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PUCO EXHIBIT FILING

Date of Hearing: 4/3/2017

Case No. 16-0395-EL-SSO

PUCO Case Caption: In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan

List of exhibits being filed: Volume I

DP&L Exhibit 105

OCC Exhibits 1, 2

Reporter's Signature: Karen Sue Gibson

Date Submitted: 4/14/2017

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of The Dayton Power and Light Company for Approval of its Electric Security Plan.	:	Case No. 16-395-EL-SSO
In the Matter of the Application of The Dayton Power and Light Company for Approval of Revised Tariffs.	:	Case No. 16-396-EL-ATA
In the Matter of the Application of The Dayton Power and Light Company for Approval of Certain Accounting Authority Pursuant to Ohio Rev. Code §4904.13.	:	Case No. 16-397-EL-AAM

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PROCEEDINGS

before Mr. Gregory Price and Mr. Nicholas Walstra, Attorney Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-A, Columbus, Ohio, called at 10:00 a.m. on Monday, April 3, 2017.

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VOLUME I

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S&P Global
Ratings

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Research Update:

DPL Inc. And DP&L Downgraded To 'BB-' On Persistent Weak Financial Measures And Coal Retirements; Outlook Negative

Primary Credit Analyst:
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DP&L
Exhibit 105

Research Update:

DPL Inc. And DP&L Downgraded To 'BB-' On Persistent Weak Financial Measures And Coal Retirements; Outlook Negative

Overview

- U.S.-based DPL Inc.'s utility company, Dayton Power & Light Co. (DP&L), recently announced its decision to close certain merchant generating assets on or before June 1, 2018. The company has also agreed to a six-year Electric Security Plan (ESP) settlement proposal that includes the collection of distribution modernization rider (DMR) revenues for years one through three of the term of the ESP.
- We are lowering our issuer credit ratings on both parent DPL and utility subsidiary DP&L to 'BB-' from 'BB'. The outlook is negative.
- We are lowering our rating on DPL's senior unsecured debt to 'B+' from 'BB' and revising the recovery rating on this debt to '5' from '4' based on deteriorating value of the merchant power assets and the structural subordination of this debt.
- At the same time, we are affirming our 'BBB-' rating on DP&L's senior secured debt. We revised the recovery rating on this debt to '1+' from '1', reflecting our assessment of modestly improved recovery prospects for the utility secured debt.
- In addition, we are revising our stand-alone credit profile assessment for DP&L to 'bbb' from 'bbb+'.
- The negative outlook reflects our expectations for persistently weak financial measures for consolidated DPL that are now highly dependent on the long-term sustainability of the DMR. The company also faces significant refinancing risks for its approximate $1.7 billion of outstanding debt, maturing 2019-2022. We expect that these risks will offset any near-term potential improvement to DPL's business risk assessment following its strategic decision to shrink its higher-risk merchant generation assets.

Rating Action

On March 27, 2017, S&P Global Ratings lowered its issuer credit ratings on DPL Inc. and subsidiary Dayton Power & Light Co. (DP&L) to 'BB-' from 'BB'. The outlook is negative.

At the same time, we lowered the rating on DPL's senior unsecured debt to 'B+' from 'BB' and revised the recovery rating on this debt to '5' from '4'. The '5' recovery rating reflects our expectation for modest (10%-30%; rounded estimate: 15%) recovery in the event of a payment default.

In addition, we affirmed our 'BBB-' rating on DP&L's senior secured debt. We revised the recovery rating on this debt to '1+' from '1', indicating our expectation for full (100%) recovery.

Rationale

The downgrade on DPL and DP&L reflects our base-case scenario that over the next few months the Public Utilities Commission of Ohio (PUCO) will most likely approve the distribution modernization rider (DMR) in line with the settlement proposal. Under the settlement proposal, the utility will recover $105 million annually under the DMR for the next three years and will commit to commence a sale process to sell its ownership interest in its Conesville, Miami Fort, and Zimmer stations. In conjunction with the company's recent announcement of its plans to retire the J.M. Stuart and Killen coal-generating plants by June 1, 2018, the utility will most likely exit the vast majority of its higher-risk merchant operations in the next 15 months.

As a result, we expect significantly reduced cash flow contributions from the merchant business to create an over-reliance on the DMR to sustain the company's credit quality. This significantly heightens event risk for DPL that we expect will continue to pressure the issuer credit rating, despite any potential improvement to the company's business risk.

Importantly, from 2019 through 2022, more than 90% or about $1.7 billion of DPL's consolidated debt will mature. Without a high degree of certainty that the DMR will be in effect for the long term, DPL faces significant refinancing risks over this four-year period. Absent the DMR, the company's financial measures will materially weaken, likely resulting in further downgrades

Our assessment of DPL's business risk profile as satisfactory incorporates DPL's strategic decisions to shrink its higher-risk merchant generation business and its lower-risk, rate-regulated transmission and distribution (T&D) utility operations in Ohio. However, benefits from these strategies are offset in part by the company's sizable debt maturity profile, small size, and high dependency on the long-term sustainability of the DMR.

We assess DPL's financial risk profile as aggressive using our medial volatility financial table benchmarks, reflecting the company's mostly lower-risk, rate-regulated utility operations. Under our base-case scenario that includes DMR revenues of $105 million, future asset retirement costs of about $130 million, and average capital spending of about $120 million for 2017-2018, we expect funds from operations (FFO) to debt that averages about 9.6% for DPL, consistent with the lower end of the range for the aggressive financial risk profile category.

We are revising our comparable rating analysis (CRA) on DPL to negative from neutral. This reflects our expectations that the company's consolidated financial measures will be at the lower end of the range for the aggressive financial risk profile category. We are also revising our CRA on DP&L to neutral from positive, reflecting the utility's high dependence on the long-term sustainability of the DMR. This collectively results in a revised stand-alone credit profile for DPL to 'bb-' from 'bb' and a revised stand-alone credit profile for DP&L to 'bbb' from 'bbb+'.

Our ratings on DPL further incorporate our assessment of the company's group credit profile as a moderately strategic subsidiary of ultimate parent AES Corp.

Liquidity

We assess DPL and DP&L's liquidity as adequate. We expect DPL and DP&L to cover their liquidity needs for the next 12 months even if EBITDA declines by 10%. We also expect liquidity sources over the next 12 months will exceed uses by more than 1.1x. DPL and DP&L also benefit from sound relationships with its banks and have the ability to lower capital spending or sell assets in the event of financial stress in the next 12 months.

Principal liquidity sources include:
- Consolidated credit facility of $380 million;
- Consolidated cash FFO averaging about $170 million; and
- Available cash of about $55 million.

Principal liquidity uses include:
- Consolidated capital spending averaging about $120 million; and
- Long-term debt maturities of about $29 million due in 2017;

Outlook

The negative outlook for DPL and DP&L reflects our expectations for persistently weak financial measures for consolidated DPL, with FFO to debt that averages about 9.6% and that is now highly dependent on the long-term sustainability of the DMR to avoid further deterioration. Additionally, the company faces refinancing risks for its approximate $1.7 billion of outstanding debt, maturing 2019-2022. We expect that these risks will offset any potential improvement to DPL's business risk assessment over the near term following its strategic decision to shrink its higher-risk merchant generation assets.

Downside scenario

We could lower the ratings on DPL and DP&L over the next few quarters if the company's financial ratios further weaken, including FFO to debt that is consistently at 9% or below. This could occur if the implementation of the DMR becomes unsustainable, and as a result, the company's credit quality does not improve in light of longer-term refinancing risks.

Upside scenario

We could affirm the ratings and revise the outlook to stable within the next few quarters if the company develops a strategy to address its long-term refinancing risks, the implementation of the DMR proves durable and sustainable, and it maintains FFO to debt above 10%.

Ratings Score Snapshot

Corporate Credit Rating: BB-/Negative/--

Business risk: Satisfactory
- Industry risk: Low risk
- Country risk: Very low risk
- Competitive position: Satisfactory

Financial risk: Aggressive
- Cash flow/leverage: Aggressive

Anchor: bb

Modifiers:
- Diversification: Neutral (no impact
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1)

Stand-alone credit profile: bb-

Group credit profile: bb
- Entity status within group: Moderately strategic (no impact)

Recovery Analysis

Key analytical factors

- We revised our recovery rating on DP&L's secured term loan to '1+' from '1', indicating our expectation for full recovery given default. We revised our recovery rating on parent DPL Inc.'s unsecured debt to '5' from '4' (modest recovery), mainly reflecting its structurally junior claim to the consolidated value and weaker valuation assumptions for DPL's merchant generation. We conduct our recovery analysis for DPL and DP&L on a consolidated basis and assume a default in 2019. Our recovery valuation assumes that the regulated transmission and distribution assets will be valued at their net book value of about $1.2 billion, as a proxy for the allowed regulated return on these assets. This value is up slightly as the company continues to invest in this business.
- We value the unregulated coal power generation assets at about $120

million, based on an average dollar per kilowatt (KW) of about $70 on its baseload coal assets, including Conesville Unit 4, Miami Fort Units 7 & 8, and Zimmer Station, reflecting continued pressure on the value and economics of these types of assets, and $125/KW on its gas peakers. This valuation is down sharply as the viability of the coal plants is highly questionable in light of pressure from more economical natural gas power plants and regulatory pressure, notwithstanding various upgrades to these plants in recent years. The valuation reflects the expected closure of two plants, which represent about half of the company's baseload capacity, and the impairment of the remaining plants. Our revised valuation is relatively consistent with the net book value of these plants following a material asset write-down.

- The unsecured debt at DPL remains deeply subordinated in the company's capital structure because it is structurally subordinated to the debt at DP&L and subordinated to the secured revolving debt at DPL. This combined with the lower valuation on the merchant assets pushes the implied recovery rating to '5' indicating a modest (10%-30%) recovery from a '4', which indicates expectations for an average (30%-50%) recovery.

Simulated default assumptions

- Simulated year of default: 2019

Simplified waterfall

- Regulated asset value: $1.2 billion
- Merchant asset value: $123 million
- Net enterprise value (after 5% administrative costs): $1.3 billion
- Valuation split (DP&L/other subsidiaries): 91%/9%
- Net collateral value available to DP&L's first-lien debt: $1.17 billion
- First-lien debt: $773 million
- --Recovery expectations: 100%
- Total value available to unsecured creditors at DP&L: $518 million
- Unsecured revolver at DP&L (assumed 85% draw): $154 million
- --Recovery expectations: Not applicable
- DPL secured revolver (assumed 85% draw) $181 million
- Remaining value available to claims at DPL: $364 million
- DPL secured revolver: $181 million
- --Recovery expectations: Not applicable
- Value available to unsecured claims at DPL: $183 million
- Senior unsecured debt at DPL: $1.1 billion
- --Recovery expectations: 10%-30%; rounded estimate: 15%

Notes: All debt amounts include six months of prepetition interest. Revolvers assumed to be drawn at 85%.

Related Criteria

- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 07, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity

Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Downgraded; Ratings Affirmed

	To	From
DPL Inc.		
Dayton Power & Light Co.		
Corporate Credit Rating	BB-/Negative/--	BB/Negative/--

Downgraded; Recovery Rating Revised

	To	From
DPL Inc.		
Senior Unsecured	B+	BB
Recovery Rating	5(15%)	4(45%)
DPL Capital Trust II		
Preferred Stock	B	B+

Ratings Affirmed; Recovery Rating Revised

Dayton Power & Light Co.		
Senior Secured	BBB-	
Recovery Rating	1+(100%)	1(95%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

OBJECTIONS AND RESPONSES TO INTERROGATORIES

INT-4-1. In response to IGS INT-2-1 (which requested an identification of all debt obligations entered into by DPL Inc. as a consequence of the acquisition of DPL Inc. by AES Corp. ("AES")), "DP&L states that the $1.25 billion of DPL Inc. debt at the end of 2015 was initially incurred between 2000-2011 to finance capital expenditures and a portion is related to AES' acquisition of the Company ($1.25 billion was assumed in 2011, of which —$520 million has been since repaid)." Regarding this response:

a. Identify whether AES entered into a debt obligation in the amount of $1.25 billion (through its subsidiary Dolphin Subsidiary II, Inc. ("Dolphin Sub.")) to finance the acquisition of DPL Inc.
b. Identify whether DPL Inc. assumed the obligation to repay the $1.25 billion debt obligation entered into by Dolphin Sub. following AES' acquisition of DPL Inc.
c. All else being equal, is it true that the AES acquisition of DPL Inc. increased the debt obligation of DPL Inc. by $1.25 billion. If this is not true, explain your answer.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 4 (proprietary), 5 (inspection of business records), 6 (calls for narrative answer), 9 (vague or undefined), 10 (possession of DP&L's unregulated affiliate), 11 (calls for a legal conclusion), 13 (mischaracterization). Subject to all general objections, DP&L states:

a. Please see IGS 2nd Set RPD-2-1 Attachment 26, DP&L-SSO 0007603 - DP&L-SSO 0007605 (AES 8-K filed 10-5-11), which states that "On October 3, 2011, Dolphin Subsidiary II, Inc. (the "Company"), a newly formed, wholly owned special purpose indirect subsidiary of The AES Corporation ("AES"), entered into an indenture (the "Indenture") with Wells Fargo Bank, N.A. (the "Trustee") as part of its issuance of $450 million aggregate principal amount of 6.50% senior notes due 2016 (the "2016 Notes") and $800 million aggregate principal amount of 7.25% senior notes due 2021 (the "2021 Notes" and together with the 2016 Notes, the "notes") to finance the pending AES acquisition (the "Acquisition") of DPL Inc. ("DPL")." That same document also stated that "The proceeds from issuance of the notes were deposited into an escrow account pledged for the benefit of the Trustee pending the consummation of the Acquisition."

b. Please see IGS 2nd Set RPD-2-1 Attachment 24, DP&L-SSO 0007289 - DP&L-SSO 0007509 (DPL 10-K YE 2011) Debt footnote #7 pg. 100, which states that "In connection with the closing of the Merger (see Note 2), DPL assumed $1.25 billion of debt that Dolphin Subsidiary II, Inc., a subsidiary of AES, issued on October 3, 2011 to finance a portion of the merger." Footnote #2 from the same document states, "On November 28, 2011, AES completed its acquisition of DPL. AES paid cash consideration of approximately $3,483.6 million. The allocation of the purchase price was based on the estimated fair value of assets acquired and liabilities assumed. In addition, Dolphin Subsidiary II, Inc. (a wholly-owned subsidiary of AES) issued $1,250.0 million of debt, which, as a result of the merger of DPL and Dolphin Subsidiary II, Inc. was assumed by DPL."

c. Please see IGS 4th Set INT-4-1 Attachment 1, DP&L-SSO 0007720 - DP&L-SSO 0007725 (DPL 8-K filed 11-28-11)) which states: "On November 28, 2011 (the "Merger Date"), DPL Inc. ("DPL") completed its merger (the "Merger") with Dolphin Sub, Inc. ("Merger Sub"), a wholly owned subsidiary of The AES Corporation ("AES"), pursuant to that certain Agreement and Plan of Merger, dated as of April 19, 2011, by and among AES, Merger Sub and DPL (the "Merger Agreement"). As a result, each issued and outstanding share of the common stock, par value $.01 per share, of DPL (the "DPL

Common Stock") (other than shares owned directly or indirectly by AES or Merger Sub or held by DPL or its subsidiaries, which were cancelled as a result of the Merger), including grants of restricted common stock, was automatically cancelled and, other than shares of DPL Common Stock held by shareholders who have validly exercised their appraisal rights under Ohio law, converted into the right to receive $30 in cash (the "Per Share Merger Consideration"), without interest. DPL is the surviving corporation in the Merger and, as a result of the Merger, is a wholly owned subsidiary of AES." That same document also states "Effective on the Merger Date, DPL assumed all obligations with respect to the $450 million aggregate principal amount of 6.50% senior notes due 2016 (the "2016 Notes") and $800 million aggregate principal amount of 7.25% senior notes due 2021 (the "2021 Notes" and together with the 2016 Notes, the "Notes") previously issued by Dolphin Subsidiary II, Inc. ("Dolphin II"), a wholly-owned special purpose indirect subsidiary of AES. The Notes were issued in a private offering on October 3, 2011 and the proceeds from the offering were deposited into an escrow account pending the consummation of the Merger. In connection with the consummation of the Merger, the funds were released from the escrow account to fund the consummation, and Dolphin II was merged with and into DPL, with DPL continuing as the surviving company. As a result, DPL assumed all obligations under the Notes and the Notes are no longer subject to the special mandatory redemption provision relating to the consummation of the Merger contained in the indenture (the "Indenture") relating to the Notes."

Witness Responsible: Craig L. Jackson

AES CORP. NYSE-AES

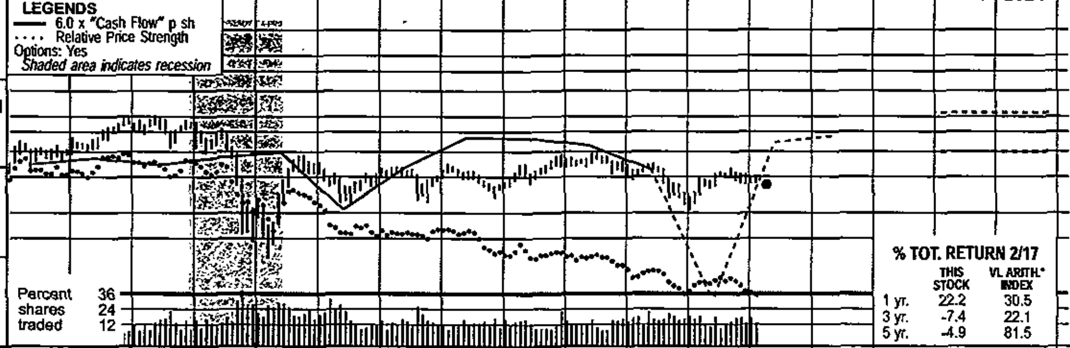
RECENT PRICE 11.00 | P/E RATIO NMF (Trailing: NMF; Median: 17.0) | RELATIVE P/E RATIO NMF | DIV'D YLD 4.4% | VALUE LINE

TIMELINESS 1 Raised 1/20/17
SAFETY 3 Raised 1/1/10
TECHNICAL 3 Lowered 12/30/16
BETA 1.15 (1.00 = Market)

High:	23.8	24.2	22.5	15.4	14.2	13.5	14.0	15.5	15.6	14.0	13.3	12.1
Low:	15.6	16.7	5.8	4.8	8.8	9.0	9.5	10.7	12.4	8.8	8.2	10.9

Target Price Range 2020 | 2021 | 2022

LEGENDS
— 6.0 x "Cash Flow" p sh
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



2020-22 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	25	(+125%)	26%
Low	16	(+45%)	15%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	2Q2016	3Q2016	4Q2016
to Buy	219	222	253
to Sell	170	186	204
Hld's(000)	626850	620410	629705

Percent shares traded 36 24 12

% TOT. RETURN 2/17

	THIS STOCK	VL ARITH.* INDEX
1 yr.	22.2	30.5
3 yr.	-7.4	22.1
5 yr.	-4.9	81.5

AES Corp. was co-founded by Roger Sant and Dennis Bakke in 1981, under the original name Applied Energy Services. Initially the company provided energy consulting services before becoming a power producer. Went public, under the present title, in 1991, at which time 4,770,000 shares were issued at $2.535, after adjusting for stock splits. The lead underwriter was Donaldson, Lufkin & Jenrette Sec. Corp.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	© VALUE LINE PUB. LLC	20-22
20.27	24.12	21.12	21.12	22.55	24.37	22.07	24.36	22.44	20.61	22.30	23.35	Revenues per sh	30.95
2.29	2.50	2.65	1.39	2.23	3.13	3.10	2.86	2.17	.05	2.95	3.20	"Cash Flow" per sh	3.60
.97	.99	1.08	d.11	.59	1.24	1.26	1.06	.44	d1.71	1.10	1.25	Earnings per sh A	1.50
--	--	--	--	--	.08	.17	.25	.41	.56	.61	.66	Div'ds Decl'd per sh D	.92
3.62	4.26	3.77	2.93	3.17	3.00	2.76	2.86	3.46	3.55	3.50	3.40	Cap'l Spending per sh	3.45
4.72	5.51	6.99	8.21	7.76	6.14	6.02	6.07	5.53	4.24	4.45	4.90	Book Value per sh C	5.75
670.34	666.22	668.47	788.25	765.91	744.26	719.87	703.85	666.81	659.18	660.00	655.00	Common Shs Outst'g B	640.00
21.8	15.3	10.0	--	20.3	9.6	10.2	13.5	27.2	--	Bold figures are	Value Line	Avg Ann'l P/E Ratio	13.5
1.16	.92	.67	--	1.27	.61	.57	.71	1.37	--	estimates		Relative P/E Ratio	.85
--	--	--	--	--	.7%	1.3%	1.8%	3.4%	4.9%			Avg Ann'l Div'd Yield	4.6%
13588	16070	14119	16647	17274	18141	15891	17146	14963	13586	14720	15300	Revenues ($mill)	19800
29.2%	27.0%	29.7%	28.5%	29.0%	26.5%	27.2%	24.7%	25.5%	8.5%	24.5%	25.0%	Operating Margin	24.5%
942.0	1001.0	1049.0	1178.0	1262.0	1394.0	1294.0	1245.0	1144.0	1176.0	1225	1260	Depreciation ($mill)	1350
596.2	666.0	722.0	d86.0	447.0	936.4	934.3	769.0	306.0	d1130.0	725	820	Net Profit ($mill)	960
48.2%	28.1%	25.5%	29.4%	29.2%	32.7%	28.7%	51.2%	72.7%	NMF	32.0%	32.0%	Income Tax Rate	34.0%
4.4%	4.1%	5.1%	NMF	2.6%	5.2%	5.9%	4.5%	2.0%	NMF	4.9%	5.4%	Net Profit Margin	4.8%
2854.0	2144.0	2166.0	1381.0	782.0	146.0	86.0	829.0	d84.0	1139.0	800	800	Working Cap'l ($mill)	910
16629	16863	17943	16693	20116	18519	18869	18725	18278	19160	19100	19000	Long-Term Debt ($mill)	18000
3164.0	3669.0	4675.0	6473.0	5946.0	4569.0	4330.0	4272.0	3687.0	2794.0	2940	3215	Shr. Equity ($mill)	3685
7.5%	5.8%	6.2%	2.6%	4.5%	6.7%	7.2%	6.5%	4.7%	NMF	11.0%	11.5%	Return on Total Cap'l	13.0%
18.8%	18.2%	15.4%	NMF	7.5%	20.5%	21.6%	18.0%	8.3%	NMF	24.5%	25.5%	Return on Shr. Equity	26.0%
18.8%	18.2%	15.4%	NMF	7.5%	19.8%	18.8%	14.6%	.8%	NMF	11.0%	12.0%	Retained to Com Eq	17.5%
--	--	--	--	--	3%	13%	19%	90%	--	56%	53%	All Div'ds to Net Prof	35%

CAPITAL STRUCTURE as of 12/31/16
Total Debt $20463 mill. **Due in 5 Yrs** $1303 mill.
LT Debt $19160 mill. **LT Interest** $1.03 bill.
(Total int. coverage: .5x)
(87% of Cap'l)

Leases, Uncapitalized Annual rentals $31.3 mill.
Pension Assets-12/16 $4221 mill. **Oblig.** $5216 mill.

Pfd Stock None

Common Stock 659,182,351 shs.
as of 12/31/16
MARKET CAP: $7.2 billion (Large Cap)

CURRENT POSITION ($MILL.)	2014	2015	12/31/16
Cash Assets	2531	2041	2381
Receivables	2709	2473	2166
Inventory (FIFO)	702	675	630
Other	1884	1677	1234
Current Assets	7826	6866	6411
Accts Payable	2278	1721	1656
Debt Due	2133	2529	1303
Other	2586	2700	2313
Current Liab.	6997	6950	5272

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15 to '20-'22
Revenues	4.5%	0.5%	4.5%
"Cash Flow"	3.0%	4.5%	4.0%
Earnings	2.5%	7.0%	7.0%
Dividends	--	--	18.5%
Book Value	11.0%	-3.0%	-.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2014	4262	4311	4441	4132	17146
2015	3984	3858	3721	3400	14963
2016	3271	3229	3542	3544	13586
2017	3880	3550	3710	3580	14720
2018	3900	3700	3900	3800	15300

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2014	.22	.18	.37	.29	1.06
2015	.20	.10	.26	d.12	.44
2016	.19	d.72	.26	d1.44	d1.71
2017	.30	.15	.35	.30	1.10
2018	.35	.20	.40	.30	1.25

Cal-endar	QUARTERLY DIVIDENDS PAID D Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	.04	.04	.04	.05	.17
2014	.05	.05	.05	.10	.25
2015	--	.10	.10	.21	.41
2016	.11	.11	.11	.23	.56
2017	.12				

BUSINESS: AES Corp. has four LOB: contract generation, competitive supply, large utilities, and growth distribution. Contr. gener. consists of multiple gener. facilities engaging in long-term contracts. The competitive supply unit consists of gener. facil. that sell electricity in the spot market. The util. line is comprised of regulated electric comp. The growth distrb. unit incl. utilities located in emerging economies. Lat. Amer. ops., 48% of 2016 revenues; North Amer., 21%; MCAC, 18%; EMEA, 8%; Asia, 5%. Employs about 21,850. T. Rowe Price owns 16.0% of shs.; BlackRock, 9.9%; Vanguard, 9.2%; Boston Partners, 6.3%; State St., 5.1% (3/16 proxy). Pres. & CEO: Andres Gluski. Inc.: DE. Addr.: 4300 Wilson Blvd. Arlington, VA 22203. Telephone: 703-522-1315. Web: www.aes.com.

AES Corp. posted a huge fourth-quarter loss. This was due to asset impairment expenses (in Brazil and Peru) and losses on disposal of businesses. In particular, AES wrote off its merchant power-generating assets at its DPL subsidiary in Ohio. The losses were significantly amplified by lower margins at Strategic Business Units, due to lower electricity prices. Foreign currency headwinds resulting from the increasing strength of the U.S. dollar didn't help matters. All told, AES posted a deficit of $949 million ($1.44 a share). The full-year loss tallied $1.71 a share.

AES continues to seek long-term power purchase agreements (PPAs) to replace those that are expiring. These are the company's lifeblood. They ensure a multi-year stream of cash flow which is essential to servicing the high debt load, dividend outlays, and capital spending needs. In February, AES agreed to acquire FTP Power LLC (commonly known as sPower) for $853 million in cash and the assumption of $724 million in non-recourse debt. The sPower portfolio includes 1,274 megawatts (mw) of solar and wind projects, which are under long-term PPAs, averaging 21 years in length. The transaction is expected to close by the third quarter. After completion, AES' ownership of renewable energy projects will grow to 9,552 mw, from 8,278 mw today.

We look for the company to sell off more overseas assets. This is for two reasons. First, many of them are underperforming, particularly in South America. Second, the Trump administration is encouraging energy companies to do business in the U.S. with greater deregulation, and the possibility of lower corporate taxes. Proceeds from the sale of overseas assets, along with cash flow generated from PPAs, will likely be used to pay down debt, continue paying out the dividend, and buy back shares, albeit at a slower rate.

These shares are now top-ranked (1). Greater operating efficiencies due to a consolidation of business in the domestic markets, combined with slightly higher electricity rates, ought to result in increasing earnings and cash flow. We are sticking with our 3- to 5-year Target Price Range of $16-$25.

Jeremy J. Butler *March 24, 2017*

(A) Diluted earnings. Excludes nonrecurring gain/(loss): '07, (24¢); '08, 99¢; '09, 1¢; '12, ($2.45); '13, (88¢). Earnings may not sum due to change in shares outstanding. Next earnings report due late April.
(B) In millions.
(C) Includes intangibles. In 2016: $1.41 billion, $2.14 per share.
(D) Dividends usually paid in Feb., May, Aug., and Nov. Special div. of $0.04/sh. paid in the fourth quarter of 2012.

Company's Financial Strength	B
Stock's Price Stability	65
Price Growth Persistence	5
Earnings Predictability	15

220

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