off cannot be applied toward the $2 billion regulatory commitment discussed above. For financial reporting purposes, nuclear generating units are not expected to be impaired. If events cause one or both Operating Companies to conclude they no longer meet the criteria for applying SFAS 71 for the remainder of their business, they would be required to write off their remaining regulatory assets and measure all other assets for impairment. For a discussion of the criteria for complying with SFAS 71, see Note 7(a).

April 1996 Rate Order

In its April 1996 order, the PUCO granted price increases totaling $119 million in annualized revenues to the Operating Companies. The Operating Companies intend to freeze rates at existing levels until at least 2002, although they are not precluded from requesting further price increases. In the order, the PUCO provided for recovery of all regulatory assets in the approved rates, and the Operating Companies continue to comply with the provisions of SFAS 71.

In connection with its order, the PUCO recommended that the Operating Companies write down certain assets for regulatory purposes by an aggregate of $1.25 billion through 2001. If the merger is consummated, we believe acceleration of $2 billion of costs under the Plan would fully satisfy this recommendation. We agree with the concept of accelerating the recognition of costs and the recovery of assets as such concept is consistent with our strategic objective to become more competitive. However, we believe that such acceleration must also be consistent with the reduction of debt and the opportunity for Centerior Energy common stock share owners to receive a fair return on their investment. Consideration of whether to implement a plan responsive to the PUCO's recommendation to revalue assets by $1.25 billion is pending the merger with Ohio Edison.

Notwithstanding the pending merger with Ohio Edison and discussions with regulators concerning the effect of the Plan on our nuclear generating assets, we believe it is reasonable to expect that rates will be set at levels that will recover all current and anticipated costs associated with our nuclear operations, including all associated regulatory assets, and such rates can be charged to and collected from customers. If there is a change in our evaluation of the competitive environment, regulatory framework or other factors, or if the PUCO significantly reduces the value of our assets or reduces the approved return on common stock equity of 12.59% and overall rate of return of 10.06%, or both, for future regulatory purposes, the Operating Companies may be required to record material charges to earnings.

Merger of the Operating Companies

In October 1996, the FERC authorized the merger of Toledo Edison into Cleveland Electric. The merger agreement between Centerior Energy and Ohio Edison requires the approval of Ohio Edison prior to consummation of the proposed merger of the Operating Companies. Ohio Edison has not yet made a decision.

Competition

Structural changes in the electric utility industry from actions by both federal and state regulatory bodies are continuing to place downward pressure on prices and increase competition for customers. Our nuclear plant licenses have required open-access transmission for our wholesale customers for 20 years. More recently, the Federal Energy Policy Act of 1992 initiated broader access to utility transmission systems and, in 1996, the FERC adopted rules relating to open-access transmission services. The open-access rules require utilities to deliver power from other utilities or generation sources to their wholesale customers at nondiscriminatory prices.

A number of states have enacted transition legislation which provides for introduction of competition for retail electric business and recovery of stranded investment. Several groups in Ohio are studying the possible introduction of retail wheeling and stranded investment recovery. Retail wheeling occurs when a customer obtains power from a utility company other than its local utility. The term "stranded investment" generally refers to fixed costs approved for recovery under traditional regulatory methods that would become unrecoverable, or "stranded", as a result of legislative changes which allow for widespread competition. The PUCO is sponsoring discussions among a group of business, utility and consumer interests to explore ways of promoting competitive options without unduly harming the interests of utility company share owners or customers. The PUCO also has introduced two pilot projects, both intended as initial steps to introduce competitive elements into the Ohio electric utility business.

A bill to restructure the electric utility industry in Ohio has been introduced in the Ohio House of Representatives. A bipartisan committee from both legislative houses has been formed to study the issue. We presented our model for customer choice, called Energy Choice, to the PUCO discussion group in August 1996. Under our model, full retail competition should be introduced by 2002, but two essential elements, recovery of stranded investment and levelization of tax burdens among energy suppliers, must be resolved in the interim to assure share owners' recovery of and a fair return on their investments.

Although competitive pressures are increasing, the traditional regulatory framework remains in place and is expected to continue for the foreseeable future. We cannot predict when and to what extent retail wheeling or other forms of competition will be allowed. We believe that pure competition (unrestricted retail wheeling for all customer classifications) is at least several years away and that any transition to pure competition will be in phases. The FERC and the PUCO have acknowledged the need to provide at least partial recovery of stranded investment as greater competition is permitted and, therefore, we believe that there will be a mechanism developed for the recovery of at least some stranded investment. However, due to the uncertainty involved, there is a risk in connection with the introduction of retail wheeling that some of our assets may not be fully recovered.

Competition from municipal electric suppliers for retail business in both Operating Companies' service areas is producing both favorable and unfavorable results in our business. Through aggressive door-to-door campaigns, we have been successful in limiting the number of conversions of Cleveland Electric customers to Cleveland Public Power (CPP) under its ongoing expansion plan. CPP is the largest municipal supplier in our service areas. In 1996, we reached agreements to serve a number of large Cleveland commercial customers, including some previously served by CPP.

In the Toledo Edison service area, all existing customers in the City of Clyde now have the right to choose between the municipal supplier and Toledo Edison, as a result of a November 1996 referendum overturning a Clyde ordinance limiting such choice. In Toledo, City Council funded a consultant's study of alternatives to Toledo Edison service. Municipal expansion activity continues in areas surrounding several towns serviced by municipal systems in the Toledo Edison service area. We continue to pursue legal remedies to halt illegal municipal expansion in both service areas.

Our merger with Ohio Edison and the benefits of the Plan to our customers are expected to better position us to deal with the structural changes taking place in the industry and to improve our competitive position with respect to municipalization.

Nuclear Operations

We have interests in three nuclear generating units — Davis-Besse Nuclear Power Station (Davis-Besse), Perry Nuclear Power Plant Unit 1 (Perry Unit 1) and Beaver Valley Power Station Unit 2 (Beaver Valley Unit 2) — and operate the first two.

All three units were out of service temporarily for refueling during 1996; thus, plant availability factors for Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2 were 85%, 79% and 70%, respectively, for 1996. The 1994-1996 availability factors for the units were 91%, 73%, and 85%, for Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2, respectively. The comparable industry averages for a three-year period (as of August 31, 1996) are 82% for pressurized water reactors such as Davis-Besse and Beaver Valley Unit 2 and 78% for boiling water reactors such as Perry Unit 1. Davis-Besse established a plant record with its 509-day continuous run at or near full capacity before shutting down for its scheduled refueling outage in April 1996.

A significant part of our strategic plan involves ongoing efforts to increase the availability and lower the cost of production of our nuclear units. In 1996, we continued our progress toward increasing long-term unit availability while continuing to lower production costs. The goal of our nuclear improvement program is to replicate Davis-Besse's operational excellence and cost reduction gains at Perry Unit 1, while improving performance ratings.

Our nuclear units may be impacted by activities or events beyond our control. Operating nuclear units have experienced unplanned outages or extensions of scheduled outages because of equipment problems or new regulatory requirements. A major accident at a nuclear facility anywhere in the world could cause the Nuclear Regulatory Commission to limit or prohibit the operation or licensing of any domestic nuclear unit. If one of our nuclear units is taken out of service for an extended period for any reason, including an accident at such unit or any other nuclear facility, we cannot predict whether regulatory authorities would impose unfavorable rate treatment. Such treatment could include taking our affected unit out of rate base, thereby not permitting us to recover our investment in and earn a return on it, or disallowing certain construction or maintenance costs. An extended outage coupled with unfavorable rate treatment could have a material adverse effect on our financial condition, cash flows and results of operations. Premature plant closings could also have a material adverse effect on our financial condition, cash flows and results of operations because the estimated cost to decommission a plant exceeds the current funding in the decommissioning trust.

Hazardous Waste Disposal Sites

The Operating Companies have been named as "potentially responsible parties" (PRPs) for three sites listed on the Superfund National Priorities List (Superfund List) and are aware of their potential involvement in the cleanup of several other sites. Allegations that the Operating Companies disposed of hazardous waste at these sites, and the amount involved, are often unsubstantiated and subject to dispute. Federal law provides that all PRPs for a particular site be held liable on a joint and several basis. If the Operating Companies were held liable for 100% of the cleanup costs of all the sites referred to above, the cost could be as high as $415 million. However, we believe that the actual cleanup costs will be substantially lower than $415 million, that the Operating Companies' share of any cleanup costs will be substantially less than 100% and that most of the other PRPs are financially able to contribute their share. The Operating Companies have accrued a liability totaling $10 million at December 31, 1996 based on estimates of the costs of cleanup and their proportionate responsibility for such costs. We believe that the ultimate outcome of these matters will not have a material adverse effect on our financial condition, cash flows or results of operations.

A new Statement of Position issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, Inc. effective January 1, 1997 provides guidance on the recognition and disclosure of environmental remediation liabilities. Adoption of the statement in 1997 is not expected to have a material adverse effect on our financial condition or results of operations.

Capital Resources and Liquidity

1994-1996 Cash Requirements

We need cash for normal corporate operations (including the payment of dividends), retirement of maturing securities, and an ongoing program of constructing and improving facilities to meet demand for electric service and to comply with government regulations. Our cash construction expenditures totaled $205 million in 1994, $201 million in 1995 and $151 million in 1996. Our debt and preferred stock maturities and sinking fund requirements totaled $119 million in 1994, $374 million in 1995 and $235 million in 1996. In addition, we optionally redeemed $525 million of securities in the 1994-1996 period, including $237 million of tax-exempt issues refunded in 1995.

In July 1996, Centerior Funding Corporation (Centerior Funding), a wholly owned subsidiary of Cleveland Electric, issued $150 million in AAA-rated accounts receivable-backed investor certificates due in 2001 with an interest rate of 7.2%. Net proceeds from the accounts receivable securitization were used to redeem higher-cost securities and for general corporate purposes.

As a result of these activities, the embedded cost of the Operating Companies' debt at the end of 1996 declined to 8.92% versus 8.98% in 1995 and 9.12% in 1994.

We renewed a $125 million revolving credit facility in May 1996 for a one-year term. In 1996, portions of our nuclear fuel lease financing vehicles matured: $84 million of intermediate-term notes in September and a $150 million letter of credit supporting short-term borrowing in October. These facilities were replaced by $100 million of intermediate-term notes and a $100 million two-year letter of credit. The net reduction in the facility size results from lower nuclear fuel financing requirements.

1997 and Beyond Cash Requirements

Our anticipated 1997 cash requirements for construction are $110 million for Cleveland Electric and $61 million for Toledo Edison. Debt and preferred stock maturities and sinking fund requirements are $145 million for Cleveland Electric and $51 million for Toledo Edison. Of these amounts, $70 million for Cleveland Electric and $10 million for Toledo Edison are tax-exempt issues secured by first mortgage bonds and subject to optional tender by the owners on November 1, 1997, which we expect to replace with similar issues at substantially lower interest rates. We expect to meet remaining requirements with internal cash generation and cash reserves. We also expect to be able to optionally redeem more debt and preferred stock in 1997 than we did in 1996.

We expect to meet all of our 1998-2001 cash requirements with internal cash generation. Estimated cash requirements for our construction program during this period total $496 million for Cleveland Electric and $213 million for Toledo Edison. Debt and preferred stock maturities and sinking fund requirements total $445 million and $207 million for Cleveland Electric and Toledo Edison, respectively, for the same period. If economical, additional securities may be redeemed with funding expected to be provided through internal cash generation. External funding may be required to support investments in nonregulated business opportunities.

Consummation of the merger with Ohio Edison is expected to reduce the Operating Companies' cash construction requirements and improve their ability to redeem fixed obligations.

Liquidity

Net cash flow from operating activities in 1996 was significantly increased from 1995 by implementation of the price increases effective in April 1996. Most of the net proceeds from our accounts receivable securitization of $143 million were used to redeem other higher-cost securities, producing net savings in our overall cost of borrowing. In 1996, we reduced our fixed obligations for debt, preferred stock and generation facilities leases (partially offset by the new accounts receivable securitization) by $227 million. At year-end 1996, we had $138 million in cash and temporary cash investments, down from $179 million at year-end 1995.

Additional first mortgage bonds may be issued by the Operating Companies under their respective mortgages on the basis of property additions, cash or refundable first mortgage bonds. If the applicable interest coverage test is met, each Operating Company may issue first mortgage bonds on the basis of property additions and, under certain circumstances, refundable bonds. At December 31, 1996, Cleveland Electric and Toledo Edison would have been permitted to issue approximately $666 million and $148 million of additional first mortgage bonds, respectively. FirstEnergy has not decided whether to apply purchase accounting to the Operating Companies if the merger with Ohio Edison is completed. If such accounting is applied to the Operating Companies, their first mortgage bond capacities would be adversely affected.

Cleveland Electric is able to issue preferred and preference stock and Toledo Edison is able to issue preference stock. Centerior Energy may raise funds through the sale of common stock under various employee and share owner plans.

The Operating Companies have $273 million in financing vehicles to support their nuclear fuel leases, $83 million of which mature in 1997. Replacement financing for the maturing issues may not be needed in 1997. We plan to renew the $125 million revolving credit facility which matures in May 1997.

Current credit ratings for the Operating Companies are as follows:

	Standard & Poor's Corporation	Moody's Investors Service, Inc.
First mortgage bonds	BB	Ba2
Subordinate debt for Cleveland Electric	B+	Ba3
Subordinate debt for Toledo Edison	B+	B1
Preferred stock	B	b2

Following the FirstEnergy merger announcement, both rating agencies placed the Operating Companies' securities on credit watch with positive implications.

The Operating Companies can make cash available to fund Centerior Energy's common stock dividends by paying dividends on their respective common stock, which is held solely by Centerior Energy. Federal law prohibits the Operating Companies from paying dividends out of capital accounts. Each Operating Company has since 1993 declared and paid preferred stock dividends, and Cleveland Electric has also declared and paid common stock dividends, out of appropriated current net income included in retained earnings. At the times of such declarations and payments, each Operating Company had a deficit in its retained earnings. At December 31, 1996, Cleveland Electric and Toledo Edison had $130 million and $223 million, respectively, of appropriated retained earnings for the payment of dividends. Toledo Edison also has a provision in its mortgage applicable to approximately $94 million of outstanding first mortgage bonds ($31 million of which mature in August 1997) that requires common stock dividends to be paid out of its total balance of retained earnings, which had been a deficit from 1993 through November 1996.

As part of a routine audit, the FERC is considering a statement which it requested and received from Cleveland Electric supporting the payment of dividends out of appropriated current net income included in retained earnings while total retained earnings were a deficit. A similar request has been made of Toledo Edison. At December 31, 1996, Cleveland Electric's retained earnings deficit was $276 million and Toledo Edison's total retained earnings were $5 million. The final disposition of this issue is a factor expected to be considered by FirstEnergy in deciding whether to apply purchase accounting to the Operating Companies, one effect of which would be to reset deficit retained earnings to zero. If the merger is not consummated or if FirstEnergy determines not to apply purchase accounting to the Operating Companies, the Operating Companies intend to continue to support their position and pursue all available alternatives to allow them to continue the declaration and payment of dividends.

Results of Operations

1996 vs. 1995

Factors contributing to the 1.5% increase in 1996 operating revenues are as follows:

Increase (Decrease) in Operating Revenues	Millions of Dollars
Base Rates	$ 62
KWH Sales Volume and Mix	(30)
Wholesale Revenues	11
Fuel Cost Recovery Revenues	(8)
Miscellaneous Revenues	2
Total	$ 37

The increase in 1996 base rates revenues resulted primarily from the April 1996 rate order issued by the PUCO for the Operating Companies as discussed under Outlook-April 1996 Rate Order and in Note 7(b). Renegotiated contracts for certain large industrial customers resulted in a decrease in base revenues which partially offset the effect of the general price increase. For the fourth year in a row, industrial kilowatt-hour sales increased. The increase in 1996 was 0.9%, as increased sales to petroleum refineries, large chemical industry customers and the broad-based, smaller industrial customer group were partially offset by fewer sales to large automotive manufacturing and steel industry customers. Commercial kilowatt-hour sales increased only 0.1% and residential kilowatt-hour sales decreased 1.7% primarily because of the cooler summer weather in 1996. On a weather-normalized basis, residential and commercial sales increased 1% and 1.7%, respectively. Other sales increased 3.8% as a 6.8% increase in wholesale sales was partially offset by a 5.2% decrease in sales to public authorities. Good availability of our generating units and a more aggressive bulk power marketing effort helped increase wholesale sales. Lower 1996 fuel cost recovery revenues resulted from a decrease in the fuel cost factors for Cleveland Electric. The weighted average of these fuel cost factors decreased 3% for Cleveland Electric but increased 1% for Toledo Edison.

For 1996, operating revenues were 32% residential, 30% commercial, 30% industrial and 8% other, and kilowatt-hour sales were 23% residential, 25% commercial, 40% industrial and 12% other. The average prices per kilowatt-hour for residential, commercial and industrial customers were 11.38, 9.94 and 6.33 cents, respectively.

Operating expenses increased 5.8% in 1996. The cessation of the Rate Stabilization Program deferrals and the commencement of their amortization in December 1995 resulted in the decrease in deferred operating expenses. See Note 7(d). Depreciation and amortization expenses increased primarily because of a $12 million net increase in depreciation related to changes in depreciation rates, as discussed in Note 1(d), and the cessation of the accelerated amortization of unrestricted investment tax credits under the Rate Stabilization Program, which was reported in 1995 as a $10 million reduction of depreciation. Other operation and maintenance expenses in 1996 included a $23 million one-time charge for the disposition of inventory as part of a reengineering of the supply chain process. Reengineering the supply chain process increases the use of technology, consolidates warehousing and uses just-in-time purchase and delivery. Federal income taxes decreased as a result of lower pretax operating income.

A nonoperating loss resulted in 1996 primarily from Toledo Edison's $11 million write-down of two inactive production facilities, as discussed in Note 14, and merger-related expenses. The deferral of carrying charges related to the Rate Stabilization Program ended in November 1995. The federal income tax credit for nonoperating income increased in 1996 accordingly.

Interest charges and preferred dividend requirements decreased in 1996 because of the redemption of securities and refundings at favorable terms in 1996 and 1995.

1995 vs. 1994

Factors contributing to the 3.9% increase in 1995 operating revenues are as follows:

Increase (Decrease) in Operating Revenues	Millions of Dollars
KWH Sales Volume and Mix	$81
Wholesale Revenues	13
Fuel Cost Recovery Revenues	9
Miscellaneous Revenues	(8)
Total	$95

Industrial kilowatt-hour sales increased 0.8% in 1995, but sales grew 2.2% excluding reductions at two low-margin steel producers (representing 5% of industrial revenues). Residential and commercial kilowatt-hour sales increased 3.5% and 2.8%, respectively, primarily because of the hot summer weather, although there was about 1% nonweather-related growth in commercial kilowatt-hour sales. Other sales increased 26% because of a 43% increase in wholesale sales due principally to the hot summer and good availability of our generating units. Weather accounted for approximately $38 million of the $61 million increase in 1995 base rate revenues. Higher 1995 fuel cost recovery revenues resulted from an increase in the fuel cost factors for Cleveland Electric. The weighted average of these fuel cost factors increased 7% for Cleveland Electric but decreased 6% for Toledo Edison.

For 1995, operating revenues were 32% residential, 30% commercial, 31% industrial and 7% other, and kilowatt-hour sales were 23% residential, 25% commercial, 40% industrial and 12% other. The average prices per kilowatt-hour for residential, commercial and industrial customers were 11.02, 9.70 and 6.39 cents, respectively. The changes from 1994 were not significant.

Operating expenses increased 4.5% in 1995. Fuel and purchased power expenses increased as higher fuel expense was partially offset by lower purchased power expense. The higher fuel expense was attributable to increased generation and more amortization of previously deferred fuel costs than the amount amortized in 1994. The higher other operation and maintenance expenses resulted primarily from charges for an ongoing inventory reduction program and the recognition of costs associated with preliminary engineering studies. Federal income taxes increased as a result of higher pretax operating income. Taxes, other than federal income taxes, increased primarily due to property tax increases resulting from plant additions, real estate valuation increases and a nonrecurring tax credit recorded in 1994.

Management's Statement of Responsibility for Financial Statements

The management of Centerior Energy Corporation is responsible for the consolidated financial statements in this Annual Report. The statements were prepared in accordance with generally accepted accounting principles. Under these principles, some of the recorded amounts are estimates which are based on an analysis of the best information available.

We maintain a system of internal accounting controls designed to assure that the financial records are substantially complete and accurate. The controls also are designed to help protect the assets and their related records. We structure our control procedures such that their costs do not exceed their benefits.

Our internal audit program monitors the internal accounting controls. This program gives us the opportunity to assess the adequacy and effectiveness of existing controls and to identify and institute changes where needed. In addition, an audit of our financial statements is conducted by Arthur Andersen LLP, independent public accountants, whose report appears below.

Our Board of Directors is responsible for determining whether management and the independent public accountants are carrying out their responsibilities. The Board is also responsible for making changes in management or independent public accountants if needed.

The Board has appointed an Audit Committee, comprised entirely of outside directors, which met two times in 1996. The Committee recommends annually to the Board the firm of independent public accountants to be retained for the ensuing year and reviews the audit approach used by the accountants and the results of their audits. It also oversees the adequacy and effectiveness of our internal accounting controls and ensures that our accounting system produces financial statements which fairly present our financial position.

Terrence G. Linnert

Terrence G. Linnert
Senior Vice President,
Chief Financial Officer
and General Counsel

E L Pepin

E. Lyle Pepin
Controller and
Chief Accounting Officer

Report of Independent Public Accountants

To the Share Owners and
Board of Directors of
Centerior Energy Corporation:

We have audited the accompanying consolidated balance sheet and consolidated statement of capitalization of Centerior Energy Corporation (an Ohio corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centerior Energy Corporation and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Cleveland, Ohio
February 14, 1997

Income Statement

Centerior Energy Corporation and Subsidiaries

	For the years ended December 31, 1996	1995	1994
	(millions of dollars, except per share amounts)		
Operating Revenues	$2,553	$2,516	$2,421
Operating Expenses			
Fuel and purchased power	465	465	442
Other operation and maintenance	635	617	595
Generation facilities rental expense, net	159	160	160
Total operation and maintenance	1,259	1,242	1,197
Depreciation and amortization	304	281	278
Taxes, other than federal income taxes	320	322	309
Amortization of deferred operating expenses, net	43	(53)	(55)
Federal income taxes	111	135	114
	2,037	1,927	1,843
Operating Income	516	589	578
Nonoperating Income (Loss)			
Allowance for equity funds used during construction	3	3	5
Other income and deductions, net	(17)	6	8
Deferred carrying charges	—	43	40
Federal income taxes—credit (expense)	9	(5)	(6)
	(5)	47	47
Income Before Interest Charges and Preferred Dividends	511	636	625
Interest Charges and Preferred Dividends			
Debt interest	337	358	361
Allowance for borrowed funds used during construction	(3)	(3)	(6)
Preferred dividend requirements of subsidiaries	56	61	66
	390	416	421
Net Income	$ 121	$ 220	$ 204
Average Number of Common Shares Outstanding (millions)	148.0	148.0	147.8
Earnings Per Common Share	$ .82	$ 1.49	$ 1.38
Dividends Declared Per Common Share	$ .80	$ .80	$ .80

Retained Earnings

	For the years ended December 31, 1996	1995	1994
	(millions of dollars)		
Retained Earnings (Deficit) at Beginning of Year	$(336)	$(438)	$(523)
Additions			
Net income	121	220	204
Deductions			
Common stock dividends	(118)	(118)	(118)
Other, including preferred stock redemption expenses of subsidiaries	(1)	—	(1)
Net Increase	2	102	85
Retained Earnings (Deficit) at End of Year	$(334)	$(336)	$(438)

The accompanying notes are an integral part of these statements.

Balance Sheet

	December 31, 1996	December 31, 1995
	(millions of dollars)	
ASSETS		
Property, Plant and Equipment		
Utility plant in service	$ 9,867	$ 9,768
Less: accumulated depreciation and amortization	3,272	3,036
	6,595	6,732
Construction work in progress	79	101
	6,674	6,833
Nuclear fuel, net of amortization	189	200
Other property, less accumulated depreciation	89	102
	6,952	7,135
Current Assets		
Cash and temporary cash investments	138	179
Amounts due from customers and others, net	201	223
Unbilled revenues	12	100
Materials and supplies, at average cost		
Owned	85	151
Under consignment	34	—
Taxes applicable to succeeding years	250	255
Other	24	18
	744	926
Regulatory and Other Assets		
Regulatory assets	2,278	2,375
Nuclear plant decommissioning trusts	140	114
Investment in partnership	23	—
Other	73	93
	2,514	2,582
Total Assets	$10,210	$10,643

The accompanying notes are an integral part of this statement.

	December 31, 1996	December 31, 1995
	(millions of dollars)	
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity	$ 1,987	$ 1,984
Preferred stock		
With mandatory redemption provisions	189	220
Without mandatory redemption provisions	448	451
Long-term debt	3,444	3,734
	6,068	6,389
Current Liabilities		
current portion of long-term debt and preferred stock	196	235
Current portion of nuclear fuel lease obligations	88	95
Accounts payable	138	153
Accrued taxes	389	374
Accrued interest	75	83
Other	86	87
	972	1,027
Deferred Credits and Other Liabilities		
Unamortized investment tax credits	252	263
Accumulated deferred federal income taxes	1,877	1,875
Unamortized gain from Bruce Mansfield Plant sale	475	499
Accumulated deferred rents for Bruce Mansfield Plant and Beaver Valley Unit 2	138	145
Nuclear fuel lease obligations	123	137
Retirement benefits	184	179
Other	121	129
	3,170	3,227
Total Capitalization and Liabilities	$10,210	$10,643

Cash Flows

	For the years ended December 31,		
	1996	1995	1994
	(millions of dollars)		
Cash Flows from Operating Activities (1)			
Net Income	$ 121	$ 220	$ 204
Adjustments to Reconcile Net Income to Cash from Operating Activities:			
Depreciation and amortization	304	281	278
Deferred federal income taxes	42	72	95
Unbilled revenues	(3)	(7)	31
Deferred fuel	17	6	(17)
Deferred carrying charges	—	(43)	(40)
Leased nuclear fuel amortization	79	125	98
Amortization of deferred operating expenses, net	43	(53)	(55)
Allowance for equity funds used during construction	(3)	(3)	(5)
Changes in amounts due from customers and others, net	(10)	(12)	10
Net proceeds from accounts receivable securitization	143	—	—
Changes in materials and supplies	32	17	—
Changes in accounts payable	(15)	9	(44)
Changes in working capital affecting operations	6	(10)	—
Other noncash items	(18)	9	14
Total Adjustments	617	391	365
Net Cash from Operating Activities	738	611	569
Cash Flows from Financing Activities (2)			
First mortgage bond issues	—	542	77
Common stock issues	—	—	12
Maturities, redemptions and sinking funds	(363)	(683)	(214)
Nuclear fuel lease obligations	(90)	(102)	(110)
Common stock dividends paid	(118)	(118)	(118)
Premiums, discounts and expenses	(1)	(17)	(1)
Net Cash from Financing Activities	(572)	(378)	(354)
Cash Flows from Investing Activities (2)			
Cash applied to construction	(151)	(201)	(205)
Interest capitalized as allowance for borrowed funds used during construction	(3)	(3)	(6)
Contributions to nuclear plant decommissioning trusts	(22)	(24)	(26)
Investment in partnership	(23)	—	—
Other cash applied	(8)	(12)	(17)
Net Cash from Investing Activities	(207)	(240)	(254)
Net Change in Cash and Temporary Cash Investments	(41)	(7)	(39)
Cash and Temporary Cash Investments at Beginning of Year	179	186	225
Cash and Temporary Cash Investments at End of Year	$ 138	$ 179	$ 186

(1) Interest paid (net of amounts capitalized)	*$ 328*	*$ 306*	*$ 300*
Federal income taxes paid	*$ 46*	*$ 89*	*$ 6*

(2) Increases in Nuclear Fuel and Nuclear Fuel Lease Obligations in the Balance Sheet resulting from the noncash capitalizations under nuclear fuel agreements are excluded from this statement.

The accompanying notes are an integral part of this statement.

Statement of Capitalization

	1996 Shares Outstanding	Current Call Price Per Share	December 31, 1996	December 31, 1995
			(millions of dollars)	
COMMON STOCK EQUITY:				
Common shares, without par value (stated value of $357 million for both 1996 and 1995): 180 million authorized; 148 million (excluding 2.7 million shares in Treasury) outstanding in both 1995 and 1994			$2,321	$2,320
Retained earnings (deficit)			(334)	(336)
Total Common Stock Equity			1,987	1,984
PREFERRED STOCK:				
Cleveland Electric				
Without par value, 4,000,000 preferred shares authorized				
Subject to mandatory redemption:				
$ 7.35 Series C	120,000	$ 101.00	12	13
88.00 Series E	12,000	1,011.48	12	15
9.125 Series N	150,000	100.00	15	30
91.50 Series Q	53,572	1,000.00	54	64
88.00 Series R	50,000	—	50	50
90.00 Series S	74,000	—	73	73
			216	245
Less: Current maturities			30	30
			186	215
Not subject to mandatory redemption:				
$ 7.40 Series A	500,000	101.00	50	50
7.56 Series B	450,000	102.26	45	45
Adjustable Series L	474,000	100.00	46	49
42.40 Series T	200,000	—	97	97
			238	241
Toledo Edison				
$100 par value, 3,000,000 preferred shares authorized; $25 par value, 12,000,000 preferred shares authorized				
Subject to mandatory redemption:				
$100 par $9.375	50,200	100.99	5	7
			5	7
Less: Current maturities			2	2
			3	5
Not subject to mandatory redemption:				
$100 par $4.25	160,000	104.625	16	16
4.56	50,000	101.00	5	5
4.25	100,000	102.00	10	10
8.32	100,000	102.46	10	10
7.76	150,000	102.437	15	15
7.80	150,000	101.65	15	15
10.00	190,000	101.00	19	19
25 par 2.21	1,000,000	25.25	25	25
2.365	1,400,000	27.75	35	35
Series A Adjustable	1,200,000	25.00	30	30
Series B Adjustable	1,200,000	25.00	30	30
			210	210
Centerior Energy				
Without par value, 5,000,000 preferred shares authorized, none outstanding			—	—
Total Preferred Stock, with Mandatory Redemption Provisions			189	220
Total Preferred Stock, without Mandatory Redemption Provisions			448	451

The accompanying notes are an integral part of this statement.

	December 31, 1996	December 31, 1995		December 31, 1996	December 31, 1995	December 31, 1996	December 31, 1995
	(millions of dollars)			(millions of dollars)		(millions of dollars)	
LONG-TERM DEBT:							
Cleveland Electric			**Toledo Edison**				
First mortgage bonds:							
7.625% due 2002	$ 195	$ 245	6.125% due 1997	$ 31	$ 31		
7.375% due 2003	100	100	7.250% due 1999	85	100		
9.500% due 2005	300	300	7.500% due 2002	26	26		
8.750% due 2005	75	75	8.000% due 2003	36	36		
10.880% due 2006	—	50	7.875% due 2004	145	145		
9.250% due 2009	50	50					
8.375% due 2011	125	125					
8.375% due 2012	75	75					
9.375% due 2017	300	300					
10.000% due 2020	100	100					
9.000% due 2023	150	150					
	1,470	1,570		323	338	1,793	1,908
Tax-exempt issues secured by first mortgage bonds:							
7.000% due 2006-09	64	64	10.000% due 1998	1	1		
6.000% due 2011**	6	6	3.700% due 2011**	31	31		
6.000% due 2011**	2	2	8.000% due 2019	67	67		
6.200% due 2013	48	48	7.625% due 2020	45	45		
8.000% due 2013	79	79	7.750% due 2020	54	54		
3.500% due 2015**	40	40	7.400% due 2022	31	31		
6.000% due 2017**	1	1	9.875% due 2022***	10	10		
3.500% due 2018**	73	73	7.550% due 2023	37	37		
6.000% due 2020**	41	41	6.875% due 2023	20	20		
6.000% due 2020**	9	9	8.000% due 2023	50	50		
9.750% due 2022***	70	70					
6.850% due 2023	30	30					
8.000% due 2023	73	73					
7.625% due 2025	54	54					
7.750% due 2025	45	45					
7.700% due 2025	44	44					
	679	679		346	346	1,025	1,025
Medium-term notes secured by first mortgage bonds:							
8.700% due 1996	—	20	9.050% due 1996	—	10		
9.100% due 1996	—	32	9.000% due 1996	—	3		
9.110% due 1996	—	13	9.300% due 1998	26	26		
9.000% due 1996	—	13	8.000% due 1998	7	7		
9.140% due 1996	—	12	7.940% due 1998	5	5		
9.050% due 1996	—	10	8.470% due 1999	4	4		
8.950% due 1996	—	40	7.720% due 1999	15	15		
9.450% due 1997	43	43	7.500% due 2000	*	*		
9.000% due 1998	5	5	7.380% due 2000	14	14		
8.870% due 1998	10	10	7.460% due 2000	17	17		
8.260% due 1998	2	2	9.500% due 2001	21	21		
8.330% due 1998	25	25	8.500% due 2001	8	8		
8.170% due 1998	11	11	8.620% due 2002	7	7		
8.150% due 1998	8	8	8.650% due 2002	5	5		
8.160% due 1998	5	5	8.180% due 2002	17	17		
9.250% due 1999	52	52	7.820% due 2003	37	37		
9.300% due 1999	25	25	7.850% due 2003	15	15		
7.670% due 1999	3	3	7.760% due 2003	5	5		
7.250% due 1999	12	12	7.910% due 2003	3	3		
7.850% due 1999	25	25	7.780% due 2003	1	1		
7.770% due 1999	17	17	10.000% due 2021	15	15		
8.290% due 1999	10	10	9.220% due 2021	15	15		
9.200% due 2001	15	15					
7.420% due 2001	10	20					
9.050% due 2001	5	5					

Statement of Capitalization (Continued)

	December 31, 1996	December 31, 1995		December 31, 1996	December 31, 1995	December 31, 1996	December 31, 1995
	(millions of dollars)			(millions of dollars)		(millions of dollars)	
LONG-TERM DEBT: (Continued)							
Cleveland Electric			**Toledo Edison**				
Medium-term notes secured by first mortgage bonds: (Continued)							
8.680% due 2001	15	15					
8.540% due 2001	3	3					
8.560% due 2001	4	4					
8.550% due 2001	5	5					
7.850% due 2002	5	5					
8.130% due 2002	28	28					
7.750% due 2003	15	15					
9.520% due 2021	8	8					
	366	516		237	250	603	766
Tax-exempt notes:							
6.500% due 1996	—	3	5.750% due 2003	4	4		
5.500% due 1997	*	*	10.000% due 2010	1	1		
6.700% due 2006	20	21					
5.700% due 2008	7	8					
6.700% due 2011	6	6					
5.875% due 2012	14	14					
	47	52		5	5	52	57
Bank loans secured by subordinate mortgage:							
7.500% due 1996	—	2	9.050% due 1996	—	25		
			7.500% due 1996	—	2		
	—	2		—	27	—	29
			Notes secured by subordinate mortgage:				
			10.060% due 1996	—	14		
			8.750% due 1997	8	11		
				8	25	8	25
			Debentures:				
			8.700% due 2002	135	135	135	135
Unamortized premium (discount), net:	(6)	(6)		(2)	(2)	(8)	(8)
	2,556	2,813		1,052	1,124	3,608	3,937
Less: Current maturities	115	147		49	56	164	203
Total Long-Term Debt	$2,441	$2,666		$1,003	$1,068	3,444	3,734
TOTAL CAPITALIZATION						$6,068	$6,389

** Denotes debt of less than $1 million.*
*** Denotes variable rate issue with December 31, 1996 interest rate shown.*
**** Subject to optional tender by the owners on November 1, 1997.*

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

(a) General

Centerior Energy is a holding company with two electric utility subsidiaries, Cleveland Electric and Toledo Edison, with service areas in Northern Ohio. The consolidated financial statements also include the accounts of Centerior Energy's wholly owned subsidiary, Centerior Service Company (Service Company), and its three other wholly owned subsidiaries, which in the aggregate are not material. The Service Company provides management, financial, administrative, engineering, legal and other services at cost to Centerior Energy, the Operating Companies and the other subsidiaries. The Operating Companies operate as separate companies, each serving the customers in its service area. The preferred stock, first mortgage bonds and other debt obligations of the Operating Companies are outstanding securities of the issuing utility. All significant intercompany items have been eliminated in consolidation.

Centerior Energy and the Operating Companies follow the Uniform System of Accounts prescribed by the FERC and adopted by the PUCO. Rate-regulated utilities are subject to SFAS 71 which governs accounting for the effects of certain types of rate regulation. Pursuant to SFAS 71, certain incurred costs are deferred for recovery in future rates. See Note 7(a). The Service Company follows the Uniform System of Accounts for Mutual Service Companies prescribed by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The estimates are based on an analysis of the best information available. Actual results could differ from those estimates.

The Operating Companies are members of the Central Area Power Coordination Group (CAPCO). Other members are Duquesne Light Company, Ohio Edison and its wholly owned subsidiary, Pennsylvania Power Company. The members have constructed and operate generation and transmission facilities for their joint use.

(b) Revenues

Customers are billed on a monthly cycle basis for their energy consumption based on rate schedules or contracts authorized by the PUCO or on ordinances of individual municipalities. An accrual is made at the end of each month to record the estimated amount of unbilled revenues for kilowatt-hours sold in the current month but not billed by the end of that month.

A fuel factor is added to the base rates for electric service. This factor is designed to recover from customers the costs of fuel and most purchased power. It is reviewed and adjusted semiannually in a PUCO proceeding. See Management's Financial Analysis — Outlook-FirstEnergy Rate Plan.

(c) Fuel Expense

The cost of fossil fuel is charged to fuel expense based on inventory usage. The cost of nuclear fuel, including an interest component, is charged to fuel expense based on the rate of consumption. Estimated future nuclear fuel disposal costs are being recovered through base rates.

The Operating Companies defer the differences between actual fuel costs and estimated fuel costs currently being recovered from customers through the fuel factor. This matches fuel expenses with fuel-related revenues.

Owners of nuclear generating plants are assessed by the federal government for the cost of decontamination and decommissioning of nuclear enrichment facilities operated by the United States Department of Energy. The assessments are based upon the amount of enrichment services used in prior years and cannot be imposed for more than 15 years (to 2007). The Operating Companies have accrued the liability for their share of the total assessments. These costs have been recorded as a regulatory asset since the PUCO is allowing the Operating Companies to recover the assessments through their fuel cost factors. See Note 7(a).

(d) Depreciation and Decommissioning

The cost of property, plant and equipment is depreciated over their estimated useful lives on a straight-line basis. In its April 1996 rate order, the PUCO approved changes in depreciation rates for the Operating Companies. An increase in the depreciation rate for nuclear property from 2.5% for both Operating Companies to 2.88% for Cleveland Electric and 2.95% for Toledo Edison increased annual depreciation expense approximately $21 million for Centerior Energy. A reduction in the composite depreciation rate for nonnuclear property from 3.34% to 3.23%

for Cleveland Electric and from 3.36% to 3.13% for Toledo Edison decreased annual depreciation expense by approximately $5 million for Centerior Energy. The changes in depreciation rates were effective in April 1996 and resulted in a $12 million net increase in 1996 depreciation expense.

The Operating Companies accrue the estimated costs of decommissioning their three nuclear generating units. The accruals are required to be funded in an external trust. The PUCO requires that the expense and payments to the external trusts be determined on a levelized basis by dividing the unrecovered decommissioning costs in current dollars by the remaining years in the licensing period of each unit. This methodology requires that the net earnings on the trusts be reinvested therein with the intent of having net earnings offset inflation. The PUCO requires that the estimated costs of decommissioning and the funding level be reviewed at least every five years.

In April 1996, pursuant to the PUCO rate order, the Operating Companies decreased their annual decommissioning expense accruals to $22 million from the $24 million level in 1995. The accruals are reflected in current rates. The accruals are based on adjustments to updated, site-specific studies for each of the units completed in 1993 and 1994. These estimates reflect the DECON method of decommissioning (prompt decontamination), and the locations and cost characteristics specific to the units, and include costs associated with decontamination and dismantlement for each of the units. The estimate for Davis-Besse also includes the cost of site restoration. The adjustments to the updated studies which reduced the annual accruals beginning in April 1996 were attributable to changed assumptions on radioactive waste burial cost estimates and the exclusion of site restoration costs for Perry Unit 1 and Beaver Valley Unit 2. After the decommissioning of these units in the future, the two plant sites may be usable for new power production facilities or other industrial purposes.

The revised estimates for the units in current dollars and in dollars at the time of license expiration, assuming a 4% annual inflation rate, are as follows.

Generating Unit	License Expiration Year	Amount	Future Amount
		(millions of dollars)	
Davis-Besse	2017	$342	$ 877
Perry Unit 1	2026	217	791
Beaver Valley Unit 2	2027	97	369
Total		$656	$2,037

The classification, Accumulated Depreciation and Amortization, in the Balance Sheet at December 31, 1996 includes $155 million of decommissioning costs previously expensed and the earnings on the external trust funding. This amount exceeds the Balance Sheet amount of the external Nuclear Plant Decommissioning Trusts because the reserve began prior to the external trust funding. The trust earnings are recorded as an increase to the trust assets and the related component of the decommissioning reserve (included in Accumulated Depreciation and Amortization).

The staff of the SEC has questioned certain of the current accounting practices of the electric utility industry, including those of the Operating Companies, regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations in the financial statements. In response to these questions, the Financial Accounting Standards Board (FASB) is reviewing the accounting for removal costs, including decommissioning. If current accounting practices are changed, the annual provision for decommissioning could increase; the estimated cost for decommissioning could be recorded as a liability rather than as accumulated depreciation; and trust fund income from the external decommissioning trusts could be reported as investment income rather than as a reduction to decommissioning expense. The FASB issued an exposure draft on the subject on February 7, 1996 and continues to review the subject.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at original cost less amounts disallowed by the PUCO. Construction costs include related payroll taxes, retirement benefits, fringe benefits, management and general overheads and allowance for funds used during construction (AFUDC). AFUDC represents the estimated composite debt and equity cost of funds used to finance construction. This noncash allowance is credited to income. The AFUDC rates averaged 10.2% in 1996, 11.5% in 1995 and 9.8% in 1994.

Maintenance and repairs for plant and equipment are charged to expense as incurred. The cost of replacing plant and equipment is charged to the utility plant accounts. The cost of property retired plus removal costs, after deducting any salvage value, is charged to the accumulated provision for depreciation.

(f) Deferred Gain and Loss from Sales of Utility Plant

The sale and leaseback transactions discussed in Note 2 resulted in a net gain for the sale of the Bruce Mansfield Generating Plant (Mansfield Plant) and a net loss for the sale of Beaver Valley Unit 2. The net gain and net loss were deferred and are being amortized over the terms of the leases. See Note 7(a). These amortizations and the lease expense amounts are reported in the Income Statement as Generation Facilities Rental Expense, Net.

(g) Interest Charges

Debt Interest reported in the Income Statement does not include interest on obligations for nuclear fuel under construction. That interest is capitalized. See Note 6.

Losses and gains realized upon the reacquisition or redemption of long-term debt are deferred, consistent with the regulatory rate treatment. See Note 7(a). Such losses and gains are either amortized over the remainder of the original life of the debt issue retired or amortized over the life of the new debt issue when the proceeds of a new issue are used for the debt redemption. The amortizations are included in debt interest expense.

(h) Federal Income Taxes

We use the liability method of accounting for income taxes in accordance with SFAS 109. See Note 8. This method requires that deferred taxes be recorded for all temporary differences between the book and tax bases of assets and liabilities. The majority of these temporary differences are attributable to property-related basis differences. Included in these basis differences is the equity component of AFUDC, which will increase future tax expense when it is recovered through rates. Since this component is not recognized for tax purposes, we must record a liability for our tax obligation. The PUCO permits recovery of such taxes from customers when they become payable. Therefore, the net amount due from customers through rates has been recorded as a regulatory asset and will be recovered over the lives of the related assets. See Note 7(a).

Investment tax credits are deferred and amortized over the lives of the applicable property as a reduction of depreciation expense.

(i) Accounts Receivable Securitization

In May 1996, the Operating Companies began to sell on a daily basis substantially all of their retail customer accounts receivable and unbilled revenue receivables to Centerior Funding pursuant to a five-year asset-backed securitization agreement.

In July 1996, Centerior Funding completed a public sale of $150 million of receivables-backed investor certificates in a transaction that qualifies for sale accounting treatment for financial reporting purposes. Costs associated with the sale totaling $5 million in 1996 are included in Other Income and Deductions, Net in the Income Statement. These costs are expected to be $11 million annually over the remaining period.

(j) Materials and Supplies

In December 1996, the Operating Companies sold substantially all of their materials and supplies and fossil fuel inventories for certain generating units and other storage locations to an independent entity at book value. The buyer now provides all of these inventories under a consignment arrangement. In accordance with SFAS 49 accounting for product financing arrangements, the inventories continue to be reported as assets in the Balance Sheet even though the buyer owns the inventories since the Operating Companies have guaranteed to be buyers of last resort.

(k) AT&T Telecommunications Partnership

In April 1996, a wholly owned subsidiary of Centerior Energy and an AT&T Wireless Services (Wireless) subsidiary entered into a 25%/75% partnership called AT&T PCS Cleveland, LLC. The partnership will operate a personal communications services network which will provide wireless communications services to Northeast Ohio and Western Pennsylvania pursuant to licenses owned by Wireless. The total investment of the Centerior Energy subsidiary in the partnership at December 31, 1996 is $23 million.

(2) Utility Plant Sale and Leaseback Transactions

The Operating Companies are co-lessees of 18.26% (150 megawatts) of Beaver Valley Unit 2 and 6.5% (51 megawatts), 45.9% (358 megawatts) and 44.38% (355 megawatts) of Units 1, 2 and 3 of the Mansfield Plant, respectively. These leases extend through 2017 and are the result of sale and leaseback transactions completed in 1987.

Under these leases, the Operating Companies are responsible for paying all taxes, insurance premiums, operation and maintenance expenses, and all other similar costs for their interests in the units sold and leased back. They may incur additional costs in connection with capital improvements to the units. The Operating Companies have options to buy the interests back at certain times at a premium and at the end of the leases for the fair market value at that time or to renew the leases. The leases include conditions for mandatory termination (and possible repurchase of the leasehold interests) upon certain events of default.

Future minimum lease payments under the operating leases at December 31, 1996 are summarized as follows:

Year	Amount (millions of dollars)
1997	$ 165
1998	165
1999	178
2000	187
2001	186
Later Years	2,866
Total Future Minimum Lease Payments	$3,747

Rental expense is accrued on a straight-line basis over the terms of the leases. The amount recorded in 1996, 1995 and 1994 as annual rental expense for the Mansfield Plant leases was $115 million. The amounts recorded in 1996, 1995 and 1994 as annual rental expense for the Beaver Valley Unit 2 lease were $63 million, $63 million and $64 million, respectively. See Note 1(f). Amounts charged to expense in excess of the lease payments are classified as Accumulated Deferred Rents in the Balance Sheet.

Toledo Edison is selling 150 megawatts of its Beaver Valley Unit 2 leased capacity entitlement to Cleveland Electric. We anticipate that this sale will continue indefinitely.

(3) Property Owned with Other Utilities and Investors

The Operating Companies own, as tenants in common with other utilities and those investors who are owner-participants in various sale and leaseback transactions (Lessors), certain generating units as listed below. Each owner owns an undivided share in the entire unit. Each owner has the right to a percentage of the generating capability of each unit equal to its ownership share. Each utility owner is obligated to pay for only its respective share of the construction costs and operating expenses. Each Lessor has leased its capacity rights to a utility which is obligated to pay for such Lessor's share of the construction costs and operating expenses. The Operating Companies' share of the operating expenses of these generating units is included in the Income Statement. The Balance Sheet classification of Property, Plant and Equipment at December 31, 1996 includes the following facilities owned by the Operating Companies as tenants in common with other utilities and Lessors:

Generating Unit	Ownership Megawatts (% Share)	Property, Plant and Equipment (Exclusive of Nuclear Fuel)	Accumulated Depreciation
		(millions of dollars)	
Seneca Pumped Storage	351 (80.00%)	$ 65	$ 24
Eastlake Unit 5	411 (68.80)	161	—
Perry Unit 1	609 (51.02)	2,822	636
Beaver Valley Unit 2 and Common Facilities (Note 2)	214 (26.12)	1,488	377
Total		$4,536	$1,037

Depreciation for Eastlake Unit 5 has been accumulated with all other nonnuclear depreciable property rather than by specific units of depreciable property.

(4) Construction and Contingencies

(a) Construction Program

The estimated cost of our construction program for the 1997-2001 period is $905 million, including AFUDC of $25 million and excluding nuclear fuel.

The Clean Air Act Amendments of 1990 (Clean Air Act) require, among other things, significant reductions in the emission of sulfur dioxide and nitrogen oxides by fossil-fueled generating units. Our strategy provides for compliance primarily through greater use of low-sulfur coal at some of our units and the use of emission allowances. Total capital expenditures from 1994 through 1996 in connection with Clean Air Act compliance amounted to $36 million. The plan will require additional capital expenditures over the 1997-2006 period of approximately $42 million for nitrogen oxide control equipment and other plant process modifications. In addition, higher fuel and other operation and maintenance expenses will be incurred. Recently proposed particulate and ozone ambient standards have the potential to increase future compliance costs.

(b) Hazardous Waste Disposal Sites

The Operating Companies are aware of their potential involvement in the cleanup of three sites listed on the Superfund List and several other sites. The Operating Companies have accrued a liability totaling $10 million at December 31, 1996 based on estimates of the costs of cleanup and their proportionate responsibility for such costs. We believe that the ultimate outcome of these matters will not have a material adverse effect on our financial condition, cash flows or results of operations. See Management's Financial Analysis — Outlook-Hazardous Waste Disposal Sites.

(5) Nuclear Operations and Contingencies

(a) Operating Nuclear Units

Our three nuclear units may be impacted by activities or events beyond our control. An extended outage of one of our nuclear units for any reason, coupled with any unfavorable rate treatment, could have a material adverse effect on our financial condition, cash flows and results of operations. See the discussion of these and other risks in Management's Financial Analysis — Outlook-Nuclear Operations.

(b) Nuclear Insurance

The Price-Anderson Act limits the public liability of the owners of a nuclear power plant to the amount provided by private insurance and an industry assessment plan. In the event of a nuclear incident at any unit in the United States resulting in losses in excess of the level of private insurance (currently $200 million), our maximum potential assessment under that plan would be $155 million per incident. The assessment is limited to $20 million per year for each nuclear incident. These assessment limits assume the other CAPCO companies contribute their proportionate share of any assessment for the generating units that they have an ownership or leasehold interest in.

The utility owners and lessees of Davis-Besse, Perry and Beaver Valley also have insurance coverage for damage to property at these sites (including leased fuel and cleanup costs). Coverage amounted to $1.3 billion for Davis-Besse and $2.75 billion for each of the Perry and Beaver Valley sites as of January 1, 1997. Damage to property could exceed the insurance coverage by a substantial amount. If it does, our share of such excess amount could have a material adverse effect on our financial condition, cash flows and results of operations. In addition, we can be assessed a maximum of $22 million under these policies during a policy year if the reserves available to the insurer are inadequate to pay claims arising out of an accident at any nuclear facility covered by the insurer.

We also have extra expense insurance coverage. It includes the incremental cost of any replacement power purchased (over the costs which would have been incurred had the units been operating) and other incidental expenses after the occurrence of certain types of accidents at our nuclear units. The amounts of the coverage are 100% of the estimated extra expense per week during the 52-week period starting 21 weeks after an accident and 80% of such estimate per week for the next 104 weeks. The amount and duration of extra expense could substantially exceed the insurance coverage.

(6) Nuclear Fuel

Nuclear fuel is financed for the Operating Companies through leases with a special-purpose corporation. The total amount of financing currently available under these lease arrangements is $273 million ($173 million from intermediate-term notes and $100 million from bank credit arrangements). The intermediate-term notes mature in the 1997 through 2000 period. The bank credit arrangements terminate in October 1998. The special-purpose corporation may not need alternate financing in 1997 to replace $83 million of maturing intermediate-term notes. At December 31, 1996, $216 million of nuclear fuel was financed. The Operating Companies severally lease their respective portions of the nuclear fuel and are obligated to pay for the fuel as it is consumed in a reactor. The lease rates are based on various intermediate-term note rates, bank rates and commercial paper rates.

The amounts financed include nuclear fuel in the Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2 reactors with remaining lease payments of $92 million, $77 million and $32 million, respectively, at December 31, 1996. The nuclear fuel amounts financed and capitalized also included interest charges incurred by the lessors amounting to $4 million in 1996, $5 million in 1995 and $11 million in 1994. The estimated future lease amortization payments based on projected consumption are $88 million in 1997, $69 million in 1998, $67 million in 1999 and $62 million in both 2000 and 2001.

(7) Regulatory Matters

(a) Regulatory Accounting Requirements and Regulatory Assets

The Operating Companies are subject to the provisions of SFAS 71 and have complied with its provisions. SFAS 71 provides, among other things, for the deferral of certain incurred costs that are probable of future recovery in rates. We monitor changes in market and regulatory conditions and consider the effects of such changes in assessing the continuing applicability of SFAS 71. Criteria that could give rise to discontinuation of the application of SFAS 71 include: (1) increasing competition which significantly restricts the Operating Companies' ability to charge prices which allow them to recover operating costs, earn a fair return on invested capital and recover the amortization of regulatory assets and (2) a significant change in the manner in which rates are set by the PUCO from cost-based regulation to some other form of regulation. Regulatory assets represent probable future revenues to the Operating Companies associated with certain incurred costs, which they will recover from customers through the rate-making process.

Effective January 1, 1996, the Operating Companies adopted SFAS 121 which imposes stricter criteria for carrying regulatory assets than SFAS 71 by requiring that such assets be probable of recovery at each balance sheet date. The criteria under SFAS 121 for plant assets require such assets to be written down if the book value exceeds the projected net future undiscounted cash flows.

Regulatory assets in the Balance Sheet are as follows:

	December 31,	
	1996	1995
	(millions of dollars)	
Amounts due from customers for future federal income taxes, net	$1,025	$1,067
Unamortized loss from Beaver Valley Unit 2 sale	92	96
Unamortized loss on reacquired debt	82	89
Pre-phase-in deferrals*	535	553
Rate Stabilization Program deferrals	480	500
Other	64	70
Total	$2,278	$2,375

* Represent deferrals of operating expenses and carrying charges for Perry Unit 1 and Beaver Valley Unit 2 in 1987 and 1988 which are being amortized over the lives of the related property.

As of December 31, 1996, customer rates provide for recovery of all the above regulatory assets. The remaining recovery periods for about $1.9 billion of the regulatory assets approximate 30 years. The remaining recovery periods for the rest of the regulatory assets generally range from about two to 20 years. Regulatory liabilities in the Balance Sheet at December 31, 1996 and 1995 totaled $37 million and $21 million, respectively.

(b) Rate Order

On April 11, 1996, the PUCO issued an order for the Operating Companies granting price increases aggregating $119 million in annualized revenues ($84 million for Cleveland Electric and $35 million for Toledo Edison). The PUCO rate order provided for recovery of all costs to provide regulated services, including amortization of regulatory assets, in the approved prices. The new prices were implemented in late April 1996. The average price increase for Cleveland Electric and Toledo Edison customers was 4.9% and 4.7%, respectively, with the actual percentage increase depending upon the customer class. The Operating Companies intend to freeze prices through at least 2002, although they are not precluded from requesting further price increases.

The PUCO also recommended that the Operating Companies reduce the value of their assets for regulatory purposes by an aggregate $1.25 billion through 2001. This represents an incremental reduction beyond the normal level in nuclear plant and regulatory assets. Implementation of the price increases was not contingent upon a revaluation of assets. The PUCO invited the Operating Companies to file a proposal to effectuate the PUCO's recommendation and expressed a willingness to consider alternatives to its recommendation. The PUCO stated in its order that failure by the Operating Companies to follow the recommendation could result in a PUCO-ordered write-down of assets for regulatory purposes. The PUCO approved a return on common stock equity of 12.59% and an overall rate of return of 10.06% for both Operating Companies. However, the PUCO also indicated the authorized return could be lowered by the PUCO if the Operating Companies do not implement the recommendation. In August 1996, various intervenors appealed the PUCO rate order to the Ohio Supreme Court. The Operating Companies did not appeal the order to the Ohio Supreme Court. In connection with the PUCO order discussed in Management's Financial Analysis — Outlook-FirstEnergy Rate Plan, certain parties agreed to request a stay of their appeals until completion of the pending merger with Ohio Edison.

(c) Assessment

The Operating Companies agree with the concept of accelerating the recognition of costs and recovery of assets as such concept is consistent with the strategic objective to become more competitive. However, the Operating Companies believe that such acceleration must also be consistent with the reduction of debt and the opportunity for Centerior Energy common stock share owners to receive a fair return on their investment. Consideration of whether to implement a plan responsive to the PUCO's recommendation to revalue assets by $1.25 billion is pending the merger with Ohio Edison.

The Operating Companies have evaluated their markets, regulatory conditions and abilities to bill and collect the approved prices, and conclude that they continue to comply with the provisions of SFAS 71 and their regulatory assets remain probable of recovery. If there is a change in the Operating Companies' evaluation of the competitive environment, regulatory framework or other factors, or if the PUCO significantly reduces the value of the Operating Companies' assets or reduces the approved return on common stock equity of 12.59% and overall rate of return of 10.06%, or both, for future regulatory purposes, the Operating Companies may be required to record material charges to earnings. In particular, if we determine that the Operating Companies no longer meet the criteria for SFAS 71, we would be required to record a before-tax charge to write off the regulatory assets shown above. In the more likely event that only a portion of operations (such as nuclear operations) no longer meets the criteria of SFAS 71, a write-off would be limited to regulatory assets that are not reflected in our cost-based prices established for the remaining regulated operations. In addition, we would be required to evaluate whether the changes in the competitive and regulatory environment which led to discontinuing the application of SFAS 71 to some or all of our operations would also result in a write-down of property, plant and equipment pursuant to SFAS 121.

See Management's Financial Analysis — Outlook-FirstEnergy Rate Plan for a discussion of a regulatory plan for the Operating Companies and its effect on their compliance with SFAS 71.

(d) Rate Stabilization Program

The Rate Stabilization Program that the PUCO approved in October 1992 allowed the Operating Companies to defer and subsequently amortize and recover certain costs not being recovered in rates at that time. Recovery of both the costs no longer being deferred and the amortization of the 1992-1995 deferrals began in late April 1996 with the implementation of the price increases granted by the PUCO as discussed above. The cost deferrals recorded in 1995 and 1994 pursuant to the Rate Stabilization Program were $115 million and $112 million, respectively. The amortization of the deferrals began in December 1995. The total amortization was $20 million and $2 million in 1996 and 1995, respectively.

The regulatory accounting measures under the Rate Stabilization Program also provided for the accelerated amortization of certain benefits during the 1992-1995 period. The total annual amount of such accelerated benefits was $46 million in both 1995 and 1994.

(8) Federal Income Tax

The components of federal income tax expense recorded in the Income Statement were as follows:

	1996	1995	1994
	(millions of dollars)		
Operating Expenses:			
Current	$ 79	$ 88	$ 70
Deferred	32	47	44
Total Charged to Operating Expenses	111	135	114
Nonoperating Income:			
Current	(19)	(20)	(45)
Deferred	10	25	51
Total Expense (Credit) to Nonoperating Income	(9)	5	6
Total Federal Income Tax Expense	$102	$140	$120

The deferred federal income tax expense results from the temporary differences that arise from the different years when certain expenses are recognized for tax purposes as opposed to financial reporting purposes. Such temporary differences relate principally to depreciation and deferred operating expenses and carrying charges.

Federal income tax, computed by multiplying the income before taxes and preferred dividend requirements of subsidiaries by the 35% statutory rate, is reconciled to the amount of federal income tax recorded on the books as follows:

	1996	1995	1994
	(millions of dollars)		
Book Income Before Federal Income Tax	$279	$421	$390
Tax on Book Income at Statutory Rate	$ 98	$147	$137
Increase (Decrease) in Tax:			
Depreciation	4	7	3
Rate Stabilization Program	—	(27)	(27)
Other items	—	13	7
Total Federal Income Tax Expense	$102	$140	$120

For tax reporting purposes, the Perry Nuclear Power Plant Unit 2 (Perry Unit 2) abandonment was recognized in 1994 and resulted in a $327 million loss with a corresponding $114 million reduction in federal income tax liability. Because of the alternative minimum tax (AMT), $65 million of the $114 million was realized in 1994. The remaining $49 million will not be realized until 1999. Additionally, a repayment of approximately $29 million of previously allowed investment tax credits was recognized in 1994.

Under SFAS 109, temporary differences and carryforwards resulted in deferred tax assets of $582 million and deferred tax liabilities of $2.459 billion at December 31, 1996 and deferred tax assets of $604 million and deferred tax liabilities of $2.479 billion at December 31, 1995. These are summarized as follows:

	December 31, 1996	1995
	(millions of dollars)	
Property, plant and equipment	$2,094	$2,095
Deferred carrying charges and operating expenses	218	224
Net operating loss carryforwards	(44)	(113)
Investment tax credits	(139)	(145)
Sale and leaseback transactions	(121)	(127)
Other	(131)	(59)
Net deferred tax liability	$1,877	$1,875

For tax purposes, net operating loss (NOL) carryforwards of approximately $125 million are available to reduce future taxable income and will expire in 2009. The 35% tax effect of the NOLs is $44 million. Additionally, AMT credits of $275 million that may be carried forward indefinitely are available to reduce future tax.

(9) Retirement Benefits

(a) Retirement Income Plan

We sponsor a noncontributing pension plan which covers all employee groups. The amount of retirement benefits generally depends upon the length of service. Under certain circumstances, benefits can begin as early as age 55. Our funding policy is to comply with the Employee Retirement Income Security Act of 1974 guidelines.

Pension costs (credits) for 1994 through 1996 were comprised of the following components:

	1996	1995	1994
	(millions of dollars)		
Service cost for benefits earned during the period	$ 13	$ 10	$ 13
Interest cost on projected benefit obligation	28	26	26
Actual return on plan assets	(50)	(53)	(2)
Net amortization and deferral	2	9	(34)
Net costs (credits)	$ (7)	$ (8)	$ 3

The following table presents a reconciliation of the funded status of the plan.

	December 31, 1996	December 31, 1995
	(millions of dollars)	
Actuarial present value of benefit obligations:		
Vested benefits	$326	$304
Nonvested benefits	16	2
Accumulated benefit obligation	342	306
Effect of future compensation levels	53	54
Total projected benefit obligation	395	360
Plan assets at fair market value	421	394
Funded status	26	34
Unrecognized net gain from variance between assumptions and experience	(56)	(68)
Unrecognized prior service cost	14	15
Transition asset at January 1, 1987 being amortized over 19 years	(32)	(36)
Net accrued pension liability included in Retirement Benefits in the Balance Sheet	$(48)	$(55)

A September 30 measurement date was used for 1996 and 1995 reporting. At December 31, 1996, the settlement (discount) rate and long-term rate of return on plan assets assumptions were 7.75% and 11%, respectively. The long-term rate of annual compensation increase assumption was 3.5% for 1997 and 4% thereafter. At December 31, 1995, the settlement rate and long-term rate of return on plan assets assumptions were 8% and 11%, respectively. The long-term rate of annual compensation increase assumption was 3.5% for 1996 and 1997 and 4% thereafter.

Plan assets consist primarily of investments in common stock, bonds, guaranteed investment contracts, cash equivalent securities and real estate.

(b) Other Postretirement Benefits

We sponsor a postretirement benefit plan which provides all employee groups certain health care, death and other postretirement benefits other than pensions. The plan is contributory, with retiree contributions adjusted annually. The plan is not funded. Under SFAS 106, the accounting standard for postretirement benefits other than pensions, the expected costs of such benefits are accrued during the employees' years of service.

The components of the total postretirement benefit costs for 1994 through 1996 were as follows:

	1996	1995	1994
	(millions of dollars)		
Service cost for benefits earned during the period	$ 2	$ 2	$ 2
Interest cost on accumulated postretirement benefit obligation	18	18	18
Amortization of transition obligation at January 1, 1993 of $167 million over 20 years	7	7	8
Amortization of gain	—	(1)	—
Total costs	$27	$26	$28

The accumulated postretirement benefit obligation and accrued postretirement benefit cost are as follows:

	December 31, 1996	December 31, 1995
	(millions of dollars)	
Accumulated postretirement benefit obligation attributable to:		
Retired participants	$(177)	$(200)
Fully eligible active plan participants	(4)	(3)
Other active plan participants	(31)	(28)
Accumulated postretirement benefit obligation	(212)	(231)
Unrecognized net gain from variance between assumptions and experience	(44)	(21)
Unamortized transition obligation	120	128
Accrued postretirement benefit cost included in Retirement Benefits in the Balance Sheet	$(136)	$(124)

A September 30 measurement date was used for 1996 and 1995 reporting. At December 31, 1996 and 1995, the settlement rate and the long-term rate of annual compensation increase assumptions were the same as those discussed for pension reporting in Note 9(a). At December 31, 1996, the assumed annual health care cost trend rates (applicable to gross eligible charges) were 7.5% for medical and 7% for dental in 1997. Both rates reduce gradually to a fixed rate of 4.75% by 2003. Elements of the obligation affected by contribution caps are significantly less sensitive to the health care cost trend rate than other elements. If the assumed health care cost trend rates were increased by one percentage point in each future year, the accumulated postretirement benefit obligation as of December 31, 1996 would increase by $6 million and the aggregate of the service and interest cost components of the annual postretirement benefit cost would increase by $0.5 million.

(10) Guarantees

The Operating Companies have guaranteed certain loan and lease obligations of a coal supplier under a long-term coal supply contract. At December 31, 1996, the principal amount of the loan and lease obligations guaranteed by the Operating Companies under the contract was $30 million.

The prices under the contract which includes certain minimum payments are sufficient to satisfy the loan and lease obligations and mine closing costs over the life of the contract. If the contract is terminated early for any reason, the Operating Companies would attempt to reduce the termination charges and would ask the PUCO to allow recovery of such charges from customers through the fuel factor of the respective Operating Company. See Management's Financial Analysis — Outlook-FirstEnergy Rate Plan.

(11) Capitalization

(a) Capital Stock Transactions and Common Shares Reserved for Issuance

Shares sold, retired and purchased for treasury during the three years ended December 31, 1996 are listed in the following table.

	1996	1995	1994
	(thousands of shares)		
Centerior Energy Common Stock:			
Dividend Reinvestment and Stock Purchase Plan	—	—	683
Employee Savings Plan	—	—	259
Employee Purchase Plan	—	—	46
Total Common Stock Sales	—	—	988
Treasury Shares	(3)	(3)	—
Net Increase (Decrease)	(3)	(3)	988
Preferred Stock of Subsidiaries Subject to Mandatory Redemption:			
Cleveland Electric Retirements			
$ 7.35 Series C	(10)	(10)	(10)
88.00 Series E	(3)	(3)	(3)
Adjustable Series M	—	(100)	(100)
9.125 Series N	(150)	(111)	(189)
91.50 Series Q	(11)	(11)	—
90.00 Series S	—	(1)	—
Toledo Edison Retirements			
$100 par $9.375	(17)	(17)	(17)
25 par 2.81	—	(400)	(800)
Preferred Stock of Subsidiaries Not Subject to Mandatory Redemption:			
Cleveland Electric Retirements			
Adjustable Series L	(26)	—	—
Net (Decrease)	(217)	(653)	(1,119)

Shares of common stock required for our stock plans in 1996 were acquired in the open market.

In addition to such stock plan-related purchases, the Board of Directors has authorized the purchase in the open market of up to 10% of our common stock shares outstanding until June 30, 1997. No such purchases have been made.

The number of common stock shares reserved for issuance under the Employee Savings Plan and the Employee Purchase Plan was 1,702,475 and 423,797, respectively, at December 31, 1996.

In June 1996, the Board of Directors adopted a share owner rights plan under which Centerior Energy common stock share owners of record on July 8, 1996 were granted a right to purchase one five-hundredth of a share of Centerior Energy preferred stock for each share of common stock owned on that date. The Board of Directors will decide if the rights will be exercisable in the event of an unsolicited takeover attempt that the Board determines not to be in the best interest of Centerior Energy or its share owners.

Under an Equity Compensation Plan (Compensation Plan) adopted in 1994, options to purchase shares of common stock and awards of restricted common stock were granted to management employees. In 1996, options were issued for 619,800 shares at an exercise price of $11.00 but options for 4,000 shares were subsequently surrendered. In 1995, options were issued for 285,000 shares at an exercise price of $14.58. In 1994, options were issued for 264,900 shares at an exercise price of $13.20 but options for 9,500 and 6,800 shares were surrendered in 1995 and 1996, respectively. The options expire 10 years from the date of the grant and vest over four years. The number of shares available for issuance under the Compensation Plan each year is determined by formula, generally 0.5% of [illegible]ing shares. Shares of common stock required for [illegible]pensation Plan may be either issued as new sha[illegible]ued from treasury stock or acquired in the open market specifically for distribution under the Compensation Plan. No compensation cost has been recognized for the options issued. Computing compensation cost for the options consistent with SFAS 123 would not have materially affected net income in 1996 and 1995, and earnings per common share reported in both years would not have changed.

Upon consummation of the pending merger of Centerior Energy and Ohio Edison, outstanding options will become exercisable for shares of FirstEnergy common stock with the prices and number of shares adjusted to reflect the exchange ratio. Limitations on restricted common stock awarded under the Compensation Plan will lapse automatically upon consummation of the merger.

(b) Equity Distribution Restrictions

The Operating Companies can make cash available to fund Centerior Energy's common stock dividends by paying dividends on their respective common stock, which is held solely by Centerior Energy. Federal law prohibits the Operating Companies from paying dividends out of capital accounts. Each Operating Company has since 1993 declared and paid preferred stock dividends, and Cleveland Electric has also declared and paid common stock dividends, out of appropriated current net income included in retained earnings. At the times of such declarations and payments, each Operating Company had a deficit in its retained earnings. At December 31, 1996, Cleveland Electric and Toledo Edison had $130 million and $223 million, respectively, of appropriated retained earnings for the payment of dividends. Toledo Edison also has a provision in its mortgage applicable to approximately $94 million of outstanding first mortgage bonds ($31 million of which mature in August 1997) that requires common stock dividends to be paid out of its total balance of retained earnings, which had been a deficit from 1993 through November 1996. At December 31, 1996, Toledo Edison's total retained earnings were $5 million. See Management's Financial Analysis — Capital Resources and Liquidity-Liquidity.

(c) Preferred and Preference Stock

Amounts to be paid for preferred stock which must be redeemed during the next five years are $32 million in 1997, $16 million in 1998, $35 million in 1999, $33 million in 2000 and $80 million in 2001.

The annual mandatory redemption provisions are as follows:

	Shares To Be Redeemed	Beginning in	Price Per Share
Cleveland Electric Preferred:			
$ 7.35 Series C	10,000	1984	$ 100
88.00 Series E	3,000	1981	1,000
9.125 Series N	150,000	1993	100
91.50 Series Q	10,714	1995	1,000
88.00 Series R	50,000	2001*	1,000
90.00 Series S	18,750	1999	1,000
Toledo Edison Preferred:			
$100 par $9.375	16,650	1985	100

* All outstanding shares to be redeemed on December 1, 2001.

In 1995, Cleveland Electric purchased 1,000 shares of Serial Preferred Stock, $90.00 Series S, which reduces the 2002 redemption requirement shown in the above table.

The annualized preferred dividend requirement for the Operating Companies at December 31, 1996 was $55 million.

The preferred dividend rates on Cleveland Electric's Series L and Toledo Edison's Series A and B fluctuate based on prevailing interest rates and market conditions. The dividend rates for these issues averaged 7%, 7.11% and 7.75%, respectively, in 1996.

Preference stock authorized for the Operating Companies are 3,000,000 shares without par value for Cleveland Electric and 5,000,000 shares with a $25 par value for Toledo Edison. No preference shares are currently outstanding for either company.

With respect to dividend and liquidation rights, each Operating Company's preferred stock is prior to its preference stock and common stock, and each Operating Company's preference stock is prior to its common stock.

(d) Long-Term Debt and Other Borrowing Arrangements

Long-term debt which matures or is subject to put options during the next five years is as follows: $164 million in 1997, $107 million in 1998, $253 million in 1999, $36 million in 2000 and $92 million in 2001.

The mortgages of the Operating Companies constitute direct first liens on substantially all property owned and franchises held by them. Excluded from the liens, among other things, are cash, securities, accounts receivable, fuel, supplies and, in the case of Toledo Edison, automotive equipment.

Certain credit agreements of the Operating Companies contain covenants relating to fixed charge coverage ratios and limitations on secured financing other than through first mortgage bonds or certain other transactions. The Operating Companies were in compliance with all such covenants as of December 31, 1996. The Operating Companies have letters of credit in connection with the sale and leaseback of Beaver Valley Unit 2 that expire in June 1999. The letters of credit are in an aggregate amount of approximately $225 million and are secured by first mortgage bonds of Cleveland Electric and Toledo Edison in the proportion of 40% and 60%, respectively. At December 31, 1996, Toledo Edison had outstanding $8 million of notes secured by subordinated mortgage collateral.

(12) Short-Term Borrowing Arrangements

Centerior Energy has a $125 million revolving credit facility through May 1997. Centerior Energy and the Service Company may borrow under the facility, with all borrowings jointly and severally guaranteed by the Operating Companies. Centerior Energy plans to transfer any of its borrowed funds to the Operating Companies. The credit agreement is secured with first mortgage bonds of Cleveland Electric and Toledo Edison in the proportion of 40% and 60%, respectively. The credit agreement also provides the participating banks with a subordinate mortgage security interest on the Operating Companies' properties. The banks' fee is 0.625% per annum payable quarterly in addition to interest on any borrowings. There were no borrowings under the facility at December 31, 1996. Also, the Operating Companies may borrow from each other on a short-term basis.

(13) Financial Instruments

The estimated fair values at December 31, 1996 and 1995 of financial instruments that do not approximate their carrying amounts in the Balance Sheet are as follows:

	December 31, 1996		December 31, 1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions of dollars)			
Capitalization and Liabilities:				
Preferred Stock, with Mandatory Redemption Provisions	$ 221	$ 225	$ 252	$ 239
Long-Term Debt	3,616	3,716	3,945	3,961

Noncash investments in the Nuclear Plant Decommissioning Trusts are summarized in the following table.

	December 31, 1996	December 31, 1995
	(millions of dollars)	
Type of Securities:		
Debt Securities:		
Federal Government	$ 24	$47
Municipal	—	25
Other	8	—
	32	72
Equity Securities	95	—
Total	$127	$72
Maturities of Debt Securities:		
due within one year	$ —	$ 1
Due in one to five years	17	22
Due in six to 10 years	7	24
Due after 10 years	8	25
Total	$ 32	$72

The fair value of these trusts is estimated based on the quoted market prices for the investment securities and approximates the carrying value. The fair value of the Operating Companies' preferred stock, with mandatory redemption provisions, and long-term debt is estimated based on the quoted market prices for the respective or similar issues or on the basis of the discounted value of future cash flows. The discounted value used current dividend or interest rates (or other appropriate rates) for similar issues and loans with the same remaining maturities.

The estimated fair values of all other financial instruments approximate their carrying amounts in the Balance Sheet at December 31, 1996 and 1995 because of their short-term nature.

(14) Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1996.

	Quarters Ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
	(millions of dollars, except per share amounts)			
1996				
Operating Revenues	$605	$609	$727	$612
Operating Income	$109	$117	$172	$118
Net Income	$ 7	$ 19	$ 73	$ 22
Average Common Shares (millions)	148.0	148.0	148.0	148.0
Earnings Per Common Share	$ .04	$ .13	$ .50	$ .15
Dividends Paid Per Common Share	$ .20	$ .20	$ .20	$ .20
1995				
Operating Revenues	$588	$607	$740	$581
Operating Income	$130	$137	$205	$118
Net Income	$ 38	$ 44	$109	$ 29
Average Common Shares (millions)	148.0	148.0	148.0	148.0
Earnings Per Common Share	$ .26	$ .30	$ .74	$ .20
Dividends Paid Per Common Share	$ .20	$ .20	$ .20	$ .20

Earnings for the quarter ended March 31, 1996 were decreased by $7 million, or $.05 per share, as a result of Toledo Edison's $11 million write-down of the net book value of two inactive production facilities. The write-down resulted from a decision that the facilities are no longer expected to provide revenues.

Earnings for the quarter ended September 30, 1996 were decreased by $15 million, or $.10 per share, as a result of a $23 million charge for the disposition of materials and supplies inventory. The sale and disposal of inventory was part of the reengineering of the supply chain process.

(15) Pending Merger of Centerior Energy and Ohio Edison

On September 13, 1996, Centerior Energy and Ohio Edison entered into an agreement and plan of merger to form a new holding company, FirstEnergy. Following the merger, FirstEnergy will directly hold all of the issued and outstanding common stock of the Operating Companies and all of the issued and outstanding Ohio Edison common stock. As a result of the merger, the common stock share owners of Centerior Energy and Ohio Edison will own all of the issued and outstanding shares of FirstEnergy common stock. Centerior Energy share owners will receive 0.525 of a share of FirstEnergy common stock for each share of Centerior Energy common stock owned. Ohio Edison share owners will receive one share of FirstEnergy common stock for each share of Ohio Edison common stock owned. FirstEnergy plans to account for the merger as a purchase in accordance with generally accepted accounting principles.

In addition to the approvals by the share owners of Centerior Energy and Ohio Edison common stock, various aspects of the merger are subject to the approval of the FERC and other regulatory authorities. A rate reduction and economic development plan for the Operating Companies has been approved by the PUCO. From the date of consummation of the merger through 2006, the plan provides for rate reductions, frozen fuel cost factors, economic development incentive prices, an energy-efficiency program, an earnings cap and an accelerated reduction in nuclear and regulatory assets for regulatory purposes. The plan will require the Operating Companies to write off certain regulatory assets at the time the merger becomes probable, which is expected to be after obtaining the aforementioned approvals of the merger. The write-off amount to be charged against earnings, estimated by FirstEnergy to be approximately $750 million, will be determined based upon the plan's regulatory accounting and cost recovery details to be submitted by FirstEnergy to the PUCO staff for approval.

If the merger is not consummated, the plan would be null and void. See Management's Financial Analysis — Outlook-Pending Merger with Ohio Edison and -FirstEnergy Rate Plan for a discussion of the proposed merger and the plan.

Executives of Centerior Energy Corporation

Chairman, President and Chief Executive Officer	*Robert J. Farling (60)*
Executive Vice President	*Murray R. Edelman (57)*
Senior Vice President	*Fred J. Lange, Jr. (47)*
Senior Vice President	*Gary R. Leidich (46)*
Senior Vice President, Chief Financial Officer and General Counsel	*Terrence G. Linnert (50)*
Controller	*E. Lyle Pepin (55)*
Treasurer	*David M. Blank (48)*
Secretary	*Janis T. Percio (44)*

Executives of Centerior Service Company

Chairman, President and Chief Executive Officer (and Chairman & CEO of Cleveland Electric and Toledo Edison)	*Robert J. Farling (60)*
Executive Vice President; President – Transmission, Services and Business Enterprises Groups (and Vice Chairman of Toledo Edison and President of Cleveland Electric)	*Murray R. Edelman (57)*
Senior Vice President; President – Distribution Group (and President of Toledo Edison)	*Fred J. Lange, Jr. (47)*
Senior Vice President; President – Power Generation Group	*Gary R. Leidich (46)*
Senior Vice President – Corporate Administration Group, Chief Financial Officer and General Counsel	*Terrence G. Linnert (50)*
Senior Vice President – Nuclear	*John P. Stetz (51)*
Vice President – Business Services	*Jacquita K. Hauserman (54)*
Vice President – Distribution Services	*David L. Monseau (56)*
Vice President – Nuclear-Perry	*Lew W. Myers (47)*
Vice President – Engineering & Planning	*Stanley F. Szwed (44)*
Vice President – Sales & Marketing	*Al R. Temple (51)*
Vice President – Nuclear-Davis-Besse	*John K. Wood (45)*
Controller	*E. Lyle Pepin (55)*
Treasurer	*David M. Blank (48)*
Secretary	*Janis T. Percio (44)*

Number in parentheses indicates age.

Financial and Statistical Review

Operating Revenues (millions of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale	Total Electric	Steam Heating	Total Operating Revenues
1996	$808	765	777	133	2 483	70	2 553	—	$2 553
1995	797	747	777	136	2 457	59	2 516	—	2 516
1994	758	722	758	137	2 375	46	2 421	—	2 421
1993	768	716	754	143	2 381	93	2 474	—	2 474
1992	732	706	766	143	2 347	91	2 438	—	2 438
1986	599	517	676	80	1 872	19	1 891	13	1 904

Operating Expenses (millions of dollars)

Year	Fuel & Purchased Power	Other Operation & Maintenance	Generation Facilities Rental Expense, Net	Depreciation & Amortization	Taxes, Other Than FIT	Amortization of Deferred Operating Expenses, Net	Federal Income Taxes	Total Operating Expenses
1996	$465	635	159	304	320	43	111	$2 037
1995	465	617	160	281	322	(53)	135	1 927
1994	442	595	160	278	309	(55)	114	1 843
1993	474	924 *(a)*	159	258	312	23 *(b)*	11	2 161
1992	473	623	161	256	318	(52)	122	1 901
1986	530	551	—	141	195	—	138	1 555

Income (Loss) (millions of dollars)

Year	Operating Income	AFUDC—Equity	Other Income & Deductions, Net	Deferred Carrying Charges, Net	Federal Income Taxes—Credit (Expense)	Income (Loss) Before Interest Charges	Debt Interest
1996	$516	3	(17)	—	9	511	337
1995	589	3	6	43	(5)	636	358
1994	578	5	8	40	(6)	625	361
1993	313	5	(589) *(c)*	(649) *(b)*	398	(522)	359
1992	537	2	9	100	(7)	641	365
1986	349	308	(8)	—	116	765	406

Income (Loss) (millions of dollars) **Common Stock** (dollars per share & %)

Year	AFUDC—Debt	Preferred & Preference Stock Dividends	Net Income (Loss)	Average Shares Outstanding (millions)	Earnings (Loss)	Return on Average Common Stock Equity	Dividends Declared	Book Value
1996	$ (3)	56	$ 121	148.0	$ .82	6.1%	$ .80	$13.42
1995	(3)	61	220	148.0	1.49	11.4	.80	13.40
1994	(6)	66	204	147.8	1.38	11.1	.80	12.71
1993	(5)	67	(943)	144.9	(6.51)	(40.3)	1.60	12.14
1992	(1)	65	212	141.7	1.50	7.4	1.60	20.22
1986	(118)	85	392	128.9	3.04	13.7	2.49	22.13

(a) Includes early retirement program expenses and other charges of $272 million.

(b) Includes write-off of phase-in deferrals of $877 million, consisting of $172 million of deferred operating expenses and $705 million of deferred carrying charges.

Year	Electric Sales (millions of KWH)						Electric Customers (thousands at year end)				Residential Usage		
	Residential	Commercial	Industrial	Wholesale	Other	Total	Residential	Commercial	Industrial & Other	Total	Average KWH Per Customer	Average Price Per KWH	Average Revenue Per Customer
1996	7 103	7 698	12 278	2 804	1 011	30 894	925	98	11	1 034	7 685	11.38¢	$874.53
1995	7 227	7 694	12 168	2 626	1 050	30 765	930	99	11	1 040	7 791	11.02	858.66
1994	6 980	7 481	12 069	1 842	1 074	29 446	925	98	11	1 034	7 556	10.86	820.89
1993	6 974	7 306	11 687	3 027	1 022	30 016	924	97	12	1 033	7 546	11.01	830.99
1992	6 666	7 086	11 551	2 814	1 011	29 128	925	97	13	1 035	7 227	10.98	793.68
1986	6 527	6 239	11 409	359	909	25 443	899	88	12	999	7 108	9.18	654.99

Year	Load (MW & %)				Energy (millions of KWH)					Fuel	
	Net Seasonal Capability	Peak Load	Capacity Margin	Load Factor	Company Generated: Fossil (d)	Company Generated: Nuclear	Company Generated: Total	Purchased Power	Total	Fuel Cost Per KWH	Efficiency—BTU Per KWH
1996	5 873	5 679	3.3%	61.2%	19 584	12 404	31 988	817	32 805	1.32¢	10 336
1995	5 924	5 779	2.4	60.0	17 260	14 936	32 196	338	32 534	1.38	10 447
1994	6 226	5 291	15.0	63.9	18 000	11 824	29 824	922	30 746	1.35	10 454
1993	6 226	5 397	13.3	61.6	21 105	10 435	31 540	273	31 813	1.39	10 276
1992	6 463	5 091	21.2	63.4	17 371	13 814	31 185	(122)	31 063	1.45	10 395
1986	5 535	5 021	9.3	63.0	22 613	24	22 637	4 669	27 306	1.79	10 292

Investment (millions of dollars)

Year	Utility Plant In Service	Accumulated Depreciation & Amortization	Net Plant	Construction Work In Progress & Perry Unit 2	Nuclear Fuel and Other	Total Property, Plant and Equipment	Utility Plant Additions	Total Assets
1996	$9 867	3 272	6 595	79	278	$6 952	$ 160	$10 210
1995	9 768	3 036	6 732	101	302	7 135	210	10 643
1994	9 770	2 906	6 864	129	343	7 336	197	10 691
1993	9 571	2 677	6 894	181	385	7 460	218	10 710
1992	9 449	2 488	6 961	781	424	8 166	200	12 071
1986	4 640	1 368	3 272	5 144	653	9 069	1 134	9 918

Capitalization (millions of dollars & %)

Year	Common Stock Equity		Preferred & Preference Stock, with Mandatory Redemption Provisions		Preferred Stock, without Mandatory Redemption Provisions		Long-Term Debt		Total
1996	$1 987	33%	189	3%	448	7%	3 444	57%	$6 068
1995	1 984	31	220	3	451	7	3 734	59	6 389
1994	1 882	30	253	4	451	7	3 697	59	6 283
1993	1 785	27	313	5	451	7	4 019	61	6 568
1992	2 889	39	364	5	354	5	3 694	51	7 301
1986	2 991	39	488	7	404	5	3 793	49	7 676

(c) Includes write-off of Perry Unit 2 of $583 million.

(d) Reduced by net energy used by the Seneca Pumped Storage Plant for pumping.

Board of Directors

Richard P. Anderson *(67)*
Chairman and Chief Executive Officer of The Andersons Inc., a grain, farm supply and retailing firm. 1986

Albert C. Bersticker *(62)*
Chairman and Chief Executive Officer of Ferro Corporation, a producer of specialty chemical materials for manufactured products. 1990

Thomas A. Commes *(54)*
President and Chief Operating Officer of The Sherwin-Williams Company, a manufacturer of paints and painting supplies. 1987

William F. Conway *(66)*
President of William F. Conway & Associates, Inc., a management consulting firm.
Retired Executive Vice President-Nuclear of Arizona Public Service Company, an electric utility. 1994

Wayne R. Embry *(59)*
President and Chief Operating Officer of the Cleveland Cavaliers, a pro sional basketball team.
Chairman of M.A.L. Co., a fabricator of hardboard, fiberglass and carpet materials for the automotive industry. 1991

Robert J. Farling *(60)*
Chairman, President and Chief Executive Officer of the Company and Centerior Service Company. 1988

Richard A. Miller *(70)*
Retired Chairman and Chief Executive Officer of the Company and Centerior Service Company. 1986

Frank E. Mosier *(66)*
Retired Vice Chairman of the Advisory Board of BP America Inc., a producer and refiner of petroleum products. 1986

Sister Mary Marthe Reinhard, SND *(67)*
Director of Development for the Sisters of Notre Dame of Cleveland, Ohio. 1986

Robert C. Savage *(59)*
President and Chief Executive Officer of Savage & Associates, Inc., an insurance, financial planning and estate planning firm. 1990

William J. Williams *(68)*
Retired Chairman of Huntington National Bank. 1986

Robert M. Ginn
Chairman Emeritus

John P. Williamson
Chairman Emeritus

Number in parentheses indicates age.
Date indicates first year in which elected to Board.

Committees of the Board

Audit	*Capital Expenditures*	*Environmental and Community Responsibility*	*Executive and Nominating*	*Finance*	*Human Resources*	*Nuclear*
T.A. Commes, Chairman	A.C. Bersticker, Chairman	Sr. M.M. Reinhard, Chairman	R.J. Farling, Chairman	R.A. Miller, Chairman	F.E. Mosier, Chairman	W.F. Conway, Chairman
R.P. Anderson	W.F. Conway	W.R. Embry	A.C. Bersticker	T.A. Commes	W.F. Conway	R.P. Anderson
W.R. Embry	R.J. Farling	R.A. Miller	T.A. Commes	R.J. Farling	W.R. Embry	A.C. Bersticker
Sr. M.M. Reinhard	R.A. Miller	F.E. Mosier	R.A. Miller	F.E. Mosier	R.C. Savage	Sr. M.M. Reinhard
W.J. Williams	F.E. Mosier	R.C. Savage	W.J. Williams	R.C. Savage	W.J. Williams	W.J. Williams

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P O BOX 94661
CLEVELAND OH 44101-9886

To Share Owners who hold Centerior Energy stock certificates or participate in our Dividend Reinvestment Plan:

If you receive duplicate copies of Company mailings in your household and have no need for the extra copies, you will help us economize by completing and returning the card on the upper right.

Your instructions will eliminate all duplicate mailings except dividend checks, proxy cards and tax information.

Your help is appreciated.

If you have questions, please call Share Owner Services at 800-433-7794 or at 447-2400 in the Cleveland area.

Complete this card if you hold Centerior stock certificates or participate in Centerior's Dividend Reinvestment Plan and wish to discontinue duplicate mailings coming to this address.

Name _______________ (Please Print)

Street _______________

City _______________ State _______________ Zip Code _______________

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(Account number appears on your dividend check stub or DRP statement of account)

Signature of share owner(s) _______________

Do not return this card if you receive only one copy of each mailing in your household.

To Share Owners who own Centerior Energy stock through a broker:

If your stock is held by your broker and you want to receive our Quarterly Reports to Share Owners, as released, complete and return the card on the lower right.

If you are already on our mailing list, you do not need to complete and return the card to continue receiving Quarterly Reports.

If you have questions, please call Share Owner Services at 800-433-7794 or at 447-2400 in the Cleveland area.

Complete this card if you own Centerior stock through a broker and wish to be on our mailing list to receive Quarterly Reports to Share Owners, as released.

Name _______________ (Please Print)

Street _______________

City _______________ State _______________ Zip Code _______________

Signature of share owner(s) _______________

You do not need to complete and return this card if you, as a beneficial share owner, are already on our mailing list for Quarterly Reports. Do not return this card if you hold Centerior stock certificates or participate in our Dividend Reinvestment Plan since you already receive Quarterly Reports with your dividend checks or DRP statements of account.

Share Owner information

Executive Offices

Centerior Energy Corporation
6200 Oak Tree Boulevard
Independence, OH
Telephone: (216) 447-3100
FAX: (216) 447-3240

Mail Address

Centerior Energy Corporation
P.O. Box 94661
Cleveland, OH 44101-4661

General information about the Company is available on the Internet at http://www.centerior.com

Transfer Agent

Centerior Energy Corporation
Share Owner Services
P.O. Box 94661
Cleveland, OH 44101-4661

Stock transfers may be presented at
Harris Trust Company of New York
77 Water Street, 5th Floor
New York, NY 10005

Registrar

KeyBank National Association
Corporate Trust Division
P.O. Box 6477
Cleveland, OH 44101

Independent Public Accountants

Arthur Andersen LLP
Suite 1800
200 Public Square
Cleveland, OH 44114

Share Owner Services

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

In Cleveland area: 447-2400

Outside Cleveland area: (800) 433-7794

Please have your account number ready when calling.

Investor Relations

Inquiries from security analysts and institutional investors should be directed to Ronald E. Seeholzer, Manager-Investor Relations, at the Company's mail address or by telephone at (216) 447-3339.

Dividend Reinvestment and Stock Purchase Plan and Individual Retirement Account (CX•IRA)

The Company has a Dividend Reinvestment and Stock Purchase Plan which provides share owners of record and customers of Cleveland Electric and Toledo Edison a convenient means of purchasing shares of Company common stock by investing all or a part of their quarterly dividends as well as making cash investments. In addition, individuals may establish an individual retirement account (IRA) which invests in Company common stock through the Plan. Information relating to the Plan and the CX•IRA may be obtained from Share Owner Services.

CX•IRA Custodian

All communications about an existing CX•IRA should be directed to the Custodian at the address or telephone numbers listed below:

KeyBank National Association
Custodian, CX•IRA, P.O. Box 6477
Cleveland, OH 44101

In Cleveland area: 813-5745
Outside Cleveland area: (800) 542-7792

Common Stock

Listed on the New York, Chicago and Pacific Stock Exchanges. Options are traded on The Pacific Stock Exchange. New York Stock Exchange symbol-CX. Newspaper abbreviation – CentEn or CentrEngy.

Annual Meeting

The 1997 annual meeting of the share owners of the Company will be held on May 8, 1997. Owners of common stock as of March 12, 1997, the record date for the meeting, will be eligible to vote on matters brought up for share owners' consideration.

Environmental Report

The Company will furnish to share owners, without charge, a copy of a report on its environmental performance. Requests should be directed to Share Owner Services.

Form 10-K

The Company will furnish to share owners, without charge, a copy of its most recent annual report to the Securities and Exchange Commission. Requests should be directed to Share Owner Services.

Audio Cassettes

Share owners with impaired vision may obtain audio cassettes of the Company's Quarterly Reports and Annual Report. To obtain a cassette, simply write or call Share Owner Services. There is no charge for this service.

We have made forward-looking statements in this Annual Report to Share Owners with respect to the financial condition, results of operations, strategic plan and business of Centerior Energy, and FirstEnergy following the consummation of the merger with Ohio Edison, which involve certain risks and uncertainties. Forward-looking statements are statements about future performance or results, including any statements using the words "believe," "expect," "anticipate" or similar words. For all of those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) expected cost savings from the merger are not fully realized; (2) regional competitive pressure in the electric utility industry increases significantly; (3) the effects of unanticipated events on the Operating Companies' expectations regarding cost recovery over the regulatory plan period or on the carrying value of regulatory assets and on the Operating Companies' ability to continue to comply with the provisions of SFAS 71 (as defined herein) cause an impairment of property, plant and equipment or variances from the amounts disclosed; (4) costs or difficulties related to the integration of the businesses of Ohio Edison and Centerior are greater than expected; (5) state and federal regulatory initiatives are implemented that further increase competition, threaten cost and investment recovery or impact rate structures or dividends; and (6) national and regional economic conditions are less favorable than expected.

Centerior Energy Corporation
P.O. Box 94661
Cleveland, OH 44101-4661