DPL Inc.

Focused and Prepared

1997 Annual Report

Strategic Objectives

Our key strategic objectives have made us successful today and prepared DPL for the more competitive environment of tomorrow.

Superior Operations
Corporate wide focus on providing industry-leading levels of operating performance.

Customer Focus
Provide competitive prices, ensure high levels of reliability and retain customer satisfaction.

Management
Focus on improving competitive position and maximizing opportunities for growth.

Cost Control
Maintain and improve industry-leading cost control programs.

Financial
Develop and maintain financial strength and flexibility.

Corporate Profile

DPL Inc. was formed in 1986 as a holding company. Its principal subsidiary is The Dayton Power and Light Company ("DP&L"). DP&L sells electricity and natural gas to residential, commercial, industrial and governmental customers in a 6,000 square mile area of West Central Ohio. Electricity for DP&L's 24 county service area is generated at eight power plants and is distributed to 485,000 retail customers. Natural gas is provided to 301,000 customers in 16 counties. The corporate offices of DPL Inc. are located at:

Courthouse Plaza Southwest, Dayton, Ohio 45402
(937) 224-6000

About The Covers

Focused and Prepared

Our efforts and attention at DPL Inc. remain focused on our core electric and natural gas businesses. Top of the industry operating and financial performance and ongoing programs that further improve our competitive position have built a foundation of preparedness for future success. Featured on our 1997 Annual Report is The Dayton Power & Light Energy Resource Center, where unique solutions are designed to meet the energy needs of homes and businesses. Programs include workshops demonstrating new energy products and home energy improvements, along with state-of-the-art technologies for improved energy control and reliability for industry. These programs and solutions demonstrate DP&L's overall total customer focus and ability to tailor energy services to the individual needs of our customers.

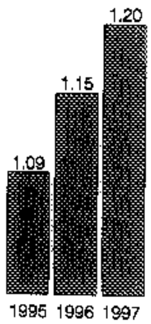
Financial & Operating Highlights

		1997	1996	% change
Financial Performance:				
Earnings per share of common stock	$	**1.20**	1.15	4
Dividends paid per share	$	**0.91**	0.87	5
Return on shareholders' equity	%	**14.6**	14.7	
Return on total capital	%	**11.8**	11.7	
Market value per share at December 31	$	**19 3/16**	16 3/16	19
Book value per share at December 31	$	**8.45**	7.97	6
Total electric and natural gas utility revenues (millions)	$	**1,251.5**	1,252.7	—
Taxes per share	$	**1.58**	1.55	2
Number of common shareholders		**43,689**	46,532	(6)
Cash provided by operating activities (millions)	$	**339.9**	338.1	1
First Mortgage Bond Ratings:				
Duff & Phelps, Inc.		**AA**	AA	
Standard & Poor's Corporation		**AA–**	AA–	
Moody's Investors Service		**Aa3**	Aa3	
Capital Investment Performance:				
Construction additions (millions)	$	**110.6**	115.5	(4)
Construction expenditures paid from internal funds	%	**100**	100	
DP&L Operating Performance:				
Electric–				
Average price per kWh-retail and wholesale customers (calendar year)	¢	**6.01**	6.16	(2)
Fuel efficiency–				
Heat rate-Btu per kWh		**9,931**	9,830	1
Industry average		**10,359**	10,365	—
Fuel savings (millions)	$	**9.2**	11.5	(20)
System peak load-MW (calendar year)		**2,848**	2,886	(1)
Gas–				
Average price per MCF-total (calendar year)	$	**3.93**	3.75	5

Dear Shareholder:

Two issues were successfully dealt with in 1997. They were continued focus on excellent current performance and preparation for the future electric sales market.

EARNINGS PER SHARE
Dollars



Earnings for the year rose to $1.20 per share, up more than 4% and better than twice the industry average; dividends were increased to $0.907 per share in February 1997 and again in February 1998 to $0.94 per share; the stock price hit an all-time high of $28¾ and we declared a three-for-two stock split to be effective January 12, 1998. Our total return in 1997 was over 25%. These are all reflections of our strong financial performance and capable management team.

We are proud of these accomplishments when compared against the backdrop of the energy industry, which is quite different from our own performance. In 1997, many energy companies did not increase dividends, lost money in related and unrelated new business ventures, and continuously changed their "vision". Our vision occurred more than fifteen years ago, when we began preparing for a competitive energy environment. Namely, that we sell a commodity and a commodity sells on price.

In 1997, the Ohio government began the initial steps toward opening the regulated electricity environment. The issues are tough. They include tax restructuring, reliability of electric service, recovery of invested capital and determining the time frame for deregulation to occur.

We believe that many new attributes are necessary to be competitive and that size alone will not determine profitability. Rather, the ability to quickly take advantage of opportunities in the market place and those presented by governmental rules are keys to success.

We have been preparing for a change in the market and the rules under which we do business for well over a decade. Our management team has focused on flexibility, both operationally and financially. We experienced first hand in the natural gas business how government can completely change a market. We learned that the ability to adapt quickly to

Board of Directors

Thomas J. Danis *James F. Dicke, II* *Peter H. Forster* *Ernie Green* change is critical. Streamlined management and operations can become the critical factor in profiting from change.

Our productivity and efficiency has historically been among the ten best in the country. Our balance sheet is strong and we have the financial means necessary to move into a new era. We are also a combination electric and natural gas company. This means we provide a complete and competitively priced energy package for any customer. When combined with natural gas and coal costs for electric generation that are near the lowest in the Midwest region, our competitive advantage is really enhanced. We view the coming changes as opportunities.

The electricity sales market will be confused for quite some time to come. Basically, the business will be like most others. Each state will have its own rules, making management focus on fundamentals and overall flexibility paramount to success. To remain profitable, you need competitive production costs, a solid distribution base and a positive customer service team. We have these tools. We have the will to change, again and again as the market progresses and the agility to do it quickly.

Your Board of Directors and the management team are dedicated to bringing you excellent current returns while focusing on growing into the future. The formula for success that we have and will continue to work on, is financial strength, preparation and focus.

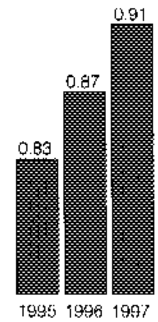
Thank you for letting us work for you.

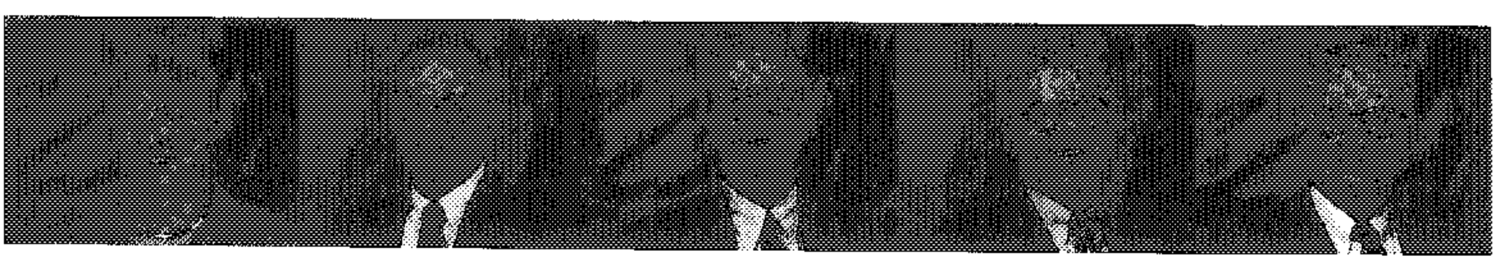
Best regards,

Peter H. Forster
Chairman, DPL Inc.

Allen M. Hill
President and Chief
Executive Officer, DPL Inc.

DIVIDENDS
PER SHARE
Dollars





[illegible] *Allen M. Hill* *W August Hillenbrand* *David R. Holmes* *Burnell R. Roberts*

The DPL Mission

As the energy industry moves through transition, our goal remains unchanged. We will continue to provide quality gas and electric service to our customers at competitive prices, and earn a fair rate of return for our shareholders. By adhering to this long-time corporate goal, we have established an industry leading operating and financial position. One sign of DPL Inc.'s industry leadership is the ability to deliver solid results. We have the ability, motivation and attitude to make results happen, not just plan for them. In an environment of increasing market and price volatility it is team strength that ultimately prevails. With each state embarking on its own path towards competition, uncertainty and risk in the industry will increase. With our historical focus on strong financial and operating results, we are prepared for the changes in the utility industry.

TOTAL Energy PROVIDER

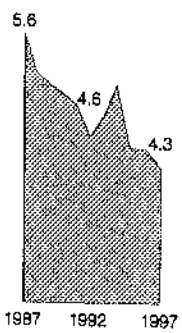
DP&L's ability to provide customers with both natural gas and electricity is a distinct competitive advantage. With fuel and natural gas costs that are among the lowest in the region, we offer a total energy package that is competitively priced and reliable.

Key Strategic Objectives

Our blueprint for success and continued improvement combines several key elements. These include maintaining our strong financial position, managing opportunities and risks, keeping a strong customer focus, continuing industry leading operations and controlling costs. Our successful completion of these objectives will translate into solid shareholder returns.

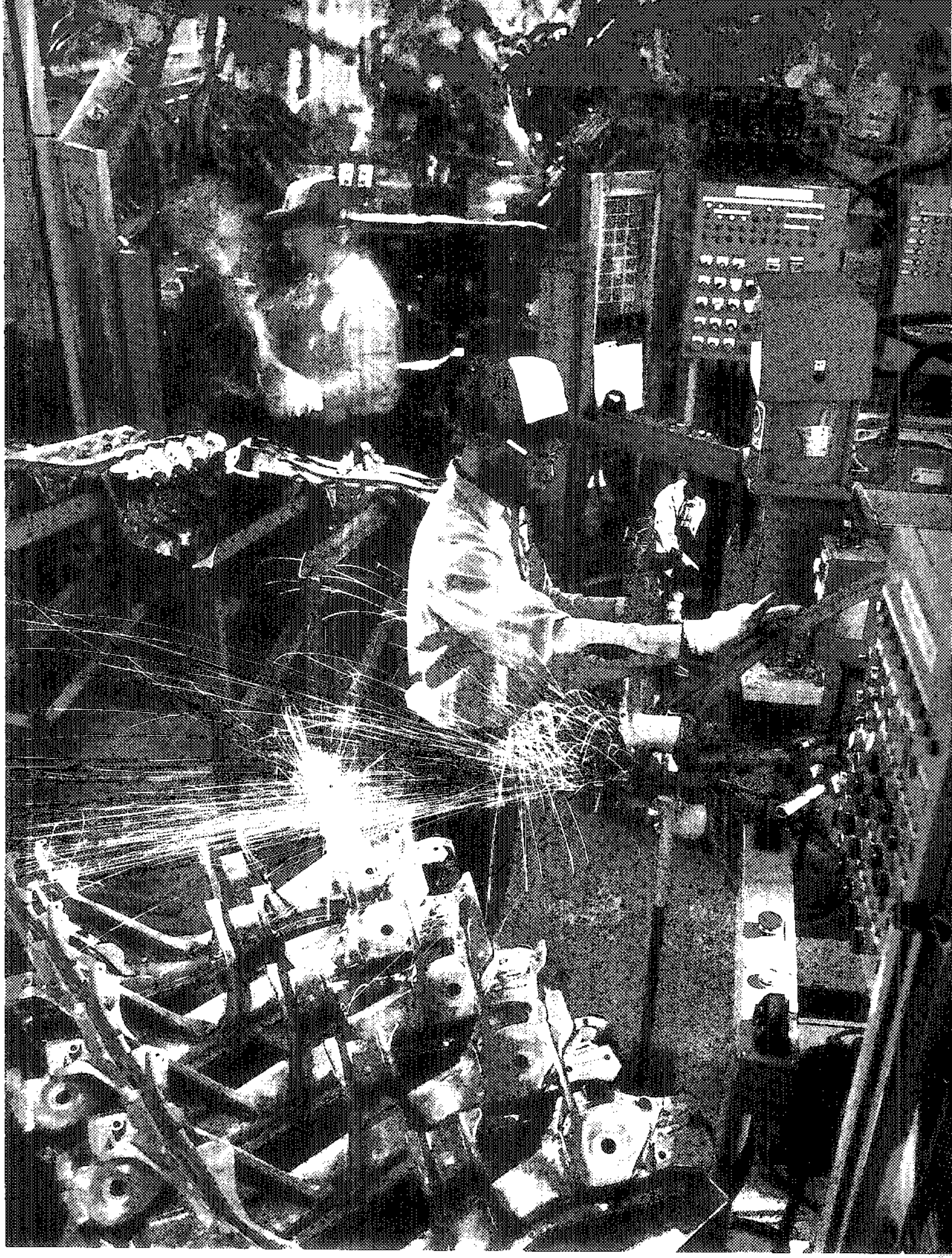
The restructuring and changing regulatory environment of the electric utility industry continues. Companies are implementing very diverse strategies to deal with changing regulatory policy. As in the past, there are several pending or proposed mergers that seek to combine resources. In addition, several companies have chosen to sell off assets in response to competition. Clearly, the gas and electric markets are moving toward a commodity-based industry. This action supports one of the foundations of our operations that has been present for many years. Specifically, that we are in the business of selling a commodity, and a

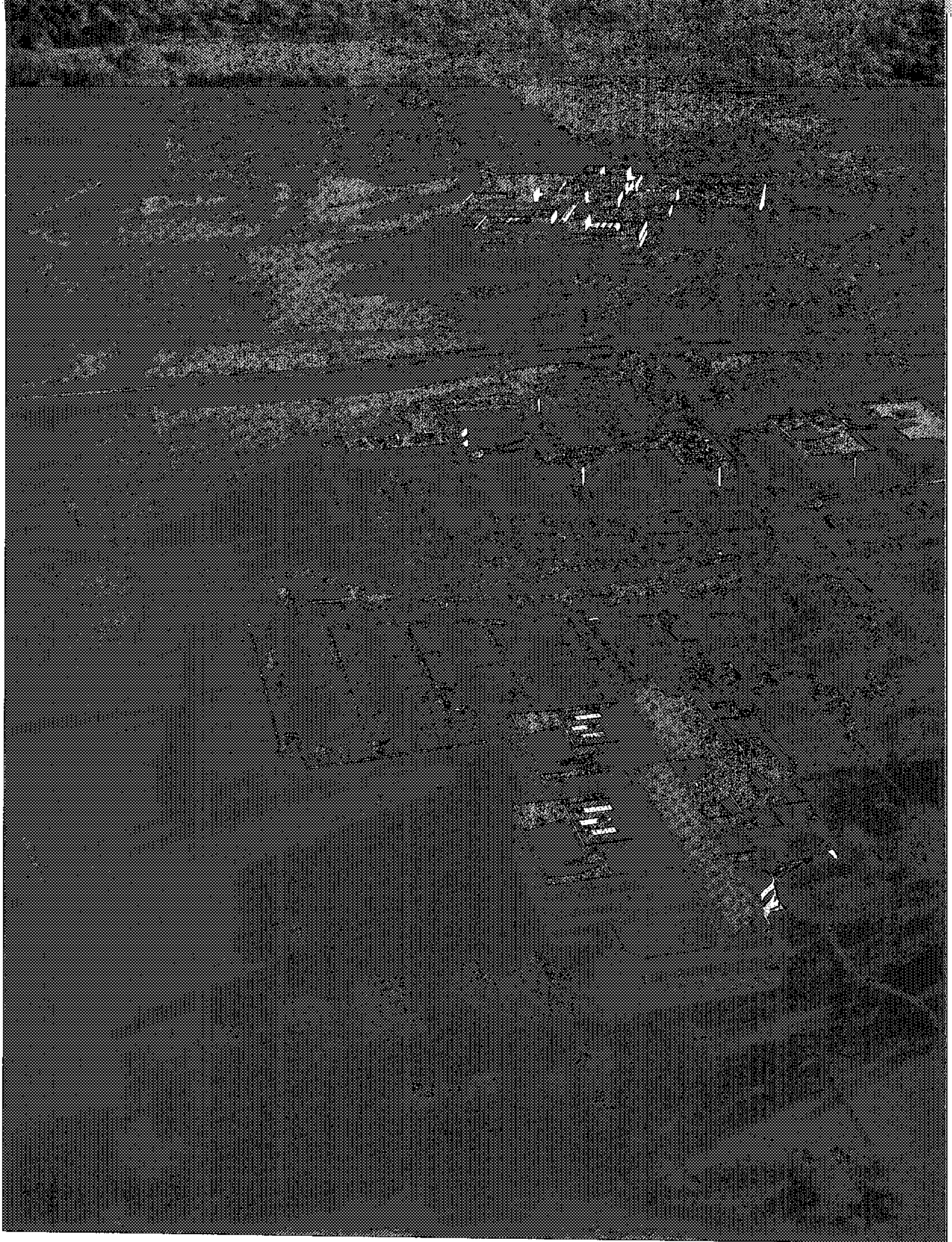
INFLATION-ADJUSTED PRICE *(¢/kWh)*



Since 1987, DP&L electric prices have declined 23%, adjusted for inflation during that period. Pictured: Scott Kelly, Business Development.

F & P America, located in Troy, Ohio, is a supplier of suspension and structural components for the automotive industry. Recent expansion at this facility was assisted by innovative energy efficiency solutions provided by DP&L.





commodity sells on price and customer service. With this in mind, the following key factors will play a large part in our future success.

Superior Operations

More than ever before, as we move towards a less regulated and more volatile electricity environment, our ability to continue to achieve top of the industry operational performance enhances our competitive position. The electric generation part of our business is likely to be the first to be changed by new legislative rules. Customers may be provided the opportunity to choose between electric producers. Price, service, and reliability will be important factors in their choice. DP&L has one of the best records in the industry in terms of providing electricity efficiently and reliably. Measures of productivity, such as equivalent forced outage rate and equivalent availability, rank DP&L among the best in the nation and show that our generating units are available to meet customer requirements. Our production efficiency, how well we convert coal to electricity, has always been at the top in the nation and contributes to our low electric fuel costs. The combination of productivity and efficiency, together with low costs, provides for reliable, competitively priced electricity for our customers.

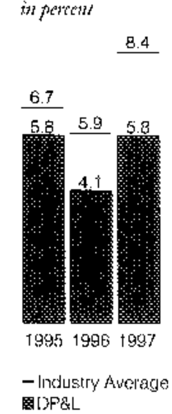
INDUSTRY **Leader**

DP&L's long tradition of national leadership in productivity and efficiency are a significant advantage in a competitive market. Achieving top performance helps to reduce costs and ensure a reliable supply of energy for our customers.

Customer Focus

Our goal is to exceed customer expectations with each interaction. Our employees seek to understand the needs and opinions of our customers as they relate to our energy service. They monitor and improve customer satisfaction by meeting with customers to get feedback regarding our level of service. Each employee has incentive compensation tied to factors related to the quality of customer service that they personally provide. We have numerous customer service centers located throughout West Central Ohio to ensure our customers

EQUIVALENT FORCED OUTAGE RATE
in percent



Miami Valley Research Park is the home for over forty primarily high-tech companies. Numerous recent corporate additions have resulted in impressive growth for the Park, and reflect the dynamic economic environment in West Central Ohio.

Equivalent Forced Outage Rate, or "EFOR," measures the availability of our generating units when they are needed most.

High availability, represented by a low EFOR, means that we avoid costly power purchases at times of high demand. Pictured: Kevin Crawford, Energy Production.

receive reliable, quality service quickly and at all times. Throughout the 1990's, our customers have consistently responded in the mid-ninety percent satisfaction level regarding our quality of service.

DP&L continues to provide energy solutions for customers through the "Way To Go" programs. "Way To Go" is the umbrella name for all of our gas and electric efficiency programs. We have been able to reach a large segment of our customer base with these programs, providing them with energy and money saving initiatives. These programs are coordinated through our Energy Resource Center which features the latest in energy technologies and solutions for the customer's energy needs.

Way to Go Personally *programs provide energy services tailored to the individual needs of customers. One example is "Way to Go Home Essentials", a service that offers energy saving and convenience products for the home or office.*

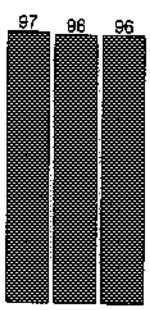
Management

Our management focus is on areas that improve our competitive position and maximize opportunities to grow in the changing legislative and regulatory environment. If future legislative actions provide opportunities, DP&L will be in a position to further enhance its competitive position. We have a history of good working relationships with legislators and regulators, and the ability to work towards solutions that are beneficial for both customers and shareholders. Our experience will help us to thoroughly analyze developing legislative issues and to work together with governing officials to provide the benefits of customer choice to customers, employees and shareholders.

Leadership will be essential for our future success. Our management team is comprised of young, experienced and motivated people. With an average age in the mid-40's and nearly twenty years of experience in the industry, we are well positioned for the future. Through the years we have kept our belief in keeping management layers streamlined. Employing a limited number of officers and possessing few layers of management ensures quick responses and

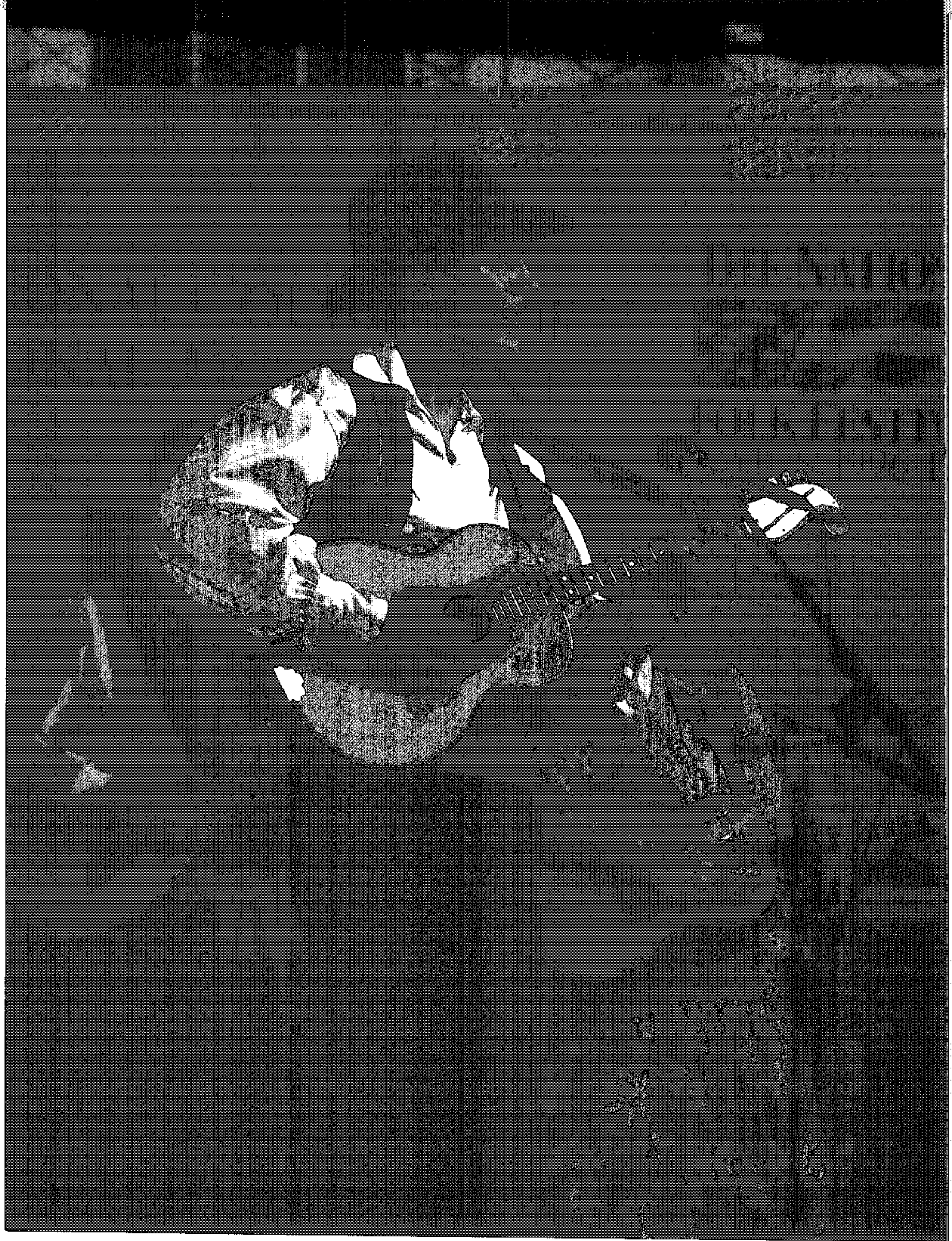
QUALITY OF SERVICE

percent positive responses



Our customers consistently respond in the mid-ninety percent level regarding their satisfaction with the quality of service they receive from Dayton Power & Light. Photo: Judi Blair, Service Operations.

Crysteco Inc., headquartered in Wilmington, Ohio, manufactures silicon wafers for semi-conductor device applications. Exacting and accurate temperatures in the manufacturing process result in the need for DP&L to meet unusually high reliability demands. DP&L helped to develop a unique technology solution to meet these requirements.



flexibility in day-to-day operations. Importantly, each employee is also a shareholder. This personal stake creates a meaningful alignment of employee and shareholder interests.

Cost Control

DP&L is recognized in the industry as being one of the best in terms of controlling costs. This comes from our company-wide focus on knowing and predicting all types of cost. Fuel cost continues to be a competitive advantage for DP&L. Generally, 25% of the price of electricity is fuel cost. Our fuel costs are among the lowest in the entire Midwestern region. Nearly all of our large generating stations are located on the Ohio River, with ready access to plentiful and varied types of Central Appalachian coal. Coal can be brought to the plants by barge, truck, or rail, which helps to manage transportation costs. Flexible and predictable long-term coal contracts allow us to maintain low costs into the future, and provide the ability to adapt to changes in coal markets. This flexibility has also helped us in meeting the provisions of the Clean Air Act, keeping compliance costs low.

Natural gas costs make up about 60% of the price of gas to customers. Our natural gas costs are among the lowest in Ohio and our favorable location near a major natural gas pipeline hub helps to ensure this position for the future. This combination of low cost natural gas and electric fuel effectively positions DP&L as a competitive total energy provider. The ability to provide customers with both natural gas and electricity is a key strategic advantage.

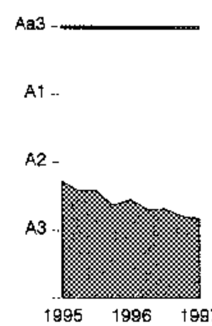
DP&L PARTNERS IN BUSINESS Plus

Partners in Business Plus *is DP&L's newest and most comprehensive business growth incentive program, offering energy credits to business customers that add jobs or increase capital investment. This program continues DP&L's long record of partnership with area companies to further economic development.*

Financial

Earnings and dividends that exceed industry averages and a balance sheet that is among the cleanest and strongest in the nation establish a solid base for future financial stability. A conservative capital structure and strong cash flow provide the resources and flexibility for a

CREDIT RATINGS



- DP&L
- Moody's Investors Service Average Electric Utility Credit Rating

Dayton is the 1996 to 1998 site of the National Folk Festival, which attracts talented performers and thousands of attendees from across the country. DP&L is one of the key sponsors of this event, representing the Company's commitment to the quality of life in West Central Ohio.

A combination of strong financial performance, low costs and good working relationships with area leaders has helped DP&L to manage risk and maintain solid credit ratings. DP&L's credit ratings were consistently upgraded by all three major rating agencies from 1992-1995, during a time when ratings trended down for the industry. Pictured: Kevin DeWine, Corporate Relations.

sound competitive position. Our long-term debt has a 26-year average maturity and a low 7.7% embedded cost. These attributes have helped to earn the AA level credit ratings that we maintain from all three major rating agencies. Overall, our financial position reflects the preparation necessary to compete and to deliver fair returns to our shareholders.

Return

DPL's stock price reached an all-time high in 1997, contributing to a total annual return of over 25%. Over the past ten years, DPL has produced an average annual total return to shareholders of 18%.

DPL's common stock reached an all-time high of $28.75 per share in 1997. This strong performance, combined with our dividend, resulted in a total return to shareholders of over 25%. Late in the year, the Board of Directors authorized a three-for-two stock split, our third stock split in the last seven years. The split was effective January 12, 1998 to shareholders of record on December 16, 1997. Typically, stock splits result in a broader market and increased liquidity for your shares, and reflect confidence in the financial performance of the Company.

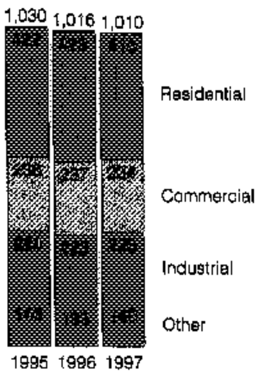
In order to provide continued above average current returns for you, the annual dividend rate was increased on February 3, 1998, to $0.94 per share. This 3.7% increase is well above the industry average of less than 2% over the past year, and is the eleventh dividend increase in the last twelve years.

DPL has consistently been a strong financial performer. In 1997, earnings were $1.20 per share, an increase of nearly five percent over 1996 earnings. This performance is particularly remarkable in light of the overall industry performance in 1997, with earnings declining at an average of about 5%. Our long-term record of earnings and dividend growth has resulted in a total five year return to shareholders of over 91%.

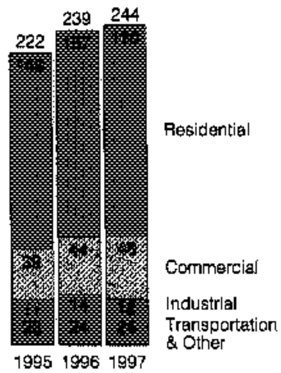
Our strong performance over the past ten years reflects our commitment to the achievement of specific measurable goals. Regardless of the environment in which we operate, we remain focused on our core business while maintaining the flexibility to adapt to change. 1998 will be a year of continued change. We will remain focused, dealing with the changes needed for the future and working to provide you, our Shareholders, with a fair rate of return.

Financial Review

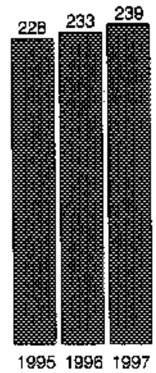
ELECTRIC UTILITY REVENUES
$ in millions



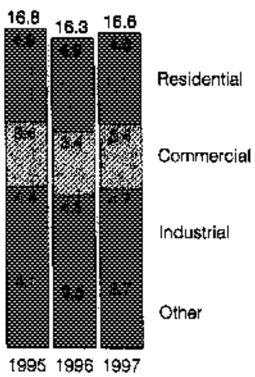
GAS UTILITY REVENUES
$ in millions



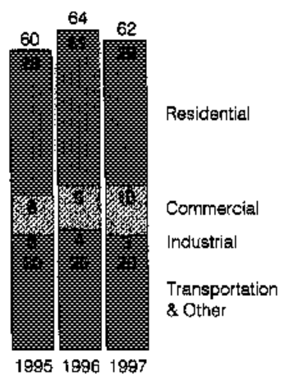
TOTAL TAXES
$ in millions



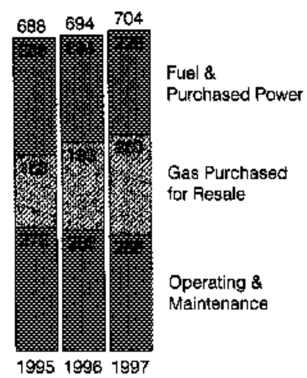
ELECTRIC UTILITY SALES
Thousands of GWH



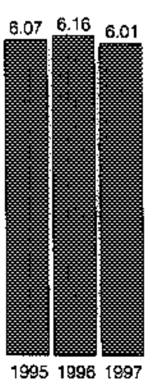
GAS UTILITY SALES
Millions of MCF



OPERATING EXPENSES
$ in millions

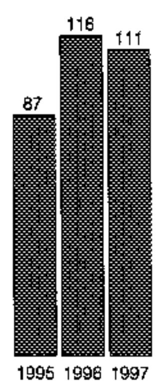


AVERAGE PRICE-ELECTRIC CALENDAR YEAR
¢/kWh



TOTAL AVERAGE PRICE-GAS CALENDAR YEAR
$/MCF

CONSTRUCTION COSTS
$ in millions



Financial and Statistical Summary

			1997	1996	1995	1994	1993
	For the years ended December 31,						
DPL Inc.:	Earnings per share of common stock (a)	$	**1.20**	1.15	1.09	1.03	0.95
	Dividends paid per share (a)	$	**0.91**	0.87	0.83	0.79	0.75
	Dividend payout ratio	%	**75.8**	75.7	76.1	76.7	78.9
	Net income (millions)	$	**181.4**	172.9	164.7	154.9	139.0
	Utility service revenues (millions)	$	**1,252.2**	1,256.1	1,255.1	1,187.9	1,151.3
	Construction additions (millions)	$	**110.6**	115.5	87.3	101.1	88.9
	Market value per share at December 31 (a)	$	**19 3/16**	16 3/16	16 1/2	13 11/16	13 3/4
DP&L:	Electric sales (millions of kWh) —						
	Residential		**4,788**	4,924	4,871	4,465	4,558
	Commercial		**3,408**	3,407	3,425	3,068	3,006
	Industrial		**4,749**	4,540	4,401	4,388	4,089
	Other		**3,664**	3,443	4,117	2,298	3,023
	Total		**16,609**	16,314	16,814	14,219	14,676
	Gas sales (thousands of MCF) —						
	Residential		**29,277**	31,087	29,397	27,911	28,786
	Commercial		**9,567**	9,424	8,307	8,081	8,468
	Industrial		**2,520**	3,404	2,584	3,150	3,056
	Other		**2,153**	2,829	3,006	2,909	3,171
	Transported gas		**18,523**	16,953	16,376	15,147	13,401
	Total		**62,040**	63,697	59,670	57,198	56,882
	At December 31,						
DPL Inc.:	Book value per share (a)	$	**8.45**	7.97	7.69	7.45	7.01
	Total assets (millions)	$	**3,585.2**	3,418.7	3,322.8	3,232.7	3,302.0
	Long-term debt and preferred stock with mandatory redemption provisions (millions)	$	**971.0**	1,014.3	1,081.5	1,093.7	1,132.9
DP&L:	First mortgage bond ratings —						
	Duff & Phelps, Inc.		**AA**	AA	AA	AA	AA–
	Standard & Poor's Corporation		**AA–**	AA–	AA–	AA–	A
	Moody's Investors Service		**Aa3**	Aa3	Aa3	A1	A2
	Number of Shareholders						
DPL Inc.:	Common		**43,689**	46,532	48,919	51,270	53,275
DP&L:	Preferred		**625**	684	733	795	1,873

(a) Per share amounts have been restated to reflect the three-for-two common stock split paid on January 12, 1998 to stockholders of record on December 16, 1997.

Financial Review

Income Statement Highlights

$ in millions except per share amounts	1997	1996	1995
Electric Utility:			
Revenues	**$1,008**	$1,014	$1,028
Fuel and purchased power	**227**	234	256
Net revenues	**781**	780	772
Gas Utility:			
Revenues	**244**	239	222
Gas purchased for resale	**151**	145	133
Net revenues	**93**	94	89
Other income	**104**	74	55
Operation and maintenance expense	**256**	266	272
Amortization of regulatory assets, net	**17**	15	15
Income taxes	**105**	104	102
Net income	**181**	173	165
Earnings per share of common stock	**1.20**	1.15	1.09

The 1997 earnings increased to $1.20 per share, compared to earnings per share of $1.15 in 1996 and $1.09 in 1995.

In 1997, a 3% decline in electric residential sales resulted in slightly lower revenue which offset a 3% increase in sales to business customers and higher sales to other public utilities. Fuel and purchased power expense decreased 3% primarily related to lower fuel costs. In 1996, electric revenues decreased 1% as a result of lower sales to public utilities.

Gas utility revenues increased 2% in 1997. Sales increases of 3% from higher deliveries to business customers offset the effects of milder weather. Gas purchased for resale by the utility increased 4% primarily from higher natural gas costs. Gas utility revenues increased 7% resulting in a 9% increase in gas utility purchases in 1996.

Other income increased $29 million in 1997 due to higher non-utility revenue and increased investment income. The $19 million increase in 1996 resulted from higher non-utility revenue.

Operation and maintenance expense decreased 4% in 1997 from 1996 due to cost containment efforts and lower actuarially-determined benefit expense. Operation and maintenance expense decreased 2% in 1996 from 1995 as a result of reduced electric production and system maintenance, bond redemption costs, lower compensation and benefit expense, offset by higher insurance and claims costs.

Regulatory assets recorded during the phase-in of electric rates are being amortized and recovered in current rates. In addition, deferred interest charges on the William H. Zimmer Generating Station are being amortized at $3 million per year over the projected life of the asset.

A 1992 Public Utilities Commission of Ohio ("PUCO")-approved settlement agreement and a subsequent stipulation in 1995 allowed accelerated recovery of demand-side management costs and, thereafter, production plant costs to the extent that DP&L return on equity exceeds a baseline 13% (subject to upward adjustment). If the return exceeds the baseline return by one to two percent, one-half of the excess is used to accelerate recovery of these costs. If the return is greater than two percent over the baseline, the entire excess is used for such purpose.

Depreciation and amortization expense increased $2 million as a result of increased depreciable assets in 1997 and $7 million in 1996 primarily due to increased depreciable assets and rates.

General taxes increased 3% in 1997 and 4% in 1996 as a result of higher property taxes from additional property.

Interest expense declined $3 million in 1997 primarily due to the redemption of $25 million of first mortgage bonds late in 1996 and two series of first mortgage bonds totaling $80 million in 1997. Interest expense declined $5 million in 1996 primarily from the September 1995 refinancing of $110 million of bonds at a lower interest rate.

Certain risks of DPL Inc. and its subsidiaries are insured through a wholly-owned captive insurance company. Increases in insurance and claims costs resulted primarily from additional insurance coverage.

Credit Ratings

DP&L's senior debt credit ratings are as follows:

Duff & Phelps	AA
Moody's Investors Service	Aa3
Standard & Poor's	AA–

Each rating has been affirmed by its respective rating agency in 1997. Moody's Investors Service upgraded DP&L's senior debt credit rating three times from 1992-1995. Duff & Phelps and Standard & Poor's both upgraded DP&L's senior debt credit ratings in 1994. The credit ratings are the highest DP&L has achieved since 1974, and they are all considered investment grade.

Construction Program and Financing

Construction additions were $111 million, $116 million, and $87 million in 1997, 1996 and 1995, respectively. The capital program for 1998 consists of construction costs of approximately $100 million, which includes an 82 MW combustion turbine generating unit.

During 1997, total cash provided by operating activities was $340 million. At year-end, cash and temporary cash investments were $26 million, and debt and equity financial assets were $384 million. Cash and financial assets are held with a view towards investing in future opportunities in the industry.

In December 1997, DP&L redeemed a series of first mortgage bonds in the principal amount of $40 million with an interest rate of 8.0%. The bonds had been scheduled to mature in 2003. Another series of first mortgage bonds in the principal amount of $40 million matured in 1997. In December 1996, DP&L redeemed a series of first mortgage bonds in the principal amount of $25 million with an interest rate of 6.75%. The bonds had been scheduled to mature in 1998. Sinking fund payments for the five years ended 2002 are $27 million.

In September 1995, a new series of Air Quality Development Revenue Refunding Bonds was issued in the principal amount of $110 million with an interest rate of 6.10%. Proceeds from the financing were used to redeem a similar principal amount of first mortgage bonds with an interest rate of 9.5%.

Issuance of additional amounts of first mortgage bonds by DP&L is limited by provisions of its mortgage. The amounts and timing of future financings will depend upon market and other conditions, rate increases, levels of sales and construction plans. DPL Inc. anticipates that it has sufficient capacity to issue DP&L first mortgage bonds to satisfy its requirements in connection with its capital program.

In addition, DPL Inc. has a revolving credit agreement, renewable through 2001, which allows total borrowings by DPL Inc. and its subsidiaries of $200 million. At year-end 1997, DPL Inc. had $36 million outstanding under this credit agreement.

DP&L also has $97 million available in short-term lines of credit. At year-end, DP&L had $10 million outstanding from these lines of credit and $70 million in commercial paper outstanding.

A three-for-two common stock split effected in the form of a stock dividend was paid on January 12, 1998 to stockholders of record on December 16, 1997.

Issues and Financial Risks

This report contains certain forward-looking statements regarding plans and expectations for the future. Investors are cautioned that actual outcomes and results may vary materially from those projected due to various factors beyond DP&L's control, including abnormal weather, unusual maintenance or repair requirements, changes in fuel costs, increased competition, regulatory changes and decisions, changes in accounting rules and adverse economic conditions.

Like many companies, DPL Inc. is currently evaluating its computer systems to determine the extent to which modifications are required to prevent problems in the year 2000. Based on this on-going effort, the Company at this time does not anticipate that the year 2000 matter will materially impact the Company's financial position.

The Environmental Protection Agency ("EPA") has notified numerous parties, including DP&L, that they are considered "Potentially Responsible Parties" for clean up of four hazardous waste sites in Ohio. The EPA has estimated total costs of $34 million for its preferred clean-up plans at three of these sites and has not established an estimated cost for the fourth site. The final resolution of these investigations will not have a material effect on DP&L's financial position, earnings or cash flow.

As a public utility, DP&L is subject to processes which determine the rates it charges for energy services. Regulators determine which costs are eligible for recovery in the rate setting process and when the recovery will occur. They also establish the rate of return on utility investments which are valued under Ohio law based on historical costs.

The utility industry is subject to inflationary pressures similar to those experienced by other capital-intensive industries. Because rates for regulated services under existing rules are based on historical costs, cash flows may not cover the total future costs of providing services.

Restructuring of the electric utility industry continued to evolve in 1997. Legislative proposals have been introduced in Congress and in Ohio concerning electric wholesale and retail wheeling which are designed to increase competition. These factors increase the risk that the Company's production plant and/or regulatory assets may not be fully recovered in rates.

Ohio continues to take a studied approach to utility industry restructuring. In 1997, the Ohio legislative leadership established a special Joint Committee to study the restructuring issues. The Committee conducted hearings to gather information from energy companies, regulators, customers and industry experts. The Committee co-chairs issued a draft report in early January 1998 recommending opening the electric generation market, in the future, to competition for all Ohio consumers. As a part of this restructuring effort in 1998 and beyond, legislators are also studying related complex tax issues that must be resolved.

In 1996 and 1997, the Federal Energy Regulatory Commission ("FERC") issued orders creating a more competitive wholesale electric power market. These orders required all electric utilities that own or control transmission facilities to file open-access transmission service tariffs. Open-access transmission tariffs provide third parties nondiscriminatory transmission service comparable to what the utility provides itself. In its orders, FERC further stated that FERC-jurisdictional stranded costs reasonably incurred and costs of complying with the rules will be recoverable by electric utilities. In December, DP&L reached an agreement in principle with intervenors in a pending tariff case and filed a subsequent case based on an updated test year.

The PUCO is holding roundtable discussions on competition in the electric industry focused on short-term initiatives under the current regulatory framework. Pursuant to a PUCO order implementing one such initiative, all Ohio electric utilities, including DP&L, filed tariffs in 1996 for interruptible electric service that accommodate replacement electricity during periods when the utility faces resource constraints. DP&L's tariff was approved in 1997.

As another roundtable initiative, in 1996, the PUCO issued guidelines for conjunctive electric service which required all utilities to file tariffs under which different service locations are aggregated for cost-of-service, rate design, rate eligibility and billing purposes. Although DP&L has appealed these guidelines to the Ohio Supreme Court, DP&L filed its tariff in 1997.

Ohio legislation in 1996 and PUCO rules in 1997 addressed regulatory reform for the local gas distribution companies. The legislation provides that natural gas commodity services may be exempted from PUCO regulation and that the PUCO may allow alternative ratemaking methodologies in connection with other regulated services.

Consolidated Statement of Results of Operations

$ in millions except per share amounts	1997	For the years ended December 31, 1996	1995
Income			
Utility service revenues	**$1,252.2**	$1,256.1	$1,255.1
Other income	**103.6**	74.2	54.9
Total income	**1,355.8**	1,330.3	1,310.0
Expenses			
Fuel and purchased power	**227.9**	234.9	257.5
Gas purchased for resale	**219.5**	193.0	158.4
Operation and maintenance (Note 1)	**256.1**	265.7	272.3
Depreciation and amortization (Note 1)	**127.6**	125.4	118.9
Amortization of regulatory assets, net (Note 2)	**16.8**	15.3	15.4
General taxes	**133.8**	129.7	125.2
Interest expense	**87.3**	89.9	95.2
Total expenses	**1,069.0**	1,053.9	1,042.9
Income Before Income Taxes	**286.8**	276.4	267.1
Income taxes (Notes 1 and 3)	**105.4**	103.5	102.4
Net Income	**$ 181.4**	$ 172.9	$ 164.7
Average Number of Common Shares Outstanding (millions) (Note 8) (a)	**151.4**	150.9	151.6
Earnings Per Share of Common Stock (a)	**$ 1.20**	$ 1.15	$ 1.09
Dividends Paid Per Share of Common Stock (a)	**$ 0.91**	$ 0.87	$ 0.83

(a) Shares and per share amounts have been restated to reflect the three-for-two common stock split paid on January 12, 1998, to shareholders of record on December 16, 1997. See Note 8.

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

DPL Inc.

$ in millions	1997	For the years ended December 31, 1996	1995
Operating Activities			
Cash received from utility customers	**$1,228.1**	$1,228.9	$1,203.5
Other operating cash receipts	**88.2**	87.0	53.9
Cash paid for:			
Fuel and purchased power	**(235.9)**	(207.6)	(249.8)
Purchased gas	**(236.1)**	(211.6)	(156.9)
Operation and maintenance labor	**(83.2)**	(87.4)	(89.3)
Nonlabor operating expenditures	**(96.4)**	(149.3)	(136.9)
Interest	**(85.2)**	(87.7)	(91.9)
Income taxes	**(108.8)**	(108.1)	(103.1)
Property, excise and payroll taxes	**(130.8)**	(126.1)	(124.2)
Net cash provided by operating activities (Note 11)	**339.9**	338.1	305.3
Investing Activities			
Property expenditures	**(113.7)**	(108.8)	(87.3)
Other activities	**(178.0)**	(144.4)	(14.3)
Net cash used for investing activities	**(291.7)**	(253.2)	(101.6)
Financing Activities			
Dividends paid on common stock	**(137.2)**	(131.2)	(124.9)
Issuance of short-term debt	**105.7**	10.0	—
Retirement of long-term debt	**(82.9)**	(25.5)	(126.7)
Issuance of common stock	**19.5**	—	—
Purchase of treasury stock	**—**	(15.8)	(6.1)
Issuance of long-term debt	**—**	—	108.8
Net cash used for financing activities	**(94.9)**	(162.5)	(148.9)
Cash and temporary cash investments —			
Net change	**(46.7)**	(77.6)	54.8
Balance at beginning of year	**72.8**	150.4	95.6
Balance at end of year	**$ 26.1**	$ 72.8	$ 150.4

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

DPL Inc.

$ in millions	At December 31, 1997	1996
Assets		
Property	**$3,642.8**	$3,548.7
Accumulated depreciation and amortization	**(1,386.6)**	(1,279.8)
Net property	**2,256.2**	2,268.9
Current Assets		
Cash and temporary cash investments	**26.1**	72.8
Accounts receivable, net	**211.4**	201.9
Inventories, at average cost	**87.5**	75.9
Taxes applicable to subsequent years	**91.9**	87.3
Other current assets	**54.2**	53.6
Total current assets	**471.1**	491.5
Other Assets		
Financial assets	**384.0**	170.3
Income taxes recoverable through future revenues (Note 1 and 2)	**208.2**	222.4
Regulatory assets (Note 2)	**116.7**	137.3
Other	**149.0**	128.3
Total other assets	**857.9**	658.3
Total Assets	**$3,585.2**	$3,418.7
Capitalization and Liabilities		
Capitalization		
Common shareholders' equity (Note 8) —		
Common stock	**$ 1.6**	$ 1.1
Other paid-in capital	**777.3**	756.8
Common stock held by employee plans	**(98.0)**	(102.1)
Earnings reinvested in the business	**605.1**	544.7
Total common shareholders' equity	**1,286.0**	1,200.5
Preferred stock (Note 9)	**22.9**	22.9
Long-term debt (Note 7)	**971.0**	1,014.3
Total capitalization	**2,279.9**	2,237.7
Current Liabilities		
Accounts payable	**129.8**	114.4
Accrued taxes	**158.5**	137.7
Accrued interest	**24.2**	24.8
Current portion of long-term debt	**3.4**	42.4
Short-term debt (Note 6)	**115.7**	10.0
Other	**46.3**	57.0
Total current liabilities	**477.9**	386.3
Deferred Credits and Other		
Deferred taxes (Note 3)	**464.9**	488.1
Unamortized investment tax credit	**72.4**	75.4
Insurance and claims costs	**151.6**	107.9
Other	**138.5**	123.3
Total deferred credits and other	**827.4**	794.7
Total Capitalization and Liabilities	**$3,585.2**	$3,418.7

See Notes to Consolidated Financial Statements.

1. *Summary of Significant Accounting Policies*

Principles of Consolidation and Nature of Operations

The accounts of DPL Inc. and its wholly-owned subsidiaries are included in the accompanying consolidated financial statements. The consolidated financial statements of DPL Inc. principally reflect the results of operations and financial condition of DPL Inc.'s public utility subsidiary, The Dayton Power and Light Company ("DP&L"). DP&L is primarily engaged in the business of selling electric energy and natural gas to residential, commercial, industrial and governmental customers in a 6,000 square mile area of West Central Ohio. The majority of DPL Inc.'s earnings come from electricity and natural gas sales.

Revenues and Fuel

Revenues include amounts charged to customers through fuel and gas recovery clauses, which are adjusted periodically for changes in such costs. Related costs that are recoverable or refundable in future periods are deferred along with the related income tax effects. Also included in revenues are amounts charged to customers through a surcharge for recovery of arrearages from certain eligible low-income households.

DP&L records revenue for services provided but not yet billed to more closely match revenues with expenses. Accounts receivable on the Consolidated Balance Sheet includes unbilled revenue of (in millions) $78.3 in 1997 and $58.3 in 1996.

Operation and Maintenance

Operation and maintenance expenses include $0.6 million in 1997 and $4.7 million in 1995 of redemption premiums and other costs relating to the refinancing of bond issues.

Property, Maintenance and Depreciation

Property is shown at its original cost. Cost includes direct labor and material and allocable overhead costs.

When a unit of property is retired, the original cost of that property plus the cost of removal less any salvage value is charged to accumulated depreciation. Maintenance costs and replacements of minor items of property are charged to expense.

Depreciation expense is calculated using the straight-line method, which depreciates the cost of property over its estimated useful life, at an average rate of 3.5% in 1997 and 1996 and 3.4% in 1995.

Income Taxes

Deferred income taxes are provided for all temporary differences between the financial statement basis and the tax basis of assets and liabilities using the enacted tax rate. Additional deferred income taxes and offsetting regulatory assets or liabilities are recorded to recognize that the income taxes will be recoverable/refundable through future revenues. Investment tax credits, previously deferred, are being amortized over the lives of the related properties.

Consolidated Statement of Cash Flows

The temporary cash investments presented on this Statement consist of liquid investments with an original maturity of three months or less.

Reclassifications

Reclassifications have been made in certain prior years' amounts to conform to the current reporting presentation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions related to future events.

2. *Regulatory Matters*

DP&L applies the provisions of Statement of Financial Accounting Standard (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. This accounting standard provides for the deferral of costs authorized for future recovery by regulators. These costs would be charged to expense without regulatory authorization. Regulatory assets on the Consolidated Balance Sheet include:

$ in millions	At December 31, 1997	1996
Phase-in (a)	**$ 30.6**	$ 46.7
DSM (b)	**33.6**	35.3
Deferred interest (c)	**52.5**	55.3
Income taxes recoverable through future revenues	**208.2**	222.4
Total	**$324.9**	$359.7

(a) Amounts deferred during a 1992-1994 electric rate increase phase-in (including carrying charges) are being recovered in current rates.

(b) Demand-side management ("DSM") costs (including carrying charges) from DP&L's cost-effective programs are deferred and are being recovered at approximately $9 million per year.

The 1992 PUCO-approved agreement for the phase-in plan and DSM programs, as updated in 1995, allows accelerated recovery of DSM costs and, thereafter, production plant costs to the extent that DP&L return on equity exceeds a baseline 13% (subject to upward adjustment). If the return exceeds the baseline return by one to two percent, one-half of the excess will be used to accelerate recovery of these costs. If the return is greater than two percent over the baseline, the entire excess will be used for such purpose.

(c) Interest charges related to William H. Zimmer Generating Station which were previously deferred pursuant to PUCO approval are being amortized at $2.8 million per year over the projected life of the asset.

3. *Income Taxes*

$ in millions	For the years ended December 31, 1997	1996	1995
Computation of Tax Expense			
Federal income tax (a)	**$100.7**	$ 97.0	$ 93.8
Increases (decreases) in tax from —			
Regulatory assets	**3.6**	3.3	3.3
Depreciation	**11.4**	10.7	10.8
Investment tax credit amortized	**(3.0)**	(3.0)	(3.0)
Other, net	**(7.3)**	(4.5)	(2.5)
Total tax expense	**$105.4**	$103.5	$102.4
Components of Tax Expense			
Taxes currently payable	**$121.8**	$117.4	$ 93.0
Deferred taxes —			
Regulatory assets	**(4.0)**	(3.5)	(1.7)
Liberalized depreciation and amortization	**6.2**	7.9	14.1
Fuel and gas costs	**5.5**	2.5	(3.1)
Insurance and claims costs	**(14.2)**	(11.1)	2.7
Other	**(6.9)**	(5.5)	(0.8)
Deferred investment tax credit, net	**(3.0)**	(4.2)	(1.8)
Total tax expense	**$105.4**	$103.5	$102.4

(a) The statutory rate of 35% applied to pre-tax income before preferred dividends.

Components of Deferred Tax Assets and Liabilities

$ in millions	At December 31, 1997	1996
Non-Current Liabilities		
Depreciation/property basis	**$(443.7)**	$(448.8)
Income taxes recoverable	**(72.4)**	(77.4)
Regulatory assets	**(38.6)**	(45.8)
Investment tax credit	**25.3**	26.3
Other	**64.5**	57.6
Net non-current liability	**$(464.9)**	$(488.1)
Net Current Asset (Liability)	**$ (2.7)**	$ 1.7

4. *Pensions and Postretirement Benefits*

Pensions

Substantially all DP&L employees participate in pension plans paid for by the Company. Employee benefits are based on their years of service, age at retirement and, for salaried employees, their compensation. The plans are funded in amounts actuarially determined to provide for these benefits.

An interest rate of 6.25% was used in developing the amounts in the following tables. Actual returns on plan assets for 1997, 1996 and 1995 were 11.2%, 12.7% and 25.6%, respectively. Increases in compensation levels approximating 5% were used for all years.

The following table presents the components of pension cost (portions of which were capitalized):

$ in millions	1997	1996	1995
Service cost — benefits earned	**$ 6.3**	$ 6.2	$ 6.2
Interest cost	**15.2**	15.0	14.4
Expected return on plan assets of 7.5% in each year	**(19.6)**	(18.1)	(17.8)
Net amortization	**(3.0)**	(1.1)	(0.9)
Net pension cost	**$ (1.1)**	$ 2.0	$ 1.9

The following table sets forth the plans' funded status and amounts recorded in Other assets on the Consolidated Balance Sheet at December 31:

$ in millions	1997	1996
Plan assets at fair value (a)	**$330.2**	$321.4
Actuarial present value of projected benefit obligation	**259.1**	255.1
Plan assets in excess of projected benefit obligation	**71.1**	66.3
Unamortized transition obligation	**(11.3)**	(15.5)
Prior service cost	**13.9**	16.0
Changes in plan assumptions and actuarial gains and losses	**(28.3)**	(22.5)
Net pension assets	**$ 45.4**	$ 44.3
Vested benefit obligation	**$203.8**	$198.6
Accumulated benefit obligation without projected wage increases	**$236.4**	$237.4

(a) Invested in fixed income investments, equities and guaranteed investment contracts. In 1996, equities included $26.5 million of DPL Inc. common stock.

Postretirement Benefits

Qualified employees who retired prior to 1987 and their dependents are eligible for health care and life insurance benefits. The unamortized transition obligation associated with these benefits is being amortized over the approximate average remaining life expectancy of the retired employees. Active employees are eligible for life insurance benefits, and this unamortized transition obligation is being amortized over the average remaining service period.

DP&L has funded the union-eligible health benefit using a Voluntary Employee Beneficiary Association Trust. Actual returns on plan assets were 6.0% and 6.7% in 1997 and 1996 respectively.

The following table presents the components of postretirement benefit cost:

$ in millions	1997	1996	1995
Expected return on plan assets of 5.7%	**$(0.8)**	$(0.6)	$—
Interest cost	**2.2**	2.5	3.6
Net amortization	**(1.1)**	2.9	2.9
Postretirement benefit cost	**$ 0.3**	$ 4.8	$6.5

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is 9% for 1997 and decreases to 5% by 2005. A one percentage point increase in each future year's assumed health care trend rate would increase postretirement benefit cost by $0.1 million annually and would increase the accumulated postretirement benefit obligation by $2.3 million. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.25%.

The following table sets forth the accumulated postretirement benefit amounts recorded in Other Deferred Credits on the Consolidated Balance Sheet at December 31:

$ in millions	1997	1996
Accumulated postretirement benefit obligation:		
— retirees and dependents	**$35.4**	$40.7
— active employees	**1.1**	1.1
Total	**36.5**	41.8
Plan assets at fair value (a)	**12.1**	11.9
Projected benefit obligation in excess of plan assets	**24.4**	29.9
Unamortized transition obligation	**(15.9)**	(18.9)
Actuarial gains and losses	**25.5**	24.6
Accrued postretirement benefit liability	**$34.0**	$35.6

(a) Invested in fixed income government obligations and money market securities.

5. Commonly Owned Facilities

DP&L owns certain electric generating and transmission facilities as tenants in common with other Ohio utilities. Each utility is obligated to pay its ownership share of construction and operation costs of each facility. As of December 31, 1997, DP&L had $1.6 million of commonly owned facilities under construction. DP&L's share of expenses is included in the Consolidated Statement of Results of Operations.

The following table presents DP&L's share of the commonly owned facilities at December 31, 1997:

	DP&L Share		DP&L Investment
	Ownership (%)	Prod. Capacity (MW)	Gross Plant in Service ($ in mil.)
Production Units:			
Beckjord Unit 6	50.0	210	55
Conesville Unit 4	16.5	129	30
East Bend Station	31.0	186	150
Killen Station	67.0	418	406
Miami Fort Units 7 & 8	36.0	360	119
Stuart Station	35.0	823	245
Zimmer Station	28.1	365	989
Transmission (at varying percentages)			67

6. Notes Payable and Compensating Balances

DPL Inc. and its subsidiaries have $200 million available through a revolving credit agreement. This agreement with a consortium of banks is renewable through 2001. Commitment fees are approximately $170,000 per year, depending upon the aggregate unused balance of the loan.

At December 31, 1997, DPL Inc. had $36.0 million in borrowings outstanding under this credit agreement.

DP&L also has $96.6 million available in short-term informal lines of credit. To support these lines of credit, DP&L is required to maintain average daily compensating balances of approximately $400,000 and also pay $87,550 per year in fees. At December 31, 1997, DP&L had $10.0 million in borrowings from these lines of credit.

DP&L had $69.7 million and $10.0 million in commercial paper outstanding at a weighted average interest rate of 6.0% and 6.75% at December 31, 1997 and 1996, respectively.

7. Long-term Debt

$ in millions	At December 31, 1997	1996
First mortgage bonds maturing:		
2003 8.00%	**$ —**	$ 40.0
2022-2026 8.14% (a)	**671.0**	671.0
Pollution control series maturing through 2027 – 6.43% (a)	**107.2**	107.6
	778.2	818.6
Guarantee of Air Quality Development Obligations 6.10% Series Due 2030	**110.0**	110.0
Notes maturing through 2007—7.83%	**85.0**	88.0
Unamortized debt discount and premium (net)	**(2.2)**	(2.3)
Total	**$971.0**	$1,014.3

(a) Weighted average interest rates for 1997 and 1996.

The amounts of maturities and mandatory redemptions for first mortgage bonds and notes are (in millions) $3.4 in 1998, $4.4 in 1999, $5.4 in 2000, $6.4 in 2001, and $7.4 in 2002. Substantially all property of DP&L is subject to the mortgage lien securing the first mortgage bonds.

During 1997, a $40 million series of first mortgage bonds matured, and another $40 million series scheduled to mature in 2003 was redeemed.

8. Common Shareholders' Equity

$ in millions		Common Stock (a) Outstanding Shares	Amount	Other Paid-in Capital	Common Stock Held By Employee Plans	Earnings Reinvested in the Business	Total
1995:	Beginning balance	106,951,623	$1.1	$776.6	$(108.7)	$ 459.3	$1,128.3
	Net income					164.7	164.7
	Common stock dividends					(124.9)	(124.9)
	Treasury stock	(254,700)	—	(6.1)			(6.1)
	Employee stock plans			0.7	1.5		2.2
	Other			0.2		0.4	0.6
	Ending balance	106,696,923	1.1	771.4	(107.2)	499.5	1,164.8
1996:	Net income					172.9	172.9
	Common stock dividends					(131.2)	(131.2)
	Treasury stock	(687,000)	—	(15.8)			(15.8)
	Employee stock plans			1.0	5.1		6.1
	Other			0.2		3.5	3.7
	Ending balance	106,009,923	1.1	756.8	(102.1)	544.7	1,200.5
1997:	Net income					**181.4**	**181.4**
	Common stock dividends					**(137.2)**	**(137.2)**
	Three-for-two stock split	**53,400,983**	**0.5**	**(0.5)**			**—**
	Dividend reinvestment plan	**792,043**	**—**	**19.4**			**19.4**
	Employee stock plans			**1.4**	**4.1**		**5.5**
	Other			**0.2**		**16.2**	**16.4**
	Ending balance	**160,202,949**	**$1.6**	**$777.3**	**$ (98.0)**	**$ 605.1**	**$1,286.0**

(a) $0.01 par value, 250,000,000 shares authorized.

A three-for-two common stock split effected in the form of a stock dividend was paid on January 12, 1998 to stockholders of record on December 16, 1997.

DPL Inc. has a leveraged Employee Stock Ownership Plan ("ESOP") to fund matching contributions to the Company's 401(k) retirement savings plan and certain other payments to full-time employees. Common shareholders' equity is reduced for the cost of 5,673,237 unallocated shares held by the trust and for 2,309,742 shares related to another employee plan. These shares reduce the number of common shares used in the calculation of earnings per share.

Dividends received by the ESOP are used to repay the loan to DPL Inc. As debt service payments are made on the loan, shares are released on a pro-rata basis. Dividends on the allocated shares are charged to retained earnings, and dividends on the unallocated shares reduce interest and principal on the loan.

Cumulative shares allocated to employees and outstanding for the calculation of earnings per share were 1,386,588 in 1997 and 1,071,660 in 1996. Compensation expense, which is based on the fair value of the shares allocated, amounted to $4.4 million in 1997, $4.1 million in 1996 and $4.2 million in 1995.

DPL Inc. had 1,972,290 authorized but unissued shares reserved for the dividend reinvestment plan at December 31, 1997. The plan provides that either original issue shares or shares purchased on the open market may be used to satisfy plan requirements.

DPL Inc. has a Shareholder Rights Plan pursuant to which four-ninths of a Right is attached to and trades with each outstanding DPL Inc. Common Share. The Rights would separate from the Common Shares and become exercisable in the event of certain attempted business combinations.

9. Preferred Stock

DPL Inc.: No par value, 8,000,000 shares authorized, no shares outstanding.

DP&L: $25 par value, 4,000,000 shares authorized, no shares outstanding; and $100 par value, 4,000,000 shares authorized, 228,508 shares without mandatory redemption provisions outstanding.

Series/Rate	Current Redemption Price	Current Shares Outstanding	Par Value At December 31, 1997 and 1996 ($ in millions)
A 3.75%	$102.50	93,280	**$ 9.3**
B 3.75%	$103.00	69,398	**7.0**
C 3.90%	$101.00	65,830	**6.6**
Total		228,508	**$22.9**

The shares may be redeemed at the option of DP&L at the per share prices indicated, plus cumulative accrued dividends.

10. Fair Value of Financial Instruments

$ in millions	At December 31, 1997 Fair Value	1997 Cost	1996 Fair Value	1996 Cost
Assets (a)	**$**	**$**	**$**	**$**
Available for sale securities	**361.1**	**330.2**	156.5	150.7
Held to maturity securities, including temporary cash investments of $14.2 in 1997 and $70.5 in 1996	**72.2**	**71.2**	119.5	119.2
Liabilities (b)				
Debt	**1,168.1**	**1,090.1**	1,112.1	1,066.7
Capitalization				
Unallocated stock in ESOP	**108.7**	**72.3**	96.8	76.3

(a) Maturities range from 1998 to 2010.
(b) Includes current maturities.

Financial assets with quoted market prices are carried at market; the remaining financial assets are carried at cost.

11. Reconciliation of Net Income to Net Cash Provided by Operating Activities

$ in millions	For the years ended December 31, 1997	1996	1995
Net income	**$181.4**	**$172.9**	**$164.7**
Adjustments:			
Depreciation and amortization	**127.6**	125.4	118.9
Deferred income taxes	**(16.4)**	(13.8)	9.2
Amortization of regulatory assets, net	**16.8**	15.3	**15.4**
Operating expense provisions	**17.8**	30.6	19.3
Accounts receivable	**(9.5)**	(53.9)	(44.6)
Accounts payable	**17.2**	14.7	21.8
Accrued taxes payable	**20.8**	18.3	(4.5)
Inventory	**(11.6)**	6.8	1.9
Other	**(4.2)**	21.8	3.2
Net cash provided by operating activities	**$339.9**	$338.1	$305.3

12. *Financial Information by Business Segments*

$ in millions	1997	For the years ended December 31, 1996	1995
Utility service revenues			
Electric	**$1,007.8**	$1,014.1	$1,027.5
Gas	**243.7**	238.6	222.0
Other	**0.7**	3.4	5.6
Total utility service revenues	**1,252.2**	1,256.1	1,255.1
Other income	**103.6**	74.2	54.9
Total income	**$1,355.8**	$1,330.3	$1,310.0
Operating profit before tax			
Electric	**$ 327.0**	$ 326.9	$ 335.8
Gas	**24.9**	23.7	18.9
Other	**4.5**	6.6	3.8
Total operating profit before tax	**356.4**	357.2	358.5
Other income, net (a)	**17.7**	9.1	3.8
Interest expense	**(87.3)**	(89.9)	(95.2)
Income before income taxes	**$ 286.8**	$ 276.4	$ 267.1
Depreciation and amortization			
Electric	**$ 118.4**	$ 112.8	$ 108.1
Gas	**7.1**	6.7	6.4
Other	**2.1**	5.9	4.4
Total depreciation and amortization	**$ 127.6**	$ 125.4	$ 118.9
Construction additions			
Electric	**$ 92.8**	$ 100.0	$ 66.6
Gas	**16.3**	14.1	11.7
Other	**1.5**	1.4	9.0
Total construction additions	**$ 110.6**	$ 115.5	$ 87.3
Assets			
Electric	**$2,733.6**	$2,754.3	$2,763.1
Gas	**277.1**	259.9	223.7
Other (b)	**574.5**	404.5	336.0
Total assets at year-end	**$3,585.2**	$3,418.7	$3,322.8

(a) Includes primarily investment income less bond redemption costs in 1997 and 1995.
(b) Includes primarily temporary cash investments, debt and equity financial assets and certain deferred items.

Report of Independent Accountants

Price Waterhouse LLP

To the Board of Directors and Shareholders of DPL Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of results of operations and of cash flows present fairly, in all material respects, the financial position of DPL Inc. and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Dayton, Ohio
January 21, 1998

Selected Quarterly Information

	For the Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
$ in millions except per share amounts	**1997**	1996	**1997**	1996	**1997**	1996	**1997**	1996
	$	$	**$**	$	**$**	$	**$**	$
Utility service revenues	**356.7**	368.4	**269.2**	281.4	**283.4**	277.6	**342.9**	328.7
Income before income taxes	**101.4**	103.5	**55.4**	57.1	**73.1**	68.2	**56.9**	47.6
Net income	**66.3**	63.8	**35.0**	34.8	**44.9**	41.8	**35.2**	32.5
Earnings per share of common stock (a)	**0.44**	0.42	**0.23**	0.23	**0.30**	0.28	**0.23**	0.22
Dividends paid per share (a)	**0.227**	0.217	**0.227**	0.217	**0.227**	0.217	**0.227**	0.217
Common stock market price — High (a)	**16 3/4**	17 5/16	**16 1/2**	16 1/4	**16 9/16**	16 1/4	**19 3/16**	16 9/16
— Low (a)	**15 15/16**	15 7/16	**15 5/16**	14 3/4	**15 1/2**	15 1/16	**15 13/16**	15 1/2

(a) Per share amounts have been restated to reflect the three-for-two common stock split paid on January 12, 1998 to stockholders of record on December 16, 1997.

Corporate Information

Transfer Agent and Registrar — Common Stock and DP&L Preferred Stock

Securities Transfer & Shareholder Inquiries:
The First National Bank of Boston
c/o Boston EquiServe
P.O. Box 8040
Boston, MA 02266-8040
(781) 575-3100
(800) 736-3001

Dividend Reinvestment:
The First National Bank of Boston
c/o Boston EquiServe
P.O. Box 8040
Boston, MA 02266-8040
Also dividend paying agent
(781) 575-3100
(800) 736-3001

Trustee — DP&L First Mortgage Bonds
The Bank of New York
Corporate Trust Administration
101 Barclay Street
New York, New York 10286
Also interest paying agent

Securities Listing
The New York Stock Exchange is the only national securities exchange on which DPL Inc. Common Stock and DP&L First Mortgage Bonds are listed. The trading symbol of the Common Stock is DPL.

Federal Income Tax Status of 1997 Dividend Payments
Dividends paid in 1997 on Common and Preferred Stock are fully taxable as dividend income.

Annual Meeting
The Annual Meeting of Shareholders will be held at 10:00 a.m., Tuesday, April 14, 1998, at Cedarville College, Cedarville, Ohio.

Communications
DPL Inc. staffs an Investor Relations Department to meet the information needs of shareholders and investors. Inquiries are welcomed. Communications relating to shareholder accounts should be directed to the DPL Investor Relations Department (937) 259-7150 or (800) 322-9244 or to Boston EquiServe (781) 575-3100 or (800) 736-3001.

Form 10-K Report
DPL Inc. reports details concerning its operations and other matters annually to the Securities and Exchange Commission on Form 10-K, which will be supplied upon request. Please direct inquiries to the Investor Relations Department.

Officers — DPL Inc. and DP&L
(Age/Years of Service)

Peter H. Forster (55/24)
Chairman — DPL Inc. and DP&L

Allen M. Hill (52/30)
President and Chief Executive Officer — DPL Inc. and DP&L

Paul R. Anderson (55/19)
Controller — DP&L

Stephen P. Bramlage (51/29)
Assistant Vice President — DP&L

Jeanne S. Holihan (41/17)
Assistant Vice President — DP&L

Thomas M. Jenkins (46/20)
Group Vice President and Treasurer — DPL Inc. and DP&L

Stephen F. Koziar, Jr. (53/30)
Group Vice President and Secretary — DPL Inc. and DP&L

Judy W. Lansaw (46/19)
Group Vice President — DPL Inc. and DP&L

Arthur G. Meyer (47/5)
Vice President — DP&L

Bryce W. Nickel (41/17)
Assistant Vice President — DP&L

H. Ted Santo (47/26)
Group Vice President — DP&L

Directors

Burnell R. Roberts (2) (3)
Retired Chairman and Chief Executive Officer, The Mead Corporation, Dayton, Ohio

David R. Holmes (1) (4)
Chairman, President and Chief Executive Officer, The Reynolds and Reynolds Company, Dayton, Ohio

James F. Dicke, II (2) (3)
President, Crown Equipment Corporation, New Bremen, Ohio

Peter H. Forster (1) (3) (4)
Chairman, DPL Inc. and DP&L, Dayton, Ohio

W August Hillenbrand (2) (3)
President and Chief Executive Officer, Hillenbrand Industries, Batesville, Indiana

Jane G. Haley (1) (4)
President and Chief Executive Officer, Gosiger, Inc., Dayton, Ohio

Allen M. Hill (1) (3) (4)
President and Chief Executive Officer, DPL Inc. and DP&L, Dayton, Ohio

Thomas J. Danis (1) (4)
Chairman and Chief Executive Officer, The Danis Companies, Dayton, Ohio

Ernie Green (1) (4)
President and Chief Executive Officer, Ernie Green Industries, Dayton, Ohio

All Directors of DPL Inc. are also Directors of DP&L. 1997 Committee Assignments: DPL Inc. – Finance and Audit Review(1) Compensation and Management Review(2) Executive(3) DP&L – Community and External Relations(4)