

Consolidated Report to the Financial Community (Unaudited)

FIRSTENERGY CORP.

Second Quarter 2001

Release Date: July 17, 2001

Highlights

- Net income for the second quarter of 2001 was \$146 million, up \$11 million from the same period last year. Earnings were \$0.67 per share, an increase of 11.7% over the \$0.60 per share earned in the second quarter last year.
- Compared with the second quarter of 2000, regulated electric generation sales fell 13%, primarily as a result of the implementation of customer choice in Ohio. This reduction was offset by increased wholesale sales, including market support generation, and unregulated retail sales.
- Electric gross margin was \$13 million lower than the same period last year, after adjusting for the absence of revenues associated with the low-income residential payment plan now administered by the Ohio Department of Development (\$11 million). Electric revenues, excluding the impact of the low-income plan, declined \$20 million compared to the second quarter of 2000. Contributing factors included the 5% generation rate reduction for Ohio residential customers (\$12 million) and milder weather (estimated impact of \$9 million). Fuel expense increased by \$9 million due to higher spot market coal prices, while purchased power expenses declined \$15 million as a result of lower wholesale purchases.
- Electric operating expenses increased by \$4 million during the quarter, after adjusting for a reduction in customer accounts associated with the low-income plan expenses. Primary factors included a \$16 million increase in fossil operating expenses, a \$12 million decline in gains from sales of emission allowances, and a \$14 million increase in pension and other employee benefits. These increases were partially offset by reductions in nuclear (\$26 million) and distribution-related (\$12 million) expenses.
- Total depreciation and amortization decreased by \$18 million. The majority of this reduction resulted from a lower level of transition cost amortization compared to the amount of rate plan accelerations taken in the second quarter of 2000. Including associated income taxes, transition cost amortization totaled \$74 million compared with \$87 million of rate plan accelerations.
- Net interest charges for the quarter declined \$13 million compared with the second quarter 2000. A total of \$50 million of debt was redeemed and \$117 million of pollution control notes were refinanced during the quarter, producing about \$7 million in annualized savings.
- General taxes decreased by \$46 million as a result of reduced property and excise taxes due to timing differences from Ohio tax law changes as well as a successful court appeal on nuclear fuel valuations which provided a one-time benefit of \$15 million. Note that approximately \$16 million of the new Ohio franchise tax is reflected in higher state income taxes and thus partially offsets the reduction in general taxes. The timing benefits from tax law changes are not expected to continue beyond the second quarter 2001.
- Mark-to-Market adjustments on electricity and coal contracts negatively impacted net income by \$4 million, or \$0.02 per share.

| <u>After Tax EPS Variance Analysis</u> | <u>2nd Qtr.</u> |
|---|-----------------|
| Second Quarter 2000 EPS | \$0.60 |
| Electric Gross Margin | (\$0.04) |
| Generation O&M Expenses | \$0.02 |
| Distribution Expenses | \$0.03 |
| Gains on Emission Allowances Sales - 2000 | (\$0.03) |
| Pension and Other Benefits | (\$0.04) |
| Depreciation and Amortization | \$0.05 |
| Financing Costs | \$0.03 |
| General & Franchise Taxes | \$0.04 |
| Nuclear Fuel Tax Appeal | \$0.04 |
| Mark-to-Market Adjustments | (\$0.02) |
| All Other | (\$0.01) |
| Second Quarter 2001 EPS | \$0.67 |

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| FIRSTENERGY CORP. CONSOLIDATED INCOME STATEMENTS (thousands): | Three Months Ended | | | Six Months Ended | | |
|---|--------------------|------------------|-----------------|------------------|------------------|-------------------|
| | June 30, | | | June 30, | | |
| | 2001 | 2000 | Change | 2001 | 2000 | Change |
| REVENUES: | | | | | | |
| Electric utilities | \$1,260,511 | \$1,348,685 | \$ (88,174) | \$2,571,800 | \$2,629,615 | \$ (57,815) |
| Unregulated businesses | 543,635 | 353,419 | 190,216 | 1,218,087 | 680,419 | 537,668 |
| Total revenues | 1,804,146 | 1,702,104 | 102,042 | 3,789,887 | 3,310,034 | 479,853 |
| EXPENSES: | | | | | | |
| Fuel and purchased power | 300,528 | 306,353 | (5,825) | 625,107 | 550,993 | 74,114 |
| Purchased gas | 173,557 | 87,515 | 86,042 | 526,374 | 189,553 | 336,821 |
| Other operating expenses | 643,846 | 581,373 | 62,473 | 1,289,249 | 1,125,642 | 163,607 |
| Provision for depreciation and amortization | 206,606 | 224,794 | (18,188) | 433,820 | 426,878 | 6,942 |
| General taxes | 92,186 | 137,977 | (45,791) | 211,608 | 279,032 | (67,424) |
| Total expenses | 1,416,723 | 1,338,012 | 78,711 | 3,086,158 | 2,572,098 | 514,060 |
| INCOME BEFORE INTEREST AND INCOME TAXES | | | | | | |
| | 387,423 | 364,092 | 23,331 | 703,729 | 737,936 | (34,207) |
| Net interest charges: | | | | | | |
| Interest expense | 116,342 | 124,243 | (7,901) | 234,561 | 247,086 | (12,525) |
| Capitalized interest | (12,296) | (7,022) | (5,274) | (21,119) | (13,126) | (7,993) |
| Subsidiaries' preferred stock dividends | 16,919 | 17,125 | (206) | 33,853 | 35,413 | (1,560) |
| Net interest charges | 120,965 | 134,346 | (13,381) | 247,295 | 269,373 | (22,078) |
| Income taxes | 120,439 | 95,142 | 25,297 | 204,208 | 193,041 | 11,167 |
| Income before cumulative effect of a change in accounting | 146,019 | 134,604 | 11,415 | 252,226 | 275,522 | (23,296) |
| Cumulative effect of a change in accounting | - | - | - | (8,499) | - | (8,499) |
| NET INCOME | \$146,019 | \$134,604 | \$11,415 | \$243,727 | \$275,522 | (\$31,795) |
| Basic earnings per common share: | | | | | | |
| Before accounting change | \$0.67 | \$0.60 | \$0.07 | \$1.16 | \$1.23 | (\$0.07) |
| Cumulative effect of accounting change | - | - | - | (0.04) | - | (0.04) |
| | \$0.67 | \$0.60 | \$0.07 | \$1.12 | \$1.23 | (\$0.11) |
| Weighted average number of basic shares outstanding | | | | | | |
| | 218,372 | 223,542 | (5,170) | 218,239 | 224,201 | (5,962) |
| Diluted earnings per common share: | | | | | | |
| Before accounting change | \$0.67 | \$0.60 | \$0.07 | \$1.15 | \$1.23 | (\$0.08) |
| Cumulative effect of accounting change | - | - | - | (0.04) | - | (0.04) |
| | \$0.67 | \$0.60 | \$0.07 | \$1.11 | \$1.23 | (\$0.12) |
| Weighted average number of diluted shares outstanding | | | | | | |
| | 219,540 | 223,993 | (4,453) | 219,235 | 224,531 | (5,296) |

| | KILOWATT-HOUR SALES STATISTICS | | | | | |
|-----------------------------------|--------------------------------|--------|--------|------------------|--------|--------|
| | Three Months Ended | | | Six Months Ended | | |
| | June 30, | | | June 30, | | |
| | 2001 | 2000 | Change | 2001 | 2000 | Change |
| ELECTRIC GENERATION SALES: | | | | | | |
| Retail - | | | | | | |
| Regulated | 12,589 | 14,509 | -13.2% | 27,617 | 29,312 | -5.8% |
| Unregulated | 1,783 | 1,548 | 15.2% | 3,236 | 3,031 | 6.8% |
| Total Retail | 14,372 | 16,057 | -10.5% | 30,853 | 32,343 | -4.6% |
| Wholesale | 4,751 | 1,716 | 176.9% | 8,583 | 3,398 | 152.7% |
| Total Electric Generation Sales | 19,123 | 17,773 | 7.6% | 39,436 | 35,741 | 10.2% |
| DISTRIBUTION DELIVERIES: | | | | | | |
| Residential | 3,557 | 3,715 | -4.2% | 8,384 | 8,179 | 2.5% |
| Commercial | 3,734 | 4,271 | -12.6% | 7,805 | 8,395 | -7.0% |
| Industrial | 6,885 | 6,552 | 5.1% | 13,389 | 12,832 | 4.3% |
| Other | 92 | 90 | 2.2% | 187 | 183 | 2.2% |
| Total Distribution Deliveries | 14,268 | 14,628 | -2.5% | 29,765 | 29,589 | 0.6% |

FIRSTENERGY CORP.

| Capitalization (in thousands): | At June 30, | | | |
|--|---------------------|----------------|---------------------|----------------|
| | 2001 | % Total | 2000 | % Total |
| Common Stock and Paid-In Capital | \$3,507,602 | | \$3,673,875 | |
| Retained Earnings | 1,290,101 | | 1,052,245 | |
| Unallocated ESOP Shares | (103,318) | | (117,715) | |
| Total Common Equity | 4,694,385 | 42% | 4,608,405 | 40% |
| Preferred Stock | 808,545 | 7% | 892,751 | 8% |
| Long-Term Debt | 5,791,593 | 51% | 5,965,925 | 52% |
| Total Capitalization | <u>\$11,294,523</u> | | <u>\$11,467,081</u> | |

Common Stock Data

| Stock Price During the Quarter | | |
|---|---------|---------|
| High | \$32.20 | \$26.88 |
| Low | \$26.80 | \$20.56 |
| Close | \$32.16 | \$23.38 |
| Dividends Declared per Share (Quarter) | \$0.375 | \$0.375 |
| Annualized Dividend Yield | 4.7% | 6.4% |
| Price/Earnings Ratio (12 mos ending)* | 12.3 | 9.1 |
| Dividend Payout Ratio (12 mos ending)* | 57% | 58% |
| Cash Coverage of Dividend | 4.5 | 4.5 |
| Return on Average Common Equity (12 mos ending) | 12.4% | 12.6% |
| Book Value Per Share | \$21.49 | \$20.67 |
| Annualized Dividend/Book Value | 7.0% | 7.3% |

* Before cumulative effect of a change in accounting principle

Other Statistics (12 mos. Ending)

| | | |
|--------------------|-------|-------|
| System Load Factor | 60.8% | 61.8% |
| Capacity Factors: | | |
| Fossil | 55.6% | 57.4% |
| Nuclear | 89.6% | 90.2% |

Three Months Ended June 30,

| | 2001 | 2000 | Change |
|---|-------------------|-----------------|-------------------|
| Transition Plan (2001) vs. Regulatory Plan (2000): | | | |
| Accelerations (2001) vs. (2000) | | (in thousands) | |
| Depreciation and Amortization | \$64,472 | \$76,881 | (\$12,409) |
| Income Tax Amortization | 9,937 | 9,876 | 61 |
| Total-Accelerations | <u>\$74,409</u> | <u>\$86,757</u> | <u>(\$12,348)</u> |
| Transition Plan Deferrals | | | |
| Deferral of Shopping Incentives | (11,309) | | (11,309) |
| Deferral of New Regulatory Assets | (6,398) | | (6,398) |
| Total-Deferrals | <u>(\$17,707)</u> | | <u>(\$17,707)</u> |
| Mark-to-Market Adjustments | | | |
| Pre-Tax Expenses | \$7,184 | | \$7,184 |
| EPS Effect | <u>(\$0.02)</u> | | <u>(\$0.02)</u> |

RECENT DEVELOPMENTS

Merger Update

On June 14, the Pennsylvania Public Utility Commission voted 3-0 to adopt the June 11, 2001, Settlement Stipulation that FirstEnergy and GPU entered into with various parties, including the Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance, Office of Consumer Advocate, Citizens for Pennsylvania's Future, Office of Small Business Advocate, Locals 459 and 777 of the IBEW, and Local 180 of the UAW. Two parties in the Pennsylvania proceeding, ARIPPA and Mid-Atlantic Power Supply Association (MAPSA) have filed appeals of the Commission's decision to The Commonwealth Court of Pennsylvania.

Highlights of Pennsylvania Settlement Stipulation include:

- Provider of Last Resort relief granted through deferral of supply costs above capped rates
- Merger savings addressed by the extension of distribution rate freeze through 2007
- Companies permitted to apply NUG trust funds to full NUG capacity and energy payments

With resolution in Pennsylvania, the only remaining approvals are the New Jersey Board of Public Utilities and the Securities and Exchange Commission. On July 9, the Administrative Law Judge in New Jersey asked all parties to continue settlement discussions until July 20. Approval in New Jersey is expected in late summer or early fall, with the SEC expected to follow approximately thirty-days afterward.

Generation

On June 5, the installation of five 85-megawatt natural gas-fired peaking units was completed at the West Lorain plant. Including this project, FirstEnergy has added a total of 885 megawatts to its system in the last two years. FirstEnergy's total generating capacity is now nearly 13,000 megawatts, a ten-percent increase from 1998. An additional 340-megawatts of natural gas-fired peaking units will be completed by next summer in Sumpter, Michigan. Capacity uprates of 210 megawatts are also planned at the Beaver Valley and Davis-Besse nuclear plants over the next five years.

All FirstEnergy nuclear plants scored positive ratings in their most recent performance reports from the Nuclear Regulatory Commission. These reports indicate that plant personnel met all regulatory goals in areas such as plant operations, radiation safety, emergency planning, and plant security. The reports covered the period from April 2, 2000 through March 31, 2001.

Goodwill

On June 29, the Financial Accounting Standards Board approved Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets". This Statement will end amortization of goodwill, including goodwill created by past mergers. This change will be effective for FirstEnergy's existing goodwill on January 1, 2002 and there will be no goodwill amortization associated with the pending GPU merger in 2001. Currently, FirstEnergy amortizes about \$57 million of goodwill expense annually, or approximately \$0.25 per share.

Ohio Senate Bill 125

In June, Ohio Senate Bill 125 was introduced. If adopted, this will allow a tax credit against the corporation franchise tax for air quality equipment expenditures. It will provide utilities the opportunity to fund up to two-thirds of their installation cost for pollution control equipment through franchise tax credits.