Large Filing Separator Sheet

Case Number: 12-426-EL-SSO
12-427-EL-ATA
12-428-EL-AAM
12-429-EL-WVR
12-672-EL-RDR

Date Filed: 4/4/2013

Section: 1 OF 2

Number of Pages: 200

Description of Document: IEU Exhibits No. 19 & 21

FILE

PUCO EXHIBIT FILING

Date of Hearing: March 21, 2013

Case No. 12-426-EL-SSO, et al. - Volume IV

PUCO Case Captions:

In the Matter of the Application of The Dayton Power and Light Company for Approval of its Market Rate Offer. Case No. 12-426-EL-SSO

In the Matter of the Application of The Dayton Power and Light Company for Approval of Revised Tariffs. Case No. 12-427-EL-ATA

In the Matter of the Application of The Dayton Power and Light Company for Approval of Certain Accounting Authority. Case No. 12-428-EL-AAM

In the Matter of the Application of The Dayton Power and Light Company for Waiver of Certain Commission Rules. Case No. 12-429-EL-WVR

In the Matter of the Application of The Dayton Power and Light Company to Establish Tariff Riders. Case No. 12-672-EL-RDR

List of exhibits being filed:

IEU-Ohio Exhibits 19 and 21

Reporter's Signature: Maria DiPaolo Jones

Submitted by Armstrong & Okey, Inc.: ____________________

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

\- - -

In the Matter of the Application of The Dayton Power and Light Company for Approval of its Electric Security Plan.	:	Case No. 12-426-EL-SSO
In the Matter of the Application of the Dayton Power and Light Company for Approval of Revised Tariffs.	:	Case No. 12-427-EL-ATA
In the Matter of the Application of the Dayton Power and Light Company for Approval of Certain Accounting Authority.	:	Case No. 12-428-EL-AAM
In the Matter of the Application of the Dayton Power and Light Company for the Waiver of Certain Commission Rules.	:	Case No. 12-429-EL-WVR
In the Matter of the Application of the Dayton Power and Light Company to Establish Tariff Riders	:	Case No. 12-672-EL-RDR

\- - -

PROCEEDINGS

before Mr. Gregory A. Price and Mr. Bryce A. McKenney, Hearing Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-C, Columbus, Ohio, called at 9:00 a.m. on Thursday, March 21, 2013.

VOLUME IV

\- - -

IEU Ex. 19

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter of Application of The AES Corporation, Dolphin Sub, Inc., DPL Inc. and The Dayton Power and Light Company for Consent and Approval for a Change of Control of The Dayton Power and Light Company	:	Case No. 11-3002-EL-MER

APPLICATION OF THE AES CORPORATION, DOLPHIN SUB, INC., DPL INC. AND THE DAYTON POWER AND LIGHT COMPANY

I. INTRODUCTION

Pursuant to Ohio Rev. Code § 4905.402, The AES Corporation, a Delaware corporation ("AES"), Dolphin Sub, Inc., an Ohio corporation and newly-formed wholly-owned subsidiary of AES ("Merger Sub"), DPL Inc., an Ohio corporation ("DPL Inc."), and The Dayton Power and Light Company, an Ohio corporation and wholly-owned subsidiary of DPL Inc. ("DP&L"), request the Commission's approval of a merger of Merger Sub with and into DPL Inc., with DPL Inc. surviving as a wholly-owned subsidiary of AES. AES (NYSE: AES) is a global power company headquartered in Arlington, Virginia, that, through its subsidiaries and affiliates, owns a portfolio of generation and distribution businesses throughout the world. Merger Sub is a newly-formed, wholly-owned subsidiary of AES formed for the purpose of effecting the merger. As a result of the proposed merger, Merger Sub would merge with and into DPL Inc., Merger Sub would cease to exist and DPL Inc. would survive as a wholly-owned subsidiary of AES.

Upon consummation of the proposed merger, AES would own all of DPL Inc.'s outstanding shares of common stock. As consideration for the proposed merger, DPL Inc.'s current shareholders would receive $30 cash in exchange for each DPL Inc. share and DPL Inc.'s shares would no longer be publicly traded.

In today's electricity marketplace, utilities require scale and a broad set of skills in all types of generation and energy delivery to operate in a manner that benefits customers. To meet the challenges of the changing dynamics of the energy industry and of the economy, a scale larger than that of DP&L is required, as evidenced by recent transactions such as FirstEnergy/Allegheny Energy, Duke/Cinergy, Duke/Progress Energy, PPL/LG&E and Kentucky Utilities, and Exelon/Constellation. Being a part of the AES group will make available to DP&L and its customers an extensive global network of technical expertise and resources, which will enhance DP&L's ability to compete with the substantially larger Ohio utilities. For example, globally AES operates 14 utilities distributing power to approximately 11.5 million customers, and it employs 29,000 people. AES also has extensive expertise in the development and operation of renewable energy resources.

The Agreement and Plan of Merger ("Agreement") addresses issues of workforce, headquarters location, and local decision-making authority. Specifically, it provides that following the merger through December 31, 2013, AES shall not cause DPL Inc. and DP&L to implement any involuntary workforce reductions that would result in DPL Inc. and DP&L employing substantially fewer individuals in the aggregate than are employed immediately before the merger. In addition, the Agreement provides that, for a period of at least two years following the merger, DPL Inc. and DP&L will maintain their operating headquarters in Dayton, Ohio and DP&L will maintain the DP&L name. AES will also cause DP&L to maintain local decision-making authority for at least two years following the merger. After the merger, DP&L will continue to exist as an Ohio electric utility, and it will continue to provide reliable service at reasonable rates to its customers.

Key elements and benefits of the merger include:

1. AES is committed to preserving DP&L's local decision making authority, including its commitment to maintain DP&L's operating headquarters in Dayton, Ohio and DP&L's name, for at least two years following the merger.

2. Customers will continue to receive the same high-quality service at reasonable rates that they received before the merger. DP&L's rates are currently fixed through 2012 and were approved by the Commission. Post 2012 rates will also be subject to approval by the Commission.

3. AES is committed to meeting customers' energy demands, and it contributes to communities' capability to grow by providing reliable and responsible electric power. Customers will benefit from the extensive technical expertise and resources of the AES group. The merger will allow DP&L to build on what has made it a reliable, efficient utility while receiving the benefits of being a part of a larger global company. AES owns Indianapolis Power & Light Company ("IPL"), and IPL's close proximity to DP&L will allow each company to provide better emergency response services.

4. The merger will not result in further consolidation among Ohio utilities.

5. Following the merger through December 31, 2013, AES has committed to cause DPL Inc. and DP&L not to implement any involuntary workforce reductions that would result in DPL Inc. and DP&L employing substantially fewer individuals in the aggregate than are employed immediately before the merger.

6. For at least two years following the merger, DP&L will continue to provide corporate contributions and community support in the

Dayton, Ohio area at levels substantially consistent with its current levels of charitable contributions and community support. In addition, because The DP&L Foundation is an independent entity, it will not be affected by the merger. It will continue its community focus, as it has for over 25 years.

7. Upon consummation of the merger, DP&L's credit rating will remain investment grade.

The merger thus provides significant benefits to DP&L's customers and its other stakeholders, while ensuring that those customers continue to receive reliable service at reasonable rates. The Commission should conclude that the merger promotes the public convenience, and it should approve the merger.

II. PROPOSED SCHEDULE

To assist in expediting this proceeding, Applicants suggest that the Commission institute the following schedule:

1.	Initial comments of Staff and interested persons	30 days from filing of this Application
2.	Reply comments	3 weeks after initial comments
3.	PUCO decision	Within six months after filing of Application

Of course, in order to accommodate this schedule, Applicants would not object to a Commission order suspending automatic approval of the Application by operation of Ohio Rev. Code § 4905.402(B).

III. DESCRIPTION OF THE APPLICANTS

A. AES

AES is a corporation duly organized and existing under the laws of the State of Delaware. It is a Fortune 200 global energy company. AES operates 14 utilities worldwide, with approximately 11.5 million customers served. In 2010 AES's revenue from utility operations was $9.1 billion, and its total revenue was $16.6 billion. Nearby IPL provides retail electric service to approximately 470,000 residential, commercial, and industrial customers in Indianapolis and other central Indiana communities. AES has owned IPL for over a decade, and during that time IPL has achieved significant improvements in operational performance, reliability, customer satisfaction and environmental performance. With respect to generation, AES has a twenty-five year history of managing fossil fuel assets, similar to the DPL facilities, with over 30.5 GW of fossil fuel and 8.0 GW of hydro generation owned worldwide. The AES renewables business includes approximately 1.8 GW of wind generation and AES Solar, a joint venture between AES and Riverstone Holdings, LLC, has over 100 MW of solar photovoltaic generation in operation or under construction.

B. DPL INC. AND DP&L

DPL Inc. is an Ohio holding company, and its principal subsidiary is DP&L. DP&L provides electric service to approximately 500,000 retail customers in West Central Ohio. DPL Inc. owns, through its subsidiaries, approximately 3,800 megawatts of generation capacity, and employs approximately 1,500 people. In addition to DP&L, the utility, DPL Inc. has two other major subsidiaries — DPL Energy LLC, an owner and operator of 556 MW of generation, and DPL Energy Resources, Inc., a

PUCO-certified Competitive Retail Electric Service Provider operating in Ohio. In August 2010, DPL Inc. was named one of Forbes Magazine's "100 Most Trusted Companies" for the second consecutive year.

IV. DESCRIPTION OF THE PROPOSED MERGER

On April 19, 2011, AES and Merger Sub entered into the Agreement with DPL Inc., pursuant to which, subject to the satisfaction or waiver of certain conditions, Merger Sub will merge with and into DPL Inc., with DPL Inc. surviving. As a result of the merger, Merger Sub will cease to exist, and DPL will survive as a wholly-owned subsidiary of AES. The merger is subject to satisfaction or waiver of customary closing conditions, including DPL shareholder approval and the receipt of required regulatory approvals. For a complete description of the terms of the proposed merger, please refer to the Agreement, a copy of which is attached as Exhibit 1.

The merger will create an organization with significantly greater scale and scope than is the case for DPL Inc./DP&L prior to the merger. The merger would result in DPL Inc. becoming part of an organization with more than a tenfold increase in aggregate retail customers, megawatts in operation and employees. That greater scale and scope will improve DPL Inc.'s ability to continue investing in DP&L's plant, equipment and other assets, all of which will be beneficial to DPL Inc. and DP&L's customers and employees, and it will also improve DP&L's ability to purchase equipment and commodities on favorable terms.

V. THE MERGER WILL PROMOTE THE PUBLIC CONVENIENCE

In evaluating whether to approve the proposed merger, the Commission should consider whether the merger "will promote the public convenience and result in the provision of adequate service for a reasonable rate." Ohio Rev. Code § 4905.402(B).

A. THE MERGER WILL BENEFIT CUSTOMERS

1. Service

After the merger, DP&L will continue to exist as an Ohio electric utility, and it will continue to provide reliable service at reasonable rates to its customers. Following the merger through December 31, 2013, AES has committed to cause DPL Inc. and DP&L not to implement any involuntary workforce reductions that would result in DPL Inc. and DP&L employing substantially fewer individuals in the aggregate than are employed immediately before the merger. Agreement, §§ 5.5. In addition, AES has committed to cause DPL Inc. and DP&L to maintain their operating headquarters in Dayton, Ohio and to cause DP&L to maintain its name and local decision making authority, in each case for at least two years following the merger. Agreement, §§ 5.15 & 5.16. DP&L's customers will not experience any decline in DP&L's reliable service after the merger.

In addition, AES, with $40.5 billion of assets on its balance sheet, is a much larger corporation than is DPL Inc. As an AES subsidiary, DP&L will benefit from AES's access to capital markets and its broad experience and strong relationships with the financial community. For example, AES raised approximately $1.6 billion in new equity in 2010. Under AES ownership, IPL has made substantial investments in plant in service, including over $500 million in environmental investments in its coal-fired generation units.

The merger will also result in DP&L having access to AES's significant managerial, operational and technical expertise. Access to those resources will assist the operation of DP&L's business, including with regard to economical purchases of fuel and other commodities, enhanced management of the risks of environmental compliance, and utilization of emerging technology.

Renewables and Energy Storage

AES has extensive experience developing and operating renewable energy projects, with over 1.8 GW of wind and AES Solar has over 100MWs of solar photovoltaic projects under construction or in operation. AES and AES Solar also have a significant pipeline of wind and solar projects, respectively, under development in the U.S. AES's 100MW Armenia Mountain wind project, located in Pennsylvania, began operations in 2009. AES is currently constructing the 98MW Laurel Mountain wind farm in Pennsylvania, which includes 32MW of energy storage. A third wind project being developed by AES, New Creek, located in West Virginia, is presently in advanced development and is set to have a capability of 127MW.

In addition to renewable energy, AES is also a market leader in the development, installation and operation of grid-scale energy storage projects. These systems combine advanced batteries, digital power controls, and patented control software. These projects improve the reliability of the power grid by providing nearly instantaneous power for operating reserves such as frequency regulation or spinning reserves. Fast response capabilities enable a more resilient power system and support the continuing deployment of renewable generation. AES has operated advanced storage projects connected to the grid in PJM, NYISO, MISO, ERCOT, CAISO, and abroad with more than 80MW of advanced storage projects in operation or under construction.

Demand Side Management and Energy Efficiency

AES also has demand side management and smart grid experience. IPL, for example, currently has extensive demand side management offerings for all residential customers and the vast majority of commercial and industrial customers. In terms of smart grid experience, IPL was awarded a $20 million Smart Grid Investment Grant with the US Department of Energy toward an almost $50 million investment in Advanced Metering Infrastructure ("AMI") deployment, distribution automation and demand side management offerings including an electric vehicle program. IPL's well-planned incremental approach to phase in AMI, further automate 95% of its distribution feeders, and proactively engage in electric vehicle technology implementation minimizes costs while adding customer value over a 3 year period of 2010 to 2013. With approximately 40% of the project complete, IPL will begin reporting impact benefits through the DOE, which it will share with AES affiliates in Q4 2011 and continue doing so through 2015.

Customer Service

Further, because DP&L and IPL are relatively close in proximity to each other, it will be possible for DP&L and IPL to provide better emergency response services and share best practices. IPL's customer service call center has been recognized as being in the top 10% of all call centers by BenchmarkPortal, and IPL has ranked in the top quartile for overall customer satisfaction, as rated by J.D. Power and Associates. IPL has also had the best customer reliability among investor-owned utilities in Indiana over the past nine years. IPL's residential rates are the lowest among the twenty largest cities served by investor-owned electric utilities. Accordingly, there may be additional opportunities for DP&L and IPL to share best practices with respect to call centers, reliability, operations, and storm restoration.

The AES corporate strategy is to focus on growth opportunities in key markets, including generation and utility investments in the Midwest and U.S. generally. Today, AES owns five generation facilities totaling approximately 1.9 GW in the PJM market, including a 100 MW wind facility. Working together with the Commission and other stakeholders to develop appropriate cost recovery mechanisms, AES believes its investment in DPL Inc. could serve as a platform for future utility and generation investments in Ohio.

2. <u>Rates</u>

The merger will not affect DP&L's rates. DP&L's current generation standard service offer rates will be governed by its existing electric security plan (ESP), which the Commission approved in Case No. 08-1094-EL-SSO (2008 ESP), the term for which extends through December 31, 2012. As stipulated in its 2008 ESP, DP&L's distribution service rates are frozen at current levels through December 31, 2012. Accordingly, because DP&L's rates are currently just and reasonable and the merger will not have an impact on them, the acquisition of control of DPL Inc. (and thus of DP&L) by AES will result in the continuing provision of adequate service at reasonable rates.

B. THE MERGER WILL BENEFIT THE COMMUNITIES IN DP&L'S SERVICE TERRITORY

Pursuant to the Agreement, following the merger through December 31, 2013, AES agreed to cause DPL Inc. and DP&L not to implement any involuntary work force reductions that would result in DPL Inc. and DP&L employing substantially fewer individuals in the aggregate than are employed immediately before the merger. Agreement, § 5.5. In addition, AES has committed to cause DPL Inc. and DP&L to maintain their operating headquarters in Dayton, Ohio for at least two years following the merger. Agreement, § 5.15. The merger will thus protect the economy of the Dayton area and will not negatively impact State employment levels.

Further, both DPL Inc. and AES have strong commitments to their communities. For at least two years following the merger, DP&L will continue to provide corporate contributions and community support in the Dayton, Ohio area at levels substantially consistent with its current levels of charitable contributions and community support. Agreement, § 5.17. In addition, because The DP&L Foundation is an independent entity, it will not be affected by the merger and will continue its community focus, as it has for over 25 years. The DP&L Foundation has already been fully funded by DP&L's shareholders, and has been using proceeds earned by that fund to donate more than $1 million annually to civic, cultural and youth organizations. The Foundation is a charitable organization that is independent of DPL Inc. and DP&L, and it has an independent board of trustees. The Foundation will remain independent of DP&L, DPL Inc., and AES after the merger. The Foundation will, thus, continue to be able to make substantial contributions to the community for many years to come.

C. THE MERGER WILL BENEFIT UTILITY DIVERSITY IN OHIO

AES's access to global financial markets and its managerial and technical expertise will enhance DP&L's ability to maintain its competitive position relative to its peers, and address the significant challenges facing the electric utility industry. The Commission should thus conclude that the merger will promote diversity of utility viewpoints and enhance competitive markets in Ohio.

VI. CORPORATE SEPARATION WILL BE MAINTAINED

After the merger, DP&L will continue to operate as an Ohio public utility and will comply with the Commission's Corporate Separation Rules, its Corporate Separation Plan, and the FERC Standards of Conduct. DP&L will continue to maintain its own books and records, and it will ensure that any transactions between DP&L and any of its affiliates are made in compliance with the Commission's Corporate Separation Rules.

VII. THE MERGER WILL HAVE NO EFFECT ON COMMISSION JURISDICTION

Following the merger, this Commission will retain the same regulatory authority over DP&L, the public utility authorized to supply regulated electric services within Ohio. Upon completion of the merger, DP&L will continue to be wholly-owned by DPL Inc., and only the ultimate corporate holding company of DP&L will change. As a result, the Commission's authority over DP&L will be unaffected.

VIII. RELATED GOVERNMENT FILINGS

In addition to the filings with this Commission, the Joint Applicants are taking steps to satisfy the requirements of other governmental entities with respect to the merger. The Joint Applicants, either jointly or individually, have made or will make filings with the following governmental entities: the Federal Energy Regulatory Commission, the Securities and Exchange Commission, the Federal Communications Commission, the Federal Trade Commission, the United States Department of Justice, and the Vermont Department of Insurance.

IX. ATTACHMENTS

Attached to this Application are:

Exhibit 1 -- Agreement and Plan of Merger

Exhibit 2 -- The most recent Annual Report of The AES Corporation

Exhibit 3 -- The most recent Annual Report of DPL Inc.

X. CONCLUSION

AES is committed to preserving the independent operation of DP&L, including maintaining DPL Inc.'s and DP&L's operating headquarters in Dayton, Ohio and maintaining DP&L's local decision making authority for at least two years following the merger. After the merger, DP&L's customers will continue to receive quality service at reasonable rates. DP&L's customers will benefit from the merger because of AES's size and managerial and technical expertise. The Dayton area will benefit from the merger because through December 31, 2013, AES has agreed to cause DPL Inc. and DP&L not to implement any involuntary work force reductions that would result in DPL

Inc. and DP&L employing substantially fewer individuals in the aggregate than are employed immediately before the merger. Given the foregoing, the Commission should conclude that the merger promotes the public convenience and will result in the provision of adequate service at reasonable rates. Ohio Rev. Code § 4905.402(B). The Commission should therefore approve the merger.

Respectfully submitted,

Daniel R. Conway

Daniel R. Conway (0023058)
(Counsel of Record)
Andrew C. Emerson (0071994)
PORTER WRIGHT MORRIS & ARTHUR LLP
41 South High Street
Suites 2800 - 3200
Columbus, Ohio 43215-6194
Telephone: (614) 227-2270
Facsimile: (614) 227-2100
Email: dconway@porterwright.com

Attorneys for The AES Corporation
and Dolphin Sub, Inc.

OF COUNSEL:

Arthur G. Meyer (0024165)
THE DAYTON POWER AND LIGHT COMPANY
1065 Woodman Drive
Dayton, Ohio 45432
Telephone: (937) 259-7208
Facsimile: (937) 259-7178
Email: arthur.meyer@dplinc.com

Charles J. Faruki / per telephone authorization DRC

Charles J. Faruki (0010417)
(Counsel of Record)
Jeffrey S. Sharkey (0067892)
FARUKI IRELAND & COX P.L.L.
500 Courthouse Plaza, S.W.
10 North Ludlow Street
Dayton, Ohio 45402
Telephone: (937) 227-3705
Facsimile: (937) 227-3717
Email: cfaruki@ficlaw.com

Attorneys for Applicants DPL Inc. and
The Dayton Power and Light Company

IEU Ex 21

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(x) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2012**

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-9052	**DPL INC.** (An Ohio Corporation) 1065 Woodman Drive Dayton, Ohio 45432 937-224-6000	**31-1163136**
1-2385	**THE DAYTON POWER AND LIGHT COMPANY** (An Ohio Corporation) 1065 Woodman Drive Dayton, Ohio 45432 937-224-6000	**31-0258470**

Securities registered pursuant to Section 12(b) of the Act: **None**

Indicate by check mark if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

DPL Inc.	Yes ☐	No ☒
The Dayton Power and Light Company	Yes ☐	No ☒

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

DPL Inc.	Yes ☐	No ☒
The Dayton Power and Light Company	Yes ☒	No ☐

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

DPL Inc.	Yes ☒	No ☐
The Dayton Power and Light Company	Yes ☐	No ☒

Indicate by check mark whether each registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

DPL Inc.	Yes ☒	No ☐
The Dayton Power and Light Company	Yes ☒	No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

DPL Inc.	☒
The Dayton Power and Light Company	☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer, large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Non- Smaller

	acceler ated filer	Acceler ated filer	accelerated filer	reportin g compan y
DPL Inc.	☐	☐	☒	☐
The Dayton Power and Light Company	☐	☐	☒	☐

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

DPL Inc.	Yes ☐	No ☒
The Dayton Power and Light Company	Yes ☐	No ☒

All of the outstanding common stock of DPL Inc. is indirectly owned by The AES Corporation. All of the common stock of The Dayton Power and Light Company is owned by DPL Inc.

As of December 31, 2012, each registrant had the following shares of common stock outstanding:

Registrant	Description	Shares Outstanding
DPL Inc.	**Common Stock, no par value**	**1**
The Dayton Power and Light Company	**Common Stock, $0.01 par value**	**41,172,173**

Documents incorporated by reference: **None**

This combined Form 10-K is separately filed by DPL Inc. and The Dayton Power and Light Company. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to a registrant other than itself.

THE REGISTRANTS MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND ARE THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

DPL Inc. and The Dayton Power and Light Company

Index to Annual Report on Form 10-K
Fiscal Year Ended December 31, 2012

GLOSSARY OF TERMS

The following select abbreviations or acronyms are used in this Form 10-K:

Abbreviation or Acronym

AES

AMI

AOCI

ARO

ASU

BTU

CFTC

CAA

CAIR

CSAPR

CO_2

CCEM

CRES

DPL

DPLE

DPLER

DP&L

Duke Energy

EIR

FERC ....

FGD ....

FTRs...
.....

GLOSSARY OF TERMS (cont.)

Abbreviation or Acronym

GAAP ....

GHG ....

IFRS ....

kWh ....

Master Trust ....

MC Squared ....

Merger..

Merger agreement...

Merger date...

MISO ....
......

MRO ....
......

MTM ....
....

MVIC
....

MW ....

MWh ....

NERC ....

Non-bypassable ....

NOV ....

NOx ....

NPDES...

NSR ....

NYMEX..

OAQDA

....

OCC ....

ODT ....
......

Abbreviation or Acronym

Ohio EPA ....

Ohio Power..

OTC ....
......

OVEC ....

PJM..
....

Predecessor..
...

PRP

PUCO

RPM

RSU

RTO

SB
221 ....

SCR
....

SEC
....

SECA
....

SEET ....
......

SERP
....

SFAS
....

SO_2 ....
.....

SO_3 ....
.....

SSO..
......

PART I

Item 1 – Business

This report includes the combined filing of **DPL** and **DP&L**. On November 28, 2011, **DPL** became a wholly-owned subsidiary of AES, a global power company. Throughout this report, the terms "we," "us," "our" and "ours" are used to refer to both **DPL** and **DP&L**, respectively and altogether, unless the context indicates otherwise. Discussions or areas of this report that apply only to **DPL** or **DP&L** will clearly be noted in the section.

FORWARD–LOOKING STATEMENTS

Certain statements contained in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Matters discussed in this report that relate to events or developments that are expected to occur in the future, including management's expectations, strategic objectives, business prospects, anticipated economic performance and financial condition and other similar matters constitute forward-looking statements. Forward-looking statements are based on management's beliefs, assumptions and expectations of future economic performance, taking into account the information currently available to management. These statements are not statements of historical fact and are typically identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will" and similar expressions. Such forward-looking statements are subject to risks and uncertainties and investors are cautioned that outcomes and results may vary materially from those projected due to various factors beyond our control, including but not limited to:

- abnormal or severe weather and catastrophic weather-related damage;
- unusual maintenance or repair requirements;
- changes in fuel costs and purchased power, coal, environmental emissions, natural gas and other commodity prices;
- volatility and changes in markets for electricity and other energy-related commodities;
- performance of our suppliers;
- increased competition and deregulation in the electric utility industry;
- increased competition in the retail generation market;
- changes in interest rates;
- state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, emission levels, rate structures or tax laws;
- changes in environmental laws and regulations to which **DPL** and its subsidiaries are subject;
- the development and operation of RTOs, including PJM to which **DPL's** operating subsidiary (**DP&L**) has given control of its transmission functions;
- changes in our purchasing processes, pricing, delays, contractor and supplier performance and availability;
- significant delays associated with large construction projects;
- growth in our service territory and changes in demand and demographic patterns;
- changes in accounting rules and the effect of accounting pronouncements issued periodically by accounting standard-setting bodies;
- financial market conditions;
- the outcomes of litigation and regulatory investigations, proceedings or inquiries;
- general economic conditions;
- costs related to the Merger and the effects of any disruption from the Merger that may make i more difficult to maintain relationships with employees, customers, other business partners or government entities;

and the risks and other factors discussed in this report and other **DPL** and **DP&L** filings with the SEC.

Forward-looking statements speak only as of the date of the document in which they are made. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which the forward-looking statement is based. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

COMPANY WEBSITES

DPL's public internet site is http://www.dplinc.com. **DP&L's** public internet site is http://www.dpandl.com. The information on these websites is not incorporated by reference into this report.

ORGANIZATION

DPL is a regional energy company incorporated in 1985 under the laws of Ohio. Our executive offices are located at 1065 Woodman Drive, Dayton, Ohio 45432 – telephone (937) 224-6000. **DPL** was acquired by The AES Corporation on November 28, 2011 and is a wholly-owned, indirect subsidiary of AES.

DP&L is a public utility incorporated in 1911 under the laws of Ohio. **DP&L** sells electricity 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 primarily generated at eight coal-fired power stations and is distributed to more than 513,000 retail customers. Principal industries served include automotive, food processing, paper, plastic, manufacturing and defense. **DP&L's** sales reflect the general economic conditions and seasonal weather patterns of the area. **DP&L** sells any excess energy and capacity into the wholesale market. **DP&L** also sells electricity to DPLER, an affiliate, to satisfy the electric requirements of its retail customers.

DPLER sells competitive retail electric service, under contract, to residential, commercial, industrial and governmental customers. DPLER's operations include those of its wholly-owned subsidiary, MC Squared, which was purchased on February 28, 2011. DPLER has approximately 198,000 customers currently located throughout Ohio and Illinois. Approximately 74,000 of DPLER's customers are also electric distribution customers of **DP&L**. DPLER does not have any transmission or generation assets and all of DPLER's electric energy was purchased from **DP&L** or PJM to meet its sales obligations.

DPL's other significant subsidiaries include: DPLE, which owns and operates peaking generating facilities from which it makes wholesale sales of electricity and MVIC, **DPL's** captive insurance company that provides insurance services to us and **DPL's** other subsidiaries.

DPL also has a wholly-owned business trust, DPL Capital Trust II, formed for the purpose of issuing trust capital securities to investors.

All of **DPL's** subsidiaries are wholly-owned. **DP&L** does not have any subsidiaries.

DP&L's electric transmission and distribution businesses are subject to rate regulation by federal and state regulators while its generation business is deemed competitive under Ohio law. Accordingly, **DP&L** applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future customer rates and regulatory liabilities when current recoveries in customer rates relate to expected future costs.

DPL and its subsidiaries had 1,486 employees as of December 31, 2012. At that date, approximately 1,428 of these employees were employed by

DP&L. Approximately 52% of the employees of **DPL** and its subsidiaries are under a collective bargaining agreement which expires on October 31, 2014.

ELECTRIC OPERATIONS AND FUEL SUPPLY

2012 Summer Generating Capacity (in MW)

Summer Generating Capacity	Coal fired	Combu stion Turbines, Diesel Units and Solar	Total
DPL	2,830	988	3,818
DP&L	2,830	432	3,262

DPL's *present summer generating capacity*, including peaking units, is approximately 3,818 MW. Of this capacity, approximately 2,830 MW, or 74%, is derived from coal-fired steam generating stations and the balance of approximately 988 MW, or 26%, consists of combustion turbines, diesel peaking units and solar.

DP&L's present summer generating capacity, including peaking units, is approximately 3,262 MW. Of this capacity, approximately 2,830 MW, or 87%, is derived from coal-fired steam generating stations and the balance of approximately 432 MW, or 13%, consists of combustion turbines, diesel peaking units and solar.

Our all-time net peak load was 3,270 MW, occurring August 8, 2007.

Approximately 87% of the existing steam generating capacity is provided by certain generating units owned as tenants in common with Duke Energy and Ohio Power. As tenants in common, each company owns a specified share of each of these units, is entitled to its share of capacity and energy output and has a capital and operating cost responsibility proportionate to its ownership share. **DP&L's** remaining steam generating capacity (approximately 365 MW) is derived from a generating station owned solely by **DP&L**. Additionally, **DP&L**, Duke Energy and Ohio Power own, as tenants in common, 880 circuit miles of 345,000-volt transmission lines. **DP&L** has several interconnections with other companies for the purchase, sale and interchange of electricity.

In 2012, we generated 97.3% of our electric output from coal-fired units and 2.7% from solar, oil and natural gas-fired units.

The following table sets forth **DP&L's** and DPLE's generating stations and, where indicated, those stations which **DP&L** owns as tenants in common:

Station	Ownership [(a)]	Operating Company	Location	Approximate Summer MW Rating DP&L Portion [(b)]	Total
Coal Units					
Hutchings	W	DP&L	Miamisburg, OH	365	365
Killen	C	DP&L	Wrightsville, OH	402	600
Stuart	C	DP&L	Aberdeen, OH	808	2,308
Conesville-Unit 4	C	Ohio Power	Conesville, OH	129	780
Beckjord-Unit 6	C	Duke Energy	New Richmond, OH	207	414
Miami Fort-Units 7 & 8	C	Duke Energy	North Bend, OH	368	1,020
East Bend-Unit 2	C	Duke Energy	Rabbit Hash, KY	186	600
Zimmer	C	Duke Energy	Moscow, OH	365	1,300
Solar, Combustion Turbines or Diesel					
Hutchings	W	DP&L	Miamisburg, OH	25	25
Yankee Street	W	DP&L	Centerville, OH	101	101
Yankee Solar	W	DP&L	Centerville, OH	1	1
Monument	W	DP&L	Dayton, OH	12	12
Tait Diesels	W	DP&L	Dayton, OH	10	10
Sidney	W	DP&L	Sidney, OH	12	12
Tait Units 1 - 3	W	DP&L	Moraine, OH	256	256
Killen	C	DP&L	Wrightsville, OH	12	18
Stuart	C	DP&L	Aberdeen, OH	3	10
Montpelier Units 1 - 4	W	DPLE	Poneto, IN	236	236
Tait Units 4 - 7	W	DPLE	Moraine, OH	320	320
Total approximate summer generating capacity				3,818	8,388

(a) W = Wholly owned C = Commonly owned

(b) DP&L portion of commonly owned generating stations

In addition to the above, **DP&L** also owns a 4.9% equity ownership interest in OVEC, an electric generating company. OVEC has two electric generating stations located in Cheshire, Ohio and Madison, Indiana with a combined generation capacity of approximately 2,265 MW. **DP&L's** share of this generation capacity is approximately 111 MW.

We have substantially all of the total expected coal volume needed to meet our retail and wholesale sales requirements for 2013 under contract. The majority of the contracted coal is purchased at fixed prices. Some contracts provide for periodic adjustments and some are priced based on market indices. Fuel costs are affected by changes in volume and price and are driven by a number of variables including weather, the wholesale market price of power, certain provisions in coal contracts related to government imposed costs, counterparty performance and credit, scheduled/forced outages and generation station mix. Due to the installation of emission controls equipment at certain commonly owned units and barring any changes in the regulatory environment in which we operate, we expect to have balanced positions for SO_2, NOx and renewable energy credits for 2013.

The gross average cost of fuel consumed per kWh was as follows:

	Average cost of Fuel Consumed (cents per kWh)		
	2012	2011	2010
DPL	**2.75**	2.76	2.42
DP&L	**2.72**	2.71	2.37

SEASONALITY

The power generation and delivery business is seasonal and weather patterns have a material effect on operating performance. In the region we serve, demand for electricity is generally greater in the summer months associated with cooling and in the winter months associated with heating as compared to other times of the year. Unusually mild summers and winters could have an adverse effect on our results of operations, financial condition and cash flows.

RATE REGULATION AND GOVERNMENT LEGISLATION

DP&L's sales to SSO retail customers are subject to rate regulation by the PUCO. **DP&L's** transmission rates and wholesale electric rates to municipal corporations, rural electric co-operatives and other distributors of electric energy are subject to regulation by the FERC under the Federal Power Act.

Ohio law establishes the process for determining SSO retail rates charged by public utilities. Regulation of retail rates encompasses the timing of applications, the effective date of rate increases, the cost basis upon which the rates are set and other related matters. Ohio law also established the Office of the OCC, which has the authority to represent residential consumers in state and federal judicial and administrative rate proceedings.

Ohio legislation extends the jurisdiction of the PUCO to the records and accounts of certain public utility holding company systems, including **DPL**. The legislation extends the PUCO's supervisory powers to a holding company system's general condition and capitalization, among other matters, to the extent that such matters relate to the costs associated with the provision of public utility service. Based on existing PUCO and FERC authorization, regulatory assets and liabilities are recorded on the balance sheets. See Note 4 of Notes to **DPL's** Consolidated Financial Statements and Note 4 of Notes to **DP&L's** Financial Statements.

COMPETITION AND REGULATION

Ohio Matters

Ohio Retail Rates

The PUCO maintains jurisdiction over **DP&L's** delivery of electricity, SSO and other retail electric services.

On May 1, 2008, substitute SB 221, an Ohio electric energy bill, was signed by the Governor and went into effect July 31, 2008. This law required that all Ohio distribution utilities file either an ESP or MRO to establish rates for SSO service. Under the MRO, a periodic competitive bid process will set the retail generation price after the utility demonstrates that it can meet certain market criteria and bid requirements. Also, under this option, utilities that still own generation in the state are required to phase-in the MRO over a period of not less than five years. An ESP may allow for cost-based adjustments to the SSO for costs associated with environmental compliance; fuel and purchased power; construction of new or investment in specified generating facilities; and the provision of standby and default service, operating, maintenance, or other costs including taxes. As part of its ESP, a utility is permitted to file an infrastructure improvement plan that will specify the initiatives the utility will take to rebuild, upgrade, or replace its electric distribution system, including cost recovery mechanisms. Both the MRO and ESP option involve a SEET based on the earnings of comparable companies with similar business and financial risks.

On October 5, 2012, **DP&L** filed an ESP with the PUCO to establish SSO rates that were to be in effect starting January 2013. The plan was refiled on December 12, 2012 to correct for certain projected costs. The plan requested approval of a non-bypassable charge that is designed to recover $137.5 million per year for five years from all customers. **DP&L** also requested approval of a switching tracker that would measure the incremental amount of switching over a base case and defer the lost value into a regulatory asset which would be recovered from all customers beginning January 2014. The ESP states that **DP&L** plans to file on or before December 31, 2013 its plan for legal separation of its generation assets. The ESP proposes a three year and five month transition to market, whereby a wholesale competitive bidding structure will be phased in to supply generation service to SSO customers. The PUCO is currently reviewing the filing and an evidentiary hearing is scheduled to begin on March 11, 2013. The PUCO authorized that the rates being collected prior to December 31, 2012 would continue until the new ESP rates go into effect.

SB 221 and the implementation rules contain targets relating to advanced energy portfolio standards, renewable energy, demand reduction and energy efficiency standards. If any targets are not met, compliance penalties will apply unless the PUCO makes certain findings that would excuse performance. The PUCO has found that **DP&L** met its renewable targets for compliance years 2008 – 2011. PUCO staff recommended that DPLER met its targets for compliance year 2011. Filing for compliance year 2012 will be made on or before April 15, 2013 and both **DP&L** and DPLER expect to be in full compliance with all renewable targets. Our next energy efficiency portfolio plan is due to be filed in April 2013.

We are unable to predict how the PUCO will respond to many of the filings discussed above, but believe that the outcome for the non-ESP filings will not be material to our financial condition or results of operations. However, as the energy efficiency and alternative energy targets get increasingly larger over time, the costs of complying with SB 221 and the PUCO's implementing rules or the results of our ESP filing could have a material effect on our financial condition or results of operations.

The 2009 ESP Stipulation also provided for the establishment of a fuel and purchased power recovery rider beginning January 1, 2010. The fuel rider fluctuates based on actual costs and recoveries and is modified at the start of each seasonal quarter: March 1, June 1, September 1 and December 1 each year. As part of the PUCO approval process, an outside auditor is hired each year to review fuel costs and the fuel procurement process. **DP&L** and all of the active participants in this proceeding reached a Fuel Stipulation and Recommendation which was approved by the PUCO on November 9, 2011. In November 2011, **DP&L** recorded a $25 million pretax ($16 million net of tax) adjustment as a result of the approval of the fuel settlement agreement by the PUCO. The adjustment was due to the reversal of a provision recorded in accordance with the regulatory accounting rules. We received the audit report for 2011 on April 27, 2012. In 2012, the auditor recommended that the PUCO consider reducing **DP&L's** recovery of fuel costs by approximately $3.4 million from certain transactions. On October 4, 2012, we filed testimony on this issue and a hearing was scheduled. In November 2012, we agreed to an immaterial refund to settle these issues. The liability was recorded in the fourth quarter of 2012 and will be credited to customers in early 2013.

As a member of PJM, **DP&L** receives revenues from the RTO related to its transmission and generation assets and incurs costs associated with its load obligations for retail customers. SB 221 included a provision that would allow Ohio electric utilities to seek and obtain a reconcilable rider to recover RTO-related costs and credits. **DP&L's** TCRR and PJM RPM riders were initially approved in November 2009 to recover these costs. Both the TCRR and the RPM riders assign costs and revenues from PJM monthly bills to retail ratepayers based on the percentage of SSO retail customers' load and sales volumes to total retail load and total retail and wholesale volumes. Customer switching to CRES providers decreases **DP&L's** SSO retail customers' load and sales volumes. Therefore, increases in customer switching cause more of the RPM capacity costs and revenues to be excluded from the RPM rider calculation. RPM capacity costs and revenues are discussed further under "Regional Transmission Organizational Risks" in Item 1A – Risk Factors. **DP&L's** annual true-up of these two riders was approved by the PUCO by Order dated April 25, 2012, and its 2013 filing is currently pending.

On September 9, 2009, the PUCO issued an order establishing a SEET proceeding pursuant to provisions contained in SB 221. The PUCO issued an order on June 30, 2010 to establish general rules for calculating the earnings and comparing them to a comparable group to determine whether there were significantly excessive earnings. The other three Ohio utilities were required to make their SEET determinations in 2012, 2011 and 2010. Pursuant to the 2009 ESP Stipulation, **DP&L** becomes subject to the SEET in 2013 based on 2012 earnings results and the SEET may have a material effect on operations. **DP&L's** SEET filing for its 2012 earnings will be made no later than May 15, 2013.

On June 29, 2012, **DP&L** filed its application to establish reliability targets consistent with the most recent PUCO Electric Service and Safety Standards (ESSS). This filing is still pending with a ruling expected during the second quarter of 2013. According to the ESSS rules, all Ohio utilities are subject to financial penalties if the established targets are not met for two consecutive years. **DP&L** has not missed any of the reliability targets and does not expect any penalties.

Ohio Competitive Considerations and Proceedings

Since January 2001, **DP&L's** electric customers have been permitted to choose their retail electric generation supplier. **DP&L** continues to have the exclusive right to provide delivery service in its state certified territory and the obligation to supply retail generation service to customers that do not choose an alternative supplier. The PUCO maintains jurisdiction over **DP&L's** delivery of electricity, SSO and other retail electric services.

Market prices for power, as well as government aggregation initiatives, have led and may continue to lead to the

entrance of additional competitors in our service territory. As of December 31, 2012, there were twenty-seven CRES providers registered in **DP&L's** service territory. DPLER, an affiliated company and one of the twenty-seven registered CRES providers, has been marketing supply services to **DP&L** customers. During 2012, DPLER accounted for approximately 6,201 million kWh of the total 8,182 million kWh supplied by CRES providers within **DP&L's** service territory. Also during 2012, 79,936 customers with an annual energy usage of 1,981 million kWh were supplied by other CRES providers within **DP&L's** service territory. The volume supplied by DPLER represents approximately 44% of **DP&L's** total distribution sales volume during 2012. The reduction to gross margin in 2012 as a result of customers switching to DPLER and other CRES providers was approximately $141.0 million and $249.0 million, for **DPL** and **DP&L**, respectively. We currently cannot determine the extent to which customer switching to CRES providers will occur in the future and the effect this will have on us, but any additional switching could have a significant adverse effect on our future results of operations, financial condition and cash flows.

Several communities in **DP&L's** service area have passed ordinances allowing the communities to become government aggregators for the purpose of offering retail generation service to their residents. As of February 1, 2013, five communities have active aggregation programs with customers enrolled, and four additional communities have notified the PUCO that they plan to implement government aggregation programs.

In 2010, DPLER began providing CRES services to business customers in Ohio who are not in **DP&L's** service territory. Additionally, beginning in March 2011 with the purchase of MC Squared, DPLER services business and residential customers in northern Illinois. The incremental costs and revenues have not had a material effect on our results of operations, financial condition or cash flows.

Federal Matters

Like other electric utilities and energy marketers, **DP&L** and DPLE may sell or purchase electric products on the wholesale market. **DP&L** and DPLE compete with other generators, power marketers, privately and municipally-owned electric utilities and rural electric cooperatives when selling electricity. The ability of **DP&L** and DPLE to sell this electricity will depend not only on the performance of our generating units, but also on how **DP&L's** and DPLE's prices, terms and conditions compare to those of other suppliers.

As part of Ohio's electric deregulation law, all of the state's investor-owned utilities are required to join an RTO. In October 2004, **DP&L** successfully integrated its high-voltage transmission lines into the PJM RTO. The role of the RTO is to administer a competitive wholesale market for electricity and ensure reliability of the transmission grid. PJM ensures the reliability of the high-voltage electric power system serving more than 50 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. PJM coordinates and directs the operation of the region's transmission grid, administers the world's largest competitive wholesale electricity market and plans regional transmission expansion improvements to maintain grid reliability and relieve congestion.

The PJM RPM capacity base residual auction for the 2015/16 period cleared at a per megawatt price of $136/day for our RTO area. The per megawatt prices for the periods 2014/15, 2013/14 and 2012/13 were $126/day, $28/day and $16/day, respectively, based on previous auctions. Future RPM auction results will be dependent not only on the overall supply and demand of generation and load, but may also be impacted by congestion as well as PJM's business rules relating to bidding for demand response and energy efficiency resources in the RPM capacity auctions. Increases in customer switching causes more of the RPM capacity costs and revenues to be excluded from the RPM rider calculation. We cannot predict the outcome of future auctions or customer switching but if the current auction price is not sustained, it could have a material adverse effect on our future results of operations, financial condition and cash flows.

NERC is a FERC-certified electric reliability organization responsible for developing and enforcing mandatory reliability standards, including Critical Infrastructure Protection (CIP) reliability standards, across eight reliability regions. In December 2012, **DP&L** underwent routine, scheduled NERC audits conducted by Reliability First Corporation (RFC), which focused on our performance in supporting PJM as our transmission operator, and our compliance with the CIP standards. The Company was found 100% compliant in its performance in support of PJM. In the CIP audit, four minor documentation-related Possible Alleged Violations (PAVs) were identified, which the Company anticipates will be eligible for streamlined processing, without any financial penalties.

ENVIRONMENTAL CONSIDERATIONS

DPL's and **DP&L's** facilities and operations are subject to a wide range of federal, state and local environmental regulations and laws. The environmental issues that may affect us include:

- The federal CAA and state laws and regulations (including State Implementation Plans) which require compliance, obtaining permits and reporting as to air emissions.
- Litigation with federal and certain state governments and certain special interest groups regarding whether modifications to or maintenance of certain coal-fired generating stations require additional permitting or pollution control technology, or whether emissions from coal-fired generating stations cause or contribute to global climate changes.
- Rules and future rules issued by the USEPA and Ohio EPA that require substantial reductions in SO_2, particulates, mercury, acid gases, NOx, and other air emissions. **DP&L** has installed emission control technology and is taking other measures to comply with required and anticipated reductions.
- Rules and future rules issued by the USEPA and Ohio EPA that require reporting and may require reductions of GHGs.
- Rules and future rules issued by the USEPA associated with the federal Clean Water Act, which prohibits the discharge of pollutants into waters of the United States except pursuant to appropriate permits.
- Solid and hazardous waste laws and regulations, which govern the management and disposal of certain waste. The majority of solid waste created from the combustion of coal and fossil fuels is fly ash and other coal combustion by-products. The USEPA has previously determined that fly ash and other coal combustion by-products are not hazardous waste subject to the Resource Conservation and Recovery Act (RCRA), but the USEPA is reconsidering that determination. A change in determination or other additional regulation of fly ash or other coal combustion byproducts could significantly increase the costs of disposing of such by-products.

As well as imposing continuing compliance obligations, these laws and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. In the normal course of business, we have investigatory and remedial activities underway at our facilities to comply, or to determine compliance, with such regulations. We record liabilities for loss contingencies related to environmental matters when a loss is probable of occurring and can be reasonably estimated in accordance with the provisions of GAAP. Accordingly, we have accruals for loss contingencies of approximately $3.6 million for environmental matters. We also have a number of unrecognized loss contingencies related to environmental matters that are disclosed in the paragraphs below. We evaluate the potential liability related to environmental matters quarterly and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material adverse effect on our results of operations, financial condition or cash flows.

We have several pending environmental matters associated with our coal-fired generation units. Some of these matters could have material adverse impacts on the operation of the power stations; especially the stations that do not have SCR and FGD equipment installed to further control certain emissions. Currently, our coal-fired generation units at Hutchings and Beckjord do not have this emission-control equipment installed. **DP&L** owns 100% of the Hutchings Station and has a 50% interest in Beckjord Unit 6. In addition to environmental matters, the operation of our coal-fired generation stations could be affected by a multitude of other factors, including forecasted power capacity and commodity prices, competition and the levels of customer switching, current and forecasted customer demand, cost of capital and regulatory and legislative developments, any of which could pose a potential triggering event for an impairment of our investment in Beckjord Unit 6.

On July 15, 2011, Duke Energy, a co-owner at the Beckjord Unit 6 facility, filed their Long-term Forecast Report with the PUCO. The plan indicated that Duke Energy plans to cease production at the Beckjord Station, including our commonly owned Unit 6, in December 2014. This was followed by a notification by the joint owners of Beckjord Unit 6 to PJM, dated April 12, 2012, of a planned June 1, 2015 deactivation of this unit. **DPL** valued Beckjord Unit 6 at zero at the Merger date. **DP&L** is depreciating Unit 6 through December 2014 and does not believe that any additional accruals or impairment charges are needed as a result of this decision.

DP&L has informed PJM that Hutchings Unit 4 has incurred damage to a rotor and will be deactivated June 1, 2013. In addition, **DP&L** has notified PJM that the remaining Hutchings units will be deactivated by June 1, 2015. We do not believe that any accruals are needed related to the Hutchings Station.

Environmental Matters Related to Air Quality

Clean Air Act Compliance

In 1990, the federal government amended the CAA to further regulate air pollution. Under the CAA, the USEPA sets limits on how much of a pollutant can be in the ambient air anywhere in the United States. The CAA allows individual states to have stronger po llution controls than those set under the CAA, but states are not allowed to have weaker pollution controls than those set for the whole country. The CAA has a material effect on our operations and such effects are detailed below with respect to certain programs under the CAA.

Cross-State Air Pollution Rule

The USEPA promulgated the "Clean Air Interstate Rule" (CAIR) on March 10, 2005, which required allowance surrender for SO_2 and NOx emissions from existing power stations located in 28 eastern states and the District of Columbia. CAIR contemplated two implementation phases. The first phase was to begin in 2009 and 2010 for NOx and SO_2, respectively. A second phase with additional allowance surrender obligations for both air emissions was to begin in 2015. To implement the required emission reductions for this rule, the states were to establish emission allowance based "cap-and-trade" programs. CAIR was subsequently challenged in federal court, and on July 11, 2008, the United States Court of Appeals for the D.C. Circuit issued an opinion striking down much of CAIR and remanding it to the USEPA.

In response to the D.C. Circuit's opinion, on July 7, 2011, the USEPA issued a final rule titled "Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone in 27 States," which is now referred to as the Cross-State Air Pollution Rule (CSAPR). Starting in 2012, CSAPR would have required significant reductions in SO_2 and NOx emissions from covered sources, such as power stations. Once fully implemented in 2014, the rule would have required additional SO_2 emission reductions of 73% and additional NOx reductions of 54% from 2005 levels. Many states, utilities and other affected parties filed petitions for review, challenging the CSAPR before the U.S. Court of Appeals for the District of Columbia. A large subset of the Petitioners also sought a stay of the CSAPR. On December 30, 2011, the D.C. Circuit granted a stay of the CSAPR and directed the USEPA to continue administering CAIR. On August 21, 2012, a three-judge panel of the D.C. Circuit Court vacated CSAPR, ruling that USEPA overstepped its regulatory authority by requiring states to make reductions beyond the levels required in the CAA and failed to provide states an initial opportunity to adopt their own measures for achieving federal compliance. As a result of this ruling, the surviving provisions of CAIR will continue to serve as the governing program until USEPA takes further action or the U.S. Congress intervenes. Assuming that USEPA constructs a replacement interstate transport rule addressing the D.C. Circuit Court's ruling, we believe companies will have three years or more before they would be required to comply with a replacement rule. At this time, it is not possible to predict the details of such a replacement transport rule or what impacts it may have on our consolidated financial condition, results of operations or cash flows. On October 5, 2012, USEPA, several states and cities, as well as environmental and health organizations, filed petitions with the D.C. Circuit Court requesting a rehearing by all of the judges of the D.C. Circuit Court of the case pursuant to which the three-judge panel ruled that CSAPR be vacated. On January 24, 2013, the D.C. Circuit Court denied this petition for rehearing en banc of the D.C. Circuit Court's August 2012 decision to vacate CSAPR. Therefore, CAIR remains in effect. If CSAPR were to be reinstated in its current form, we do not expect any material capital costs for **DP&L's** stations, assuming Beckjord 6 and Hutchings generating stations will not operate on coal in 2015 due to implementation of the Mercury and Air Toxics Standards. Because we cannot predict the final outcome of the replacement interstate transport rulemaking, we cannot predict its financial impact on **DP&L's** operations.

Mercury and Other Hazardous Air Pollutants

On May 3, 2011, the USEPA published proposed Maximum Achievable Control Technology (MACT) standards for coal- and oil-fired electric generating units. The standards include new requirements for emissions of mercury and a number of other heavy metals. The USEPA Administrator signed the final rule, now called MATS (Mercury and Air Toxics Standards), on December 16, 2011, and the rule was published in the Federal Register on February 16, 2012. Our affected electric generating units (EGUs) will have to come into compliance with the new requirements by April 16, 2015, but may be granted an additional year contingent on Ohio EPA approval. **DP&L** is evaluating the costs that may be incurred to comply with the new requirement; however, MATS could have a material adverse effect on our results of operations and result in material compliance costs.

On April 29, 2010, the USEPA issued a proposed rule that would reduce emissions of toxic air pollutants from new and existing industrial, commercial and institutional boilers and process heaters at major and area source facilities. The final rule was published in the Federal Register on March 21, 2011. This regulation affects seven auxiliary boilers used for start-up purposes at **DP&L's** generation facilities. The regulations contain emissions limitations, operating limitations and other requirements. In December 2011, the USEPA proposed additional

changes to this rule and solicited comments. On December 21, 2012, the Administrator of USEPA signed the final rule, which was published in the Federal Register on January 31, 2013. Compliance costs are not expected to be material to **DP&L's** operations.

On May 3, 2010, the National Emissions Standards for Hazardous Air Pollutants for compression ignition (CI) reciprocating internal combustion engines (RICE) became effective. The units affected at **DP&L** are 18 diesel electric generating engines and eight emergency "black start" engines. The existing CI RICE units must comply by May 3, 2013. The regulations contain emissions limitations, operating limitations and other requirements. **DP&L** expects to meet this deadline and expects the compliance costs to be immaterial.

<u>National Ambient Air Quality Standards</u>

On January 5, 2005, the USEPA published its final non-attainment designations for the National Ambient Air Quality Standard (NAAQS) for Fine Particulate Matter 2.5 (PM 2.5). These designations included counties and partial counties in which **DP&L** operates and/or owns generating facilities. On December 31, 2012, USEPA redesignated Adams County, where Stuart and Killen are located, to attainment status. This status may be temporary, as on December 14, 2012, the USEPA tightened the PM 2.5 standard to 12.0 micrograms per cubic meter. This will begin a process of redesignations during 2014. We cannot predict the effect the revisions to the PM 2.5 standard will have on **DP&L's** financial condition or results of operations.

On September 16, 2009, the USEPA announced that it would reconsider the 2008 national ground level ozone standard. On September 2, 2011, the USEPA decided to postpone their revisiting of this standard until 2013. **DP&L** cannot determine the effect of this potential change, if any, on its operations.

Effective April 12, 2010, the USEPA implemented revisions to its primary NAAQS for nitrogen dioxide. This change may affect certain emission sources in heavy traffic areas like the I-75 corridor between Cincinnati and Dayton after 2016. Several of our facilities or co-owned facilities are within this area. **DP&L** cannot determine the effect of this potential change, if any, on its operations.

Effective August 23, 2010, the USEPA implemented revisions to its primary NAAQS for SO_2 replacing the current 24-hour standard and annual standard with a one hour standard. **DP&L** cannot determine the effect of this potential change, if any, on its operations.

On May 5, 2004, the USEPA issued its proposed regional haze rule, which addresses how states should determine the Best Available Retrofit Technology (BART) for sources covered under the regional haze rule. Final rules were published July 6, 2005, providing states with several options for determining whether sources in the state should be subject to BART. Numerous units owned and operated by us will be affected by BART. We cannot determine the extent of the impact until Ohio determines how BART will be implemented.

Carbon Dioxide and Other Greenhouse Gas Emissions

In response to a U.S. Supreme Court decision that the USEPA has the authority to regulate GHG emissions from motor vehicles, the USEPA made a finding that CO_2 and certain other GHGs are pollutants under the CAA. Subsequently, under the CAA, USEPA determined that CO_2 and other GHGs from motor vehicles threaten the health and welfare of future generations by contributing to climate change. This finding became effective in January 2010. Numerous affected parties have petitioned the USEPA Administrator to reconsider this decision. On April 1, 2010, USEPA signed the "Light-Duty Vehicle Greenhouse Gas Emission Standards and Corporate Average Fuel Economy Standards" rule. Under USEPA's view, this is the final action that renders CO_2 and certain other GHGs "regulated air pollutants" under the CAA.

Under USEPA regulations finalized in May 2010 (referred to as the "Tailoring Rule"), the USEPA began regulating GHG emissions from certain stationary sources in January 2011. The Tailoring Rule sets forth criteria for determining which facilities are required to obtain permits for their GHG emissions pursuant to the CAA Prevention of Significant Deterioration and Title V operating permit programs. Under the Tailoring Rule, permitting requirements are being phased in through successive steps that may expand the scope of covered sources over time. The USEPA has issued guidance on what the best available control technology entails for the control of GHGs and individual states are required to determine what controls are required for facilities on a case-by-case basis. The ultimate impact of the Tailoring Rule to **DP&L** cannot be determined at this time, but the cost of compliance could be material.

On April 13, 2012, the USEPA published its proposed GHG standards for new electric generating units (EGUs) under CAA subsection 111(b), which would generally require certain new EGUs to meet a standard of 1,000 pounds of CO_2 per megawatt-hour, a standard based on the emissions limitations achievable through natural gas

combined cycle generation. The proposal anticipates that affected coal-fired units would need to install carbon capture and storage or other expensive CO_2 emission control technology to meet the standard. Furthermore, the USEPA may propose and promulgate guidelines for states to address GHG standards for existing EGUs under CAA subsection 111(d). These latter rules may focus on energy efficiency improvements at power stations. We cannot predict the effect of these standards, if any, on **DP&L's** operations.

Approximately 97% of the energy we produce is generated by coal. **DP&L's** share of CO_2 emissions at generating stations we own and co-own is approximately 16 million tons annually. Further GHG legislation or regulation finalized at a future date could have a significant effect on **DP&L's** operations and costs, which could adversely affect our net income, cash flows and financial condition. However, due to the uncertainty associated with such legislation or regulation, we cannot predict the final outcome or the financial effect that such legislation or regulation may have on **DP&L**.

Litigation, Notices of Violation and Other Matters Related to Air Quality

Litigation Involving Co-Owned Stations

On June 20, 2011, the U.S. Supreme Court ruled that the USEPA's regulation of GHGs under the CAA displaced any right that plaintiffs may have had to seek similar regulation through federal common law litigation in the court system. Although we are not named as a party to these lawsuits, **DP&L** is a co-owner of coal-fired stations with Duke Energy and AEP (or their subsidiaries) that could have been affected by the outcome of these lawsuits or similar suits that may have been filed against other electric power companies, including **DP&L**. Because the issue was not squarely before it, the U.S. Supreme Court did not rule against the portion of plaintiffs' original suits that sought relief under state law.

As a result of a 2008 consent decree entered into with the Sierra Club and approved by the U.S. District Court for the Southern District of Ohio, **DP&L** and the other owners of the Stuart generating station are subject to certain specified emission targets related to NOx, SO_2 and particulate matter. The consent decree also includes commitments for energy efficiency and renewable energy activities. An amendment to the consent decree was entered into and approved in 2010 to clarify how emissions would be computed during malfunctions. Continued compliance with the consent decree, as amended, is not expected to have a material effect on **DP&L's** results of operations, financial condition or cash flows in the future.

Notices of Violation Involving Co-Owned Units

In November 1999, the USEPA filed civil complaints and NOVs against operators and owners of certain generation facilities for alleged violations of the CAA. Generation units operated by Duke Energy (Beckjord Unit 6) and Ohio Power (Conesville Unit 4) and co-owned by **DP&L** were referenced in these actions. Although **DP&L** was not identified in the NOVs, civil complaints or state actions, the results of such proceedings could materially affect **DP&L's** co-owned units.

In June 2000, the USEPA issued an NOV to the **DP&L**-operated Stuart generating station (co-owned by **DP&L**, Duke Energy and Ohio Power) for alleged violations of the CAA. The NOV contained allegations consistent with NOVs and complaints that the USEPA had brought against numerous other coal-fired utilities in the Midwest. The NOV indicated the USEPA may: (1) issue an order requiring compliance with the requirements of the Ohio SIP; or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. To date, neither action has been taken. **DP&L** cannot predict the outcome of this matter.

In December 2007, the Ohio EPA issued an NOV to the **DP&L**-operated Killen generating station (co-owned by **DP&L** and Duke Energy) for alleged violations of the CAA. The NOV alleged deficiencies in the continuous monitoring of opacity. We submitted a compliance plan to the Ohio EPA on December 19, 2007. To date, no further actions have been taken by the Ohio EPA.

On March 13, 2008, Duke Energy, the operator of the Zimmer generating station, received an NOV and a Finding of Violation (FOV) from the USEPA alleging violations of the CAA, the Ohio State Implementation Program (SIP) and permits for the Station in areas including SO_2, opacity and increased heat input. A second NOV and FOV with similar allegations was issued on November 4, 2010. Also in 2010, USEPA issued an NOV to Zimmer for excess emissions. **DP&L** is a co-owner of the Zimmer generating station and could be affected by the eventual resolution of these matters. Duke Energy is expected to act on behalf of itself and the co-owners with respect to these matters. **DP&L** is unable to predict the outcome of these matters.

<u>Notices of Violation Involving Wholly-Owned Stations</u>

In 2007, the Ohio EPA and the USEPA issued NOVs to **DP&L** for alleged violations of the CAA at the Hutchings Station. The NOVs' alleged deficiencies relate to stack opacity and particulate emissions. Discussions are under way with the USEPA, the U.S. Department of Justice and Ohio EPA. On November 18, 2009, the USEPA issued an NOV to **DP&L** for alleged NSR violations of the CAA at the Hutchings Station relating to capital projects performed in 2001 involving Unit 3 and Unit 6. **DP&L** does not believe that the two projects described in the NOV were modifications subject to NSR. **DP&L** is engaged in discussions with the USEPA and Justice Department to resolve these matters, but **DP&L** is unable to determine the timing, costs or method by which these issues may be resolved. The Ohio EPA is kept apprised of these discussions.

Environmental Matters Related to Water Quality, Waste Disposal and Ash Ponds

<u>Clean Water Act – Regulation of Water Intake</u>

On July 9, 2004, the USEPA issued final rules pursuant to the Clean Water Act governing existing facilities that have cooling water intake structures. The rules required an assessment of impingement and/or entrainment of organisms as a result of cooling water withdrawal. A number of parties appealed the rules. In April 2009, the U.S. Supreme Court ruled that the USEPA did have the authority to compare costs with benefits in determining best technology available. The USEPA released new proposed regulations on March 28, 2011, which were published in the Federal Register on April 20, 2011. We submitted comments to the proposed regulations on August 17, 2011. In July 2012, USEPA announced that the final rules will be released in June 2013. We do not yet know the impact these proposed rules will have on our operations.

<u>Clean Water Act – Regulation of Water Discharge</u>

In December 2006, we submitted an application for the renewal of the Stuart Station NPDES permit that was due to expire on June 30, 2007. In July 2007, we received a draft permit proposing to continue our authority to discharge water from the station into the Ohio River. On February 5, 2008, we received a letter from the Ohio EPA indicating that they intended to impose a compliance schedule as part of the final permit, that requires us to implement one of two diffuser options for the discharge of water from the station into the Ohio River as identified in a thermal discharge study completed during the previous permit term. Subsequently, **DP&L** and the Ohio EPA reached an agreement to allow **DP&L** to restrict public access to the water discharge area as an alternative to installing one of the diffuser options. The Ohio EPA issued a revised draft permit that was received on November 12, 2008. In December 2008, the USEPA requested that the Ohio EPA provide additional information regarding the thermal discharge in the draft permit. In June 2009, **DP&L** provided information to the USEPA in response to their request to the Ohio EPA. In September 2010, the USEPA formally objected to a revised permit provided by Ohio EPA due to questions regarding the basis for the alternate thermal limitation. In December 2010, **DP&L** requested a public hearing on the objection, which was held on March 23, 2011. We participated in and presented our position on the issue at the hearing and in written comments submitted on April 28, 2011. In a letter to the Ohio EPA dated September 28, 2011, the USEPA reaffirmed its objection to the revised permit as previously drafted by the Ohio EPA. This reaffirmation stipulated that if the Ohio EPA does not re-draft the permit to address the USEPA's objection, then the authority for issuing the permit will pass to the USEPA. The Ohio EPA issued another draft permit in December 2011 and a public hearing was held on February 2, 2012. The draft permit would require **DP&L,** over the 54 months following issuance of a final permit, to take undefined actions to lower the temperature of its discharged water to a level unachievable by the station under its current design or alternatively make other significant modifications to the cooling water system. **DP&L** submitted comments to the draft permit. In November 2012, Ohio EPA issued another draft which included a compliance schedule for performing a study to justify an alternate thermal limitation and to which **DP&L** submitted comments. In December 2012, the USEPA formally withdrew their objection to the permit. On January 7, 2013, Ohio EPA issued a final permit. On February 1, 2013, **DP&L** appealed various aspects of the final permit to the Environmental Review Appeals Commission. Depending on the outcome of the process, the effects could be material on **DP&L's** operations.

In September 2009, the USEPA announced that it will be revising technology-based regulations governing water discharges from steam electric generating facilities. The rulemaking included the collection of information via an industry-wide questionnaire as well as targeted water sampling efforts at selected facilities. Subsequent to the information collection effort, it was anticipated that the USEPA would release a proposed rule by mid-2012 with a final regulation in place by early 2014. In December 2012, USEPA announced that the proposed rule would be released by April 19, 2013 with a deadline for a final rule on May 22, 2014. At present, **DP&L** is unable to predict the impact this rulemaking will have on its operations.

In August 2012, **DP&L** submitted an application for the renewal of the Killen Station NPDES permit which expired in January 2013. At present, the outcome of this proceeding is not known.

In April 2012, **DP&L** received an NOV related to the construction of the Carter Hollow landfill at the Stuart Station. The NOV indicated that construction activities caused sediment to flow into downstream creeks. In addition, the U.S. Army Corps of Engineers issued a Cease and Desist order followed by a notice suspending the previously issued Corps permit authorizing work associated with the landfill. **DP&L** has installed sedimentation ponds as part of the runoff control measures to address this issue and is working with the various agencies to resolve their concerns including entering into settlement discussions with USEPA, although they have not issued any formal NOV. This may affect the landfill's construction schedule and delay its operational date. **DP&L** has accrued an immaterial amount for anticipated penalties related to this issue.

Regulation of Waste Disposal

In September 2002, **DP&L** and other parties received a special notice that the USEPA considers us to be a PRP for the clean-up of hazardous substances at the South Dayton Dump landfill site. In August 2005, **DP&L** and other parties received a general notice regarding the performance of a Remedial Investigation and Feasibility Study (RI/FS) under a Superfund Alternative Approach. In October 2005, **DP&L** received a special notice letter inviting it to enter into negotiations with the USEPA to conduct the RI/FS. No recent activity has occurred with respect to that notice or PRP status. However, on August 25, 2009, the USEPA issued an Administrative Order requiring that access to **DP&L's** service center building site, which is across the street from the landfill site, be given to the USEPA and the existing PRP group to help determine the extent of the landfill site's contamination as well as to assess whether certain chemicals used at the service center building site might have migrated through groundwater to the landfill site. **DP&L** granted such access and drilling of soil borings and installation of monitoring wells occurred in late 2009 and early 2010. On May 24, 2010, three members of the existing PRP group, Hobart Corporation, Kelsey-Hayes Company and NCR Corporation, filed a civil complaint in the United States District Court for the Southern District of Ohio against **DP&L** and numerous other defendants alleging that **DP&L** and the other defendants contributed to the contamination at the South Dayton Dump landfill site and seeking reimbursement of the PRP group's costs associated with the investigation and remediation of the site. On February 10, 2011, the Court dismissed claims against **DP&L** that related to allegations that chemicals used by **DP&L** at its service center contributed to the landfill site's contamination. The Court, however, did not dismiss claims alleging financial responsibility for remediation costs based on hazardous substances from **DP&L** that were allegedly directly delivered by truck to the landfill. Discovery, including depositions of past and present **DP&L** employees, was conducted in 2012 and may continue throughout 2013. In October 2012, **DP&L** received a request from PRP group's consultant to conduct additional soil and groundwater sampling on **DP&L's** service center property. **DP&L** is complying with this sampling request. On February 8, 2013, the Court granted **DP&L's** motion for summary judgment on statute of limitations grounds with respect to claims seeking a contribution toward the costs that are expected to be incurred by PRP group in their performing a Remediation Investigation and Feasibility Study. The Court's ruling is likely to be appealed. **DP&L** is unable to predict the outcome of the appeal. Additionally, the Court's ruling does not address future litigation that may arise with respect to actual remediation costs. While **DP&L** is unable to predict the outcome of these matters, if **DP&L** were required to contribute to the clean-up of the site, it could have a material adverse effect on its operations.

In December 2003, **DP&L** and other parties received a special notice that the USEPA considers us to be a PRP for the clean-up of hazardous substances at the Tremont City landfill site. Information available to **DP&L** does not demonstrate that it contributed hazardous substances to the site. While **DP&L** is unable to predict the outcome of this matter, if **DP&L** were required to contribute to the clean-up of the site, it could have a material adverse effect on its operations.

On April 7, 2010, the USEPA published an Advance Notice of Proposed Rulemaking announcing that it is reassessing existing regulations governing the use and distribution in commerce of polychlorinated biphenyls (PCBs). While this reassessment is in the early stages and the USEPA is seeking information from potentially affected parties on how it should proceed, the outcome may have a material effect on **DP&L**. While the USEPA has indicated that the official release date for a proposed rule is sometime in April 2013, it may be delayed until late 2013 or early 2014. At present, **DP&L** is unable to predict the impact this initiative will have on its operations.

Regulation of Ash Ponds

In March 2009, the USEPA, through a formal Information Collection Request, collected information on ash pond facilities across the country, including those at Killen and Stuart Stations. Subsequently, the USEPA collected similar information for the Hutchings Station.

In August 2010, the USEPA conducted an inspection of the Hutchings Station ash ponds. In June 2011, the USEPA issued a final report from the inspection including recommendations relative to the Hutchings Station ash

ponds. **DP&L** is unable to predict whether there will be additional USEPA action relative to **DP&L's** proposed plan or the effect on operations that might arise under a different plan.

In June 2011, the USEPA conducted an inspection of the Killen Station ash ponds. In May 2012, we received a draft report on the inspection. **DP&L** submitted comments on the draft report in June 2012. **DP&L** is unable to predict the outcome this inspection will have on its operations.

There has been increasing advocacy to regulate coal combustion byproducts under the Resource Conservation Recovery Act (RCRA). On June 21, 2010, the USEPA published a proposed rule seeking comments on two options under consideration for the regulation of coal combustion byproducts including regulating the material as a hazardous waste under RCRA Subtitle C or as a solid waste under RCRA Subtitle D. Litigation has been filed by several groups seeking a court-ordered deadline for the issuance of a final rule which USEPA has opposed. At present, the timing for a final rule regulating coal combustion byproducts cannot be determined. **DP&L** is unable to predict the financial effect of this regulation, but if coal combustion byproducts are regulated as hazardous waste, it is expected to have a material adverse effect on its operations.

Notice of Violation Involving Co-Owned Units

On September 9, 2011, **DP&L** received an NOV from the USEPA with respect to its co-owned Stuart generating station based on a compliance evaluation inspection conducted by the USEPA and Ohio EPA in 2009. The notice alleged non-compliance by **DP&L** with certain provisions of the RCRA, the Clean Water Act National Pollutant Discharge Elimination System permit program and the station's storm water pollution prevention plan. The notice requested that **DP&L** respond with the actions it has subsequently taken or plans to take to remedy the USEPA's findings and ensure that further violations will not occur. Based on its review of the findings, although there can be no assurance, we believe that the notice will not result in any material effect on **DP&L's** results of operations, financial condition or cash flow.

Legal and Other Matters

In February 2007, **DP&L** filed a lawsuit against a coal supplier seeking damages incurred due to the supplier's failure to supply approximately 1.5 million tons of coal to two commonly owned units under a coal supply agreement, of which approximately 570 thousand tons was **DP&L's** share. **DP&L** obtained replacement coal to meet its needs. The supplier has denied liability, and is currently in federal bankruptcy proceedings in which **DP&L** is participating as an unsecured creditor. **DP&L** is unable to determine the ultimate resolution of this matter. **DP&L** has not recorded any assets relating to possible recovery of costs in this lawsuit.

In connection with **DP&L** and other utilities joining PJM, in 2006, the FERC ordered utilities to eliminate certain charges to implement transitional payments, known as SECA, effective December 1, 2004 through March 31, 2006, subject to refund. Through this proceeding, **DP&L** was obligated to pay SECA charges to other utilities, but received a net benefit from these transitional payments. A hearing was held and an initial decision was issued in August 2006. A final FERC order on this issue was issued on May 21, 2010 that substantially supports **DP&L's** and other utilities' position that SECA obligations should be paid by parties that used the transmission system during the timeframe stated above. Prior to this final order being issued, **DP&L** had entered into a significant number of bilateral settlement agreements with certain parties to resolve the matter, which by design will be unaffected by the final decision. On July 5, 2012, a Stipulation was executed and filed with the FERC that resolved SECA claims against BP Energy Company ("BP") and **DP&L**, AEP (and its subsidiaries) and Exelon Corporation (and its subsidiaries). On October 1, 2012, **DP&L** received $14.6 million (including interest income of $1.8 million) from BP and recorded the settlement in the third quarter; at December 31, 2012, there is no remaining balance in other deferred credits related to SECA.

Also refer to Notes 2 and 17 of Notes to **DPL's** Consolidated Financial Statements for additional information about the Merger and certain related legal matters.

Capital Expenditures for Environmental Matters

DP&L's environmental capital expenditures were approximately $8.0 million, $12.0 million and $12.0 million in 2012, 2011 and 2010, respectively. **DP&L** has budgeted $26.0 million in environmental related capital expenditures for 2013.

ELECTRIC SALES AND REVENUES

The following table sets forth **DPL's** electric sales and revenues for the year ended December 31, 2012, the year ended December 31, 2011, the period November 28, 2011 (the Merger date) through December 31, 2011 (Successor), the period January 1, 2011 through November 27, 2011 and the year ended 2010 (Predecessor), respectively.

In the following table, we have included the combined Predecessor and Successor statistical information and results of operations. Such combined presentation is considered to be a non-GAAP disclosure. We have included such disclosure because we believe it facilitates the comparison of 2012 operating and financial performance to 2011 and 2010, and because the core operations of **DPL** have not changed as a result of the Merger.

	DPL				
	Successor	Combined	Successor	Predecessor	
	Year ended December 31, 2012	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Electric sales (millions of kWh)	16,454	16,382	1,361	15,021	17,237
Billed electric customers (end of period)	637,708	516,887			514,878

DPL is structured in two operating segments, **DP&L** and DPLER. See Note 18 of Notes to **DPL's** Consolidated Financial Statements for more information on **DPL's** segments. The following tables set forth **DP&L's** and DPLER's electric sales and revenues for the years ended December 31, 2012, 2011 and 2010, respectively.

	DP&L (a)		
	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31 2010
Electric sales (millions of kWh)	15,606	15,599	17,083
Billed electric customers (end of period)	513,282	513,383	514,235

	DPLER (b)		
	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31 2010
Electric sales (millions of kWh)	8,315	6,677	4,546
Billed electric customers (end of period)	198,098	40,171	9,002

(a) DP&L sold 6,201 million kWh, 5,731 million kWh and 4,417 million kWh of power to DPLER (a subsidiary of DPL) for the years ended December 31, 2012, 2011 and 2010, respectively.

(b) This chart includes all sales of DPLER, both within and outside of the DP&L service territory.

Item 1A – Risk Factors

Investors should consider carefully the following risk factors that could cause our business, operating results and financial condition to be materially adversely affected. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our business or financial performance. These risk factors should be read in conjunction with the other detailed information concerning **DPL** set forth in the Notes to **DPL's** audited Consolidated Financial Statements and **DP&L** set forth in the Notes to **DP&L's** audited Financial Statements in Item 8 – Financial Statements and Supplementary Data and in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations herein. The risks and uncertainties described below are not the only ones we face.

Our customers have the opportunity to select alternative electric generation service providers, as permitted by Ohio legislation.

Customers can elect to buy transmission and generation service from a PUCO-certified CRES provider offering services to customers in **DP&L's** service territory. DPLER, a wholly-owned subsidiary of **DPL**, is one of those PUCO-certified CRES providers. Unaffiliated CRES providers also have been certified to provide energy in **DP&L's** service territory. Customer switching from **DP&L** to DPLER reduces **DPL's** revenues since the generation rates charged by DPLER are less than the SSO rates charged by **DP&L**. Increased competition by unaffiliated CRES providers in **DP&L's** service territory for retail generation service could result in the loss of existing customers and reduced revenues and increased costs to retain or attract customers. Decreased revenues and increased costs due to continued customer switching and customer loss could have a material adverse effect on our results of operations, financial condition and cash flows. The following are some of the factors that could result in increased switching by customers to PUCO-certified CRES providers in the future:

- low wholesale price levels have led and may continue to lead to existing CRES providers becoming more active in our service territory,
- additional CRES providers entering our territory, and
- we could experience increased customer switching through "governmental aggregation," where a municipality may contract with a CRES provider to provide generation service to the customers located within the municipal boundaries..

We are subject to extensive laws and local, state and federal regulation, as well as related litigation, that could affect our operations and costs.

We are subject to extensive laws and regulation by federal, state and local authorities, such as the PUCO, the CFTC, the USEPA, the Ohio EPA, the FERC, the Department of Labor and the Internal Revenue Service, among others. Regulations affect almost every aspect of our business, including in the areas of the environment, health and safety, cost recovery and rate making, the issuance of securities and incurrence of debt and taxation. New laws and regulations, and new interpretations of existing laws and regulations, are ongoing and we generally cannot predict the future course of changes in this regulatory environment or the ultimate effect that this changing regulatory environment will have on our business. Complying with this regulatory environment requires us to expend a significant amount of funds and resources. The failure to comply with this regulatory environment could subject us to substantial financial costs and penalties and changes, either forced or voluntary, in the way we operate our business. Additional detail about the effect of this regulatory environment on our operations is included in the risk factors set forth below. In the normal course of business, we are also subject to various lawsuits, actions, proceedings, claims and other matters asserted under this regulatory environment or otherwise, which require us to expend significant funds to address, the outcomes of which are uncertain and the adverse resolutions of which could have a material adverse effect on our results of operations, financial condition and cash flows.

The costs we can recover and the return on capital we are permitted to earn for certain aspects of our business are regulated and governed by the laws of Ohio and the rules, policies and procedures of the PUCO.

On May 1, 2008, SB 221, an Ohio electric energy bill, was signed by the Governor of Ohio and became effective July 31, 2008. This law, among other things, required all Ohio distribution utilities to file either an ESP or MRO, and established a significantly excessive earnings test for Ohio public utilities that compares the utility's earnings to the earnings of other companies with similar business and financial risks. The PUCO approved **DP&L's** filed ESP on June 24, 2009 and extended those rates until an order is issued in the currently pending ESP case. The current ESP case will result in changes to the current rate structure and riders that could adversely affect our results of operations, cash flows and financial condition. **DP&L's** ESP and certain filings made by us in connection with this plan are further discussed under "Ohio Retail Rates" in Item 1 – Competition and Regulation.

While rate regulation is premised on full recovery of prudently incurred costs and a reasonable rate of return on invested capital, there can be no assurance that the PUCO will agree that all of our costs have been prudently incurred or are recoverable or that the regulatory process in which rates are determined will always result in rates that will produce a full or timely recovery of our costs and permitted rates of return. Certain of our cost recovery riders are also bypassable by some of our customers who switched to a CRES provider. Accordingly, the revenue **DP&L** receives may or may not match its expenses at any given time. Therefore, **DP&L** could be subject to prevailing market prices for electricity and would not necessarily be able to charge rates that produce timely or full recovery of its expenses. Changes in, or reinterpretations of, the laws, rules, policies and procedures that set electric rates, permitted rates of return; changes in **DP&L's** rate structure, regulations regarding ownership of generation assets, transition to a competitive bid structure to supply retail generation service to SSO customers, reliability initiatives, fuel and purchased power (which account for a substantial portion of our operating costs), customer switching, capital expenditures and investments and other costs on a full or timely basis through rates; and changes to the frequency and timing of rate increases could have a material adverse effect on our results of operations, financial condition and cash flows.

Our increased costs due to advanced energy and energy efficiency requirements may not be fully recoverable in the future.

SB 221 contains targets relating to advanced energy, renewable energy, peak demand reduction and energy efficiency standards. The standards require that, by the year 2025 and each year thereafter, 25% of the total number of kWh of electricity sold by the utility to retail electric consumers must come from alternative energy resources, which include "advanced energy resources" such as distributed generation, clean coal, advanced nuclear, energy efficiency and fuel cell technology; and "renewable energy resources" such as solar, hydro, wind, geothermal and biomass. At least half of the 25% must be generated from renewable energy resources, including solar energy. Annual renewable energy standards began in 2009 with increases in required percentages each year through 2024. The advanced energy standard must be met by 2025 and each year thereafter. Annual targets for energy efficiency began in 2009 and require increasing energy reductions each year compared to a baseline energy usage, up to 22.3% by 2025. Peak demand reduction targets began in 2009 with increases in required percentages each year, up to 7.75% by 2018. The advanced energy and renewable energy standards have increased our power supply costs and are expected to continue to increase (and could materially increase) these costs. Pursuant to **DP&L's** approved ESP, **DP&L** is entitled to recover costs associated with its alternative energy compliance costs, as well as its energy efficiency and demand response programs. **DP&L** began recovering these costs in 2009. If in the future we are unable to timely or fully recover these costs, it could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, if we were found not to be in compliance with these standards, monetary penalties could apply. These penalties are not permitted to be recovered from customers and significant penalties could have a material adverse effect on our results of operations, financial condition and cash flows. The demand reduction and energy efficiency standards by design result in reduced energy and demand that could adversely affect our results of operations, financial condition and cash flows.

The availability and cost of fuel has experienced and could continue to experience significant volatility and we may not be able to hedge the entire exposure of our operations from fuel availability and price volatility.

We purchase coal, natural gas and other fuel from a number of suppliers. The coal market in particular has experienced significant price volatility in the last several years. We are now in a global market for coal in which our domestic price is increasingly affected by international supply disruptions and demand balance. Coal exports from the U.S. have increased significantly at times in recent years. In addition, domestic issues like government-imposed direct costs and permitting issues that affect mining costs and supply availability, the variable demand of retail customer load and the performance of our generation fleet have an impact on our fuel procurement operations. Our approach is to hedge the fuel costs for our anticipated electric sales. However, we may not be able to hedge the entire exposure of our operations from fuel price volatility. As of the date of this report, **DP&L** has substantially all of the expected coal volume needed under contract to meet its retail and wholesale sales requirements for 2013. In 2012, approximately 80% of **DP&L's** coal for stations it operates was provided by four suppliers, three of which were under contracts in excess of one year with **DP&L**. Historically, some of our suppliers and buyers of fuel have not performed on their contracts and have failed to deliver or accept fuel as specified under their contracts. To the extent our suppliers and buyers do not meet their contractual commitments and, as a result of such failure or otherwise, we cannot secure adequate fuel or sell excess fuel in a timely or cost-effective manner or we are not hedged against price volatility, we could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, **DP&L** is a co-owner of certain generation facilities where it is a non-operating owner. **DP&L** does not procure or have control over the fuel for these facilities, but is responsible for its proportionate share of the cost of fuel procured at these facilities. Co-

owner operated facilities do not always have realized fuel costs that are equal to our co-owners' projections, and we are responsible for our proportionate share of any increase in actual fuel costs. Fuel and purchased power costs represent a large and volatile portion of **DP&L's** total cost. Pursuant to its ESP for SSO retail customers, **DP&L** implemented a fuel and purchased power recovery mechanism beginning on January 1, 2010, which subjects our recovery of fuel and purchased power costs to tracking and adjustment on a seasonal quarterly basis. If in the future we are unable to timely or fully recover our fuel and purchased power costs, it could have a material adverse effect on our results of operations, financial condition and cash flows.

The natural gas market in the U.S. experienced significant price volatility in 2012. This in turn put downward pressure on wholesale electricity prices in the Ohio market, compressing wholesale margins at **DP&L**. These overall lower prices have led to increased switching from **DP&L** to other CRES providers, including DPLER, who are offering retail prices lower than **DP&L's** current SSO. Also, several municipalities in **DP&L's** service territory have passed ordinances allowing them to become government aggregators and some municipalities have contracted with CRES providers to provide generation service to the customers located within the municipal boundaries, further contributing to the switching trend. CRES providers have also become more active in **DP&L's** service territory. These factors may reduce our margins and could have a material adverse effect on our results of operations, financial condition and cash flows.

Our use of derivative and nonderivative contracts may not fully hedge our generation assets, customer supply activities, or other market positions against changes in commodity prices, and our hedging procedures may not work as planned.

We transact in coal, power and other commodities to hedge our positions in these commodities. These trades are affected by a range of factors, including variations in power demand, fluctuations in market prices, market prices for alternative commodities and optimization opportunities. We have attempted to manage our commodities price risk exposure by establishing and enforcing risk limits and risk management policies. Despite our efforts, however, these risk limits and management policies may not work as planned and fluctuating prices and other events could adversely affect our results of operations, financial condition and cash flows. As part of our risk management, we use a variety of non-derivative and derivative instruments, such as swaps, futures and forwards, to manage our market risks. We also use interest rate derivative instruments to hedge against interest rate fluctuations related to our debt. In the absence of actively quoted market prices and pricing information from external sources, the valuation of some of these derivative instruments involves management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of some of these contracts. We could also recognize financial losses as a result of volatility in the market values of these contracts or if a counterparty fails to perform, which could result in a material adverse effect on our results of operations, financial condition and cash flows.

The Dodd-Frank Act contains significant requirements related to derivatives that, among other things, could reduce the cost effectiveness of entering into derivative transactions.

In July 2010, The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. The Dodd-Frank Act contains significant requirements relating to derivatives, including, among others, a requirement that certain transactions be cleared on exchanges that would necessitate the posting of cash collateral for these transactions. The Dodd-Frank Act provides a potential exception from these clearing and cash collateral requirements for commercial end-users. The Dodd-Frank Act requires the CFTC to establish rules to implement the Dodd-Frank Act's requirements and exceptions. Requirements to post collateral could reduce the cost effectiveness of entering into derivative transactions to reduce commodity price and interest rate volatility or could increase the demands on our liquidity or require us to increase our levels of debt to enter into such derivative transactions. Even if we were to qualify for an exception from these requirements, our counterparties that do not qualify for the exception may pass along any increased costs incurred by them through higher prices and reductions in unsecured credit limits or be unable to enter into certain transactions with us. The occurrence of any of these events could have an adverse effect on our results of operations, financial condition and cash flows.

We are subject to numerous environmental laws and regulations that require capital expenditures, increase our cost of operations, may expose us to environmental liabilities or make continued operation of certain generating units unprofitable.

Our operations and facilities (both wholly-owned and co-owned with others) are subject to numerous and extensive federal, state and local environmental laws and regulations relating to various matters, including air quality (such as reductions in NOx, SO_2 and particulate emissions), water quality, wastewater discharge, solid waste and hazardous waste. We could also become subject to additional environmental laws and regulations and other requirements in the future (such as reductions in mercury and other hazardous air pollutants, SO_3 (sulfur trioxide), regulation of ash generated from coal-based generating stations and reductions in GHG emissions as

discussed in more detail in the next risk factor). With respect to our largest generation station, the Stuart Station, we are also subject to continuing compliance requirements related to NOx, SO_2 and particulate matter emissions under **DP&L's** consent decree with the Sierra Club. Compliance with these laws, regulations and other requirements requires us to expend significant funds and resources and could at some point become prohibitively expensive or result in our shutting down (temporarily or permanently) or altering the operation of our facilities. Environmental laws and regulations also generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. If we are not able to timely obtain, maintain or comply with all licenses, permits, inspections and approvals required to operate our business, then our operations could be prevented, delayed or subject to additional costs. Failure to comply with environmental laws, regulations and other requirements may result in the imposition of fines and penalties or other sanctions and the imposition of stricter environmental standards and controls and other injunctive measures affecting operating assets. In addition, any alleged violation of these laws, regulations and other requirements may require us to expend significant resources to defend against any such alleged violations. **DP&L** owns a non-controlling interest in several generating stations operated by our co-owners. As a non-controlling owner in these generating stations, **DP&L** is responsible for its pro rata share of expenditures for complying with environmental laws, regulations and other requirements, but has limited control over the compliance measures taken by our co-owners. In addition, **DP&L's** ESP permits it to seek recovery for costs associated with new climate change or carbon regulations. In addition, if we were found not to be in compliance with these environmental laws, regulations or requirements, any penalties that would apply or other resulting costs would likely not be recoverable from customers. We could be subject to joint and several strict liabilities for any environmental contamination at our currently or formerly owned, leased or operated properties or third-party waste disposal sites. For example, contamination has been identified at two waste disposal sites for which we are alleged to have potential liability. In addition to potentially significant investigation and remediation costs, any such contamination matters can give rise to claims from governmental authorities and other third parties for fines or penalties, natural resource damages, personal injury and property damage.

Our costs and liabilities relating to environmental matters could have a material adverse effect on our results of operations, financial condition and cash flows.

If legislation or regulations at the federal, state or regional levels impose mandatory reductions of greenhouse gases on generation facilities, we could be required to make large additional capital investments and incur substantial costs.

There is an ongoing concern nationally and internationally among regulators, investors and others concerning global climate change and the contribution of emissions of GHGs, including most significantly CO_2. This concern has led to interest in legislation and action at the international, federal, state and regional levels and litigation, including regulation of GHG emissions by the USEPA. Approximately 97% of the energy we produce is generated by coal. As a result of current or future legislation or regulations at the international, federal, state or regional levels imposing mandatory reductions of CO_2 and other GHGs on generation facilities, we could be required to make large additional capital investments and/or incur substantial costs in the form of taxes or emissions allowances. Such legislation and regulations could also impair the value of our generation stations or make some of these stations uneconomical to maintain or operate and could raise uncertainty about the future viability of fossil fuels, particularly coal, as an energy source for new and existing generation stations. Although **DP&L** is permitted under its current ESP to seek recovery of costs associated with new climate change or carbon regulations, our inability to fully or timely recover such costs could have a material adverse effect on our results of operations, financial condition and cash flows.

Fluctuations in our sales of coal and excess emission allowances could cause a material adverse effect on our results of operations, financial condition and cash flows for any particular period.

DP&L sells coal to other parties from time to time for reasons that include maintaining an appropriate balance between projected supply and projected use and as part of a coal price optimization program where coal under contract may be resold and replaced with other coal or power available in the market with a favorable price spread, adjusted for any quality differentials. Sales of coal are affected by a range of factors, including price volatility among the different coal basins and qualities of coal, variations in power demand and the market price of power compared to the cost to produce power. These factors could cause the amount and price of coal we sell to fluctuate, which could have a material adverse effect on our results of operations, financial condition and cash flows for any particular period.

DP&L may sell its excess emission allowances, including NOx and SO_2 emission allowances, from time to time. Sales of any excess emission allowances are affected by a range of factors, such as general economic conditions, fluctuations in market demand, availability of excess inventory for sale and changes to the regulatory environment, including the implementation of CAIR or any replacement rule. These factors could cause the

amount and price of excess emission allowances **DP&L** sells to fluctuate, which could have a material adverse effect on **DPL's** results of operations, financial condition and cash flows for any particular period. Although there has been overall reduced trading activity in the annual NOx and SO_2 emission allowance trading markets in recent years, the adoption of regulations that regulate emissions or establish or modify emission allowance trading programs could affect the emission allowance trading markets and have a material effect on **DP&L's** emission allowance sales.

The operation and performance of our facilities are subject to various events and risks that could negatively affect our business.

The operation and performance of our generation, transmission and distribution facilities and equipment is subject to various events and risks, such as the potential breakdown or failure of equipment, processes or facilities, fuel supply or transportation disruptions, the loss of cost-effective disposal options for solid waste generated by our facilities (such as coal ash and gypsum), accidents, injuries, labor disputes or work stoppages by employees, operator error, acts of terrorism or sabotage, construction delays or cost overruns, shortages of or delays in obtaining equipment, material and labor, operational restrictions resulting from environmental limitations and governmental interventions, performance below expected or required levels, weather-related and other natural disruptions, vandalism, events occurring on the systems of third parties that interconnect to and affect our system and the increased maintenance requirements, costs and risks associated with our aging generation units. Our results of operations, financial condition and cash flows could have a material adverse effect due to the occurrence or continuation of these events.

Diminished availability or performance of our transmission and distribution facilities could result in reduced customer satisfaction and regulatory inquiries and fines, which could have a material adverse effect on our results of operations, financial condition and cash flows. Operation of our owned and co-owned generating stations below expected capacity levels, or unplanned outages at these stations, could cause reduced energy output and efficiency levels and likely result in lost revenues and increased expenses that could have a material adverse effect on our results of operations, financial condition and cash flows. In particular, since over 50% of our base-load generation is derived from co-owned generation stations operated by our co-owners, poor operational performance by our co-owners, misalignment of co-owners' interests or lack of control over costs (such as fuel costs) incurred at these stations could have an adverse effect on us. We have constructed and placed into service FGD facilities at most of our base-load generating stations. If there is significant operational failure of the FGD equipment at the generating stations, we may not be able to meet emission requirements at some of our generating stations or, at other stations, it may require us to burn more expensive types of coal or procure additional emission allowances. These events could result in a substantial increase in our operating costs. Depending on the degree, nature, extent, or willfulness of any failure to comply with environmental requirements, including those imposed by any consent decrees, such non-compliance could result in the imposition of penalties or the shutting down of the affected generating stations, which could have a material adverse effect on our results of operations, financial condition and cash flows.

Asbestos and other regulated substances are, and may continue to be, present at our facilities. We have been named as a defendant in asbestos litigation, which at this time is not material to us. The continued presence of asbestos and other regulated substances at these facilities could result in additional litigation being brought against us, which could have a material adverse effect on our results of operations, financial condition and cash flows.

If we were found not to be in compliance with the mandatory reliability standards, we could be subject to sanctions, including substantial monetary penalties, which likely would not be recoverable from customers through regulated rates and could have a material adverse effect on our results of operations, financial condition and cash flows.

As an owner and operator of a bulk power transmission system, **DP&L** is subject to mandatory reliability standards promulgated by the NERC and enforced by the FERC. The standards are based on the functions that need to be performed to ensure the bulk power system operates reliably and is guided by reliability and market interface principles. In addition, **DP&L** is subject to Ohio reliability standards and targets. Compliance with reliability standards subjects us to higher operating costs or increased capital expenditures. While we expect to recover costs and expenditures from customers through regulated rates, there can be no assurance that the PUCO will approve full recovery in a timely manner. If we were found not to be in compliance with the mandatory reliability standards, we could be subject to sanctions, including substantial monetary penalties, which likely would not be recoverable from customers through regulated rates and could have a material adverse effect on our results of operations, financial condition and cash flows.

Our financial results may fluctuate on a seasonal and quarterly basis or as a result of severe weather.

Weather conditions significantly affect the demand for electric power. In our Ohio service territory, demand for electricity is generally greater in the summer months associated with cooling and in the winter months associated with heating as compared to other times of the year. Unusually mild summers and winters could therefore have an adverse effect on our results of operations, financial condition and cash flows. In addition, severe or unusual weather, such as hurricanes and ice or snow storms, may cause outages and property damage that may require us to incur additional costs that may not be insured or recoverable from customers. While **DP&L** is permitted to seek recovery of storm damage costs under its ESP, if **DP&L** is unable to fully recover such costs in a timely manner, it could have a material adverse effect on our results of operations, financial condition and cash flows.

Our membership in a regional transmission organization presents risks that could have a material adverse effect on our results of operations, financial condition and cash flows.

On October 1, 2004, in compliance with Ohio law, **DP&L** turned over control of its transmission functions and fully integrated into PJM, a regional transmission organization. The price at which we can sell our generation capacity and energy is now dependent on a number of factors, which include the overall supply and demand of generation and load, other state legislation or regulation, transmission congestion and PJM's business rules. While we can continue to make bilateral transactions to sell our generation through a willing-buyer and willing-seller relationship, any transactions that are not pre-arranged are subject to market conditions at PJM. To the extent we sell electricity into the power markets on a contractual basis, we are not guaranteed any rate of return on our capital investments through mandated rates. The results of the PJM RPM base residual auction are impacted by the supply and demand of generation and load and also may be impacted by congestion and PJM rules relating to bidding for Demand Response and Energy Efficiency resources and other factors. Auction prices could fluctuate substantially over relatively short periods of time and adversely affect our results of operations, financial condition and cash flows. We cannot predict the outcome of future auctions, but low auction prices could have a material adverse effect on our results of operations, financial condition and cash flows.

The rules governing the various regional power markets may also change from time to time which could affect our costs and revenues and have a material adverse effect on our results of operations, financial condition and cash flows. We may be required to expand our transmission system according to decisions made by PJM rather than our internal planning process. Various proposals and proceedings before FERC may cause transmission rates to change from time to time. In addition, PJM has been developing rules associated with the allocation and methodology of assigning costs associated with improved transmission reliability, reduced transmission congestion and firm transmission rights that may have a financial effect on us. We also incur fees and costs to participate in PJM.

SB 221 includes a provision that allows electric utilities to seek and obtain recovery of RTO related charges. Therefore, most if not all of the above costs are currently being recovered through our SSO retail rates. If in the future, however, we are unable to recover all of these costs in a timely manner, and since the SSO retail riders are bypassable when additional customer switching occurs, this could have a material adverse effect on our results of operations, financial condition and cash flows.

As members of PJM, **DP&L** and DPLE are also subject to certain additional risks including those associated with the allocation among PJM members of losses caused by unreimbursed defaults of other participants in PJM markets and those associated with complaint cases filed against PJM that may seek refunds of revenues previously earned by PJM members including **DP&L** and DPLE. These amounts could be significant and have a material adverse effect on our results of operations, financial condition and cash flows.

Costs associated with new transmission projects could have a material adverse effect on our results of operations, financial condition and cash flows.

Annually, PJM performs a review of the capital additions required to provide reliable electric transmission services throughout its territory. PJM traditionally allocated the costs of constructing these facilities to those entities that benefited directly from the additions. Over the last several years, however, some of the costs of constructing new large transmission facilities have been "socialized" across PJM without a direct relationship between the costs assigned to and benefits received by particular PJM members. To date, the additional costs charged to **DP&L** for new large transmission approved projects have not been material. Over time, as more new transmission projects are constructed and if the allocation method is not changed, the annual costs could become material. **DP&L** is recovering the Ohio retail jurisdictional share of these allocated costs from its SSO retail customers through the TCRR rider. To the extent that any costs in the future are material and we are unable to recover them from our customers, it could have a material adverse effect on our results of operation, financial condition and cash flows.

Our inability to obtain financing on reasonable terms, or at all, with creditworthy counterparties could adversely affect our results of operations, financial condition and cash flows.

From time to time we rely on access to the credit and capital markets to fund certain of our operational and capital costs. These capital and credit markets have experienced extreme volatility and disruption and the ability of corporations to obtain funds through the issuance of debt or equity has been negatively impacted. Disruptions in the credit and capital markets make it harder and more expensive to obtain funding for our business. Access to funds under our existing financing arrangements is also dependent on the ability of our counterparties to meet their financing commitments. Our inability to obtain financing on reasonable terms, or at all, with creditworthy counterparties could adversely affect our results of operations, financial condition and cash flows. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability. **DP&L** has variable rate debt that bears interest based on a prevailing rate that is reset weekly based on a market index that can be affected by market demand, supply, market interest rates and other market conditions. We also currently maintain both cash on deposit and investments in cash equivalents that could be adversely affected by interest rate fluctuations. In addition, ratings agencies issue credit ratings on us and our debt that affect our borrowing costs under our financial arrangements and affect our potential pool of investors and funding sources. Our credit ratings also govern the collateral provisions of certain of our contracts. As a result of the Merger and assumption by **DPL** of merger-related debt and other factors, our credit ratings were downgraded, resulting in increased borrowing costs and causing us to post cash collateral with certain of our counterparties. If the rating agencies were to downgrade our credit ratings further, our borrowing costs would likely further increase, our potential pool of investors and funding resources could be reduced, and we could be required to post additional cash collateral under selected contracts. These events would likely reduce our liquidity and profitability and could have a material adverse effect on our results of operations, financial condition and cash flows.

Poor investment performance of our benefit plan assets and other factors impacting benefit plan costs could unfavorably affect our liquidity and results of operations.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under our pension and postretirement benefit plans. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below our projected return rates. A decline in the market value of the pension and postretirement benefit plan assets will increase the funding requirements under our pension and postretirement benefit plans if the actual asset returns do not recover these declines in value in the foreseeable future. Future pension funding requirements, and the timing of funding payments, may also be subject to changes in legislation. The Pension Protection Act, enacted in August 2006, requires underfunded pension plans to improve their funding ratios within prescribed intervals based on the level of their underfunding. As a result, our required contributions to these plans at times have increased and may increase in the future. In addition, our pension and postretirement benefit plan liabilities are sensitive to changes in interest rates. As interest rates decrease, the discounted liabilities increase benefit expense and funding requirements. Further, changes in demographics, including increased numbers of retirements or changes in life expectancy assumptions, may also increase the funding requirements for the obligations related to the pension and other postretirement benefit plans. Declines in market values and increased funding requirements could have a material adverse effect on our results of operations, financial condition and cash flows.

Our businesses depend on counterparties performing in accordance with their agreements. If they fail to perform, we could incur substantial expense, which could adversely affect our liquidity, cash flows and results of operations.

We enter into transactions with and rely on many counterparties in connection with our business, including for the purchase and delivery of inventory, including fuel and equipment components (such as limestone for our FGD equipment), for our capital improvements and additions and to provide professional services, such as actuarial calculations, payroll processing and various consulting services. If any of these counterparties fails to perform its obligations to us or becomes unavailable, our business plans may be materially disrupted, we may be forced to discontinue certain operations if a cost-effective alternative is not readily available or we may be forced to enter into alternative arrangements at then-current market prices that may exceed our contractual prices and cause delays. These events could cause our results of operations, financial condition and cash flows to have a material adverse effect.

<u>Our consolidated results of operations may be negatively affected by overall market, economic and other conditions that are beyond our control.</u>

Economic pressures, as well as changing market conditions and other factors related to physical energy and financial trading activities, which include price, credit, liquidity, volatility, capacity, transmission and interest rates, can have a significant effect on our operations and the operations of our retail, industrial and commercial customers and our suppliers. The direction and relative strength of the economy has been increasingly uncertain

due to softness in the real estate and mortgage markets, volatility in fuel and other energy costs, difficulties in the financial services sector and credit markets, high unemployment and other factors. Many of these factors have affected our Ohio service territory.

Our results of operations, financial condition and cash flows may be negatively affected by sustained downturns or a sluggish economy. Sustained downturns, recessions or a sluggish economy generally affect the markets in which we operate and negatively influence our energy operations. A contracting, slow or sluggish economy could reduce the demand for energy in areas in which we are doing business. During economic downturns, our commercial and industrial customers may see a decrease in demand for their products, which in turn may lead to a decrease in the amount of energy they require. In addition, our customers' ability to pay us could also be impaired, which could result in an increase in receivables and write-offs of uncollectible accounts. Our suppliers could also be affected by the economic downturn resulting in supply delays or unavailability. Reduced demand for our electric services, failure by our customers to timely remit full payment owed to us and supply delays or unavailability could have a material adverse effect on our results of operations, financial condition and cash flows.

<u>Our inability to obtain financing on reasonable terms, or at all, with creditworthy counterparties could adversely affect our results of operations, financial condition and cash flows.</u>

From time to time **DPL** and **DP&L** rely on access to the credit and capital markets to fund working capital needs, capital expenditures and to refinance outstanding debt obligations. These markets are subject to extreme volatility and disruption which could make it difficult and/or more expensive to obtain the requisite funding needs with creditworthy counterparties. In addition, ratings agencies issue credit ratings on us and our debt that affect our borrowing costs and affect our potential pool of investors and funding sources. Our credit ratings also govern the collateral provisions of certain of our contracts. As a result of the Merger (and assumption by **DPL** of merger-related debt) and other factors, the credit ratings of **DPL** and **DP&L** were downgraded, resulting in increased borrowing costs and causing us to post increased cash collateral with certain of our counterparties. If the rating agencies were to further downgrade our credit ratings, our borrowing costs and collateral requirements would continue to increase and our potential pool of investors and funding resources could be reduced. Our inability to obtain financing with creditworthy counterparties on reasonable terms, or at all, due to a disruption in the credit and/or capital markets or due to decreased credit ratings, could adversely affect our results of operations, financial condition and cash flows.

A material change in market interest rates could adversely affect our results of operations, financial condition and cash flows.

DPL and **DP&L** have variable rate debt that bears interest based on a prevailing rate that is regularly reset and that can be affected by market demand, supply, market interest rates and other market conditions. We also currently maintain both cash on deposit and investments in cash equivalents that could be adversely affected by interest rate fluctuations. Any event which impacts market interest rates could have a material adverse effect on our results of operations, financial condition and cash flows.

Accidental improprieties and undetected errors in our internal controls and information reporting could result in the disallowance of cost recovery, noncompliant disclosure and reporting or incorrect payment processing.

Our internal controls, accounting policies and practices and internal information systems are designed to enable us to capture and process transactions and information in a timely and accurate manner in compliance with GAAP in the United States of America, laws and regulations, taxation requirements and federal securities laws and regulations in order to, among other things, disclose and report financial and other information in connection with the recovery of our costs and with our reporting requirements under federal securities, tax and other laws and regulations and to properly process payments. We have also implemented corporate governance, internal control and accounting policies and procedures in connection with the Sarbanes-Oxley Act of 2002. Our internal controls and policies have been and continue to be closely monitored by management and our Board of Directors. While we believe these controls, policies, practices and systems are adequate to verify data integrity, unanticipated and unauthorized actions of employees, temporary lapses in internal controls due to shortfalls in oversight or resource constraints could lead to improprieties and undetected errors that could result in the disallowance of cost recovery, noncompliant disclosure and reporting or incorrect payment processing. The consequences of these events could have a material adverse effect on our results of operations, financial condition and cash flows.

New accounting standards or changes to existing accounting standards could materially affect how we report our results of operations, financial condition and cash flows.

Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America. The SEC, FASB or other authoritative bodies or governmental entities

may issue new pronouncements or new interpretations of existing accounting standards that may require us to change our accounting policies. These changes are beyond our control, can be difficult to predict and could materially affect how we report our results of operations, financial condition and cash flows. We could be required to apply a new or revised standard retroactively, which could adversely affect our financial condition. In addition, in preparing our Consolidated Financial Statements, management is required to make estimates and assumptions. Actual results could differ significantly from those estimates.

The SEC is investigating the potential transition to the use of IFRS promulgated by the International Accounting Standards Board for U.S. companies. Adoption of IFRS could result in significant changes to our accounting and reporting, such as in the treatment of regulatory assets and liabilities and property. The SEC does not currently have a timeline regarding the mandatory adoption of IFRS. We are currently assessing the effect that this potential change would have on our Consolidated Financial Statements and we will continue to monitor the development of the potential implementation of IFRS.

If we are unable to maintain a qualified and properly motivated workforce, it could have a material adverse effect on our results of operations, financial condition and cash flows.

One of the challenges we face is to retain a skilled, efficient and cost-effective workforce while recruiting new talent to replace losses in knowledge and skills due to retirements. This undertaking could require us to make additional financial commitments and incur increased costs. If we are unable to successfully attract and retain an appropriately qualified workforce, it could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, we have employee compensation plans that reward the performance of our employees. We seek to ensure that our compensation plans encourage acceptable levels for risk and high performance through pay mix, performance metrics and timing. We also have policies and procedures in place to mitigate excessive risk-taking by employees since excessive risk-taking by our employees to achieve performance targets could result in events that could have a material adverse effect on our results of operations, financial condition and cash flows.

We are subject to collective bargaining agreements and other employee workforce factors that could affect our businesses.

Over half of our employees are represented by a collective bargaining agreement that is in effect until October 31, 2014. While we believe that we maintain a satisfactory relationship with our employees, it is possible that labor disruptions affecting some or all of our operations could occur during the period of the collective bargaining agreement or at the expiration of the collective bargaining agreement before a new agreement is negotiated. Work stoppages by, or poor relations or ineffective negotiations with, our employees could have a material adverse effect on our results of operations, financial condition and cash flows.

Potential security breaches (including cybersecurity breaches) and terrorism risks could adversely affect our businesses.

We operate in a highly regulated industry that requires the continued operation of sophisticated systems and network infrastructure at our generation stations, fuel storage facilities and transmission and distribution facilities. We also use various financial, accounting and other systems in our businesses. These systems and facilities are vulnerable to unauthorized access due to hacking, viruses, other cybersecurity attacks and other causes. In particular, given the importance of energy and the electric grid, there is the possibility that our systems and facilities could be targets of terrorism or acts of war. We have implemented measures to help prevent unauthorized access to our systems and facilities, including certain measures to comply with mandatory regulatory reliability standards. Despite our efforts, if our systems or facilities were to be breached or disabled, we may be unable to recover them in a timely way to fulfill critical business functions, including the supply of electric services to our customers, and we could experience decreases in revenues and increases in costs that could adversely affect our results of operations, cash flows and financial condition.

In the course of our business, we also store and use customer, employee, and other personal information and other confidential and sensitive information. If our third party vendors' systems were to be breached or disabled, sensitive and confidential information and other data could be compromised, which could result in negative publicity, remediation costs and potential litigation, damages, consent orders, injunctions, fines and other relief.

To help mitigate against these risks, we maintain insurance coverage against some, but not all, potential losses, including coverage for illegal acts against us. However, insurance may not be adequate to protect us against all costs and liabilities associated with these risks.

DPL is a holding company and parent of DP&L and other subsidiaries. DPL's cash flow is dependent on the operating cash flows of DP&L and its other subsidiaries and their ability to pay cash to DPL.

DPL is a holding company and its investments in its subsidiaries are its primary assets. A significant portion of **DPL's** business is conducted by its **DP&L** subsidiary. As such, **DPL's** cash flow is dependent on the operating cash flows of **DP&L** and its ability to pay cash to **DPL**. **DP&L's** governing documents contain certain limitations on the ability to declare and pay dividends to **DPL** while preferred stock is outstanding. Certain of **DP&L's** debt agreements also contain limits with respect to the ability of **DP&L** to incur debt. In addition, **DP&L** is regulated by the PUCO, which possesses broad oversight powers to ensure that the needs of utility customers are being met. While we are not currently aware of any plans to do so, the PUCO could attempt to impose restrictions on the ability of **DP&L** to distribute, loan or advance cash to **DPL** pursuant to these broad powers. As part of the PUCO's approval of the Merger, **DP&L** agreed to maintain a capital structure that includes an equity ratio of at least 50 percent and not to have a negative retained earnings balance. While we do not expect any of the foregoing restrictions to significantly affect **DP&L's** ability to pay funds to **DPL** in the future, a significant limitation on **DP&L's** ability to pay dividends or loan or advance funds to **DPL** would have a material adverse effect on **DPL's** results of operations, financial condition and cash flows.

Push-down accounting adjustments in connection with the Merger will have a material effect on DPL's future financial results.

Under U.S. GAAP, pursuant to FASC No. 805 and SEC Staff Accounting Bulletin Topic 5.J. "New Basis of Accounting Required in Certain Circumstances", when an acquisition results in an entity becoming substantially wholly-owned, push-down accounting is applied in the acquired entity's separate financial statements. Push-down accounting requires that the fair value adjustments and goodwill or negative goodwill identified by the acquiring entity be pushed down and reflected in the financial statements of the acquired entity. In connection with the Merger, the cost basis of certain of **DPL's** assets and liabilities has been adjusted and any resulting goodwill was allocated and pushed down to **DPL**. These adjustments have had a material effect on **DPL's** future financial condition and results of operations, including but not limited to changes in depreciation, amortization, impairment and other non-cash charges. As a result, **DPL's** actual future results are not comparable with results in prior periods.

Impairment of goodwill or long-lived assets would negatively affect our consolidated results of operations and net worth.

Goodwill represents the future economic benefits arising from assets acquired in a business combination (acquisition) that are not individually identified and separately recognized. Goodwill is not amortized, but is evaluated for impairment at least annually or more frequently if impairment indicators are present. In evaluating the potential impairment of goodwill, we make estimates and assumptions about revenue, operating cash flows, capital expenditures, growth rates and discount rates based on our budgets and long term forecasts, macroeconomic projections, and current market expectations of returns on similar assets. There are inherent uncertainties related to these factors and management's judgment in applying these factors. Generally, the fair value of a reporting unit is determined using a discounted cash flow valuation model. We could be required to evaluate the potential impairment of goodwill outside of the required annual assessment process if we experience situations, including but not limited to: deterioration in general economic conditions, operating or regulatory environment; increased competitive environment; increase in fuel costs particularly when we are unable to pass along such costs to customers; negative or declining cash flows; loss of a key contract or customer, particularly when we are unable to replace it on equally favorable terms; or adverse actions or assessments by a regulator. These types of events and the resulting analyses could result in goodwill impairment expense, which could substantially affect our results of operations for those periods. See Note 19 of Notes to **DPL's** Consolidated Financial Statements for more information on the Goodwill Impairment.

Long-lived assets are initially recorded at fair value when acquired in a business combination and are amortized or depreciated over their estimated useful lives. Long-lived assets are evaluated for impairment only when impairment indicators are present whereas goodwill is evaluated for impairment on an annual basis or more frequently if potential impairment indicators are present. Otherwise, the recoverability assessment of long-lived assets is similar to the potential impairment evaluation of goodwill particularly as it relates to the identification of potential impairment indicators, and making estimates and assumptions to determine fair value, as described above.

Item 1B – Unresolved Staff Comments

None

Item 2 – Properties

Information relating to our properties is contained in Item 1 – Electric Operations and Fuel Supply and Note 5 of Notes to **DPL's** Consolidated Financial Statements and Note 5 of Notes to **DP&L's** Financial Statements.

Substantially all property and stations of **DP&L** are subject to the lien of the mortgage securing **DP&L's** First and Refunding Mortgage, dated as of October 1, 1935, as amended with the Bank of New York Mellon, as Trustee (Mortgage).

Item 3 - Legal Proceedings

In the normal course of business, we are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations. We are also from time to time involved in other reviews, investigations and proceedings by governmental and regulatory agencies regarding our business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. We believe the amounts provided in our Consolidated Financial Statements, as prescribed by GAAP, for these matters are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims and other matters (including those matters noted below) and to comply with applicable laws and regulations will not exceed the amounts reflected in our Consolidated Financial Statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2012, cannot be reasonably determined.

The following additional information is incorporated by reference into this Item: (i) information about the legal proceedings contained in Item 1 – Competition and Regulation of Part 1 of this Annual Report on Form 10-K and (ii) information about the legal proceedings contained in Item 8 -- Financial Statements and Supplementary Data – Note 17 of Notes to **DPL's** Consolidated Financial Statements of Part II of this Annual Report on Form 10-K.

Item 4 – Mine Safety Disclosures

Not applicable.

PART II

Item 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

All of the outstanding common stock of **DPL** is owned indirectly by AES and directly by an AES wholly-owned subsidiary, and as a result is not listed for trading on any stock exchange. **DP&L's** common stock is held solely by **DPL** and, as a result, is not listed for trading on any stock exchange.

Dividends

During the year ended December 31, 2012, **DPL** declared dividends on its common stock to its parent of $70.0 million. During the period January 1, 2011 through November 27, 2011 (Predecessor), **DPL** declared dividends of $1.54 per share of common stock. Of this amount, $0.54 per share was paid during the period November 28, 2011 through December 31, 2011. During the year ended December 31, 2010, **DPL** declared and paid dividends per share of common stock of $1.21. **DP&L** declares and pays dividends on its common shares to its parent **DPL** from time to time as declared by the **DP&L** board. Dividends on common shares in the amount of $145.0 million, $220.0 million and $300.0 million were declared in the years ended December 31, 2012, 2011 and 2010, respectively. **DP&L** declared and paid dividends on preferred shares in the amount of $0.9 million in the years ended December 31, 2012, 2011 and 2010.

DPL's Amended Articles of Incorporation (the "Articles") contain provisions which state that **DPL** may not make a distribution to its shareholder or make a loan to any of its affiliates (other than its subsidiaries), unless: (a) there exists no Event of Default (as defined in the Articles) and no such Event of Default would result from the making of the distribution or loan; **and** either (b)(i) at the time of, and/or as a result of, the distribution or loan, **DPL's** leverage ratio does not exceed 0.67:1.00 and **DPL's** interest coverage ratio is not less than 2.5:1.00 or, (b)(ii) if

such ratios are not within the parameters, **DPL's** senior long-term debt rating from one of the three major credit rating agencies is at least investment grade. Further, the restrictions on the payment of distributions to a shareholder and the making of loans to its affiliates (other than subsidiaries) cease to be in effect if the three major credit rating agencies confirm that a lowering of **DPL's** senior long-term debt rating below investment grade by the credit rating agencies would not occur without these restrictions.

As of December 31, 2012, there was no Event of Default - **DPL's** Articles generally define an "Event of Default" as either (i) a breach of a covenant or obligation under the Articles; (ii) the entering of an order of insolvency or bankruptcy by a court and that order remains in effect and unstayed for 180 days; or (iii) **DPL**, **DP&L** or one of its principal subsidiaries commences a voluntary case under bankruptcy or insolvency laws or consents to the appointment of a trustee, receiver or custodian to manage all of the assets of **DPL**, **DP&L** or one of its principal subsidiaries – but **DPL's** leverage ratio was at 0.86:1.00 and **DPL's** senior long-term debt rating from all three major credit rating agencies was below investment grade. As a result, and as of December 31, 2012, **DPL** was prohibited under its Articles from making a distribution to its shareholder or making a loan to any of its affiliates (other than its subsidiaries).

DPL's unsecured revolving credit agreement and **DPL's** unsecured term loan were amended on October 19, 2012. The amendments include a provision which restrict all dividend payments from **DPL** to AES anytime after December 31, 2012 and up until the maturity or termination of the respective credit facilities.

As long as **DP&L** preferred stock is outstanding, **DP&L's** Amended Articles of Incorporation contain provisions restricting the payment of cash dividends on any of its common stock if, after giving effect to such dividend, the aggregate of all such dividends distributed subsequent to December 31, 1946 exceeds the net income of **DP&L** available for dividends on its common stock subsequent to December 31, 1946, plus $1.2 million. This dividend restriction has historically not affected **DP&L's** ability to pay cash dividends and, as of December 31, 2012, **DP&L's** retained earnings of $534.2 million were all available for **DP&L** common stock dividends payable to **DPL**.

Item 6 – Selected Financial Data

The following table presents our selected consolidated financial data which should be read in conjunction with our audited Consolidated Financial Statements and the related Notes thereto and Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations. The "Results of Operations" discussion in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations addresses significant fluctuations in operating data. **DPL** is a wholly-owned, indirect subsidiary of AES and therefore does not report earnings or dividends on a per-share basis. Other data that management believes is important in understanding trends in our business are also included in this table.

	DPL					
	Successor [a]		Predecessor [a]			
$ in millions except per share amounts or as indicated	**Year ended December 31, 2012**	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010	Year ended December 31, 2009	Year ended Decembe 31, 2008
Basic earnings per share of common stock [b]	**N/A**	N/A	1.31	2.51	2.03	2.22
Diluted earnings per share of common stock [b]	**N/A**	N/A	1.31	2.50	2.01	2.12
Dividends declared per share of common stock [c]	**N/A**	N/A	1.54	1.21	1.14	1.1C
Dividend payout ratio [c]	**N/A**	N/A	117.6%	48.2%	56.2%	49.[illegible]%
Total electric sales (millions of kWh)	**16,454**	1,361	15,021	17,237	16,667	17,172
Results of operations:						
Revenues	**1,668.4**	156.9	1,670.9	1,831.4	1,539.4	1,549.2
Goodwill impairment [d]	**(1,817.2)**	-	-	-	-	-
Net income [b]	**(1,729.8)**	(6.2)	150.5	290.3	229.1	244.[illegible]

Financial position items at December 31:						
Total assets	**4,247.3**	6,136.2	N/A	3,813.3	3,641.7	3,637.0
Long-term debt [(e)]	**2,025.0**	2,628.9	N/A	1,026.6	1,223.5	1,376.1
Total construction additions	**179.6**	201.0	N/A	151.4	145.3	227.8
Redeemable preferred stock of subsidiary	**18.4**	18.4	N/A	22.9	22.9	22.9

DP&L					
$ in millions except per share amounts or as indicated	**Year ended December 31, 2012**	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009	Year ended Decembe 31, 2008
Total electric sales (millions of kWh)	**15,606**	15,599	17,083	16,590	17,105
Results of operations:					
Revenues	**1,531.8**	1,677.7	1,738.8	1,500.8	1,520.5
Fixed-asset impairment [(f)]	**80.8**	-	-	-	-
Earnings on common stock [(g)]	**90.3**	192.3	276.8	258.0	284.9
Financial position items at December 31:					
Total assets	**3,464.2**	3,538.3	3,475.4	3,457.4	3,397.7
Long-term debt [(e)]	**332.7**	903.0	884.0	783.7	884.0
Redeemable preferred stock	**22.9**	22.9	22.9	22.9	22.9
Number of shareholders - preferred stock	**209**	223	234	242	256

(a) "Predecessor" refers to the operations of DPL and its subsidiaries prior to the consummation of the Merger. "Successor" refers to the operations of DPL and its subsidiaries subsequent to the Merger. See Note 2 of Notes to DPL's Consolidated Financial Statements for a description of this transaction. As of the Merger date, the disclosure of per share amounts no longer applies.

(b) DPL incurred merger-related costs of $37.9 million ($24.6 million net of tax) and a $15.7 million ($10.2 million net of tax) in the 2011 Predecessor and Successor periods, respectively, and had a $25.1 million ($16.3 million net of tax) favorable adjustment in the period January 1, 2011 through November 27, 2011 as a result of the approval of the fuel settlement agreement by the PUCO.

(c) Of the $1.54 declared in the January 1, 2011 through November 27, 2011 period, $0.54 was paid in the November 28, 2011 through December 31, 2011 period.

(d) Goodwill impairment of $1,817.2 million was recorded in 2012.

(e) Excludes current maturities of long-term debt.

(f) Fixed-asset impairment of $80.8 million ($51.8 million net of tax) was recorded in 2012.

(g) In 2011, DP&L incurred merger-related costs of $19.4 million ($12.6 million net of tax) and had a $25.1 million ($16.3 million net of tax) favorable adjustment as a result of the approval of the fuel settlement agreement by the PUCO.

Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations

This report includes the combined filing of **DPL** and **DP&L**. Throughout this report, the terms "we," "us," "our" and "ours" are used to refer to both **DPL** and **DP&L**, respectively and altogether, unless the context indicates otherwise. Discussions or areas of this report that apply only to **DPL** or **DP&L** will clearly be noted in the section.

The following discussion and analysis should be read in conjunction with **DPL's** audited Consolidated Financial Statements and the related Notes thereto and **DP&L's** audited Financial Statements and the related Notes thereto included in Item 8 – Financial Statements and Supplementary Data of this Form 10-K. The following discussion contains forward-looking statements. Our actual results may differ materially from the results suggested by these forward-looking statements. Please see "Forward-Looking Statements" at the beginning of this Form 10-K and Item 1A – Risk Factors. For a list of certain abbreviations or acronyms in this discussion, see Glossary at the beginning of this Form 10-K.

BUSINESS OVERVIEW

DPL is a regional electric energy and utility company. **DPL's** two reporting segments are the Utility segment, comprised of its **DP&L** subsidiary, and the Competitive Retail segment, comprised of its DPLER subsidiary and DPLER's subsidiary, MC Squared, LLC. Refer to Note 18 of Notes to **DPL's** Consolidated Financial Statements for more information relating to these reportable segments. **DP&L** does not have any reportable segments.

DP&L is primarily engaged in the generation, transmission and distribution of electricity in West Central Ohio and the sale of energy to DPLER in Ohio and Illinois. **DPL** and **DP&L** strive to achieve disciplined growth in energy margins while limiting volatility in both cash flows and earnings and to achieve stable, long-term growth through efficient operations and strong customer and regulatory relations. More specifically, **DPL's** and **DP&L's** strategy

is to match energy supply with load or customer demand, maximizing profits while effectively managing exposure to movements in energy and fuel prices and utilizing the transmission and distribution assets that transfer electricity at the most efficient cost while maintaining the highest level of customer service and reliability.

We operate and manage generation assets and are exposed to a number of risks. These risks include, but are not limited to, electricity wholesale price risk, PJM capacity price risk, regulatory risk, environmental risk, fuel supply and price risk, customer switching risk and the risk associated with electric generating station performance. We attempt to manage these risks through various means. For instance, we operate a portfolio of wholly-owned and jointly-owned generation assets that is diversified as to coal source, cost structure and operating characteristics. We are focused on the operating efficiency of these stations and maintaining their availability.

We operate and manage transmission and distribution assets in a rate-regulated environment. Accordingly, this subjects us to regulatory risk in terms of the costs that we may recover and the investment returns that we may collect in customer rates. We are focused on delivering electricity and maintaining high standards of customer service and reliability in a cost-effective manner.

Additional information relating to our risks is contained in Item 1A – Risk Factors.

The following discussion should be read in conjunction with the accompanying Consolidated Financial Statements and related footnotes included in Item 8 – Financial Statements and Supplementary Data.

BUSINESS COMBINATION

Acquisition by The AES Corporation

On November 28, 2011, **DPL** merged with Dolphin Sub, Inc., a wholly-owned subsidiary of AES pursuant to the Merger agreement whereby AES acquired **DPL** for $30.00 per share in a cash transaction valued at approximately $3.5 billion. At closing, **DPL** became a wholly-owned subsidiary of AES.

See Item 1A – Risk Factors, and Note 2 of Notes to **DPL's** Consolidated Financial Statements for additional risks and information related to the Merger.

Dolphin Subsidiary II, Inc., a subsidiary of AES, issued $1.25 billion in long-term Senior Notes on October 3, 2011, to partially finance the Merger (see Note 2 of Notes to **DPL's** Consolidated Financial Statements). Upon the consummation of the Merger, Dolphin Subsidiary II, Inc. was merged into **DPL** and these notes became long-term debt obligations of **DPL**. This debt has and will have a material effect on **DPL's** cash requirements.

As a result of the Merger and other factors, including the assumption of merger-related debt, **DPL** and **DP&L** were downgraded by all three major credit rating agencies. As a result, we expect that our cost of capital will increase.

DPL incurred Merger transaction costs consisting primarily of banker's fees, legal fees and change of control costs of approximately $53.6 million pre-tax during 2011. Other than these costs, interest on the additional debt and other items noted above, the Merger did not significantly affect **DPL** and **DP&L's** sources of liquidity during 2012.

Predecessor and Successor Financial Presentation

DPL's financial statements and related financial and operating data include the periods before and after the Merger on November 28, 2011, and are labeled as Predecessor and Successor, respectively. In accordance with GAAP, **DPL** applied push-down accounting to account for the Merger. For accounting purposes only, push-down accounting created a new cost basis assigned to assets, liabilities and equity as of the Merger date. AES finalized its purchase price allocation during the third quarter of 2012. Consequently, **DPL's** results of operations and cash flows for the Predecessor and Successor periods are not presented on a comparable basis and therefore are shown separately, rather than combined, in its audited financial statements.

In the Management's Discussion and Analysis of Results of Operations and Financial Condition, we have included disclosure of the combined Predecessor and Successor results of operations and cash flows. Such combined presentation is considered to be a non-GAAP disclosure. We have included such disclosure because we believe it facilitates the comparison of 2012 and 2011 operating and financial performance to 2010, and because the core operations of **DPL** have not changed as a result of the Merger.

REGULATORY ENVIRONMENT

DPL, **DP&L** and our subsidiaries' facilities and operations are subject to a wide range of environmental regulations and laws by federal, state and local authorities. As well as imposing continuing compliance obligations, these laws and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. In the normal course of business, we have investigatory and remedial activities underway at these facilities to comply, or to determine compliance, with such regulations. We record liabilities for losses that are probable of occurring and can be reasonably estimated.

- **Carbon Emissions and Other Greenhouse Gases**
  There is an ongoing concern nationally and internationally about global climate change and the contribution of emissions of GHGs, including most significantly CO_2. This concern has led to regulation and interest in legislation at the federal level, actions at the state level as well as litigation relating to GHG emissions. In 2007, a U.S. Supreme Court decision upheld that the USEPA has the authority to regulate GHG emissions under the CAA. In April 2009, the USEPA issued a proposed endangerment finding under the CAA. The proposed finding determined that CO_2 and other GHGs from motor vehicles threaten the health and welfare of future generations by contributing to climate change. This endangerment finding became effective in January 2010. Numerous affected parties have asked the USEPA Administrator to reconsider this decision. As a result of this endangerment finding and other USEPA regulations, emissions of CO_2 and other GHGs from electric generating units and other stationary sources are subject to regulation. Increased pressure for GHG emissions reduction is also coming from investor organizations and the international community. Environmental advocacy groups are also focusing considerable attention on GHG emissions from power generation facilities and their potential role in climate change. Approximately 97% of the energy we produce is generated by coal. **DP&L's** share of GHG emissions at generating stations we own and co-own is approximately 16 million tons annually. If we are required to implement control of CO_2 and other GHGs at generation facilities, the cost to **DPL** and **DP&L** of such controls could be material.

- **SB 221 Requirements**

SB 221 and the implementation rules contain targets relating to advanced energy portfolio standards, renewable energy, demand reduction and energy efficiency standards. The standards require that, by the year 2025, 25% of the total number of kWh of electricity sold by the utility to retail electric consumers must come from alternative energy resources, which include "advanced energy resources" such as distributed generation, clean coal, advanced nuclear, energy efficiency and fuel cell technology; and "renewable energy resources" such as solar, hydro, wind, geothermal and biomass. At least half of the 25% must be generated from renewable energy resources, including 0.5% from solar energy. The renewable energy portfolio, energy efficiency and demand reduction standards began in 2009 with increased percentage requirements each year thereafter. The annual targets for energy efficiency and peak demand reductions began in 2009 with annual increases. Energy efficiency programs are to save 22.3% by 2025 and peak demand reductions are expected to reach 7.75% by 2018 compared to a baseline energy usage. If any targets are not met, compliance penalties will apply, unless the PUCO makes certain findings that would excuse performance.

SB 221 also contains provisions for determining whether an electric utility has significantly excessive earnings. The PUCO issued general rules for calculating the earnings and comparing them to a comparable group to determine whether there were significantly excessive earnings. Pursuant to the ESP Stipulation, **DP&L** becomes subject to the SEET in 2013 based on 2012 earnings results and the SEET could have a material effect on our results of operations, financial condition and cash flows.

SB 221 also requires that all Ohio distribution utilities file either an ESP or MRO. Under the MRO, a periodic competitive bid process will set the retail generation price after the utility demonstrates that it can meet certain market criteria and bid requirements. Also, under this option, utilities that still own generation in the state are required to phase-in the MRO over a period of not less than five years. An ESP may allow for adjustments to the SSO for costs associated with environmental compliance; fuel and purchased power; construction of new or investment in specified generating facilities; and the provision of standby and default service, operating, maintenance, or other costs including taxes. As part of its ESP, a utility is permitted to file an infrastructure improvement plan that will specify the initiatives the utility will take to rebuild, upgrade, or replace its electric distribution system, including cost recovery mechanisms. Both the MRO and ESP options involve a SEET based on the earnings of comparable companies with similar business and financial risks. On October 5, 2012, **DP&L** filed an ESP with the PUCO which was

to be effective January 1, 2013. The plan was refiled to correct certain costs on December 12, 2012. The refiled plan requested approval of a non-bypassable charge that is designed to recover $137.5 million per year for five years from all customers. **DP&L** also requested approval of a switching tracker that would measure the incremental amount of switching over a base case and defer the lost value into a regulatory asset which would be recovered from all customers beginning January 2014. The ESP states that **DP&L** plans to file on or before December 31, 2013 its plan for legal separation of its generation assets. The ESP proposes a three year, five month transition to market, whereby a wholesale competitive bidding structure will be phased in to supply generation service to customers located in **DP&L's** service territory that have not chosen an alternative generation supplier. The PUCO is currently reviewing the filing and an evidentiary hearing is scheduled to begin on March 11, 2013. The PUCO ordered that the rates being collected prior to December 31, 2012 would continue until the new ESP rates go into effect. The outcome of this filing will have a significant effect on the revenue we collect from our customers.

- **Legal separation of DP&L's generating facilities**

As stated in the amended ESP filed on December 12, 2012, **DP&L** will file a separate application with the PUCO no later than December 31, 2013 to request the transfer of its generation assets to an affiliated entity. In this subsequent application, **DP&L** presently expects to request that the Commission authorize **DP&L** to transfer its generation assets to an affiliated entity by no later than December 31, 2017.

- **NOx and SO_2 Emissions – CSAPR**

The CAIR final rules were published on May 12, 2005. CAIR created an interstate trading program for annual NOx emission allowances and made modifications to an existing trading program for SO_2. Litigation brought by entities not including **DP&L** resulted in a decision by the U.S. Court of Appeals for the District of Columbia Circuit on July 11, 2008 to vacate CAIR and its associated Federal Implementation Plan. On December 23, 2008, the U.S. Court of Appeals issued an order on reconsideration that permits CAIR to remain in effect until the USEPA issues new regulations that would conform to the CAA requirements and the Court's July 2008 decision.

In an attempt to conform to the Court's decision, on July 6, 2010, the USEPA proposed the Clean Air Transport Rule (CATR). These rules were finalized as the CSAPR on July 6, 2011, but subsequent litigation has resulted in their implementation being delayed indefinitely. The Ohio EPA has a State Implementation Plan (SIP) that incorporates the CAIR program requirements, which remain in effect pending judicial review of CSAPR. We do not believe the rule will have a material effect on our operations in 2013, but until the CSAPR becomes effective, **DP&L** is unable to estimate the impact of the new requirements in future years.

COMPETITION AND PJM PRICING

- **RPM Capacity Auction Price**

The PJM RPM capacity base residual auction for the 2015/16 period cleared at a per megawatt price of $136/day for our RTO area. The per megawatt prices for the periods 2014/15, 2013/14, and 2012/13 were $126/day, $28/day, and $16/day, respectively, based on previous auctions. Future RPM auction results will be dependent not only on the overall supply and demand of generation and load, but may also be impacted by congestion as well as PJM's business rules relating to bidding for demand response and energy efficiency resources in the RPM capacity auctions. The SSO retail costs and revenues are included in the RPM rider. Therefore increases in customer switching causes more of the RPM capacity costs and revenues to be excluded from the RPM rider calculation. We cannot predict the outcome of future auctions or customer switching but based on actual results attained in 2012, we estimate that a hypothetical increase or decrease of $10 in the capacity auction price would affect net income by approximately $5.9 million and $4.5 million for **DPL** and **DP&L**, respectively. These estimates do not, however, take into consideration the other factors that may affect the impact of capacity revenues and costs on net income such as the levels of customer switching, our generation capacity, the levels of wholesale revenues and our retail customer load. These estimates are discussed further within Commodity Pricing Risk under the Market Risk section of this Management Discussion & Analysis.

- **Ohio Competitive Considerations and Proceedings**

Since January 2001, **DP&L's** electric customers have been permitted to choose their retail electric generation supplier. **DP&L** continues to have the exclusive right to provide delivery service in its state

certified territory and the obligation to supply retail generation service to customers that do not choose an alternative supplier. The PUCO maintains jurisdiction over **DP&L's** delivery of electricity, SSO and other retail electric services.

Lower market prices for power have resulted in increased levels of competition to provide transmission and generation services. This in turn has led to approximately 58% of **DP&L's** customers to switch their retail electric services to CRES providers. DPLER, an affiliated company and one of the registered CRES providers, has been marketing transmission and generation services to **DP&L** customers. The following table provides a summary of the number of electric customers and volumes provided by all CRES providers in our service territory during the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31, 2012		**Year ended December 31, 2011**		**Year ended December 31, 2010**	
	Electric Customers	Sales (in millions	Electric Customers	Sales (in millions	Electric Customers	Sales (in millions

		of kWh)		of kWh)		of kWh)
Supplied by DPLER	73,672	6,201	36,667	5,731	8,359	4,417
Supplied by non-affiliated CRES providers	79,936	1,981	27,812	862	851	145
Total supplied in our service territory	153,608	8,182	64,479	6,593	9,210	4,562
Supplied by **DP&L** in our service territory (a)	513,266	13,999	513,381	14,022	514,221	14,277

(a) The kWh sales include all distribution sales, including those whose power is supplied by DPLER and non-affiliated CRES providers.

The volumes supplied by DPLER represent approximately 44%, 41% and 31% of **DP&L's** total distribution volumes during the years ended December 31, 2012, 2011 and 2010, respectively. We currently cannot determine the extent to which customer switching to CRES providers will occur in the future and the effect this will have on our operations, but any additional switching could have a significant adverse effect on our future results of operations, financial condition and cash flows.

For the year ended December 31, 2012, approximately 58% of **DP&L's** load was supplied by CRES providers with DPLER supplying 76% of the switched load. Customer switching negatively affected **DPL's** gross margin during the years ended December 31, 2012, 2011 and 2010 by approximately $141.0 million, $58.0 million and $17.0 million, respectively. Customer switching negatively affected **DP&L's** gross margin during the years ended December 31, 2012, 2011 and 2010 by approximately $249.0 million, $104.0 million and $53.0 million, respectively.

Several communities in **DP&L's** service area have passed ordinances allowing the communities to become government aggregators for the purpose of offering retail generation service to their residents. As of February 1, 2013, five communities have active aggregation programs with customers enrolled, and four additional communities have notified the PUCO that they plan to implement government aggregation programs. See Item 1A – Risk Factors for more information.

In 2010, DPLER began providing CRES services to customers in Ohio who are not in **DP&L's** service territory. Additionally, beginning in March 2011 with the purchase of MC Squared, DPLER services business and residential customers in northern Illinois. The incremental costs and revenues have not had a material effect on our results of operations, financial condition or cash flows.

FUEL AND RELATED COSTS

- **Fuel and Commodity Prices**

  The coal market is a global market in which domestic prices are affected by international supply disruptions and demand balance. In addition, domestic issues like government-imposed direct costs and permitting issues are affecting mining costs and supply availability. Our approach is to hedge the fuel costs for our anticipated electric sales. We have substantially all of the total expected coal volume needed to meet our retail and wholesale sales requirements for 2013 under contract. The majority of the contracted coal is purchased at fixed prices. Some contracts provide for periodic adjustments and some are priced based on market indices. Fuel costs are affected by changes in volume and price and are driven by a number of variables including weather, the wholesale market price of power, certain provisions in coal contracts related to government imposed costs, counterparty performance and credit, scheduled/forced outages and generation station mix. Due to the installation of emission controls equipment at certain commonly owned units and barring any changes in the regulatory environment in which we operate, we expect to have balanced positions for SO_2, NOx and renewable energy credits for 2013. If our suppliers do not meet their contractual commitments or we are not hedged against price volatility and we are unable to recover costs through the fuel and purchased power recovery rider, our results of operations, financial condition or cash flows could be materially affected.

  Effective January 2010, the SSO retail customer portion of fuel price changes, including coal requirements and purchased power costs, was reflected in the implementation of the fuel and purchased power recovery rider, subject to PUCO review. An audit of 2010 fuel costs occurred in 2011 and issues raised were resolved by a Stipulation approved by the PUCO in November 2011. As a result of this approval, **DP&L** recorded a $25 million pretax ($16 million net of tax) adjustment. The adjustment was due to the reversal of a provision recorded in accordance with the regulatory accounting rules. An audit of 2011 fuel costs was settled with an immaterial adjustment that will be credited to customers in early 2013.

FINANCIAL OVERVIEW

In the Management's Discussion and Analysis of Results of Operations and Financial Condition, we have included disclosure of the combined Predecessor and Successor results of operations and cash flows. Such combined presentation is considered to be a non-GAAP disclosure. We have included such disclosure because we believe it facilitates the comparison of 2012 operating and financial performance to 2011 and 2010, and because the core operations of **DPL** have not changed as a result of the Merger.

The results of operations for both **DPL** and **DP&L** are separately discussed in more detail in the following pages.

The following table summarizes the significant components of **DPL's** Results of Operations for the years ended December 31, 2012, 2011 (Combined) and 2010:

	Successor	**Combined**	**Successor**	**Predecessor**	
$ in millions	**Year ended December 31, 2012**	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Total operating revenues	**1,668.4**	1,827.8	156.9	1,670.9	1,831.4
Cost of revenues:					
Total cost of fuel	**361.9**	391.6	35.8	355.8	383.9
Total cost of purchased power	**342.1**	441.3	36.7	404.6	387.4
Amortization of intangibles	**95.1**	11.6	11.6	-	-
Total cost of revenues	**799.1**	844.5	84.1	760.4	771.3
Total gross margin [(a)]	**869.3**	983.3	72.8	910.5	1,060.1
Operating expenses:					
Operation and maintenance	**406.4**	425.3	47.5	377.8	340.6
Depreciation and amortization	**125.4**	141.0	11.6	129.4	139.4
General taxes	**79.5**	83.1	7.6	75.5	75.7
Goodwill impairment	**1,817.2**	-	-	-	-
Total operating expenses	**2,428.5**	649.4	66.7	582.7	555.7
Operating income / (loss)	**(1,559.2)**	333.9	6.1	327.8	504.4
Investment income / (loss), net	**2.5**	0.5	0.1	0.4	1.8
Interest expense	**(122.9)**	(85.5)	(11.5)	(74.0)	(70.6)
Other expense, net	**(2.5)**	(2.0)	(0.3)	(1.7)	(2.3)
Income / (loss) before income taxes	**(1,682.1)**	246.9	(5.6)	252.5	433.3
Income taxes	**47.7**	102.6	0.6	102.0	143.0
Net income / (loss)	**(1,729.8)**	144.3	(6.2)	150.5	290.3

(a) For purposes of discussing operating results, we present and discuss gross margins. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

RESULTS OF OPERATIONS – DPL Inc.

DPL's results of operations include the results of its subsidiaries, including the consolidated results of its principal subsidiary **DP&L**. All material intercompany accounts and transactions have been eliminated in consolidation. A separate specific discussion of the results of operations for **DP&L** is presented elsewhere in this report.

In the Management's Discussion and Analysis of Results of Operations and Financial Condition, we have included disclosure of the combined Predecessor and Successor results of operations and cash flows. Such combined presentation is considered to be a non-GAAP disclosure. We have included such disclosure because we believe it facilitates the comparison of 2012 operating and financial performance to 2011 and 2010, and because the core operations of **DPL** have not changed as a result of the Merger.

Income Statement Highlights – DPL

	Successor	**Combined**	**Successor**	**Predecessor**	
$ in millions	**Year ended December 31, 2012**	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Revenues:					
Retail	**1,391.2**	1,429.0	126.3	1,302.7	1,404.8
Wholesale	**104.5**	129.7	8.4	121.3	142.2
RTO revenue	**92.2**	81.7	6.6	75.1	86.6
RTO capacity revenues	**74.5**	179.7	13.9	165.8	186.2
Other revenues	**11.0**	10.8	0.9	9.9	11.5
Mark-to-market gains / (losses) (a)	**(5.0)**	(3.1)	0.8	(3.9)	0.1
Total revenues	**1,668.4**	1,827.8	156.9	1,670.9	1,831.4
Cost of revenues:					
Fuel costs	**358.6**	381.2	34.8	346.4	399.5
Losses / (gains) from sale of coal	**11.8**	(8.8)	(0.6)	(8.2)	(4.1
Gains from sale of emission allowances	**-**	-	-	-	(0.8
Mark-to-market losses / (gains)	**(8.5)**	19.2	1.6	17.6	(10.7
Net fuel cost	**361.9**	391.6	35.8	355.8	383.9
Purchased power	**181.7**	156.2	12.9	143.3	81.5
RTO charges	**101.5**	115.1	9.2	105.9	113.4
RTO capacity charges	**68.1**	172.9	13.1	159.8	191.9
Mark-to-market losses / (gains)	**(9.2)**	(2.9)	1.5	(4.4)	0.6
Net purchased power	**342.1**	441.3	36.7	404.6	387.4
Amortization of intangibles	**95.1**	11.6	11.6	-	-

Total cost of revenues	**799.1**	844.5	84.1	760.4	771.3
Gross margins [(b)]	**869.3**	983.3	72.8	910.5	1,060.1
Gross margins as % of revenue	**52%**	54%	46%	54%	58%
Operating income / (loss)	**(1,559.2)**	333.9	6.1	327.8	504.4

(a) For the year ended December 31, 2012, this amount includes $5.1 million related to the amortization of asset balances related to retail power contracts that were previously accounted for as derivatives, but in accordance with ASC 815 no longer need to be. The fair value of these contracts is to be amortized to earnings over the remaining term of the associated agreements. A similar situation did not exist in periods prior to the year ended December 31, 2012.

(b) For purposes of discussing operating results, we present and discuss gross margins. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

DPL – Revenues

Retail customers, especially residential and commercial customers, consume more electricity on warmer and colder days. Therefore, our retail sales volume is affected by the number of heating and cooling degree days occurring during a year. Cooling degree days typically have a more significant effect than heating degree days since some residential customers do not use electricity to heat their homes.

Degree days

	Years ended December 31,		
Number of days	**2012**	2011	2010
Heating degree days [(a)]	**4,752**	5,368	5,636
Cooling degree days [(a)]	**1,264**	1,160	1,245

(a) Heating and cooling degree days are a measure of the relative heating or cooling required for a home or business. The heating degrees in a day are calculated as the difference of the average actual daily temperature below 65 degrees Fahrenheit. If the average temperature on March 20th was 40 degrees Fahrenheit, the heating degrees for that day would be the 25 degree difference between 65 degrees and 40 degrees. In a similar manner, cooling degrees in a day are the difference of the average actual daily temperature in excess of 65 degrees Fahrenheit.

Since we plan to utilize our internal generating capacity to supply our retail customers' needs first, increases in retail demand may decrease the volume of internal generation available to be sold in the wholesale market and vice versa. The wholesale market covers a multi-state area and settles on an hourly basis throughout the year. Factors affecting our wholesale sales volume each hour of the year include: wholesale market prices; our retail demand; retail demand elsewhere throughout the entire wholesale market area; our stations' and other utility stations' availability to sell into the wholesale market; and weather conditions across the multi-state region. Our plan is to make wholesale sales when market prices allow for the economic operation of our generation facilities not being utilized to meet our retail demand or when margin opportunities exist between the wholesale sales and power purchase prices.

The following table provides a summary of changes in revenues from prior periods:

$ in millions	**2012 vs. 2011**	2011 vs. 2010
Retail		
Rate	**(37.8)**	45.9
Volume	**2.5**	(29.1
Other	**(2.3)**	6.7
Total retail change	**(37.6)**	23.5
Wholesale		
Rate	**(27.8)**	15.3
Volume	**2.6**	(27.8
Total wholesale change	**(25.2)**	(12.5
RTO capacity and other		
RTO capacity and other	**(94.7)**	(11.4
Other		
Unrealized MTM	**(1.9)**	(3.2
Total revenue changes	**(159.4)**	(3.6

During the year ended December 31, 2012, Revenues decreased $159.4 million to $1,668.4 million from $1,827.8 million in the same period of the prior year. This decrease was primarily the result of decreased retail

and wholesale rates, decreased RTO capacity and other revenues, offset by increased retail and wholesale volume. The revenue components for the year ended December 31, 2012 compared to 2011 are further discussed below:

- Retail revenues decreased $37.6 million primarily due to a 3% decrease in average retail rates. The decrease is the result of customers switching from **DP&L** to DPLER, an affiliated CRES provider. Although **DP&L** had a number of customers that switched their retail electric service from **DP&L** to DPLER, **DP&L** continued to provide distribution services to those customers within its service territory. The remaining distribution services provided by **DP&L** were billed at a lower rate resulting in a reduction of total average retail rates. The effect of sales procured by DPLER and MC Squared outside our service territory, or off-system sales, caused sales volume to slightly increase by 0.2%; however the rates offered to the off-system customers are lower than the rates in our service territory. Weather also contributed to the relatively even volumes; cooling degree days increased 9% and heating degree days decreased 11% from prior year, however, cooling degree days have more of an impact on electricity usage than heating degree days due to the non-heat residential customer mix. The above resulted in an unfavorable $37.8 million retail sales rate variance offset slightly by a favorable $2.5 million retail volume variance.

- Wholesale revenues decreased $25.2 million primarily as a result of a 21% decrease in average wholesale prices. The decrease was slightly offset by a 2% increase in wholesale volume. This resulted in an unfavorable $27.8 million wholesale price variance partially offset by a favorable wholesale volume variance of $2.6 million.
- RTO capacity and other revenues, consisting primarily of compensation for use of **DP&L's** transmission assets, regulation services, reactive supply and operating reserves, and capacity payments under the RPM construct, decreased $94.7 million compared to 2011. This decrease in RTO capacity and other revenues was primarily the result of a $105.2 million decrease in revenues realized from the PJM capacity auction and a decrease of $2.3 million in transmission, congestion and other revenues, offset by the receipt of $12.8 million of revenue recognized as a result of the SECA settlement.

For the year ended December 31, 2011, Revenues decreased $3.6 million to $1,827.8 million from $1,831.4 million in the same period of the prior year. This decrease was primarily the result of decreased retail and wholesale volumes, decreased RTO capacity and other revenues, offset by increased retail and wholesale rates and increased other miscellaneous retail revenues. The revenue components for the year ended December 31, 2011 are further discussed below:

- Retail revenues increased $23.5 million resulting primarily from a 3.4% increase in average retail rates due largely to the implementation of the fuel and energy efficiency riders, an increase in the TCRR and RPM riders, combined with the incremental effect of the recovery of costs under the EIR, as well as improved economic conditions. This increase in the average retail rates was partially offset by the effect of lower revenues due to customer switching which has resulted from increased levels of competition to provide transmission and generation services in our service territory. Retail sales volume experienced a 2.1% decrease compared to the prior year period largely due to unfavorable weather. The unfavorable weather conditions resulted in a 6% decrease in the number of cooling degree days to 1,160 days from 1,245 days in 2010. The above resulted in a favorable $45.9 million retail price variance and an unfavorable $29.1 million retail sales volume variance.
- Wholesale revenues decreased $12.5 million primarily as a result of a 19.6% decrease in wholesale sales volume which was largely a result of lower generation by our electric generating stations, partially offset by a 13.4% increase in wholesale average prices. This resulted in an unfavorable $27.8 million wholesale sales volume variance partially offset by a favorable wholesale price variance of $15.3 million.
- RTO capacity and other revenues, consisting primarily of compensation for use of **DP&L's** transmission assets, regulation services, reactive supply and operating reserves, and capacity payments under the RPM construct, decreased $11.4 million compared to the same period in 2010. This decrease in RTO capacity and other revenues was primarily the result of a $6.5 million decrease in revenues realized from the PJM capacity auction, including a $4.9 million decrease in transmission, congestion and other revenues.

<u>DPL – Cost of Revenues</u>

During the year ended December 31, 2012:

- Net fuel costs, which include coal, gas, oil and emission allowance costs, decreased $29.7 million, or 8%, compared to 2011, primarily due to increased mark-to-market gains on coal contracts and decreased fuel costs partially offset by increased losses from the sale of coal. During the year ended December 31, 2012, there was a 10% decrease in the volume of generation at our stations and mark-to-market gains were $8.5 million compared to $19.2 million of mark-to-market losses for the same period during 2011. Offsetting these decreases were $11.8 million in realized losses from the sale of coal, compared to $8.8 million of realized gains during the same period in 2011.

- Net purchased power decreased $99.2 million, or 22%, compared to the same period in 2011 due largely to decreased RTO capacity and other charges of $118.4 million which were incurred as a member of PJM, including costs associated with **DP&L's** load obligations for retail customers. RTO capacity prices are set by an annual auction. This decrease also includes the net impact of the deferral and recovery of **DP&L's** transmission, capacity and other PJM-related charges. Partially offsetting these decreases were increased purchased power costs of $25.5 million, $75.8 million due to increased volume offset by a decrease of $50.3 million due to lower average market prices for purchased power. Purchased power volume increased due to lower internal generation and increased off-system sales. We purchase power to satisfy retail sales volume when generating facilities are not available due to planned and unplanned outages or when market prices are below the marginal costs associated with our generating facilities.
- Amortization of intangibles increased in 2012 compared to 2011 due to eleven months of amortization of the ESP during 2012.

During the year ended December 31, 2011:

- Net fuel costs, which include coal, gas, oil and emission allowance costs, increased $7.7 million, or 2%, compared to 2010, primarily due to increased mark-to-market losses on coal contracts partially offset by decreased fuel costs. During the year ended December 31, 2011, **DP&L** realized $8.8 million in gains from the sale of coal, compared to $4.1 million realized during the same period in 2010. In addition to these gains, there was a 12% decrease in the volume of generation at our stations. Also offsetting the increase in fuel costs was a $15.0 million decrease due to an adjustment as a result of the approval of the fuel settlement agreement by the PUCO. The adjustment was due to the reversal of a provision recorded in accordance with the regulatory accounting rules.
- Net purchased power increased $53.9 million, or 14%, compared to the same period in 2010 due largely to an increase of $74.7 million in purchased power partially offset by a decrease of $17.3 million in RTO capacity and other charges which were incurred as a member of PJM, including costs associated with **DP&L's** load obligations for retail customers. This increase included the net impact of the deferral and recovery of **DP&L's** transmission, capacity and other PJM-related charges. The increase in purchased power of $74.7 million was comprised of a $100.3 million increase associated with higher purchased power volumes due to lower internal generation partially offset by a $25.6 million decrease related to lower average market prices for purchased power. We purchase power to satisfy retail sales volume when generating facilities are not available due to planned and unplanned outages or when market prices are below the marginal costs associated with our generating facilities.
- Amortization of intangibles increased in 2011 compared to 2010 due to the amortization of the value of the ESP recognized at the Merger date.

DPL - Operation and Maintenance

$ in millions	2012 vs. 2011
Merger-related costs	(51.7
Maintenance of overhead transmission and distribution lines	(10.2
Low-income payment program [(a)]	21.3
Competitive retail operations	9.3
Energy efficiency programs [(a)]	9.2
Generating facilities operating and maintenance expenses	5.8
Legal and other consulting costs	3.0
Other, net	(5.6
Total operation and maintenance expense	(18.9

(a) There is a corresponding increase in Revenues associated with these programs resulting in no impact to Net income.

During the year ended December 31, 2012, Operation and maintenance expense decreased $18.9 million, or 4%, compared to the same period in 2011. This variance was primarily the result of:

- higher costs in the prior year related to the Merger, and
- decreased expense related to the maintenance of overhead transmission and distribution lines primarily as a result of storms, including a significant ice storm in February 2011.

These decreases were partially offset by:

- increased assistance for low-income retail customers which is funded by the USF revenue rate rider,
- increased marketing, customer maintenance and labor costs associated with the competitive retail business as a result of increased sales volume and number of customers,
- increased expenses relating to energy efficiency programs that were put in place for our customers,
- increased expenses for generating facilities largely due to the length and timing of planned outages at jointly-owned production units relative to the same period in 2011, and
- increased expenses related to legal and other consulting services that were not related to the 2011 Merger.

$ in millions	2011 vs. 2010
Merger-related costs	53.6
Low-income payment program [(a)]	14.6
Generating facilities operating and maintenance expenses	12.9
Maintenance of overhead transmission and distribution lines	9.1
Competitive retail operations	7.6

Insurance settlement, net	3.4
Health insurance / long-term disability	(6.2
Pension	(3.3
Other, net	(7.0
Total operation and maintenance expense	84.7

(a) There is a corresponding increase in Revenues associated with this program resulting in no impact to Net income.

During the year ended December 31, 2011, Operation and maintenance expense increased $84.7 million, or 25%, compared to the same period in 2010. This variance was primarily the result of:

- increased costs related to the Merger,
- increased assistance for low-income retail customers which is funded by the USF revenue rate rider,
- increased expenses for generating facilities largely due to the length and timing of planned outages at jointly-owned production units relative to the same period in 2010,
- increased expenses related to the maintenance of overhead transmission and distribution lines primarily as a result of storms, including a significant ice storm in February 2011,
- increased marketing, customer maintenance and labor costs associated with the competitive retail business as a result of increased sales volume and number of customers, and
- a prior year insurance settlement that reimbursed us for legal costs associated with our litigation against certain former executives.

These increases were partially offset by:

- lower health insurance and disability costs primarily due to fewer employees going onto long-term disability during the current year as compared to the same period in 2010, and
- lower pension expenses primarily related to a $40 million contribution to the pension plan during 2011.

DPL – Depreciation and Amortization

During the year ended December 31, 2012, Depreciation and amortization expense decreased $15.6 million, or 11%, as compared to 2011. The decrease primarily reflects the effect of a reduction in electric generating station values as a consequence of the Merger, partially offset by additional investments in fixed assets.

During the year ended December 31, 2011, Depreciation and amortization expense increased $1.6 million, or 1%, as compared to 2010. The decrease was primarily the result of investments in fixed assets partially offset by the effect of a depreciation study which resulted in lower depreciation rates on generation property which were implemented on July 1, 2010, reducing the expense by approximately $4.8 million during the year ended December 31, 2011.

DPL – General Taxes

During the year ended December 31, 2012, General taxes decreased $3.6 million, or 4%, as compared to 2011. This decrease was primarily due to an unfavorable determination of $4.5 million from the Ohio gross receipts tax audit in 2011 partially offset by higher property tax accruals in 2012 compared to 2011.

During the year ended December 31, 2011, General taxes increased $7.4 million, or 10%, as compared to 2010. This increase was primarily the result of higher property tax accruals in 2011 compared to 2010 and an unfavorable determination of $4.5 million from the Ohio gross receipts tax audit.

DPL – Goodwill Impairment

During the year ended December 31, 2012, **DPL** recorded an impairment of goodwill of $1,817.2 million. See Note 19 of Notes to **DPL's** Consolidated Financial Statements.

DPL – Interest Expense

During the year ended December 31, 2012, Interest expense and charge for early redemption of debt increased $37.4 million, or 44%, as compared to 2011 due primarily to higher interest cost subsequent to the Merger as a result of the $1.25 billion of debt that was assumed by **DPL** in connection with the Merger.

During the year ended December 31, 2011, Interest expense and charge for early redemption of debt increased $14.9 million, or 21%, as compared to 2011 due primarily to a $15.3 million charge for the early redemption of DPL Capital Trust II securities in February 2011 and higher interest cost subsequent to the Merger as a result of the $1.25 billion of debt that was assumed by **DPL** in connection with the Merger.

DPL – Income Tax Expense

During the year ended December 31, 2012, Income tax expense decreased $54.9 million, or 54%, as compared to 2011 primarily due to decreases in pre-tax income, lower non-deductible expenses related to the Merger, lower non-deductible compensation related to the Merger and a 2011 write-off of a deferred tax asset on the termination of the ESOP. These were partially offset by a reduction in Internal Revenue Code Section 199 tax benefits.

During the year ended December 31, 2011, Income tax expense decreased $40.4 million, or 28%, as compared to 2010 primarily due to decreases in pre-tax income partially offset by non-deductible expenses related to the Merger, non-deductible compensation related to the Merger, a reduction in Internal Revenue Code Section 199 tax benefits and a write-off of a deferred tax asset on the termination of the ESOP.

RESULTS OF OPERATIONS BY SEGMENT – DPL Inc.

DPL's two segments are the Utility segment, comprised of its **DP&L** subsidiary, and the Competitive Retail segment, comprised of its competitive retail electric service subsidiaries. These segments are discussed further below:

Utility Segment

The Utility segment is comprised of **DP&L's** electric generation, transmission and distribution businesses which generate and sell electricity to residential, commercial, industrial and governmental customers. Electricity for the segment's 24-county service area is primarily generated at eight coal-fired power stations and is distributed to more than 513,000 retail customers who are located in a 6,000 square mile area of West Central Ohio. **DP&L** also sells electricity to

DPLER and any excess energy and capacity is sold into the wholesale market. **DP&L's** transmission and distribution businesses are subject to rate regulation by federal and state regulators while rates for its generation business are deemed competitive under Ohio law.

Competitive Retail Segment

The Competitive Retail segment is comprised of DPLER's competitive retail electric service business and includes its wholly owned subsidiary, MC Squared. DPLER sells retail electric energy under contract to

residential, commercial, industrial and governmental customers who have selected DPLER or MC Squared as their alternative electric supplier. The Competitive Retail segment sells electricity to approximately 198,000 customers currently located throughout Ohio and Illinois. MC Squared, a Chicago-based retail electricity supplier, serves approximately 104,000 customers in Northern Illinois. The Competitive Retail segment's electric energy used to meet its sales obligations was purchased from **DP&L** and PJM. During 2010, a new wholesale agreement was implemented between **DP&L** and DPLER. Under this agreement, intercompany sales from **DP&L** to DPLER are based on the market prices for wholesale power. In periods prior to 2010, DPLER's purchases from **DP&L** were transacted at prices that approximated DPLER's sales prices to its end-use retail customers. The Competitive Retail segment has no transmission or generation assets. The operations of the Competitive Retail segment are not subject to cost-of-service rate regulation by federal or state regulators.

Other

Included within Other are other businesses that do not meet the GAAP requirements for separate disclosure as reportable segments as well as certain corporate costs including interest expense on **DPL's** debt.

Management evaluates segment performance based on gross margin. In the discussions that follow, we have not provided extensive discussions of the results of operations related to 2010 for the Competitive Retail segment because we believe that financial information is not comparable to the 2011 financial information. We have, however, included brief descriptions of the Competitive Retail segment's financial results for 2010 for informational purposes as required by GAAP following the Income Statement Highlights table below.

See Note 18 of Notes to **DPL's** Consolidated Financial Statements for further discussion of **DPL's** reportable segments.

The following table presents **DPL's** gross margin by business segment:

	Succes sor	**Combi ned**	**Succes sor**	**Predecessor**	
$ in millions	**Year ended December 31, 2012**	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010

Utility	**867.4**	895.5	78.5	817.0	983.4
Competitive Retail	**68.6**	61.5	4.8	56.7	38.5
Other	**(63.3)**	30.4	(10.1)	40.5	42.7
Adjustments and Eliminations	**(3.4)**	(4.1)	(0.4)	(3.7)	(4.5
Total consolidated	**869.3**	983.3	72.8	910.5	1,060.1

The financial condition, results of operations and cash flows of the Utility segment are identical in all material respects and for all periods presented to those of **DP&L** which are included in this Form 10-K. We do not believe that additional discussions of the financial condition and results of operations of the Utility segment would enhance an understanding of this business since these discussions are already included under the **DP&L** discussions below.

Income Statement Highlights – Competitive Retail Segment

$ in millions	**Successor**	**Combined**	**Successor**	**Predecessor**	
	Year ended December 31, 2012	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Revenues:					
Retail	**496.7**	426.1	37.1	389.0	275.5
RTO and other	**(3.6)**	(0.7)	1.1	(1.8)	1.5
Total revenues	**493.1**	425.4	38.2	387.2	277.0
Cost of revenues:					
Purchased power	**424.5**	363.9	33.4	330.5	238.5
Gross margins [(a)]	**68.6**	61.5	4.8	56.7	38.5
Operation and maintenance expense	**24.7**	15.4	1.7	13.7	7.8
Other expense	**3.0**	2.5	0.3	2.2	1.4
Total expenses	**27.7**	17.9	2.0	15.9	9.2
Earnings from operations	**40.9**	43.6	2.8	40.8	29.3
Income tax expense	**18.1**	17.8	1.1	16.7	10.5
Net income	**22.8**	25.8	1.7	24.1	18.8
Gross margin as a % of revenues	**14%**	14%			14%

(a) For purposes of discussing operating results, we present and discuss gross margins. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

Competitive Retail Segment – Revenue

During the year ended December 31, 2012, the segment's retail revenues increased $70.6 million, or 17%, as compared to 2011. The increase was primarily driven by an increase of $37.5 million in the Illinois market primarily by approximately 100,000 additional customers obtained by MC Squared. Also contributing to the year over year increase was increased levels of competition in the competitive retail electric service business in the state of Ohio which in turn has resulted in a significant number of **DP&L's** retail customers switching their retail electric service to DPLER or other CRES providers. As a result of the additional customers and switching to DPLER discussed above, the Competitive Retail segment sold approximately 8,315 million kWh of power to 198,098 customers in 2012 compared to 6,677 million kWh of power to 40,171 customers during 2011.

For the year ended December 31, 2011, the segment's retail revenues increased $150.6 million, or 55%, as compared to 2010. The increase was primarily driven by increased levels of competition in the competitive retail electric service business in the state of Ohio which in turn has resulted in a significant number of **DP&L's** retail customers switching their retail electric service to DPLER or other CRES providers. Also contributing to the year over year increase is $41.7 million of retail revenue from MC Squared which was purchased on February 28, 2011. Primarily as a result of the customer switching discussed above, the Competitive Retail segment sold approximately 6,677 million kWh of power to 40,171 customers in 2011 compared to 4,546 million kWh of power to 9,002 customers during 2010.

Competitive Retail Segment – Purchased Power

During the year ended December 31, 2012, the Competitive Retail segment purchased power increased $60.6 million, or 17%, as compared to 2011 primarily due to higher purchased power volumes required to satisfy an increase in customer base resulting from customer switching and also $35.4 million relating to increased volumes in the Illinois market related to additional customers obtained by MC Squared. The Competitive Retail segment's electric energy used to meet its sales obligations was purchased from **DP&L** and PJM. Beginning September 1, 2012, all of MC Squared's power needs are supplied by **DP&L**. Intercompany sales from **DP&L** to DPLER are

based on fixed-price contracts for each DPLER customer which approximate market prices for wholesale power at the inception of each customer's contract.

During the year ended December 31, 2011, the Competitive Retail segment purchased power increased $125.4 million, or 53%, as compared to 2010 primarily due to higher purchased power volumes required to satisfy an increase in customer base resulting from customer switching and also $36.9 million relating to MC Squared customers as MC Squared was acquired on February

28, 2011. The Competitive Retail segment's electric energy used to meet its sales obligations was purchased from **DP&L** and PJM. Intercompany sales from **DP&L** to DPLER are based on fixed-price contracts for each DPLER customer which approximate market prices for wholesale power at the inception of each customer's contract.

Competitive Retail Segment – Operation and Maintenance

DPLER's operation and maintenance expenses include employee-related expenses, accounting, information technology, payroll, legal and other administration expenses. The higher operation and maintenance expense in 2012 as compared to 2011 and 2010 is reflective of increased marketing and customer maintenance costs associated with the increased sales volume and number of customers and the purchase of MC Squared.

RESULTS OF OPERATIONS – The Dayton Power and Light Company (DP&L)

Income Statement Highlights – DP&L

	Years ended December 31,		
$ in millions	**2012**	2011	2010
Revenues:			
Retail	**898.4**	1,007.4	1,133.7
Wholesale	**483.7**	441.2	365.6
RTO revenues	**88.5**	76.7	81.7
RTO capacity revenues	**63.4**	152.4	157.6
Mark-to-market gains / (losses)	**(2.2)**	-	0.2
Total revenues	**1,531.8**	1,677.7	1,738.8
Cost of revenues:			
Cost of fuel:			
Fuel costs	**351.6**	370.2	387.5
Losses / (gains) from sale of coal	**11.8**	(8.8)	(4.1
Gains from sale of emission allowances	**(0.1)**	-	(0.8
Mark-to-market (gains) / losses	**(8.4)**	19.2	(10.7
Net fuel costs	**354.9**	380.6	371.9
Purchased power:			
Purchased power	**151.6**	121.5	81.3
RTO charges	**98.8**	114.9	109.7
RTO capacity charges	**64.1**	165.4	191.9
Mark-to-market (gains) / losses	**(5.0)**	(0.2)	0.6
Net purchased power	**309.5**	401.6	383.5

Total cost of revenues	**664.4**	782.2	755.4
Gross margins [a]	**867.4**	895.5	983.4
Gross margins as a % of revenues	**57%**	53%	57%
Operating income	**185.0**	319.9	450.2

(a) For purposes of discussing operating results, we present and discuss gross margins. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

DP&L – Revenues

The following table provides a summary of changes in **DP&L's** Revenues from prior periods:

	2012 vs. 2011	2011 vs. 2010
Retail		
Rate	**(20.3)**	(45.5
Volume	**(85.8)**	(87.9
Other	**(2.9)**	7.1
Total retail change	**(109.0)**	(126.3
Wholesale		
Rate	**(44.8)**	27.6
Volume	**87.3**	48.0
Total wholesale change	**42.5**	75.6
RTO capacity and other		
RTO capacity and other revenues	**(77.2)**	(10.2
Other		
Unrealized MTM	**(2.2)**	(0.2
Total revenues change	**(145.9)**	(61.1

During the year ended December 31, 2012, revenues decreased $145.9 million, or 9%, to $1,531.8 million from $1,677.7 million in the prior year. This decrease was primarily the result of lower average retail and wholesale prices, retail sales volumes and decreased RTO capacity and other revenues, partially offset by higher wholesale sales volumes. The revenue components for the year ended December 31, 2012 are further discussed below:

- Retail revenues decreased $109.0 million primarily as a result of a 9% decrease in retail sales volumes compared to those in the prior year largely as a result of customer switching due t(increased levels of competition to provide transmission and generation services in our service territory. Although **DP&L** had a number of customers that switched their retail electric service from **DP&L** to DPLER, an affiliated CRES provider, **DP&L** continued to provide distribution services to those customers within its service territory, but these services are billed at a lower rat(causing a 2% decrease in retail rates. This decrease in sales volume was partially offset by improved economic conditions and warmer summer weather. The weather conditions resulted in a 9% increase in the number of cooling degree days to 1,264 from 1,160 days in 2011 offset slightly by an 11% decrease in the number of heating degree days to 4,752 days from 5,368 days in 2011. The decrease in average retail rates resulting from customers switching was partially offset by the fuel and energy efficiency riders, increased TCRR and RPM riders and the incremental effect of the recovery of costs under the EIR. The above resulted in an unfavorable $85.8 million retail sales volume variance and an unfavorable $20.3 million retail price variance.
- Wholesale revenues increased $42.5 million primarily as a result of a 20% increase in wholesale sales volume which was largely a result of the effect of customer switching discussed in the immediately preceding paragraph. **DP&L** records wholesale revenues from its sale of transmission and generation services to DPLER associated with these switched customers. This increase was partially offset by a 9% decrease in average wholesale rates. This resulted in a favorable $87.3 million wholesale volume variance offset by a $44.8 million unfavorable wholesale price variance.
- RTO capacity and other revenues, consisting primarily of compensation for use of **DP&L's** transmission assets, regulation services, reactive supply and operating reserves, and capacity payments under the RPM construct, decreased $77.2 million compared to the same period in 2011. This decrease in RTO capacity and other revenues was primarily the result of an $89.0 million decrease in revenues realized from the PJM capacity auction and a decrease of $1.0 million in transmission and congestion revenues, offset by $12.8 million of revenue recognized as a result of the SECA settlement.

For the year ended December 31, 2011, Revenues decreased $61.1 million, or 4%, to $1,677.7 million from $1,738.8 million in the prior year. This decrease was primarily the result of lower average retail rates, retail sales volumes and decreased RTO capacity and other revenues, partially offset by higher wholesale sales volumes and higher average wholesale prices. The revenue components for the year ended December 31, 2011 are further discussed below:

- Retail revenues decreased $126.3 million primarily as a result of an 8% decrease in retail sales volumes compared to those in the prior year largely due to unfavorable weather conditions. The unfavorable weather conditions resulted in a 7% decrease in the number of cooling degree days to 1,160 days from 1,245 days in 2010. Although **DP&L** had a number of customers that switched their retail electric service from **DP&L** to DPLER, an affiliated CRES provider, **DP&L** continued to provide distribution services to those customers within its service territory. The average retail rates decreased 4% overall primarily as a result of customers switching from **DP&L** to DPLER. The remaining distribution services provided by **DP&L** were billed at a lower rate resulting in a reduction of total average retail rates. The decrease in average retail rates resulting from customers switching was partially offset by the implementation of the fuel and energy efficiency riders, increased TCRR and RPM riders, and the incremental effect of the recovery of costs under the EIR. The above resulted in an unfavorable $87.9 million retail sales volume variance and an unfavorable $45.5 million retail price variance.

- Wholesale revenues increased $75.6 million primarily as a result of a 7% increase in average wholesale prices combined with a 13% increase in wholesale sales volume due in large part to the effect of customer switching discussed in the immediately preceding paragraph. **DP&L** records wholesale revenues from its sale of transmission and generation services to DPLER associated with these switched customers. This resulted in a favorable $48.0 million wholesale volume variance and a favorable $27.6 million wholesale price variance.
- RTO capacity and other revenues, consisting primarily of compensation for use of **DP&L's** transmission assets, regulation services, reactive supply and operating reserves, and capacity payments under the RPM construct, decreased $10.2 million compared to the same period in 2010. This decrease in RTO capacity and other revenues was primarily the result of a $5.2 million decrease in revenues realized from the PJM capacity auction, including a decrease of $5.(million in transmission and congestion revenues.

DP&L – Cost of Revenues

During the year ended December 31, 2012:

- Net fuel costs, which include coal, gas, oil and emission allowance costs, decreased $25.7 million, or 7%, compared to 2011, primarily due to increased mark-to-market gains on coal contracts and decreased fuel costs partially offset by increased losses from the sale of coal. During the year ended December 31, 2012, there was an 11% decrease in the volume of generation at our electric generating stations and mark-to-market gains were $8.4 million compared to $19.2 million of mark-to-market losses for the same period during 2011. Offsetting these decreases were $11.8 million in realized losses from the sale of coal, compared to $8.8 million of realized gains during the same period in 2011.
- Net purchased power decreased $92.1 million, or 23%, compared to the same period in 2011 due largely to decreased RTO capacity and other charges of $117.4 million which were incurred as a member of PJM, including costs associated with **DP&L's** load obligations for retail customers. RTO capacity prices are set by an annual auction. This decrease also includes the net impact of the deferral and recovery of **DP&L's** transmission, capacity and other PJM-related charges. Partially offsetting these decreases were increased purchased power costs of $30.1 million, $83.5 million due to increased volume offset by $53.3 million due to lower average market prices for purchased power. Purchased power volume increased due to lower internal generation and increased power sales to DPLER and MC Squared. We purchase power to satisfy retail sales volume when generating facilities are not available due to planned and unplanned outages or when market prices are below the marginal costs associated with our generating facilities.

For the year ended December 31, 2011:

- Net fuel costs, which include coal, gas, oil, and emission allowance costs, increased $8.7 million, or 2%, compared to 2010, primarily due to the impact of mark-to-market losses on coal contracts in 2011 compared to gains in 2010, partially offset by a reduction in fuel costs and an increase in gains on the sale of coal. Also offsetting the increase in fuel costs was a $15.0 millior adjustment as a result of the approval of the fuel settlement agreement by the PUCO. The adjustment was due to the reversal of a provision recorded in accordance with the regulatory accounting rules.

- Net purchased power increased $18.1 million, or 5%, compared to 2010, due largely to an increase of $40.2 million in purchased power costs partially offset by a decrease of $21.3 million in RTO capacity and other charges which were incurred as a member of PJM, including costs associated with **DP&L's** load obligations for retail customers. This decrease included the net impact of the deferral and recovery of **DP&L's** transmission, capacity and other PJM-related charges. Also contributing to the increase in net purchased power was a $54.6 million increase associated with higher purchased power volumes, partially offset by a $14.4 million decrease related to lower average market prices for purchased power. We purchase power to satisfy retail sales volume when generating facilities are not available due to planned and unplanned outages or when market prices are below the marginal costs associated with our generating facilities.

DP&L – Operation and Maintenance

$ in millions	**2012 vs. 2011**
Low-income payment program (a)	21.3
Energy efficiency programs (a)	9.2
Generating facilities operating and maintenance expenses	6.0
Pension	5.7
Legal and other consulting costs	3.1
Merger-related costs	(19.4
Maintenance of overhead transmission and distribution lines	(10.2
Other, net	5.4
Total operation and maintenance expense	21.1

(a) There is a corresponding increase in Revenues associated with these programs resulting in no impact to Net income.

During the year ended December 31, 2012, Operation and maintenance expense increased $21.1 million, or 6%, compared to 2011. This variance was primarily the result of:

- increased assistance for low-income retail customers which is funded by the USF revenue rate rider,
- increased expenses relating to energy efficiency programs that were put in place for our customers,
- increased expenses for generating facilities largely due to the length and timing of planned outages at jointly-owned production units relative to the same period in 2011,
- higher pension expenses primarily related to changes in plan assumptions, specifically a lower discount rate and lower expected rate of return on plan assets, and
- increased expenses related to legal and other consulting services that were not related to the Merger.

These increases were partially offset by:

- higher costs in the prior year related to the Merger, and
- decreased expense related to the maintenance of overhead transmission and distribution lines primarily as a result of storms, including a significant ice storm in February 2011.

$ in millions	**2011 vs. 2010**
Merger-related costs	19.4
Low-income payment program (a)	14.6

Generating facilities operating and maintenance expenses	12.8
Maintenance of overhead transmission and distribution lines	9.1
Health insurance / long-term disability	(6.3
Pension	(3.3
Other, net	(11.6
Total operation and maintenance expense	34.7

(a) There is a corresponding increase in Revenues associated with these programs resulting in no impact to Net income.

During the year ended December 31, 2011, Operation and maintenance expense increased $34.7 million, or 11%, compared to 2011. This variance was primarily the result of:

- increased costs related to the Merger,
- increased assistance for low-income retail customers which is funded by the USF revenue rate rider,
- increased expenses for generating facilities largely due to the length and timing of planned outages at jointly-owned production units relative to the same period in 2010, and
- increased expenses related to the maintenance of overhead transmission and distribution lines primarily as a result of storms, including a significant ice storm in February 2011.

These increases were partially offset by:

- lower health insurance and disability costs primarily due to fewer employees going onto long-term disability during the current year as compared to the same period in 2010, and
- lower pension expenses primarily related to a $40 million contribution to the pension plan during 2011.

DP&L – Depreciation and Amortization

During the year ended December 31, 2012, Depreciation and amortization expense increased $6.4 million as compared to 2011. The increase primarily reflects the effect of investments in plant and equipment, partially offset by a reduction of approximately $1.8 million related to a decrease in plant values as a result of impairment in the value of certain electric generating stations in the third quarter of 2012.

During the year ended December 31, 2011, Depreciation and amortization expense increased $4.2 million as compared to 2010. The increase primarily reflected the effect of investments in property, plant and equipment, partially offset by the effect of a depreciation study which resulted in lower depreciation rates on generation property which were implemented on July 1, 2010, reducing the expense by $3.4 million during the year ended December 31, 2011.

DP&L – General Taxes

During the year ended December 31, 2012, General taxes decreased $1.5 million to $74.4 million compared to 2011. This decrease was primarily the result of lower payroll and Ohio commercial activity taxes in 2012 compared to 2011.

During the year ended December 31, 2011, General taxes increased $3.5 million to $75.9 million compared to 2010. This increase was primarily the result of higher property tax accruals in 2011 compared to 2010.

DP&L – Fixed-asset Impairment

During the year ended December 31, 2012, **DP&L** recorded an impairment of certain generation facilities of $80.8 million. See Note 15 of Notes to **DP&L's** Financial Statements.

DP&L – Interest Expense

Interest expense recorded during 2012 did not fluctuate significantly from that recorded in 2011.

Interest expense recorded during 2011 did not fluctuate significantly from that recorded in 2010.

DP&L – Income Tax Expense

During the year ended December 31, 2012, Income tax expense decreased $49.1 million compared to 2011 primarily due to decreases in pre-tax income, lower non-deductible compensation expenses related to the Merger and a write-off in 2011 of a deferred tax asset on the termination of the ESOP. These were partially offset by a reduction in Internal Revenue Code Section 199 tax benefits and an adjustment of property-related deferred taxes.

During the year ended December 31, 2011, Income tax expense decreased $31.0 million compared to 2010 primarily due to decreases in pre-tax income offset by non-deductible compensation expenses related to the Merger, a reduction in Internal Revenue Code Section 199 tax benefits and a write-off of a deferred tax asset on the termination of the ESOP.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL REQUIREMENTS

DPL's financial condition, liquidity and capital requirements include the consolidated results of its principal subsidiary **DP&L**. All material intercompany accounts and transactions have been eliminated in consolidation. The following table provides a summary of the cash flows for **DPL** and **DP&L**:

DPL	**Successor**	**Combined**	**Successor**	**Predecessor**	
$ in millions	**Year ended December 31, 2012**	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Net cash from operating activities	**291.5**	333.0	(1.4)	334.4	473.1
Net cash from investing	**(199.2)**	(151.1)	(30.4)	(120.7)	(229.5

activities					
Net cash from financing activities	**(73.7)**	(151.6)	88.9	(240.5)	(194.5
Net change	**18.6**	30.3	57.1	(26.8)	49.1
Assumption of cash at acquisition	-	19.2	19.2	-	-
Cash and cash equivalents at beginning of period	**173.5**	124.0	97.2	124.0	74.9
Cash and cash equivalents at end of period	**192.1**	173.5	173.5	97.2	124.0

DP&L	Years ended December 31,		
$ in millions	**2012**	2011	2010
Net cash from operating activities	**339.8**	364.2	455.3
Net cash from investing activities	**(197.5)**	(185.0)	(157.5
Net cash from financing activities	**(146.0)**	(201.0)	(300.9
Net change	**(3.7)**	(21.8)	(3.1
Cash and cash equivalents at beginning of period	**32.2**	54.0	57.1
Cash and cash equivalents at end of period	**28.5**	32.2	54.0

The significant items that have impacted the cash flows for **DPL** and **DP&L** are discussed in greater detail below:

DPL – Net Cash provided by Operating Activities

DPL's Net cash provided by operating activities for the years ended December 31, 2012, 2011 and 2010 are summarized as follows:

	Successor	**Combined**	**Successor**	**Predecessor**	
$ in millions	**Year ended December 31, 2012**	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Net income	**(1,729.8)**	144.3	(6.2)	150.5	290.3
Depreciation and amortization	**201.5**	152.6	23.2	129.4	139.4
Deferred income taxes	**(4.2)**	65.6	0.1	65.5	59.9
Impairment of Goodwill	**1,817.2**	-	-	-	-
Recognition of deferred SECA	**(17.8)**	-	-	-	-
Charge for early redemption of	-	15.3	-	15.3	-

debt					
Contribution to pension plan	-	(40.0)	-	(40.0)	(40.0
Deferred regulatory assets, net	**(1.1)**	(14.3)	0.1	(14.4)	21.8
Cash settlement of interest rate hedges, net of tax	-	(31.3)	-	(31.3)	-
Other	**25.7**	40.8	(18.6)	59.4	1.7
Net cash from operating activities	**291.5**	333.0	(1.4)	334.4	473.1

During the year ended December 31, 2012, Net cash provided by operating activities was primarily a result of Net income adjusted for noncash depreciation and amortization, as well as a noncash charge for the impairment of goodwill.

During the year ended December 31, 2011, Net cash provided by operating activities was primarily a result of Net income adjusted for noncash depreciation and amortization, combined with the following significant transactions:

- The $65.6 million increase to Deferred income taxes primarily results from changes related tc pension contributions, depreciation expense and repair expense.
- A $15.3 million charge for the early redemption of DPL Capital Trust II securities.
- **DP&L** made discretionary contributions of $40.0 million to the defined benefit pension plan in 2011.
- **DPL** made a cash payment of $48.1 million ($31.3 million net of tax) related to interest rate hedge contracts that settled during the period.
- Other represents items that had a current period cash flow impact and includes changes in working capital and other future rights or obligations to receive or to pay cash. These items are primarily affected by, among other factors, the timing of when cash payments are made for fuel, purchased power, operating costs, interest and taxes, and when cash is received from our utility customers and from the sales of coal and excess emission allowances.

During the year ended December 31, 2010, Net cash provided by operating activities was primarily a result of Net income adjusted for noncash depreciation and amortization, combined with the following significant transactions:

- The $59.9 million increase to Deferred income taxes primarily results from changes related tc pension contributions, depreciation expense and repair expense.
- **DP&L** made discretionary contributions of $40.0 million to the defined benefit pension plan in 2010.
- Other represents items that had a current period cash flow impact and includes changes in working capital and other future rights or obligations to receive or to pay cash. These items are primarily affected by, among other factors, the timing of when cash payments are made for fuel, purchased power, operating costs, interest and taxes, and when cash is received from our utility customers and from the sales of coal and excess emission allowances.

<u>DP&L – Net Cash provided by Operating Activities</u>

DP&L's Net cash provided by operating activities for the years ended December 31, 2012, 2011 and 2010 are summarized as follows:

$ in millions	Years ended December 31, 2012	2011	2010
Net income	**91.2**	193.2	277.7
Depreciation and amortization	**141.3**	134.9	130.7
Deferred income taxes	**3.6**	50.7	54.3
Fixed asset impairment	**80.8**	-	-
Recognition of deferred SECA	**(17.8)**	-	-
Contribution to pension plan	**-**	(40.0)	(40.0
Deferred regulatory assets, net	**(1.5)**	(12.6)	21.8
Other	**42.2**	38.0	10.8
Net cash from operating activities	**339.8**	364.2	455.3

During the year ended December 31, 2012 the significant components of **DP&L's** Net cash provided by operating activities was primarily a result of Net income adjusted for noncash depreciation and amortization, as well as a noncash charge related to the impairment of certain generation facilities. During the years ended December 31, 2011 and 2010, the significant components of **DP&L's** Net cash provided by operating activities are similar to those discussed under **DPL's** Net cash provided by operating activities above.

DPL – Net Cash used for Investing Activities

DPL's Net cash used for investing activities for the years ended December 31, 2012, 2011 and 2010 are summarized as follows:

$ in millions	**Successor** **Year ended December 31, 2012**	**Combined** Year ended December 31, 2011	**Successor** November 28, 2011 through December 31, 2011	**Predecessor** January 1, 2011 through November 27, 2011	**Predecessor** Year ended December 31, 2010
Environmental and renewable energy capital expenditures	**(8.2)**	(11.8)	-	(11.8)	(11.9
Other plant-related asset acquisitions	**(189.9)**	(192.9)	(30.5)	(162.4)	(140.8
Purchase of MC Squared	**-**	(8.3)	-	(8.3)	-
Proceeds from sale of short-term investments	**-**	69.2	-	69.2	(69.3
Other	**(1.1)**	(7.3)	0.1	(7.4)	(7.5
Net cash from investing activities	**(199.2)**	(151.1)	(30.4)	(120.7)	(229.5

During the year ended December 31, 2012, **DP&L's** environmental expenditures were primarily related to pollution control devices at our electric generation stations.

During the year ended December 31, 2011, **DP&L's** environmental expenditures were primarily related to pollution control devices at our generation stations. Additionally, **DPL**, on behalf of DPLER, made a cash payment of approximately $8.3 million to acquire MC Squared. Furthermore, **DPL** redeemed $70.9 million of short-term investments mostly comprised of VRDN securities and purchased an additional $1.7 million of short-term investments during the same period. The VRDN securities have variable coupon rates that are typically re-set weekly relative to various short-term rate indices. **DPL** can tender these securities for sale upon notice to the broker and receive payment for the tendered securities within seven days.

During the year ended December 31, 2010, **DP&L** continued to see reductions in its environmental capital expenditures due to the completion of FGD and SCR projects including the FGD and SCR equipment completed and placed into service at Conesville during the fourth quarter of 2010. Approximately $4.2 million of the environmental capital expenditures incurred during 2010 relate to the construction of a solar energy facility at Yankee station. **DP&L** also continued to make upgrades and other investments in other generation, transmission

and distribution equipment. Additionally, **DPL** purchased $54.2 million of VRDN securities, net of redemptions from various institutional securities brokers as well as $15.1 million of investment-grade fixed income corporate bonds. The VRDN securities are backed by irrevocable letters of credit. These securities have variable coupon rates that are typically re-set weekly relative to various short-term rate indices. **DPL** can tender these VRDN securities for sale upon notice to the broker and receive payment for the tendered securities within seven days.

DP&L – Net Cash used for Investing Activities

DP&L's Net cash used for investing activities for the years ended December 31, 2012, 2011 and 2010 are summarized as follows:

	Years ended December 31,		
$ in millions	**2012**	2011	2010
Environmental and renewable energy capital expenditures	**(8.2)**	(11.8)	(11.9
Other plant-related asset acquisitions	**(187.3)**	(192.7)	(138.1
Proceeds from liquidation of **DPL** stock, held in trust	**-**	26.9	-
Other	**(2.0)**	(7.4)	(7.5
Net cash from investing activities	**(197.5)**	(185.0)	(157.5

During the year ended December 31, 2012, **DP&L's** environmental expenditures were primarily related to pollution control devices at our generation stations.

During the year ended December 31, 2011, **DP&L's** environmental expenditures were primarily related to pollution control devices at our generation stations. Additionally, **DP&L** received proceeds of $26.9 million related to the liquidation of **DPL** stock held in the Master Trust.

During the year ended December 31, 2010, **DP&L** continued to see reductions in its environmental capital expenditures due to the completion of

FGD and SCR projects including the FGD and SCR equipment completed and placed into service at Conesville during the fourth quarter of 2010. Approximately $4.2 million of the environmental capital expenditures incurred during 2010 relate to the construction of a solar energy facility at Yankee station. **DP&L** also continued to make upgrades and other investments in other generation, transmission and distribution equipment.

DPL – Net Cash used for Financing Activities

DPL's Net cash used for financing activities for the years ended December 31, 2012, 2011 and 2010 are summarized as follows:

$ in millions	**Successor**	**Combined**	**Successor**	**Predecessor**	
	Year ended December 31, 2012	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Dividends paid on common stock	**(64.1)**	(176.0)	(63.0)	(113.0)	(139.7
Retirement of long-term debt	**(0.1)**	(297.5)	-	(297.5)	-
Early redemption of long-term debt, including premium	-	(134.2)	-	(134.2)	-
Payment of MC Squared debt	-	(13.5)	-	(13.5)	-
Repurchase of **DPL** common stock	-	-	-	-	(56.4
Payment to former warrant holders	**(9.0)**	-	-	-	-
Issuance of long-term debt	-	425.0	125.0	300.0	-
Proceeds from liquidation of **DPL** stock, held in trust	-	26.9	26.9	-	-
Proceeds from exercise of warrants	-	14.7	-	14.7	-
Other	**(0.5)**	3.0	-	3.0	1.6
Net cash from financing activities	**(73.7)**	(151.6)	88.9	(240.5)	(194.5

During the year ended December 31, 2012, **DPL's** Net cash from financing activities primarily relate to common stock dividends and payments to a former warrant holder.

During the year ended December 31, 2011, **DPL** paid common stock dividends of $176.0 million and retired long-term debt of $297.5 million. Additionally, **DPL** paid $134.2 million for its purchase of a portion of the DPL Capital Trust II capital securities, of which $122.0 million related to the capital securities and an additional $12.2 million related to the premium paid on the purchase. **DPL** also paid down the debt of MC Squared which was acquired in February 2011. **DPL** received $425.0 million from the issuance of additional debt. **DPL** received $26.9 million upon the liquidation of **DPL** stock held in the **DP&L** Master Trust and $14.7 million from the exercise of 700,000 warrants.

During the year ended December 31, 2010, **DPL** paid common stock dividends of $139.7 million. In addition, under the stock repurchase programs approved by the Board of Directors in October 2009 and October 2010 (see Note 14 of Notes to **DPL's** Consolidated Financial Statements), **DPL** repurchased approximately 2.18 million **DPL** common shares for $56.4 million.

DP&L – Net Cash used for Financing Activities

DP&L's Net cash used for financing activities for the years ended December 31, 2012, 2011 and 2010 are summarized as follows:

	Years ended December 31,		
$ in millions	**2012**	2011	2010
Dividends paid on common stock	**(145.0)**	(220.0)	(300.0
Cash contribution from parent	-	20.0	-
Cash withdrawn from restricted funds	-	-	-
Other	**(1.0)**	(1.0)	(0.9
Net cash from financing activities	**(146.0)**	(201.0)	(300.9

During the year ended December 31, 2012, **DP&L's** Net cash used for financing activities primarily relates to $145 million in dividends.

During the year ended December 31, 2011, **DP&L's** Net cash used for financing activities primarily relates to $220 million in dividends offset by $20 million of additional capital contributed by **DPL**.

During the year ended December 31, 2010, **DP&L's** Net cash used for financing activities primarily relates to $300 million in dividends.

Liquidity

We expect our existing sources of liquidity to remain sufficient to meet our anticipated obligations. Our business is capital intensive, requiring significant resources to fund operating expenses, construction expenditures, scheduled debt maturities, taxes, interest and dividend payments. For 2013 and subsequent years, we expect to satisfy these requirements with a combination of cash from operations and funds from the capital markets as our internal liquidity needs and market conditions warrant. We also expect that the borrowing capacity under credit facilities will continue to be available to manage working capital requirements during those periods.

At the filing date of this annual report on Form 10-K, **DP&L** has access to $400.0 million of short-term financing under two revolving credit facilities. The first facility, established in August 2011, is for $200.0 million, expires in August 2015 and has eight participating banks, with no bank having more than 22% of the total commitment. **DP&L** also has the option to increase the borrowing under the first facility by $50.0 million. The second facility, established in April 2010, is for $200.0 million and expires in April 2013. A total of five banks participate in this facility, with no bank having more than 35% of the total commitment. **DP&L** also has the option to increase the borrowing under the second facility by $50.0 million.

At the filing date of this annual report on Form 10-K, **DPL** has access to $75.0 million of short-term financing under a revolving credit facility established in August 2011. This facility expires in August 2014, and has seven participating banks with no bank having more than 32% of the total commitment. In addition, **DPL** entered into a $425.0 million unsecured term loan agreement with a syndicated bank group in August 2011. This agreement is for a three year term expiring on August 24, 2014. The entire $425.0 million has been drawn under this facility.

$ in millions	Type	Maturity	Commitment	Amounts available as of December 31, 2012
DP&L	Revolving	August 2015	200.0	200.0
DP&L	Revolving	April 2013	200.0	200.0
DPL	Revolving	August 2014	75.0	75.0
			475.0	475.0

Each **DP&L** revolving credit facility has a $50 million letter of credit sublimit. The entire **DPL** revolving credit facility amount is available for letter of credit issuances. As of December 31, 2012 and through the date of filing this annual report on Form 10-K, there were no letters of credit issued and outstanding on the revolving credit facilities.

Cash and cash equivalents for **DPL** and **DP&L** amounted to $192.1 million and $28.5 million, respectively, at December 31, 2012. At that date, neither **DPL** nor **DP&L** had short-term investments.

Capital Requirements

CONSTRUCTION ADDITIONS

$ in millions	Actual 2010	2011	2012	Projected 2013	2014	2015
DPL	151	201	180	155	150	165
DP&L	148	199	177	140	145	160

Planned construction additions for 2013 relate primarily to new investments in and upgrades to **DP&L's** electric generating station equipment and transmission and distribution system. Capital projects are subject to continuing review and are revised in light of changes in financial and economic conditions, load forecasts, legislative and regulatory developments and changing environmental standards, among other factors.

DPL, through its subsidiary **DP&L**, is projecting to spend an estimated $470.0 million in capital projects for the period 2013 through 2015. Approximately $15.0 million of this projected amount is to enable **DP&L** to meet the recently revised reliability standards of NERC. **DP&L** is subject to the mandatory reliability standards of NERC and Reliability First Corporation (RFC), one of the eight NERC regions, of which **DP&L** is a member. NERC has recently changed the definition of the Bulk Electric System (BES) to include 100 kV and above facilities, thus expanding the facilities to which the reliability standards apply. **DP&L's** 138 kV facilities were previously not subject to these reliability standards. Accordingly, **DP&L** anticipates spending approximately $72.0 million within the next five years to reinforce its 138 kV system to comply with these new NERC standards. Our ability to complete capital projects and the reliability of future service will be affected by our financial condition, the availability of internal funds and the reasonable cost of external funds. We expect to finance our construction additions with a combination of cash on hand, short-term financing, long-term debt and cash flows from operations.

Debt Covenants

As mentioned above, **DPL** has access to $75.0 million of short-term financing under its revolving credit facility and has borrowed $425.0 million under its term loan facility.

Each of these facilities has two financial covenants, one of which was changed as part of amendments dated October 19, 2012, to the facilities negotiated between **DPL** and the syndicated bank groups. The first financial covenant, originally a Total Debt to Capitalization ratio that was not to exceed 0.70 to 1.00, was changed, effective September 30, 2012, to a Total Debt to EBITDA (**DPL's** consolidated earnings before interest, taxes, depreciation and amortization) ratio. The Total Debt to EBITDA ratio is calculated, at the end of each fiscal quarter, by dividing total debt at the end of the current quarter by consolidated EBITDA for the four prior fiscal quarters. The ratio is not to exceed 7.00 to 1.00 for the for the period September 30, 2012 through December 31, 2012; it then steps up to not exceed 7.75 to 1.00 for the period January 1, 2013 through March 31, 2013; it then steps up to not exceed 8.00 to 1.00 for the period April 1, 2013 through June 30, 2013; and finally it steps up to not exceed 8.25 to 1.00 as of July 1, 2013 and thereafter. As of December 31, 2012, the first financial covenant was met with a ratio of 5.57 to 1.00.

The second financial covenant is an EBITDA to Interest Expense ratio. The EBITDA to Interest Expense ratio is calculated, at the end of each fiscal quarter, by dividing consolidated EBITDA for the four prior fiscal quarters by the consolidated interest charges for the same period. The ratio requires **DPL's** consolidated EBITDA to consolidated interest expense to be not less than 2.50 to 1.00. As of December 31, 2012, the second covenant was met with a ratio of 3.77 to 1.00.

Also mentioned above, **DP&L** has access to $400.0 million of short-term financing under its two revolving credit facilities. The following financial covenant is contained in each revolving credit facility: **DP&L's** total debt to total capitalization ratio is not to exceed 0.65 to 1.00. As of December 31, 2012, this covenant was met with a ratio of 0.43 to 1.00. The above ratio is calculated as the sum of **DP&L's** current and long-term portion of debt, including its guaranty obligations, divided by the total of **DP&L's** shareholders' equity and total debt including guaranty obligations.

Debt Ratings

The following table outlines the debt ratings and outlook for each company, along with the effective dates of each rating and outlook for **DPL** and **DP&L**.

	DPL [(a)]	DP&L [(b)]	Outlook	Effective
Fitch Ratings	BB	BBB+	Rating Watch Negative	November 2012
Moody's Investors Service, Inc.	Ba1	A3	Under Review for Downgrade	November 2012
Standard & Poor's Financial Services LLC	BB	BBB-	Stable	November 2012

Credit Ratings

The following table outlines the credit ratings (issuer/corporate rating) and outlook for each company, along with the effective dates of each rating and outlook for **DPL** and **DP&L**.

	DPL [(a)]	DP&L [(b)]	Outlook	Effective
Fitch Ratings	BB	BBB-	Rating Watch Negative	November 2012
Moody's Investors Service, Inc.	Ba1	Baa2	Under Review for	November 2012

Standard & Poor's Financial Services LLC	BB	BB	Downgrade Stable	November 2012

On November 7, 2012, Fitch Ratings issued a new **DPL** issuer credit rating (Credit Rating) and a new rating on **DPL's** senior unsecured debt (Debt Rating) of BB with an outlook of "Rating Watch Negative". **DP&L** did not receive a new rating, but the outlook on its issuer credit rating and **DP&L's** senior secured debt changed to "Rating Watch Negative". On November 8, 2012, Standard and Poor's Ratings Services issued a new **DPL** issuer credit rating (Credit Rating) of BB and a new rating on **DPL's** senior unsecured debt (Debt Rating) of BB- with an outlook of "Stable". On November 9th 2012, Moody's Investors Services, Inc. placed all the ratings of **DPL** and **DP&L** under review for possible downgrade. Standard and Poor's also downgraded **DP&L's** issuer rating (Credit Rating) to BB and **DP&L's** senior secured debt (Debt Rating) rating to BBB- with an outlook of "Stable". The change in ratings from our rating agencies could have an impact on the market price of our debt and **DP&L's** preferred stock.

If the rating agencies were to reduce our debt or credit ratings, our borrowing costs may increase, our potential pool of investors and funding resources may be reduced, and we may be required to post additional collateral under selected contracts. These events may have an adverse effect on our results of operations, financial condition and cash flows. In addition, any such reduction in our debt or credit ratings may adversely affect the trading price of our outstanding debt securities. Non-investment grade companies, such as **DPL**, may experience higher costs to issue new securities. **DP&L** is still considered investment grade by two of the three rating agencies above.

Off-Balance Sheet Arrangements

DPL – Guarantees

In the normal course of business, **DPL** enters into various agreements with its wholly-owned subsidiaries, DPLE and DPLER, and its wholly-owned subsidiary MC Squared, providing financial or performance assurance to third parties. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to these subsidiaries on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish these subsidiaries' intended commercial purposes. During the year ended December 31, 2012, **DPL** did not incur any losses related to the guarantees of these obligations and we believe it is unlikely that **DPL** would be required to perform or incur any losses in the future associated with any of the above guarantees.

At December 31, 2012, **DPL** had $21.5 million of guarantees to third parties for future financial or performance assurance under such agreements, on behalf of DPLE, DPLER and MC Squared. The guarantee arrangements entered into by **DPL** with these third parties cover present and future obligations of DPLE, DPLER and MC Squared to such beneficiaries and are terminable at any time by **DPL** upon written notice to the beneficiaries. The carrying amount of obligations for commercial transactions covered by these guarantees and recorded in our

Consolidated Balance Sheets was $0.0 million at December 31, 2012 and $0.1 million at December 31, 2011.

DP&L owns a 4.9% equity ownership interest in an electric generation company which is recorded using the cost method of accounting under GAAP. **DP&L** could be responsible for the repayment of 4.9%, or $78.2 million, of a $1,596.5 million debt obligation comprised of both fixed and variable rate securities with maturities between 2013 and 2040. This would only happen if this electric generation company defaulted on its debt payments. As of December 31, 2012, we have no knowledge of such a default.

Commercial Commitments and Contractual Obligations

We enter into various contractual obligations and other commercial commitments that may affect the liquidity of our operations. At December 31, 2012, these include:

	Payments due in:				
$ in millions	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
DPL:					
Long-term debt	2,598.7	570.4	425.3	450.2	1,152.8
Interest payments	1,031.4	133.5	216.3	174.1	507.5
Pension and postretirement payments	256.2	24.6	50.3	51.1	130.2
Operating leases	1.0	0.4	0.6	-	-
Coal contracts [a]	586.4	227.6	150.6	138.8	69.4
Limestone contracts [a]	26.8	5.4	10.7	10.7	-
Purchase orders and other contractual obligations	55.9	34.6	10.9	10.4	-
Reserve for uncertain tax positions	18.3	18.3	-	-	-
Total contractual obligations	4,574.7	1,014.8	864.7	835.3	1,859.9

	Payments due in:				
$ in millions	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
DP&L:					
Long-term debt	903.2	570.4	0.3	0.2	332.3
Interest payments	361.9	34.0	31.6	31.6	264.7
Pension and postretirement payments	256.2	24.6	50.3	51.1	130.2
Operating leases	1.0	0.4	0.6	-	-
Coal contracts [a]	586.4	227.6	150.6	138.8	69.4
Limestone contracts [a]	26.8	5.4	10.7	10.7	-
Purchase orders and other contractual obligations	55.9	34.6	10.9	10.4	-
Reserve for uncertain tax positions	18.3	18.3	-	-	-
Total contractual obligations	2,209.7	915.3	255.0	242.8	796.6

(a) Total at **DP&L** operated units.

Long-term debt:

DPL's Long-term debt as of December 31, 2012 consists of **DPL's** unsecured notes and unsecured term loan, along with **DP&L's** first mortgage bonds, tax-exempt pollution control bonds, capital leases, and the Wright-Patterson Air Force Base (WPAFB) note. These long-term debt amounts include current maturities but exclude unamortized debt discounts, premiums and fair value adjustments.

DP&L's Long-term debt as of December 31, 2012 consists of its first mortgage bonds, tax-exempt pollution control bonds, capital leases and the WPAFB note. These long-term debt amounts include current maturities but exclude unamortized debt discounts.

See Note 7 of the Notes to **DPL's** Consolidated Financial Statements and Note 6 of the Notes to **DP&L's** Financial Statements.

Interest payments:

Interest payments are associated with the long-term debt described above. The interest payments relating to variable-rate debt are projected using the interest rate prevailing at December 31, 2012.

Pension and postretirement payments:

As of December 31, 2012, **DPL**, through its principal subsidiary **DP&L**, had estimated future benefit payments as outlined in Note 9 of Notes to **DPL's** Consolidated Financial Statements and Note 8 of Notes to **DP&L's** Financial Statements. These estimated future benefit payments are projected through 2022.

Capital leases:

As of December 31, 2012, **DPL**, through its principal subsidiary **DP&L**, had two immaterial capital leases that expire in 2013 and 2014.

Operating leases:

As of December 31, 2012, **DPL**, through its principal subsidiary **DP&L**, had several immaterial operating leases with various terms and expiration dates.

Coal contracts:

DPL, through its principal subsidiary **DP&L**, has entered into various long-term coal contracts to supply the coal requirements for the generating stations it operates. Some contract prices are subject to periodic adjustment and have features that limit price escalation in any given year.

Limestone contracts:

DPL, through its principal subsidiary **DP&L**, has entered into various limestone contracts to supply limestone used in the operation of FGD equipment at its generating facilities.

Purchase orders and other contractual obligations:

As of December 31, 2012, **DPL** and **DP&L** had various other contractual obligations including non-cancelable contracts to purchase goods and services with various terms and expiration dates.

Reserve for uncertain tax positions:

As of December 31, 2012, **DPL** and **DP&L** had $18.3 million in uncertain tax positions which are expected to be resolved within the next year.

MARKET RISK

We are subject to certain market risks including, but not limited to, changes in commodity prices for electricity, coal, environmental emissions and gas, changes in capacity prices and fluctuations in interest rates. We use various market risk sensitive instruments, including derivative contracts, primarily to limit our exposure to fluctuations in commodity pricing. Our Commodity Risk Management Committee (CRMC), comprised of members of senior management, is responsible for establishing risk management policies and the monitoring and reporting of risk exposures related to our **DP&L**-operated generation units. The CRMC meets on a regular basis with the objective of identifying, assessing and quantifying material risk issues and developing strategies to manage these risks.

Commodity Pricing Risk

Commodity pricing risk exposure includes the impacts of weather, market demand, increased competition and other economic conditions. To manage the volatility relating to these exposures at our **DP&L**-operated generation units, we use a variety of non-derivative and derivative instruments including forward contracts and futures contracts. These instruments are used principally for economic hedging purposes and none are held for trading purposes. Derivatives that fall within the scope of derivative accounting under GAAP must be recorded at their fair value and marked to market unless they qualify for cash flow hedge accounting. MTM gains and losses on derivative instruments that qualify for cash flow hedge accounting are deferred in AOCI until the forecasted

transactions occur. We adjust the derivative instruments that do not qualify for cash flow hedging to fair value on a monthly basis and where applicable, we recognize a corresponding regulatory asset for above-market costs or a regulatory liability for below-market costs in accordance with regulatory accounting under GAAP.

The coal market has increasingly been influenced by both international and domestic supply and consumption, making the price of coal more volatile than in the past, and while we have substantially all of the total expected coal volume needed to meet our retail and wholesale sales requirements for 2013 under contract, sales requirements may change, particularly for retail load. The majority of the contracted coal is purchased at fixed prices. Some contracts provide for periodic adjustments and some are priced based on market indices. Fuel costs are affected by changes in volume and price and are driven by a number of variables including weather, the wholesale market price of power, certain provisions in coal contracts related to government imposed costs, counterparty performance and credit, scheduled outages and electric generation station mix. To the extent we are not able to hedge against price volatility or recover increases through our fuel and purchased power recovery rider that began in January 2010, our results of operations, financial condition or cash flows could be materially affected.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), signed into law in July 2010, contains significant requirements relating to derivatives, including, among others, a requirement that certain transactions be cleared on exchanges that would necessitate the posting of cash collateral for these transactions. The Dodd-Frank Act provides a potential exception from these clearing and cash collateral requirements for commercial end-users. The Dodd-Frank Act requires the Commodity Futures Trading Commission to establish rules to implement the Dodd-Frank Act's requirements and exceptions. Requirements to post collateral could reduce the cost effectiveness of entering into derivative transactions to reduce commodity price and interest rate volatility or could increase the demands on our liquidity or require us to increase our levels of debt to enter into such derivative transactions. Even if we were to qualify for an exception from these requirements, our counterparties that do not qualify for the exception may pass along any increased costs incurred by them through higher prices and reductions in unsecured credit limits or be unable to enter into certain transactions with us.

For purposes of potential risk analysis, we use a sensitivity analysis to quantify potential impacts of market rate changes on the statements of results of operations. The sensitivity analysis represents hypothetical changes in market values that may or may not occur in the future.

Commodity derivatives

To minimize the risk of fluctuations in the market price of commodities, such as coal, power, and heating oil, we may enter into commodity forward and futures contracts to effectively hedge the cost/revenues of the commodity. Maturity dates of the contracts are scheduled to coincide with market purchases/sales of the commodity. Cash proceeds or payments between us and the counterparty at maturity of the contracts are recognized as an adjustment to the cost of the commodity purchased or sold. We generally do not enter into forward contracts beyond thirty-six months.

A 10% increase or decrease in the market price of our heating oil forwards at December 31, 2012 would not have a significant effect on Net income.

The following table provides information regarding the volume and average market price of our power forward derivative contracts at December 31, 2012 and the effect to Net income if the market price were to increase or decrease by 10%:

Power Forwards	Contra ct Volume (in millions of tons)	Weighted Average Market Price per ton	Increase / decrease in Net income (in millions)
		$ 3	$
2013- Net Purchase/(Sale) Position	(0.9)	4.14	(2.2
2014- Net Purchase/(Sale) Position	(0.6)	$ 3	$

5.45 (1.6

Wholesale revenues

Approximately 11% of **DPL's** and 36% of **DP&L's** electric revenues for the year ended December 31, 2012 were from sales of excess energy and capacity in the wholesale market (**DP&L's** electric revenues in the wholesale market are reduced for sales to DPLER). Energy in excess of the needs of existing retail customers is sold in the wholesale market when we can identify opportunities with positive margins.

Approximately 17% of **DPL's** and 35% of **DP&L's** electric revenues for the year ended December 31, 2011 were from sales of excess energy and capacity in the wholesale market (**DP&L's** electric revenues in the wholesale market are reduced for sales to DPLER). Energy in excess of the needs of existing retail customers is sold in the wholesale market when we can identify opportunities with positive margins.

Approximately 18% of **DPL's** and 30% of **DP&L's** electric revenues for the year ended December 31, 2010 were from sales of excess energy and capacity in the wholesale market. Energy in excess of the needs of existing retail customers is sold in the wholesale market when we can identify opportunities with positive margins.

The table below provides the effect on annual Net income as of December 31, 2012 of a hypothetical increase or decrease of 10% in the price per megawatt hour of wholesale power (**DP&L's** electric revenues in the wholesale market are reduced for sales to DPLER), including the impact of a corresponding 10% change in the portion of purchased power used as part of the sale (note the share of the internal generation used to meet the DPLER wholesale sale would not be affected by the 10% change in wholesale prices):

$ in millions	DPL	DP&L
Effect of 10% change in price per MWh	6.0	5.1

RPM Capacity revenues and costs

As a member of PJM, **DP&L** receives revenues from the RTO related to its transmission and generation assets and incurs costs associated with its load obligations for retail customers. PJM, which has a delivery year which runs from June 1 to May 31, has conducted auctions for capacity through the 2015/16 delivery year. The clearing prices for capacity during the PJM delivery periods from 2011/12 through 2015/16 are as follows:

($/MW-day)	PJM Delivery Year				
	2011/12	2012/13	2013/14	2014/15	2015/1[illegible]
Capacity clearing price	110	16	28	126	13[illegible]

Our computed average capacity prices by calendar year are reflected in the table below:

($/MW-day)	Calendar Year				
	2011	2012	2013	2014	2015
Computed average capacity price	137	55	23	85	132

Future RPM auction results are dependent on a number of factors, which include the overall supply and demand of generation and load, other state legislation or regulation, transmission congestion, and PJM's RPM business rules. The volatility in the RPM capacity auction pricing has had and will continue to have a significant impact on **DPL's** capacity revenues and costs. Although **DP&L** currently has an approved RPM rider in place to recover or repay any excess capacity costs or revenues, the RPM rider only applies to customers supplied under our SSO. Customer switching reduces the number of customers supplied under our SSO, causing more of the RPM capacity costs and revenues to be excluded from the RPM rider calculation.

The table below provides estimates of the effect on annual net income as of December 31, 2012 of a hypothetical increase or decrease of $10/MW-day in the RPM auction price. The table shows the impact resulting from capacity revenue changes. We did not include the impact of a change in the RPM capacity costs since these costs will either be recovered through the RPM rider for SSO retail customers or recovered through the development of our overall energy pricing for customers who do not fall under the SSO. These estimates include the impact of the RPM rider and are based on the levels of customer switching experienced through December 31, 2012. As of December 31, 2012, approximately 34% of **DP&L's** RPM capacity revenues and costs were recoverable from SSO retail customers through the RPM rider.

$ in millions	DPL	DP&L
Effect of $10/MW-day change in capacity auction pricing	5.9	4.5

Capacity revenues and costs are also impacted by, among other factors, the levels of customer switching, our generation capacity, the levels of wholesale revenues and our retail customer load. In determining the capacity price sensitivity above, we did not consider the impact that may arise from the variability of these other factors.

Fuel and purchased power costs

DPL's and **DP&L's** fuel (including coal, gas, oil and emission allowances) and purchased power costs as a percentage of total operating costs in the years ended December 31, 2012, 2011 and 2010 were 39%, 37% and 43%, respectively. We have a significant portion of projected 2013 fuel needs under contract. The majority of our contracted coal is purchased at fixed prices although some contracts provide for periodic pricing adjustments. We may purchase SO_2 allowances for 2013; however, the exact consumption of SO_2 allowances will depend on market prices for power, availability of our generation units and the actual sulfur content of the coal burned. We may purchase some NOx allowances for 2013 depending on NOx emissions. Fuel costs are affected by changes in volume and price and are driven by a number of variables including weather, reliability of coal deliveries, scheduled outages and electric generation station mix.

Purchased power costs depend, in part, upon the timing and extent of planned and unplanned outages of our generating capacity. We will purchase power on a discretionary basis when wholesale market conditions provide opportunities to obtain power at a cost below our internal generation costs.

Effective January 1, 2010, **DP&L** was allowed to recover its SSO retail customers' share of fuel and purchased power costs as part of the fuel rider approved by the PUCO. Since there has been an increase in customer switching, SSO customers currently represent approximately 34% of **DP&L's** total fuel costs. The table below provides the effect on annual net income as of December 31, 2012, of a hypothetical increase or decrease of 10% in the prices of fuel and purchased power, adjusted for the approximate 34% recovery:

$ in millions	DPL	DP&L
Effect of 10% change in fuel and purchased power	23.2	21.6

Interest Rate Risk

As a result of our normal investing and borrowing activities, our financial results are exposed to fluctuations in interest rates, which we manage through our regular financing activities. We maintain both cash on deposit and investments in cash equivalents that may be affected by adverse interest rate fluctuations. **DPL** and **DP&L** have both fixed-rate and variable rate long-term debt. **DPL's** variable-rate debt consists of a $425 million unsecured term loan with a syndicated bank group. The term loan interest rate fluctuates with changes in an underlying interest rate index, typically LIBOR. **DP&L's** variable-rate debt is comprised of publicly held pollution control bonds. The variable-rate bonds bear interest based on a prevailing rate that is reset weekly based on a comparable market index. Market indexes can be affected by market demand, supply, market interest rates and other economic conditions. See Note 7 of Notes to **DPL's** Consolidated Financial Statements.

We partially hedge against interest rate fluctuations by entering into interest rate swap agreements to limit the interest rate exposure on the underlying financing. As of December 31, 2012, we have entered into interest rate hedging relationships with an aggregate notional amount of $160.0 million related to planned future borrowing activities in calendar year 2013. The average interest rate associated with the $160.0 million aggregate notional amount interest rate hedging relationships is 3.8%. We are limiting our exposure to changes in interest rates since we believe the market interest rates at which we will be able to borrow in the future may increase.

The carrying value of **DPL's** debt was $2,609.9 million at December 31, 2012, consisting of **DPL's** unsecured notes and unsecured term loan, along with **DP&L's** first mortgage bonds, tax-exempt pollution control bonds, capital leases, and the WPAFB note. All of **DPL's** debt was adjusted to fair value at the Merger date according to FASC 805. The fair value of this debt at December 31, 2012 was $2,707.1 million, based on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The following table provides information about **DPL's** debt obligations that are sensitive to interest rate changes:

Principal Payments and Interest Rate Detail by Contractual Maturity Date

DPL	Years ending December 31,						Principal amount at December 31, 2012 (a)	Fair value at December 31, 2012
$ in millions	2013	2014	2015	2016	2017	There after		
Long-term debt								
Variable-rate debt	100.0	425.0	-	-	-	-	525.0	525.0
Average interest rate	0.2 %	2.5 %	0.0 %	0.0 %	0.0 %	0.0 %		
Fixed-rate debt	470.4	0.2	0.1	450.1	0.1	1,152.8	2,073.7	2,182.1
Average interest rate	5.1 %	5.2 %	4.2 %	6.5 %	4.2 %	6.6 %		
Total							2,598.7	2,707.1

The carrying value of **DP&L's** debt was $903.1 million at December 31, 2012, consisting of its first mortgage bonds, tax-exempt pollution control bonds, capital leases and the WPAFB note. The fair value of this debt at December 31, 2012 was $926.9 million, based on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The following table provides information about **DP&L's** debt obligations that are sensitive to interest rate changes. Note that the **DP&L** debt was not revalued using push-down accounting as a result of the Merger.

Principal Payments and Interest Rate Detail by Contractual Maturity Date

DP&L	Years ending December 31,						Principal amount at December 31, 2012 (a)	Fair value at December 31, 2012
$ in millions	2013	2014	2015	2016	2017	There after		
Long-term debt								

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(x) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2012**

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-9052	**DPL INC.** (An Ohio Corporation) 1065 Woodman Drive Dayton, Ohio 45432 937-224-6000	**31-1163136**
1-2385	**THE DAYTON POWER AND LIGHT COMPANY** (An Ohio Corporation) 1065 Woodman Drive Dayton, Ohio 45432 937-224-6000	**31-0258470**

Securities registered pursuant to Section 12(b) of the Act: **None**

Indicate by check mark if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

DPL Inc.	Yes ☐	No ☒
The Dayton Power and Light Company	Yes ☐	No ☒

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

DPL Inc.	Yes ☐	No ☒
The Dayton Power and Light Company	Yes ☒	No ☐

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

DPL Inc.	Yes ☒	No ☐
The Dayton Power and Light Company	Yes ☐	No ☒

Indicate by check mark whether each registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

DPL Inc.	Yes ☒	No ☐
The Dayton Power and Light Company	Yes ☒	No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

DPL Inc.	☒
The Dayton Power and Light Company	☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer, large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Non- Smaller

	acceler ated filer	Acceler ated filer	accelerated filer	reportin g compan y
DPL Inc.	☐	☐	☒	☐
The Dayton Power and Light Company	☐	☐	☒	☐

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

DPL Inc.	Yes ☐	No ☒
The Dayton Power and Light Company	Yes ☐	No ☒

All of the outstanding common stock of DPL Inc. is indirectly owned by The AES Corporation. All of the common stock of The Dayton Power and Light Company is owned by DPL Inc.

As of December 31, 2012, each registrant had the following shares of common stock outstanding:

Registrant	Description	Shares Outstanding
DPL Inc.	**Common Stock, no par value**	**1**
The Dayton Power and Light Company	**Common Stock, $0.01 par value**	**41,172,173**

Documents incorporated by reference: **None**

This combined Form 10-K is separately filed by DPL Inc. and The Dayton Power and Light Company. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to a registrant other than itself.

THE REGISTRANTS MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND ARE THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

DPL Inc. and The Dayton Power and Light Company

Index to Annual Report on Form 10-K
Fiscal Year Ended December 31, 2012

GLOSSARY OF TERMS

The following select abbreviations or acronyms are used in this Form 10-K:

Abbreviation or Acronym

AES............

AMI............

AOCI............

ARO............

ASU............

BTU............

CFTC............

CAA............

CAIR............

CSAPR............

CO_2 ....

CCEM

CRES

DPL

DPLE

DPLER

DP&L

Duke Energy

EIR

FERC ....

FGD ....

FTRs...

GLOSSARY OF TERMS (cont.)

Abbreviation or Acronym

GAAP ....

GHG ....

IFRS ....

kWh ....

Master Trust ....

MC Squared ....

Merger...
......

Merger agreement..

Merger date...

MISO ....
......

MRO ....
......

MTM ....
....

MVIC
....

MW ....

MWh ....

NERC ....

Non-bypassable ....

NOV ....

NOx ....

NPDES..

NSR ....

NYMEX..

OAQDA

....

OCC ....

ODT ....

GLOSSARY OF TERMS (cont.)

Abbreviation or Acronym

Ohio EPA ....

Ohio Power..

OTC ....

OVEC ....

PJM.. ....

Predecessor.. ...

PRP
....

PUCO
....

RPM ....

RSU
....

RTO
....

SB
221 ....

SCR
....

SEC
....

SECA
....

SEET ....
......

SERP
....

SFAS
....

SO_2 ....
.....

SO_3 ....
.....

SSO...
......

PART I

Item 1 – Business

This report includes the combined filing of **DPL** and **DP&L**. On November 28, 2011, **DPL** became a wholly-owned subsidiary of AES, a global power company. Throughout this report, the terms "we," "us," "our" and "ours" are used to refer to both **DPL** and **DP&L**, respectively and altogether, unless the context indicates otherwise. Discussions or areas of this report that apply only to **DPL** or **DP&L** will clearly be noted in the section.

FORWARD–LOOKING STATEMENTS

Certain statements contained in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Matters discussed in this report that relate to events or developments that are expected to occur in the future, including management's expectations, strategic objectives, business prospects, anticipated economic performance and financial condition and other similar matters constitute forward-looking statements. Forward-looking statements are based on management's beliefs, assumptions and expectations of future economic performance, taking into account the information currently available to management. These statements are not statements of historical fact and are typically identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will" and similar expressions. Such forward-looking statements are subject to risks and uncertainties and investors are cautioned that outcomes and results may vary materially from those projected due to various factors beyond our control, including but not limited to:

- abnormal or severe weather and catastrophic weather-related damage;
- unusual maintenance or repair requirements;
- changes in fuel costs and purchased power, coal, environmental emissions, natural gas and other commodity prices;
- volatility and changes in markets for electricity and other energy-related commodities;
- performance of our suppliers;
- increased competition and deregulation in the electric utility industry;
- increased competition in the retail generation market;
- changes in interest rates;
- state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, emission levels, rate structures or tax laws;
- changes in environmental laws and regulations to which **DPL** and its subsidiaries are subject;
- the development and operation of RTOs, including PJM to which **DPL's** operating subsidiary (**DP&L**) has given control of its transmission functions;
- changes in our purchasing processes, pricing, delays, contractor and supplier performance and availability;
- significant delays associated with large construction projects;
- growth in our service territory and changes in demand and demographic patterns;
- changes in accounting rules and the effect of accounting pronouncements issued periodically by accounting standard-setting bodies;
- financial market conditions;
- the outcomes of litigation and regulatory investigations, proceedings or inquiries;
- general economic conditions;
- costs related to the Merger and the effects of any disruption from the Merger that may make i more difficult to maintain relationships with employees, customers, other business partners or government entities;

and the risks and other factors discussed in this report and other **DPL** and **DP&L** filings with the SEC.

Forward-looking statements speak only as of the date of the document in which they are made. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which the forward-looking statement is based. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

COMPANY WEBSITES

DPL's public internet site is http://www.dplinc.com. **DP&L's** public internet site is http://www.dpandl.com. The information on these websites is not incorporated by reference into this report.

ORGANIZATION

DPL is a regional energy company incorporated in 1985 under the laws of Ohio. Our executive offices are located at 1065 Woodman Drive, Dayton, Ohio 45432 – telephone (937) 224-6000. **DPL** was acquired by The AES Corporation on November 28, 2011 and is a wholly-owned, indirect subsidiary of AES.

DP&L is a public utility incorporated in 1911 under the laws of Ohio. **DP&L** sells electricity 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 primarily generated at eight coal-fired power stations and is distributed to more than 513,000 retail customers. Principal industries served include automotive, food processing, paper, plastic, manufacturing and defense. **DP&L's** sales reflect the general economic conditions and seasonal weather patterns of the area. **DP&L** sells any excess energy and capacity into the wholesale market. **DP&L** also sells electricity to DPLER, an affiliate, to satisfy the electric requirements of its retail customers.

DPLER sells competitive retail electric service, under contract, to residential, commercial, industrial and governmental customers. DPLER's operations include those of its wholly-owned subsidiary, MC Squared, which was purchased on February 28, 2011. DPLER has approximately 198,000 customers currently located throughout Ohio and Illinois. Approximately 74,000 of DPLER's customers are also electric distribution customers of **DP&L**. DPLER does not have any transmission or generation assets and all of DPLER's electric energy was purchased from **DP&L** or PJM to meet its sales obligations.

DPL's other significant subsidiaries include: DPLE, which owns and operates peaking generating facilities from which it makes wholesale sales of electricity and MVIC, **DPL's** captive insurance company that provides insurance services to us and **DPL's** other subsidiaries.

DPL also has a wholly-owned business trust, DPL Capital Trust II, formed for the purpose of issuing trust capital securities to investors.

All of **DPL's** subsidiaries are wholly-owned. **DP&L** does not have any subsidiaries.

DP&L's electric transmission and distribution businesses are subject to rate regulation by federal and state regulators while its generation business is deemed competitive under Ohio law. Accordingly, **DP&L** applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future customer rates and regulatory liabilities when current recoveries in customer rates relate to expected future costs.

DPL and its subsidiaries had 1,486 employees as of December 31, 2012. At that date, approximately 1,428 of these employees were employed by

DP&L. Approximately 52% of the employees of **DPL** and its subsidiaries are under a collective bargaining agreement which expires on October 31, 2014.

ELECTRIC OPERATIONS AND FUEL SUPPLY

2012 Summer Generating Capacity (in MW)

Summer Generating Capacity	Coal fired	Combu stion Turbines, Diesel Units and Solar	Total
DPL	2,830	988	3,818
DP&L	2,830	432	3,262

DPL's present summer generating capacity, including peaking units, is approximately 3,818 MW. Of this capacity, approximately 2,830 MW, or 74%, is derived from coal-fired steam generating stations and the balance of approximately 988 MW, or 26%, consists of combustion turbines, diesel peaking units and solar.

DP&L's present summer generating capacity, including peaking units, is approximately 3,262 MW. Of this capacity, approximately 2,830 MW, or 87%, is derived from coal-fired steam generating stations and the balance of approximately 432 MW, or 13%, consists of combustion turbines, diesel peaking units and solar.

Our all-time net peak load was 3,270 MW, occurring August 8, 2007.

Approximately 87% of the existing steam generating capacity is provided by certain generating units owned as tenants in common with Duke Energy and Ohio Power. As tenants in common, each company owns a specified share of each of these units, is entitled to its share of capacity and energy output and has a capital and operating cost responsibility proportionate to its ownership share. **DP&L's** remaining steam generating capacity (approximately 365 MW) is derived from a generating station owned solely by **DP&L**. Additionally, **DP&L**, Duke Energy and Ohio Power own, as tenants in common, 880 circuit miles of 345,000-volt transmission lines. **DP&L** has several interconnections with other companies for the purchase, sale and interchange of electricity.

In 2012, we generated 97.3% of our electric output from coal-fired units and 2.7% from solar, oil and natural gas-fired units.

The following table sets forth **DP&L's** and DPLE's generating stations and, where indicated, those stations which **DP&L** owns as tenants in common:

Station	Owner ship [a]	Operating Company	Location	Approximate Summer MW Rating DP&L Portion [b]	Approximate Summer MW Rating Total
Coal Units					
Hutchings	W	DP&L	Miamisburg, OH	365	365
Killen	C	DP&L	Wrightsville, OH	402	600
Stuart	C	DP&L	Aberdeen, OH	808	2,308
Conesville-Unit 4	C	Ohio Power	Conesville, OH	129	780
Beckjord-Unit 6	C	Duke Energy	New Richmond, OH	207	414
Miami Fort-Units 7 & 8	C	Duke Energy	North Bend, OH	368	1,020
East Bend-Unit 2	C	Duke Energy	Rabbit Hash, KY	186	600
Zimmer	C	Duke Energy	Moscow, OH	365	1,300
Solar, Combustion Turbines or Diesel					
Hutchings	W	DP&L	Miamisburg, OH	25	25
Yankee Street	W	DP&L	Centerville, OH	101	101
Yankee Solar	W	DP&L	Centerville, OH	1	1
Monument	W	DP&L	Dayton, OH	12	12
Tait Diesels	W	DP&L	Dayton, OH	10	10
Sidney	W	DP&L	Sidney, OH	12	12
Tait Units 1 - 3	W	DP&L	Moraine, OH	256	256
Killen	C	DP&L	Wrightsville, OH	12	18
Stuart	C	DP&L	Aberdeen, OH	3	10
Montpelier Units 1 - 4	W	DPLE	Poneto, IN	236	236
Tait Units 4 - 7	W	DPLE	Moraine, OH	320	320
Total approximate summer generating capacity				3,818	8,388

(a) W = Wholly owned C = Commonly owned

(b) DP&L portion of commonly owned generating stations

In addition to the above, **DP&L** also owns a 4.9% equity ownership interest in OVEC, an electric generating company. OVEC has two electric generating stations located in Cheshire, Ohio and Madison, Indiana with a combined generation capacity of approximately 2,265 MW. **DP&L's** share of this generation capacity is approximately 111 MW.

We have substantially all of the total expected coal volume needed to meet our retail and wholesale sales requirements for 2013 under contract. The majority of the contracted coal is purchased at fixed prices. Some contracts provide for periodic adjustments and some are priced based on market indices. Fuel costs are affected by changes in volume and price and are driven by a number of variables including weather, the wholesale market price of power, certain provisions in coal contracts related to government imposed costs, counterparty performance and credit, scheduled/forced outages and generation station mix. Due to the installation of emission controls equipment at certain commonly owned units and barring any changes in the regulatory environment in which we operate, we expect to have balanced positions for SO_2, NOx and renewable energy credits for 2013.

The gross average cost of fuel consumed per kWh was as follows:

	Average cost of Fuel Consumed (cents per kWh)		
	2012	2011	2010
DPL	**2.75**	2.76	2.42
DP&L	**2.72**	2.71	2.37

SEASONALITY

The power generation and delivery business is seasonal and weather patterns have a material effect on operating performance. In the region we serve, demand for electricity is generally greater in the summer months associated with cooling and in the winter months associated with heating as compared to other times of the year. Unusually mild summers and winters could have an adverse effect on our results of operations, financial condition and cash flows.

RATE REGULATION AND GOVERNMENT LEGISLATION

DP&L's sales to SSO retail customers are subject to rate regulation by the PUCO. **DP&L's** transmission rates and wholesale electric rates to municipal corporations, rural electric co-operatives and other distributors of electric energy are subject to regulation by the FERC under the Federal Power Act.

Ohio law establishes the process for determining SSO retail rates charged by public utilities. Regulation of retail rates encompasses the timing of applications, the effective date of rate increases, the cost basis upon which the rates are set and other related matters. Ohio law also established the Office of the OCC, which has the authority to represent residential consumers in state and federal judicial and administrative rate proceedings.

Ohio legislation extends the jurisdiction of the PUCO to the records and accounts of certain public utility holding company systems, including **DPL**. The legislation extends the PUCO's supervisory powers to a holding company system's general condition and capitalization, among other matters, to the extent that such matters relate to the costs associated with the provision of public utility service. Based on existing PUCO and FERC authorization, regulatory assets and liabilities are recorded on the balance sheets. See Note 4 of Notes to **DPL's** Consolidated Financial Statements and Note 4 of Notes to **DP&L's** Financial Statements.

COMPETITION AND REGULATION

Ohio Matters

Ohio Retail Rates

The PUCO maintains jurisdiction over **DP&L's** delivery of electricity, SSO and other retail electric services.

On May 1, 2008, substitute SB 221, an Ohio electric energy bill, was signed by the Governor and went into effect July 31, 2008. This law required that all Ohio distribution utilities file either an ESP or MRO to establish rates for SSO service. Under the MRO, a periodic competitive bid process will set the retail generation price after the utility demonstrates that it can meet certain market criteria and bid requirements. Also, under this option, utilities that still own generation in the state are required to phase-in the MRO over a period of not less than five years. An ESP may allow for cost-based adjustments to the SSO for costs associated with environmental compliance; fuel and purchased power; construction of new or investment in specified generating facilities; and the provision of standby and default service, operating, maintenance, or other costs including taxes. As part of its ESP, a utility is permitted to file an infrastructure improvement plan that will specify the initiatives the utility will take to rebuild, upgrade, or replace its electric distribution system, including cost recovery mechanisms. Both the MRO and ESP option involve a SEET based on the earnings of comparable companies with similar business and financial risks.

On October 5, 2012, **DP&L** filed an ESP with the PUCO to establish SSO rates that were to be in effect starting January 2013. The plan was refiled on December 12, 2012 to correct for certain projected costs. The plan requested approval of a non-bypassable charge that is designed to recover $137.5 million per year for five years from all customers. **DP&L** also requested approval of a switching tracker that would measure the incremental amount of switching over a base case and defer the lost value into a regulatory asset which would be recovered from all customers beginning January 2014. The ESP states that **DP&L** plans to file on or before December 31, 2013 its plan for legal separation of its generation assets. The ESP proposes a three year and five month transition to market, whereby a wholesale competitive bidding structure will be phased in to supply generation service to SSO customers. The PUCO is currently reviewing the filing and an evidentiary hearing is scheduled to begin on March 11, 2013. The PUCO authorized that the rates being collected prior to December 31, 2012 would continue until the new ESP rates go into effect.

SB 221 and the implementation rules contain targets relating to advanced energy portfolio standards, renewable energy, demand reduction and energy efficiency standards. If any targets are not met, compliance penalties will apply unless the PUCO makes certain findings that would excuse performance. The PUCO has found that **DP&L** met its renewable targets for compliance years 2008 – 2011. PUCO staff recommended that DPLER met its targets for compliance year 2011. Filing for compliance year 2012 will be made on or before April 15, 2013 and both **DP&L** and DPLER expect to be in full compliance with all renewable targets. Our next energy efficiency portfolio plan is due to be filed in April 2013.

We are unable to predict how the PUCO will respond to many of the filings discussed above, but believe that the outcome for the non-ESP filings will not be material to our financial condition or results of operations. However, as the energy efficiency and alternative energy targets get increasingly larger over time, the costs of complying with SB 221 and the PUCO's implementing rules or the results of our ESP filing could have a material effect on our financial condition or results of operations.

The 2009 ESP Stipulation also provided for the establishment of a fuel and purchased power recovery rider beginning January 1, 2010. The fuel rider fluctuates based on actual costs and recoveries and is modified at the start of each seasonal quarter: March 1, June 1, September 1 and December 1 each year. As part of the PUCO approval process, an outside auditor is hired each year to review fuel costs and the fuel procurement process. **DP&L** and all of the active participants in this proceeding reached a Fuel Stipulation and Recommendation which was approved by the PUCO on November 9, 2011. In November 2011, **DP&L** recorded a $25 million pretax ($16 million net of tax) adjustment as a result of the approval of the fuel settlement agreement by the PUCO. The adjustment was due to the reversal of a provision recorded in accordance with the regulatory accounting rules. We received the audit report for 2011 on April 27, 2012. In 2012, the auditor recommended that the PUCO consider reducing **DP&L's** recovery of fuel costs by approximately $3.4 million from certain transactions. On October 4, 2012, we filed testimony on this issue and a hearing was scheduled. In November 2012, we agreed to an immaterial refund to settle these issues. The liability was recorded in the fourth quarter of 2012 and will be credited to customers in early 2013.

As a member of PJM, **DP&L** receives revenues from the RTO related to its transmission and generation assets and incurs costs associated with its load obligations for retail customers. SB 221 included a provision that would allow Ohio electric utilities to seek and obtain a reconcilable rider to recover RTO-related costs and credits. **DP&L's** TCRR and PJM RPM riders were initially approved in November 2009 to recover these costs. Both the TCRR and the RPM riders assign costs and revenues from PJM monthly bills to retail ratepayers based on the percentage of SSO retail customers' load and sales volumes to total retail load and total retail and wholesale volumes. Customer switching to CRES providers decreases **DP&L's** SSO retail customers' load and sales volumes. Therefore, increases in customer switching cause more of the RPM capacity costs and revenues to be excluded from the RPM rider calculation. RPM capacity costs and revenues are discussed further under "Regional Transmission Organizational Risks" in Item 1A – Risk Factors. **DP&L's** annual true-up of these two riders was approved by the PUCO by Order dated April 25, 2012, and its 2013 filing is currently pending.

On September 9, 2009, the PUCO issued an order establishing a SEET proceeding pursuant to provisions contained in SB 221. The PUCO issued an order on June 30, 2010 to establish general rules for calculating the earnings and comparing them to a comparable group to determine whether there were significantly excessive earnings. The other three Ohio utilities were required to make their SEET determinations in 2012, 2011 and 2010. Pursuant to the 2009 ESP Stipulation, **DP&L** becomes subject to the SEET in 2013 based on 2012 earnings results and the SEET may have a material effect on operations. **DP&L's** SEET filing for its 2012 earnings will be made no later than May 15, 2013.

On June 29, 2012, **DP&L** filed its application to establish reliability targets consistent with the most recent PUCO Electric Service and Safety Standards (ESSS). This filing is still pending with a ruling expected during the second quarter of 2013. According to the ESSS rules, all Ohio utilities are subject to financial penalties if the established targets are not met for two consecutive years. **DP&L** has not missed any of the reliability targets and does not expect any penalties.

Ohio Competitive Considerations and Proceedings

Since January 2001, **DP&L's** electric customers have been permitted to choose their retail electric generation supplier. **DP&L** continues to have the exclusive right to provide delivery service in its state certified territory and the obligation to supply retail generation service to customers that do not choose an alternative supplier. The PUCO maintains jurisdiction over **DP&L's** delivery of electricity, SSO and other retail electric services.

Market prices for power, as well as government aggregation initiatives, have led and may continue to lead to the

entrance of additional competitors in our service territory. As of December 31, 2012, there were twenty-seven CRES providers registered in **DP&L's** service territory. DPLER, an affiliated company and one of the twenty-seven registered CRES providers, has been marketing supply services to **DP&L** customers. During 2012, DPLER accounted for approximately 6,201 million kWh of the total 8,182 million kWh supplied by CRES providers within **DP&L's** service territory. Also during 2012, 79,936 customers with an annual energy usage of 1,981 million kWh were supplied by other CRES providers within **DP&L's** service territory. The volume supplied by DPLER represents approximately 44% of **DP&L's** total distribution sales volume during 2012. The reduction to gross margin in 2012 as a result of customers switching to DPLER and other CRES providers was approximately $141.0 million and $249.0 million, for **DPL** and **DP&L**, respectively. We currently cannot determine the extent to which customer switching to CRES providers will occur in the future and the effect this will have on us, but any additional switching could have a significant adverse effect on our future results of operations, financial condition and cash flows.

Several communities in **DP&L's** service area have passed ordinances allowing the communities to become government aggregators for the purpose of offering retail generation service to their residents. As of February 1, 2013, five communities have active aggregation programs with customers enrolled, and four additional communities have notified the PUCO that they plan to implement government aggregation programs.

In 2010, DPLER began providing CRES services to business customers in Ohio who are not in **DP&L's** service territory. Additionally, beginning in March 2011 with the purchase of MC Squared, DPLER services business and residential customers in northern Illinois. The incremental costs and revenues have not had a material effect on our results of operations, financial condition or cash flows.

Federal Matters

Like other electric utilities and energy marketers, **DP&L** and DPLE may sell or purchase electric products on the wholesale market. **DP&L** and DPLE compete with other generators, power marketers, privately and municipally-owned electric utilities and rural electric cooperatives when selling electricity. The ability of **DP&L** and DPLE to sell this electricity will depend not only on the performance of our generating units, but also on how **DP&L's** and DPLE's prices, terms and conditions compare to those of other suppliers.

As part of Ohio's electric deregulation law, all of the state's investor-owned utilities are required to join an RTO. In October 2004, **DP&L** successfully integrated its high-voltage transmission lines into the PJM RTO. The role of the RTO is to administer a competitive wholesale market for electricity and ensure reliability of the transmission grid. PJM ensures the reliability of the high-voltage electric power system serving more than 50 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. PJM coordinates and directs the operation of the region's transmission grid, administers the world's largest competitive wholesale electricity market and plans regional transmission expansion improvements to maintain grid reliability and relieve congestion.

The PJM RPM capacity base residual auction for the 2015/16 period cleared at a per megawatt price of $136/day for our RTO area. The per megawatt prices for the periods 2014/15, 2013/14 and 2012/13 were $126/day, $28/day and $16/day, respectively, based on previous auctions. Future RPM auction results will be dependent not only on the overall supply and demand of generation and load, but may also be impacted by congestion as well as PJM's business rules relating to bidding for demand response and energy efficiency resources in the RPM capacity auctions. Increases in customer switching causes more of the RPM capacity costs and revenues to be excluded from the RPM rider calculation. We cannot predict the outcome of future auctions or customer switching but if the current auction price is not sustained, it could have a material adverse effect on our future results of operations, financial condition and cash flows.

NERC is a FERC-certified electric reliability organization responsible for developing and enforcing mandatory reliability standards, including Critical Infrastructure Protection (CIP) reliability standards, across eight reliability regions. In December 2012, **DP&L** underwent routine, scheduled NERC audits conducted by Reliability First Corporation (RFC), which focused on our performance in supporting PJM as our transmission operator, and our compliance with the CIP standards. The Company was found 100% compliant in its performance in support of PJM. In the CIP audit, four minor documentation-related Possible Alleged Violations (PAVs) were identified, which the Company anticipates will be eligible for streamlined processing, without any financial penalties.

ENVIRONMENTAL CONSIDERATIONS

DPL's and **DP&L's** facilities and operations are subject to a wide range of federal, state and local environmental regulations and laws. The environmental issues that may affect us include:

- The federal CAA and state laws and regulations (including State Implementation Plans) which require compliance, obtaining permits and reporting as to air emissions.
- Litigation with federal and certain state governments and certain special interest groups regarding whether modifications to or maintenance of certain coal-fired generating stations require additional permitting or pollution control technology, or whether emissions from coal-fired generating stations cause or contribute to global climate changes.
- Rules and future rules issued by the USEPA and Ohio EPA that require substantial reductions in SO_2, particulates, mercury, acid gases, NOx, and other air emissions. **DP&L** has installed emission control technology and is taking other measures to comply with required and anticipated reductions.
- Rules and future rules issued by the USEPA and Ohio EPA that require reporting and may require reductions of GHGs.
- Rules and future rules issued by the USEPA associated with the federal Clean Water Act, which prohibits the discharge of pollutants into waters of the United States except pursuant to appropriate permits.
- Solid and hazardous waste laws and regulations, which govern the management and disposal of certain waste. The majority of solid waste created from the combustion of coal and fossil fuels is fly ash and other coal combustion by-products. The USEPA has previously determined that fly ash and other coal combustion by-products are not hazardous waste subject to the Resource Conservation and Recovery Act (RCRA), but the USEPA is reconsidering that determination. A change in determination or other additional regulation of fly ash or other coal combustion byproducts could significantly increase the costs of disposing of such by-products.

As well as imposing continuing compliance obligations, these laws and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. In the normal course of business, we have investigatory and remedial activities underway at our facilities to comply, or to determine compliance, with such regulations. We record liabilities for loss contingencies related to environmental matters when a loss is probable of occurring and can be reasonably estimated in accordance with the provisions of GAAP. Accordingly, we have accruals for loss contingencies of approximately $3.6 million for environmental matters. We also have a number of unrecognized loss contingencies related to environmental matters that are disclosed in the paragraphs below. We evaluate the potential liability related to environmental matters quarterly and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material adverse effect on our results of operations, financial condition or cash flows.

We have several pending environmental matters associated with our coal-fired generation units. Some of these matters could have material adverse impacts on the operation of the power stations; especially the stations that do not have SCR and FGD equipment installed to further control certain emissions. Currently, our coal-fired generation units at Hutchings and Beckjord do not have this emission-control equipment installed. **DP&L** owns 100% of the Hutchings Station and has a 50% interest in Beckjord Unit 6. In addition to environmental matters, the operation of our coal-fired generation stations could be affected by a multitude of other factors, including forecasted power capacity and commodity prices, competition and the levels of customer switching, current and forecasted customer demand, cost of capital and regulatory and legislative developments, any of which could pose a potential triggering event for an impairment of our investment in Beckjord Unit 6.

On July 15, 2011, Duke Energy, a co-owner at the Beckjord Unit 6 facility, filed their Long-term Forecast Report with the PUCO. The plan indicated that Duke Energy plans to cease production at the Beckjord Station, including our commonly owned Unit 6, in December 2014. This was followed by a notification by the joint owners of Beckjord Unit 6 to PJM, dated April 12, 2012, of a planned June 1, 2015 deactivation of this unit. **DPL** valued Beckjord Unit 6 at zero at the Merger date. **DP&L** is depreciating Unit 6 through December 2014 and does not believe that any additional accruals or impairment charges are needed as a result of this decision.

DP&L has informed PJM that Hutchings Unit 4 has incurred damage to a rotor and will be deactivated June 1, 2013. In addition, **DP&L** has notified PJM that the remaining Hutchings units will be deactivated by June 1, 2015. We do not believe that any accruals are needed related to the Hutchings Station.

Environmental Matters Related to Air Quality

Clean Air Act Compliance

In 1990, the federal government amended the CAA to further regulate air pollution. Under the CAA, the USEPA sets limits on how much of a pollutant can be in the ambient air anywhere in the United States. The CAA allows individual states to have stronger po llution controls than those set under the CAA, but states are not allowed to have weaker pollution controls than those set for the whole country. The CAA has a material effect on our operations and such effects are detailed below with respect to certain programs under the CAA.

Cross-State Air Pollution Rule

The USEPA promulgated the "Clean Air Interstate Rule" (CAIR) on March 10, 2005, which required allowance surrender for SO_2 and NOx emissions from existing power stations located in 28 eastern states and the District of Columbia. CAIR contemplated two implementation phases. The first phase was to begin in 2009 and 2010 for NOx and SO_2, respectively. A second phase with additional allowance surrender obligations for both air emissions was to begin in 2015. To implement the required emission reductions for this rule, the states were to establish emission allowance based "cap-and-trade" programs. CAIR was subsequently challenged in federal court, and on July 11, 2008, the United States Court of Appeals for the D.C. Circuit issued an opinion striking down much of CAIR and remanding it to the USEPA.

In response to the D.C. Circuit's opinion, on July 7, 2011, the USEPA issued a final rule titled "Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone in 27 States," which is now referred to as the Cross-State Air Pollution Rule (CSAPR). Starting in 2012, CSAPR would have required significant reductions in SO_2 and NOx emissions from covered sources, such as power stations. Once fully implemented in 2014, the rule would have required additional SO_2 emission reductions of 73% and additional NOx reductions of 54% from 2005 levels. Many states, utilities and other affected parties filed petitions for review, challenging the CSAPR before the U.S. Court of Appeals for the District of Columbia. A large subset of the Petitioners also sought a stay of the CSAPR. On December 30, 2011, the D.C. Circuit granted a stay of the CSAPR and directed the USEPA to continue administering CAIR. On August 21, 2012, a three-judge panel of the D.C. Circuit Court vacated CSAPR, ruling that USEPA overstepped its regulatory authority by requiring states to make reductions beyond the levels required in the CAA and failed to provide states an initial opportunity to adopt their own measures for achieving federal compliance. As a result of this ruling, the surviving provisions of CAIR will continue to serve as the governing program until USEPA takes further action or the U.S. Congress intervenes. Assuming that USEPA constructs a replacement interstate transport rule addressing the D.C. Circuit Court's ruling, we believe companies will have three years or more before they would be required to comply with a replacement rule. At this time, it is not possible to predict the details of such a replacement transport rule or what impacts it may have on our consolidated financial condition, results of operations or cash flows. On October 5, 2012, USEPA, several states and cities, as well as environmental and health organizations, filed petitions with the D.C. Circuit Court requesting a rehearing by all of the judges of the D.C. Circuit Court of the case pursuant to which the three-judge panel ruled that CSAPR be vacated. On January 24, 2013, the D.C. Circuit Court denied this petition for rehearing en banc of the D.C. Circuit Court's August 2012 decision to vacate CSAPR. Therefore, CAIR remains in effect. If CSAPR were to be reinstated in its current form, we do not expect any material capital costs for **DP&L's** stations, assuming Beckjord 6 and Hutchings generating stations will not operate on coal in 2015 due to implementation of the Mercury and Air Toxics Standards. Because we cannot predict the final outcome of the replacement interstate transport rulemaking, we cannot predict its financial impact on **DP&L's** operations.

Mercury and Other Hazardous Air Pollutants

On May 3, 2011, the USEPA published proposed Maximum Achievable Control Technology (MACT) standards for coal- and oil-fired electric generating units. The standards include new requirements for emissions of mercury and a number of other heavy metals. The USEPA Administrator signed the final rule, now called MATS (Mercury and Air Toxics Standards), on December 16, 2011, and the rule was published in the Federal Register on February 16, 2012. Our affected electric generating units (EGUs) will have to come into compliance with the new requirements by April 16, 2015, but may be granted an additional year contingent on Ohio EPA approval. **DP&L** is evaluating the costs that may be incurred to comply with the new requirement; however, MATS could have a material adverse effect on our results of operations and result in material compliance costs.

On April 29, 2010, the USEPA issued a proposed rule that would reduce emissions of toxic air pollutants from new and existing industrial, commercial and institutional boilers and process heaters at major and area source facilities. The final rule was published in the Federal Register on March 21, 2011. This regulation affects seven auxiliary boilers used for start-up purposes at **DP&L's** generation facilities. The regulations contain emissions limitations, operating limitations and other requirements. In December 2011, the USEPA proposed additional

changes to this rule and solicited comments. On December 21, 2012, the Administrator of USEPA signed the final rule, which was published in the Federal Register on January 31, 2013. Compliance costs are not expected to be material to **DP&L's** operations.

On May 3, 2010, the National Emissions Standards for Hazardous Air Pollutants for compression ignition (CI) reciprocating internal combustion engines (RICE) became effective. The units affected at **DP&L** are 18 diesel electric generating engines and eight emergency "black start" engines. The existing CI RICE units must comply by May 3, 2013. The regulations contain emissions limitations, operating limitations and other requirements. **DP&L** expects to meet this deadline and expects the compliance costs to be immaterial.

National Ambient Air Quality Standards

On January 5, 2005, the USEPA published its final non-attainment designations for the National Ambient Air Quality Standard (NAAQS) for Fine Particulate Matter 2.5 (PM 2.5). These designations included counties and partial counties in which **DP&L** operates and/or owns generating facilities. On December 31, 2012, USEPA redesignated Adams County, where Stuart and Killen are located, to attainment status. This status may be temporary, as on December 14, 2012, the USEPA tightened the PM 2.5 standard to 12.0 micrograms per cubic meter. This will begin a process of redesignations during 2014. We cannot predict the effect the revisions to the PM 2.5 standard will have on **DP&L's** financial condition or results of operations.

On September 16, 2009, the USEPA announced that it would reconsider the 2008 national ground level ozone standard. On September 2, 2011, the USEPA decided to postpone their revisiting of this standard until 2013. **DP&L** cannot determine the effect of this potential change, if any, on its operations.

Effective April 12, 2010, the USEPA implemented revisions to its primary NAAQS for nitrogen dioxide. This change may affect certain emission sources in heavy traffic areas like the I-75 corridor between Cincinnati and Dayton after 2016. Several of our facilities or co-owned facilities are within this area. **DP&L** cannot determine the effect of this potential change, if any, on its operations.

Effective August 23, 2010, the USEPA implemented revisions to its primary NAAQS for SO_2 replacing the current 24-hour standard and annual standard with a one hour standard. **DP&L** cannot determine the effect of this potential change, if any, on its operations.

On May 5, 2004, the USEPA issued its proposed regional haze rule, which addresses how states should determine the Best Available Retrofit Technology (BART) for sources covered under the regional haze rule. Final rules were published July 6, 2005, providing states with several options for determining whether sources in the state should be subject to BART. Numerous units owned and operated by us will be affected by BART. We cannot determine the extent of the impact until Ohio determines how BART will be implemented.

Carbon Dioxide and Other Greenhouse Gas Emissions

In response to a U.S. Supreme Court decision that the USEPA has the authority to regulate GHG emissions from motor vehicles, the USEPA made a finding that CO_2 and certain other GHGs are pollutants under the CAA. Subsequently, under the CAA, USEPA determined that CO_2 and other GHGs from motor vehicles threaten the health and welfare of future generations by contributing to climate change. This finding became effective in January 2010. Numerous affected parties have petitioned the USEPA Administrator to reconsider this decision. On April 1, 2010, USEPA signed the "Light-Duty Vehicle Greenhouse Gas Emission Standards and Corporate Average Fuel Economy Standards" rule. Under USEPA's view, this is the final action that renders CO_2 and certain other GHGs "regulated air pollutants" under the CAA.

Under USEPA regulations finalized in May 2010 (referred to as the "Tailoring Rule"), the USEPA began regulating GHG emissions from certain stationary sources in January 2011. The Tailoring Rule sets forth criteria for determining which facilities are required to obtain permits for their GHG emissions pursuant to the CAA Prevention of Significant Deterioration and Title V operating permit programs. Under the Tailoring Rule, permitting requirements are being phased in through successive steps that may expand the scope of covered sources over time. The USEPA has issued guidance on what the best available control technology entails for the control of GHGs and individual states are required to determine what controls are required for facilities on a case-by-case basis. The ultimate impact of the Tailoring Rule to **DP&L** cannot be determined at this time, but the cost of compliance could be material.

On April 13, 2012, the USEPA published its proposed GHG standards for new electric generating units (EGUs) under CAA subsection 111(b), which would generally require certain new EGUs to meet a standard of 1,000 pounds of CO_2 per megawatt-hour, a standard based on the emissions limitations achievable through natural gas

combined cycle generation. The proposal anticipates that affected coal-fired units would need to install carbon capture and storage or other expensive CO_2 emission control technology to meet the standard. Furthermore, the USEPA may propose and promulgate guidelines for states to address GHG standards for existing EGUs under CAA subsection 111(d). These latter rules may focus on energy efficiency improvements at power stations. We cannot predict the effect of these standards, if any, on **DP&L's** operations.

Approximately 97% of the energy we produce is generated by coal. **DP&L's** share of CO_2 emissions at generating stations we own and co-own is approximately 16 million tons annually. Further GHG legislation or regulation finalized at a future date could have a significant effect on **DP&L's** operations and costs, which could adversely affect our net income, cash flows and financial condition. However, due to the uncertainty associated with such legislation or regulation, we cannot predict the final outcome or the financial effect that such legislation or regulation may have on **DP&L**.

Litigation, Notices of Violation and Other Matters Related to Air Quality

Litigation Involving Co-Owned Stations

On June 20, 2011, the U.S. Supreme Court ruled that the USEPA's regulation of GHGs under the CAA displaced any right that plaintiffs may have had to seek similar regulation through federal common law litigation in the court system. Although we are not named as a party to these lawsuits, **DP&L** is a co-owner of coal-fired stations with Duke Energy and AEP (or their subsidiaries) that could have been affected by the outcome of these lawsuits or similar suits that may have been filed against other electric power companies, including **DP&L**. Because the issue was not squarely before it, the U.S. Supreme Court did not rule against the portion of plaintiffs' original suits that sought relief under state law.

As a result of a 2008 consent decree entered into with the Sierra Club and approved by the U.S. District Court for the Southern District of Ohio, **DP&L** and the other owners of the Stuart generating station are subject to certain specified emission targets related to NOx, SO_2 and particulate matter. The consent decree also includes commitments for energy efficiency and renewable energy activities. An amendment to the consent decree was entered into and approved in 2010 to clarify how emissions would be computed during malfunctions. Continued compliance with the consent decree, as amended, is not expected to have a material effect on **DP&L's** results of operations, financial condition or cash flows in the future.

Notices of Violation Involving Co-Owned Units

In November 1999, the USEPA filed civil complaints and NOVs against operators and owners of certain generation facilities for alleged violations of the CAA. Generation units operated by Duke Energy (Beckjord Unit 6) and Ohio Power (Conesville Unit 4) and co-owned by **DP&L** were referenced in these actions. Although **DP&L** was not identified in the NOVs, civil complaints or state actions, the results of such proceedings could materially affect **DP&L's** co-owned units.

In June 2000, the USEPA issued an NOV to the **DP&L**-operated Stuart generating station (co-owned by **DP&L**, Duke Energy and Ohio Power) for alleged violations of the CAA. The NOV contained allegations consistent with NOVs and complaints that the USEPA had brought against numerous other coal-fired utilities in the Midwest. The NOV indicated the USEPA may: (1) issue an order requiring compliance with the requirements of the Ohio SIP; or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. To date, neither action has been taken. **DP&L** cannot predict the outcome of this matter.

In December 2007, the Ohio EPA issued an NOV to the **DP&L**-operated Killen generating station (co-owned by **DP&L** and Duke Energy) for alleged violations of the CAA. The NOV alleged deficiencies in the continuous monitoring of opacity. We submitted a compliance plan to the Ohio EPA on December 19, 2007. To date, no further actions have been taken by the Ohio EPA.

On March 13, 2008, Duke Energy, the operator of the Zimmer generating station, received an NOV and a Finding of Violation (FOV) from the USEPA alleging violations of the CAA, the Ohio State Implementation Program (SIP) and permits for the Station in areas including SO_2, opacity and increased heat input. A second NOV and FOV with similar allegations was issued on November 4, 2010. Also in 2010, USEPA issued an NOV to Zimmer for excess emissions. **DP&L** is a co-owner of the Zimmer generating station and could be affected by the eventual resolution of these matters. Duke Energy is expected to act on behalf of itself and the co-owners with respect to these matters. **DP&L** is unable to predict the outcome of these matters.

Notices of Violation Involving Wholly-Owned Stations

In 2007, the Ohio EPA and the USEPA issued NOVs to **DP&L** for alleged violations of the CAA at the Hutchings Station. The NOVs' alleged deficiencies relate to stack opacity and particulate emissions. Discussions are under way with the USEPA, the U.S. Department of Justice and Ohio EPA. On November 18, 2009, the USEPA issued an NOV to **DP&L** for alleged NSR violations of the CAA at the Hutchings Station relating to capital projects performed in 2001 involving Unit 3 and Unit 6. **DP&L** does not believe that the two projects described in the NOV were modifications subject to NSR. **DP&L** is engaged in discussions with the USEPA and Justice Department to resolve these matters, but **DP&L** is unable to determine the timing, costs or method by which these issues may be resolved. The Ohio EPA is kept apprised of these discussions.

Environmental Matters Related to Water Quality, Waste Disposal and Ash Ponds

Clean Water Act – Regulation of Water Intake

On July 9, 2004, the USEPA issued final rules pursuant to the Clean Water Act governing existing facilities that have cooling water intake structures. The rules required an assessment of impingement and/or entrainment of organisms as a result of cooling water withdrawal. A number of parties appealed the rules. In April 2009, the U.S. Supreme Court ruled that the USEPA did have the authority to compare costs with benefits in determining best technology available. The USEPA released new proposed regulations on March 28, 2011, which were published in the Federal Register on April 20, 2011. We submitted comments to the proposed regulations on August 17, 2011. In July 2012, USEPA announced that the final rules will be released in June 2013. We do not yet know the impact these proposed rules will have on our operations.

Clean Water Act – Regulation of Water Discharge

In December 2006, we submitted an application for the renewal of the Stuart Station NPDES permit that was due to expire on June 30, 2007. In July 2007, we received a draft permit proposing to continue our authority to discharge water from the station into the Ohio River. On February 5, 2008, we received a letter from the Ohio EPA indicating that they intended to impose a compliance schedule as part of the final permit, that requires us to implement one of two diffuser options for the discharge of water from the station into the Ohio River as identified in a thermal discharge study completed during the previous permit term. Subsequently, **DP&L** and the Ohio EPA reached an agreement to allow **DP&L** to restrict public access to the water discharge area as an alternative to installing one of the diffuser options. The Ohio EPA issued a revised draft permit that was received on November 12, 2008. In December 2008, the USEPA requested that the Ohio EPA provide additional information regarding the thermal discharge in the draft permit. In June 2009, **DP&L** provided information to the USEPA in response to their request to the Ohio EPA. In September 2010, the USEPA formally objected to a revised permit provided by Ohio EPA due to questions regarding the basis for the alternate thermal limitation. In December 2010, **DP&L** requested a public hearing on the objection, which was held on March 23, 2011. We participated in and presented our position on the issue at the hearing and in written comments submitted on April 28, 2011. In a letter to the Ohio EPA dated September 28, 2011, the USEPA reaffirmed its objection to the revised permit as previously drafted by the Ohio EPA. This reaffirmation stipulated that if the Ohio EPA does not re-draft the permit to address the USEPA's objection, then the authority for issuing the permit will pass to the USEPA. The Ohio EPA issued another draft permit in December 2011 and a public hearing was held on February 2, 2012. The draft permit would require **DP&L,** over the 54 months following issuance of a final permit, to take undefined actions to lower the temperature of its discharged water to a level unachievable by the station under its current design or alternatively make other significant modifications to the cooling water system. **DP&L** submitted comments to the draft permit. In November 2012, Ohio EPA issued another draft which included a compliance schedule for performing a study to justify an alternate thermal limitation and to which **DP&L** submitted comments. In December 2012, the USEPA formally withdrew their objection to the permit. On January 7, 2013, Ohio EPA issued a final permit. On February 1, 2013, **DP&L** appealed various aspects of the final permit to the Environmental Review Appeals Commission. Depending on the outcome of the process, the effects could be material on **DP&L's** operations.

In September 2009, the USEPA announced that it will be revising technology-based regulations governing water discharges from steam electric generating facilities. The rulemaking included the collection of information via an industry-wide questionnaire as well as targeted water sampling efforts at selected facilities. Subsequent to the information collection effort, it was anticipated that the USEPA would release a proposed rule by mid-2012 with a final regulation in place by early 2014. In December 2012, USEPA announced that the proposed rule would be released by April 19, 2013 with a deadline for a final rule on May 22, 2014. At present, **DP&L** is unable to predict the impact this rulemaking will have on its operations.

In August 2012, **DP&L** submitted an application for the renewal of the Killen Station NPDES permit which expired in January 2013. At present, the outcome of this proceeding is not known.

In April 2012, **DP&L** received an NOV related to the construction of the Carter Hollow landfill at the Stuart Station. The NOV indicated that construction activities caused sediment to flow into downstream creeks. In addition, the U.S. Army Corps of Engineers issued a Cease and Desist order followed by a notice suspending the previously issued Corps permit authorizing work associated with the landfill. **DP&L** has installed sedimentation ponds as part of the runoff control measures to address this issue and is working with the various agencies to resolve their concerns including entering into settlement discussions with USEPA, although they have not issued any formal NOV. This may affect the landfill's construction schedule and delay its operational date. **DP&L** has accrued an immaterial amount for anticipated penalties related to this issue.

Regulation of Waste Disposal

In September 2002, **DP&L** and other parties received a special notice that the USEPA considers us to be a PRP for the clean-up of hazardous substances at the South Dayton Dump landfill site. In August 2005, **DP&L** and other parties received a general notice regarding the performance of a Remedial Investigation and Feasibility Study (RI/FS) under a Superfund Alternative Approach. In October 2005, **DP&L** received a special notice letter inviting it to enter into negotiations with the USEPA to conduct the RI/FS. No recent activity has occurred with respect to that notice or PRP status. However, on August 25, 2009, the USEPA issued an Administrative Order requiring that access to **DP&L's** service center building site, which is across the street from the landfill site, be given to the USEPA and the existing PRP group to help determine the extent of the landfill site's contamination as well as to assess whether certain chemicals used at the service center building site might have migrated through groundwater to the landfill site. **DP&L** granted such access and drilling of soil borings and installation of monitoring wells occurred in late 2009 and early 2010. On May 24, 2010, three members of the existing PRP group, Hobart Corporation, Kelsey-Hayes Company and NCR Corporation, filed a civil complaint in the United States District Court for the Southern District of Ohio against **DP&L** and numerous other defendants alleging that **DP&L** and the other defendants contributed to the contamination at the South Dayton Dump landfill site and seeking reimbursement of the PRP group's costs associated with the investigation and remediation of the site. On February 10, 2011, the Court dismissed claims against **DP&L** that related to allegations that chemicals used by **DP&L** at its service center contributed to the landfill site's contamination. The Court, however, did not dismiss claims alleging financial responsibility for remediation costs based on hazardous substances from **DP&L** that were allegedly directly delivered by truck to the landfill. Discovery, including depositions of past and present **DP&L** employees, was conducted in 2012 and may continue throughout 2013. In October 2012, **DP&L** received a request from PRP group's consultant to conduct additional soil and groundwater sampling on **DP&L's** service center property. **DP&L** is complying with this sampling request. On February 8, 2013, the Court granted **DP&L's** motion for summary judgment on statute of limitations grounds with respect to claims seeking a contribution toward the costs that are expected to be incurred by PRP group in their performing a Remediation Investigation and Feasibility Study. The Court's ruling is likely to be appealed. **DP&L** is unable to predict the outcome of the appeal. Additionally, the Court's ruling does not address future litigation that may arise with respect to actual remediation costs. While **DP&L** is unable to predict the outcome of these matters, if **DP&L** were required to contribute to the clean-up of the site, it could have a material adverse effect on its operations.

In December 2003, **DP&L** and other parties received a special notice that the USEPA considers us to be a PRP for the clean-up of hazardous substances at the Tremont City landfill site. Information available to **DP&L** does not demonstrate that it contributed hazardous substances to the site. While **DP&L** is unable to predict the outcome of this matter, if **DP&L** were required to contribute to the clean-up of the site, it could have a material adverse effect on its operations.

On April 7, 2010, the USEPA published an Advance Notice of Proposed Rulemaking announcing that it is reassessing existing regulations governing the use and distribution in commerce of polychlorinated biphenyls (PCBs). While this reassessment is in the early stages and the USEPA is seeking information from potentially affected parties on how it should proceed, the outcome may have a material effect on **DP&L**. While the USEPA has indicated that the official release date for a proposed rule is sometime in April 2013, it may be delayed until late 2013 or early 2014. At present, **DP&L** is unable to predict the impact this initiative will have on its operations.

Regulation of Ash Ponds

In March 2009, the USEPA, through a formal Information Collection Request, collected information on ash pond facilities across the country, including those at Killen and Stuart Stations. Subsequently, the USEPA collected similar information for the Hutchings Station.

In August 2010, the USEPA conducted an inspection of the Hutchings Station ash ponds. In June 2011, the USEPA issued a final report from the inspection including recommendations relative to the Hutchings Station ash

ponds. **DP&L** is unable to predict whether there will be additional USEPA action relative to **DP&L's** proposed plan or the effect on operations that might arise under a different plan.

In June 2011, the USEPA conducted an inspection of the Killen Station ash ponds. In May 2012, we received a draft report on the inspection. **DP&L** submitted comments on the draft report in June 2012. **DP&L** is unable to predict the outcome this inspection will have on its operations.

There has been increasing advocacy to regulate coal combustion byproducts under the Resource Conservation Recovery Act (RCRA). On June 21, 2010, the USEPA published a proposed rule seeking comments on two options under consideration for the regulation of coal combustion byproducts including regulating the material as a hazardous waste under RCRA Subtitle C or as a solid waste under RCRA Subtitle D. Litigation has been filed by several groups seeking a court-ordered deadline for the issuance of a final rule which USEPA has opposed. At present, the timing for a final rule regulating coal combustion byproducts cannot be determined. **DP&L** is unable to predict the financial effect of this regulation, but if coal combustion byproducts are regulated as hazardous waste, it is expected to have a material adverse effect on its operations.

Notice of Violation Involving Co-Owned Units

On September 9, 2011, **DP&L** received an NOV from the USEPA with respect to its co-owned Stuart generating station based on a compliance evaluation inspection conducted by the USEPA and Ohio EPA in 2009. The notice alleged non-compliance by **DP&L** with certain provisions of the RCRA, the Clean Water Act National Pollutant Discharge Elimination System permit program and the station's storm water pollution prevention plan. The notice requested that **DP&L** respond with the actions it has subsequently taken or plans to take to remedy the USEPA's findings and ensure that further violations will not occur. Based on its review of the findings, although there can be no assurance, we believe that the notice will not result in any material effect on **DP&L's** results of operations, financial condition or cash flow.

Legal and Other Matters

In February 2007, **DP&L** filed a lawsuit against a coal supplier seeking damages incurred due to the supplier's failure to supply approximately 1.5 million tons of coal to two commonly owned units under a coal supply agreement, of which approximately 570 thousand tons was **DP&L's** share. **DP&L** obtained replacement coal to meet its needs. The supplier has denied liability, and is currently in federal bankruptcy proceedings in which **DP&L** is participating as an unsecured creditor. **DP&L** is unable to determine the ultimate resolution of this matter. **DP&L** has not recorded any assets relating to possible recovery of costs in this lawsuit.

In connection with **DP&L** and other utilities joining PJM, in 2006, the FERC ordered utilities to eliminate certain charges to implement transitional payments, known as SECA, effective December 1, 2004 through March 31, 2006, subject to refund. Through this proceeding, **DP&L** was obligated to pay SECA charges to other utilities, but received a net benefit from these transitional payments. A hearing was held and an initial decision was issued in August 2006. A final FERC order on this issue was issued on May 21, 2010 that substantially supports **DP&L's** and other utilities' position that SECA obligations should be paid by parties that used the transmission system during the timeframe stated above. Prior to this final order being issued, **DP&L** had entered into a significant number of bilateral settlement agreements with certain parties to resolve the matter, which by design will be unaffected by the final decision. On July 5, 2012, a Stipulation was executed and filed with the FERC that resolved SECA claims against BP Energy Company ("BP") and **DP&L**, AEP (and its subsidiaries) and Exelon Corporation (and its subsidiaries). On October 1, 2012, **DP&L** received $14.6 million (including interest income of $1.8 million) from BP and recorded the settlement in the third quarter; at December 31, 2012, there is no remaining balance in other deferred credits related to SECA.

Also refer to Notes 2 and 17 of Notes to **DPL's** Consolidated Financial Statements for additional information about the Merger and certain related legal matters.

Capital Expenditures for Environmental Matters

DP&L's environmental capital expenditures were approximately $8.0 million, $12.0 million and $12.0 million in 2012, 2011 and 2010, respectively. **DP&L** has budgeted $26.0 million in environmental related capital expenditures for 2013.

ELECTRIC SALES AND REVENUES

The following table sets forth **DPL's** electric sales and revenues for the year ended December 31, 2012, the year ended December 31, 2011, the period November 28, 2011 (the Merger date) through December 31, 2011 (Successor), the period January 1, 2011 through November 27, 2011 and the year ended 2010 (Predecessor), respectively.

In the following table, we have included the combined Predecessor and Successor statistical information and results of operations. Such combined presentation is considered to be a non-GAAP disclosure. We have included such disclosure because we believe it facilitates the comparison of 2012 operating and financial performance to 2011 and 2010, and because the core operations of **DPL** have not changed as a result of the Merger.

	DPL				
	Successor	Combined	Successor	Predecessor	
	Year ended December 31, 2012	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Electric sales (millions of kWh)	16,454	16,382	1,361	15,021	17,237
Billed electric customers (end of period)	637,708	516,887			514,878

DPL is structured in two operating segments, **DP&L** and DPLER. See Note 18 of Notes to **DPL's** Consolidated Financial Statements for more information on **DPL's** segments. The following tables set forth **DP&L's** and DPLER's electric sales and revenues for the years ended December 31, 2012, 2011 and 2010, respectively.

	DP&L (a)		
	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31 2010
Electric sales (millions of kWh)	15,606	15,599	17,083
Billed electric customers (end of period)	513,282	513,383	514,235

	DPLER (b)		
	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31 2010
Electric sales (millions of kWh)	8,315	6,677	4,546
Billed electric customers (end of period)	198,098	40,171	9,002

(a) DP&L sold 6,201 million kWh, 5,731 million kWh and 4,417 million kWh of power to DPLER (a subsidiary of DPL) for the years ended December 31, 2012, 2011 and 2010, respectively.

(b) This chart includes all sales of DPLER, both within and outside of the DP&L service territory.

Item 1A – Risk Factors

Investors should consider carefully the following risk factors that could cause our business, operating results and financial condition to be materially adversely affected. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our business or financial performance. These risk factors should be read in conjunction with the other detailed information concerning **DPL** set forth in the Notes to **DPL's** audited Consolidated Financial Statements and **DP&L** set forth in the Notes to **DP&L's** audited Financial Statements in Item 8 – Financial Statements and Supplementary Data and in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations herein. The risks and uncertainties described below are not the only ones we face.

Our customers have the opportunity to select alternative electric generation service providers, as permitted by Ohio legislation.

Customers can elect to buy transmission and generation service from a PUCO-certified CRES provider offering services to customers in **DP&L's** service territory. DPLER, a wholly-owned subsidiary of **DPL**, is one of those PUCO-certified CRES providers. Unaffiliated CRES providers also have been certified to provide energy in **DP&L's** service territory. Customer switching from **DP&L** to DPLER reduces **DPL's** revenues since the generation rates charged by DPLER are less than the SSO rates charged by **DP&L**. Increased competition by unaffiliated CRES providers in **DP&L's** service territory for retail generation service could result in the loss of existing customers and reduced revenues and increased costs to retain or attract customers. Decreased revenues and increased costs due to continued customer switching and customer loss could have a material adverse effect on our results of operations, financial condition and cash flows. The following are some of the factors that could result in increased switching by customers to PUCO-certified CRES providers in the future:

- low wholesale price levels have led and may continue to lead to existing CRES providers becoming more active in our service territory,
- additional CRES providers entering our territory, and
- we could experience increased customer switching through "governmental aggregation," where a municipality may contract with a CRES provider to provide generation service to the customers located within the municipal boundaries.

We are subject to extensive laws and local, state and federal regulation, as well as related litigation, that could affect our operations and costs.

We are subject to extensive laws and regulation by federal, state and local authorities, such as the PUCO, the CFTC, the USEPA, the Ohio EPA, the FERC, the Department of Labor and the Internal Revenue Service, among others. Regulations affect almost every aspect of our business, including in the areas of the environment, health and safety, cost recovery and rate making, the issuance of securities and incurrence of debt and taxation. New laws and regulations, and new interpretations of existing laws and regulations, are ongoing and we generally cannot predict the future course of changes in this regulatory environment or the ultimate effect that this changing regulatory environment will have on our business. Complying with this regulatory environment requires us to expend a significant amount of funds and resources. The failure to comply with this regulatory environment could subject us to substantial financial costs and penalties and changes, either forced or voluntary, in the way we operate our business. Additional detail about the effect of this regulatory environment on our operations is included in the risk factors set forth below. In the normal course of business, we are also subject to various lawsuits, actions, proceedings, claims and other matters asserted under this regulatory environment or otherwise, which require us to expend significant funds to address, the outcomes of which are uncertain and the adverse resolutions of which could have a material adverse effect on our results of operations, financial condition and cash flows.

The costs we can recover and the return on capital we are permitted to earn for certain aspects of our business are regulated and governed by the laws of Ohio and the rules, policies and procedures of the PUCO.

On May 1, 2008, SB 221, an Ohio electric energy bill, was signed by the Governor of Ohio and became effective July 31, 2008. This law, among other things, required all Ohio distribution utilities to file either an ESP or MRO, and established a significantly excessive earnings test for Ohio public utilities that compares the utility's earnings to the earnings of other companies with similar business and financial risks. The PUCO approved **DP&L's** filed ESP on June 24, 2009 and extended those rates until an order is issued in the currently pending ESP case. The current ESP case will result in changes to the current rate structure and riders that could adversely affect our results of operations, cash flows and financial condition. **DP&L's** ESP and certain filings made by us in connection with this plan are further discussed under "Ohio Retail Rates" in Item 1 – Competition and Regulation.

While rate regulation is premised on full recovery of prudently incurred costs and a reasonable rate of return on invested capital, there can be no assurance that the PUCO will agree that all of our costs have been prudently incurred or are recoverable or that the regulatory process in which rates are determined will always result in rates that will produce a full or timely recovery of our costs and permitted rates of return. Certain of our cost recovery riders are also bypassable by some of our customers who switched to a CRES provider. Accordingly, the revenue **DP&L** receives may or may not match its expenses at any given time. Therefore, **DP&L** could be subject to prevailing market prices for electricity and would not necessarily be able to charge rates that produce timely or full recovery of its expenses. Changes in, or reinterpretations of, the laws, rules, policies and procedures that set electric rates, permitted rates of return; changes in **DP&L's** rate structure, regulations regarding ownership of generation assets, transition to a competitive bid structure to supply retail generation service to SSO customers, reliability initiatives, fuel and purchased power (which account for a substantial portion of our operating costs), customer switching, capital expenditures and investments and other costs on a full or timely basis through rates; and changes to the frequency and timing of rate increases could have a material adverse effect on our results of operations, financial condition and cash flows.

Our increased costs due to advanced energy and energy efficiency requirements may not be fully recoverable in the future.

SB 221 contains targets relating to advanced energy, renewable energy, peak demand reduction and energy efficiency standards. The standards require that, by the year 2025 and each year thereafter, 25% of the total number of kWh of electricity sold by the utility to retail electric consumers must come from alternative energy resources, which include "advanced energy resources" such as distributed generation, clean coal, advanced nuclear, energy efficiency and fuel cell technology; and "renewable energy resources" such as solar, hydro, wind, geothermal and biomass. At least half of the 25% must be generated from renewable energy resources, including solar energy. Annual renewable energy standards began in 2009 with increases in required percentages each year through 2024. The advanced energy standard must be met by 2025 and each year thereafter. Annual targets for energy efficiency began in 2009 and require increasing energy reductions each year compared to a baseline energy usage, up to 22.3% by 2025. Peak demand reduction targets began in 2009 with increases in required percentages each year, up to 7.75% by 2018. The advanced energy and renewable energy standards have increased our power supply costs and are expected to continue to increase (and could materially increase) these costs. Pursuant to **DP&L's** approved ESP, **DP&L** is entitled to recover costs associated with its alternative energy compliance costs, as well as its energy efficiency and demand response programs. **DP&L** began recovering these costs in 2009. If in the future we are unable to timely or fully recover these costs, it could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, if we were found not to be in compliance with these standards, monetary penalties could apply. These penalties are not permitted to be recovered from customers and significant penalties could have a material adverse effect on our results of operations, financial condition and cash flows. The demand reduction and energy efficiency standards by design result in reduced energy and demand that could adversely affect our results of operations, financial condition and cash flows.

The availability and cost of fuel has experienced and could continue to experience significant volatility and we may not be able to hedge the entire exposure of our operations from fuel availability and price volatility.

We purchase coal, natural gas and other fuel from a number of suppliers. The coal market in particular has experienced significant price volatility in the last several years. We are now in a global market for coal in which our domestic price is increasingly affected by international supply disruptions and demand balance. Coal exports from the U.S. have increased significantly at times in recent years. In addition, domestic issues like government-imposed direct costs and permitting issues that affect mining costs and supply availability, the variable demand of retail customer load and the performance of our generation fleet have an impact on our fuel procurement operations. Our approach is to hedge the fuel costs for our anticipated electric sales. However, we may not be able to hedge the entire exposure of our operations from fuel price volatility. As of the date of this report, **DP&L** has substantially all of the expected coal volume needed under contract to meet its retail and wholesale sales requirements for 2013. In 2012, approximately 80% of **DP&L's** coal for stations it operates was provided by four suppliers, three of which were under contracts in excess of one year with **DP&L**. Historically, some of our suppliers and buyers of fuel have not performed on their contracts and have failed to deliver or accept fuel as specified under their contracts. To the extent our suppliers and buyers do not meet their contractual commitments and, as a result of such failure or otherwise, we cannot secure adequate fuel or sell excess fuel in a timely or cost-effective manner or we are not hedged against price volatility, we could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, **DP&L** is a co-owner of certain generation facilities where it is a non-operating owner. **DP&L** does not procure or have control over the fuel for these facilities, but is responsible for its proportionate share of the cost of fuel procured at these facilities. Co-

owner operated facilities do not always have realized fuel costs that are equal to our co-owners' projections, and we are responsible for our proportionate share of any increase in actual fuel costs. Fuel and purchased power costs represent a large and volatile portion of **DP&L's** total cost. Pursuant to its ESP for SSO retail customers, **DP&L** implemented a fuel and purchased power recovery mechanism beginning on January 1, 2010, which subjects our recovery of fuel and purchased power costs to tracking and adjustment on a seasonal quarterly basis. If in the future we are unable to timely or fully recover our fuel and purchased power costs, it could have a material adverse effect on our results of operations, financial condition and cash flows.

The natural gas market in the U.S. experienced significant price volatility in 2012. This in turn put downward pressure on wholesale electricity prices in the Ohio market, compressing wholesale margins at **DP&L**. These overall lower prices have led to increased switching from **DP&L** to other CRES providers, including DPLER, who are offering retail prices lower than **DP&L's** current SSO. Also, several municipalities in **DP&L's** service territory have passed ordinances allowing them to become government aggregators and some municipalities have contracted with CRES providers to provide generation service to the customers located within the municipal boundaries, further contributing to the switching trend. CRES providers have also become more active in **DP&L's** service territory. These factors may reduce our margins and could have a material adverse effect on our results of operations, financial condition and cash flows.

Our use of derivative and nonderivative contracts may not fully hedge our generation assets, customer supply activities, or other market positions against changes in commodity prices, and our hedging procedures may not work as planned.

We transact in coal, power and other commodities to hedge our positions in these commodities. These trades are affected by a range of factors, including variations in power demand, fluctuations in market prices, market prices for alternative commodities and optimization opportunities. We have attempted to manage our commodities price risk exposure by establishing and enforcing risk limits and risk management policies. Despite our efforts, however, these risk limits and management policies may not work as planned and fluctuating prices and other events could adversely affect our results of operations, financial condition and cash flows. As part of our risk management, we use a variety of non-derivative and derivative instruments, such as swaps, futures and forwards, to manage our market risks. We also use interest rate derivative instruments to hedge against interest rate fluctuations related to our debt. In the absence of actively quoted market prices and pricing information from external sources, the valuation of some of these derivative instruments involves management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of some of these contracts. We could also recognize financial losses as a result of volatility in the market values of these contracts or if a counterparty fails to perform, which could result in a material adverse effect on our results of operations, financial condition and cash flows.

The Dodd-Frank Act contains significant requirements related to derivatives that, among other things, could reduce the cost effectiveness of entering into derivative transactions.

In July 2010, The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. The Dodd-Frank Act contains significant requirements relating to derivatives, including, among others, a requirement that certain transactions be cleared on exchanges that would necessitate the posting of cash collateral for these transactions. The Dodd-Frank Act provides a potential exception from these clearing and cash collateral requirements for commercial end-users. The Dodd-Frank Act requires the CFTC to establish rules to implement the Dodd-Frank Act's requirements and exceptions. Requirements to post collateral could reduce the cost effectiveness of entering into derivative transactions to reduce commodity price and interest rate volatility or could increase the demands on our liquidity or require us to increase our levels of debt to enter into such derivative transactions. Even if we were to qualify for an exception from these requirements, our counterparties that do not qualify for the exception may pass along any increased costs incurred by them through higher prices and reductions in unsecured credit limits or be unable to enter into certain transactions with us. The occurrence of any of these events could have an adverse effect on our results of operations, financial condition and cash flows.

We are subject to numerous environmental laws and regulations that require capital expenditures, increase our cost of operations, may expose us to environmental liabilities or make continued operation of certain generating units unprofitable.

Our operations and facilities (both wholly-owned and co-owned with others) are subject to numerous and extensive federal, state and local environmental laws and regulations relating to various matters, including air quality (such as reductions in NOx, SO_2 and particulate emissions), water quality, wastewater discharge, solid waste and hazardous waste. We could also become subject to additional environmental laws and regulations and other requirements in the future (such as reductions in mercury and other hazardous air pollutants, SO_3 (sulfur trioxide), regulation of ash generated from coal-based generating stations and reductions in GHG emissions as

discussed in more detail in the next risk factor). With respect to our largest generation station, the Stuart Station, we are also subject to continuing compliance requirements related to NOx, SO_2 and particulate matter emissions under **DP&L's** consent decree with the Sierra Club. Compliance with these laws, regulations and other requirements requires us to expend significant funds and resources and could at some point become prohibitively expensive or result in our shutting down (temporarily or permanently) or altering the operation of our facilities. Environmental laws and regulations also generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. If we are not able to timely obtain, maintain or comply with all licenses, permits, inspections and approvals required to operate our business, then our operations could be prevented, delayed or subject to additional costs. Failure to comply with environmental laws, regulations and other requirements may result in the imposition of fines and penalties or other sanctions and the imposition of stricter environmental standards and controls and other injunctive measures affecting operating assets. In addition, any alleged violation of these laws, regulations and other requirements may require us to expend significant resources to defend against any such alleged violations. **DP&L** owns a non-controlling interest in several generating stations operated by our co-owners. As a non-controlling owner in these generating stations, **DP&L** is responsible for its pro rata share of expenditures for complying with environmental laws, regulations and other requirements, but has limited control over the compliance measures taken by our co-owners. In addition, **DP&L's** ESP permits it to seek recovery for costs associated with new climate change or carbon regulations. In addition, if we were found not to be in compliance with these environmental laws, regulations or requirements, any penalties that would apply or other resulting costs would likely not be recoverable from customers. We could be subject to joint and several strict liabilities for any environmental contamination at our currently or formerly owned, leased or operated properties or third-party waste disposal sites. For example, contamination has been identified at two waste disposal sites for which we are alleged to have potential liability. In addition to potentially significant investigation and remediation costs, any such contamination matters can give rise to claims from governmental authorities and other third parties for fines or penalties, natural resource damages, personal injury and property damage.

Our costs and liabilities relating to environmental matters could have a material adverse effect on our results of operations, financial condition and cash flows.

If legislation or regulations at the federal, state or regional levels impose mandatory reductions of greenhouse gases on generation facilities, we could be required to make large additional capital investments and incur substantial costs.

There is an ongoing concern nationally and internationally among regulators, investors and others concerning global climate change and the contribution of emissions of GHGs, including most significantly CO_2. This concern has led to interest in legislation and action at the international, federal, state and regional levels and litigation, including regulation of GHG emissions by the USEPA. Approximately 97% of the energy we produce is generated by coal. As a result of current or future legislation or regulations at the international, federal, state or regional levels imposing mandatory reductions of CO_2 and other GHGs on generation facilities, we could be required to make large additional capital investments and/or incur substantial costs in the form of taxes or emissions allowances. Such legislation and regulations could also impair the value of our generation stations or make some of these stations uneconomical to maintain or operate and could raise uncertainty about the future viability of fossil fuels, particularly coal, as an energy source for new and existing generation stations. Although **DP&L** is permitted under its current ESP to seek recovery of costs associated with new climate change or carbon regulations, our inability to fully or timely recover such costs could have a material adverse effect on our results of operations, financial condition and cash flows.

Fluctuations in our sales of coal and excess emission allowances could cause a material adverse effect on our results of operations, financial condition and cash flows for any particular period.

DP&L sells coal to other parties from time to time for reasons that include maintaining an appropriate balance between projected supply and projected use and as part of a coal price optimization program where coal under contract may be resold and replaced with other coal or power available in the market with a favorable price spread, adjusted for any quality differentials. Sales of coal are affected by a range of factors, including price volatility among the different coal basins and qualities of coal, variations in power demand and the market price of power compared to the cost to produce power. These factors could cause the amount and price of coal we sell to fluctuate, which could have a material adverse effect on our results of operations, financial condition and cash flows for any particular period.

DP&L may sell its excess emission allowances, including NOx and SO_2 emission allowances, from time to time. Sales of any excess emission allowances are affected by a range of factors, such as general economic conditions, fluctuations in market demand, availability of excess inventory for sale and changes to the regulatory environment, including the implementation of CAIR or any replacement rule. These factors could cause the

---

amount and price of excess emission allowances **DP&L** sells to fluctuate, which could have a material adverse effect on **DPL's** results of operations, financial condition and cash flows for any particular period. Although there has been overall reduced trading activity in the annual NOx and SO_2 emission allowance trading markets in recent years, the adoption of regulations that regulate emissions or establish or modify emission allowance trading programs could affect the emission allowance trading markets and have a material effect on **DP&L's** emission allowance sales.

The operation and performance of our facilities are subject to various events and risks that could negatively affect our business.

The operation and performance of our generation, transmission and distribution facilities and equipment is subject to various events and risks, such as the potential breakdown or failure of equipment, processes or facilities, fuel supply or transportation disruptions, the loss of cost-effective disposal options for solid waste generated by our facilities (such as coal ash and gypsum), accidents, injuries, labor disputes or work stoppages by employees, operator error, acts of terrorism or sabotage, construction delays or cost overruns, shortages of or delays in obtaining equipment, material and labor, operational restrictions resulting from environmental limitations and governmental interventions, performance below expected or required levels, weather-related and other natural disruptions, vandalism, events occurring on the systems of third parties that interconnect to and affect our system and the increased maintenance requirements, costs and risks associated with our aging generation units. Our results of operations, financial condition and cash flows could have a material adverse effect due to the occurrence or continuation of these events.

Diminished availability or performance of our transmission and distribution facilities could result in reduced customer satisfaction and regulatory inquiries and fines, which could have a material adverse effect on our results of operations, financial condition and cash flows. Operation of our owned and co-owned generating stations below expected capacity levels, or unplanned outages at these stations, could cause reduced energy output and efficiency levels and likely result in lost revenues and increased expenses that could have a material adverse effect on our results of operations, financial condition and cash flows. In particular, since over 50% of our base-load generation is derived from co-owned generation stations operated by our co-owners, poor operational performance by our co-owners, misalignment of co-owners' interests or lack of control over costs (such as fuel costs) incurred at these stations could have an adverse effect on us. We have constructed and placed into service FGD facilities at most of our base-load generating stations. If there is significant operational failure of the FGD equipment at the generating stations, we may not be able to meet emission requirements at some of our generating stations or, at other stations, it may require us to burn more expensive types of coal or procure additional emission allowances. These events could result in a substantial increase in our operating costs. Depending on the degree, nature, extent, or willfulness of any failure to comply with environmental requirements, including those imposed by any consent decrees, such non-compliance could result in the imposition of penalties or the shutting down of the affected generating stations, which could have a material adverse effect on our results of operations, financial condition and cash flows.

Asbestos and other regulated substances are, and may continue to be, present at our facilities. We have been named as a defendant in asbestos litigation, which at this time is not material to us. The continued presence of asbestos and other regulated substances at these facilities could result in additional litigation being brought against us, which could have a material adverse effect on our results of operations, financial condition and cash flows.

If we were found not to be in compliance with the mandatory reliability standards, we could be subject to sanctions, including substantial monetary penalties, which likely would not be recoverable from customers through regulated rates and could have a material adverse effect on our results of operations, financial condition and cash flows.

As an owner and operator of a bulk power transmission system, **DP&L** is subject to mandatory reliability standards promulgated by the NERC and enforced by the FERC. The standards are based on the functions that need to be performed to ensure the bulk power system operates reliably and is guided by reliability and market interface principles. In addition, **DP&L** is subject to Ohio reliability standards and targets. Compliance with reliability standards subjects us to higher operating costs or increased capital expenditures. While we expect to recover costs and expenditures from customers through regulated rates, there can be no assurance that the PUCO will approve full recovery in a timely manner. If we were found not to be in compliance with the mandatory reliability standards, we could be subject to sanctions, including substantial monetary penalties, which likely would not be recoverable from customers through regulated rates and could have a material adverse effect on our results of operations, financial condition and cash flows.

Our financial results may fluctuate on a seasonal and quarterly basis or as a result of severe weather.

Weather conditions significantly affect the demand for electric power. In our Ohio service territory, demand for electricity is generally greater in the summer months associated with cooling and in the winter months associated with heating as compared to other times of the year. Unusually mild summers and winters could therefore have an adverse effect on our results of operations, financial condition and cash flows. In addition, severe or unusual weather, such as hurricanes and ice or snow storms, may cause outages and property damage that may require us to incur additional costs that may not be insured or recoverable from customers. While **DP&L** is permitted to seek recovery of storm damage costs under its ESP, if **DP&L** is unable to fully recover such costs in a timely manner, it could have a material adverse effect on our results of operations, financial condition and cash flows.

Our membership in a regional transmission organization presents risks that could have a material adverse effect on our results of operations, financial condition and cash flows.

On October 1, 2004, in compliance with Ohio law, **DP&L** turned over control of its transmission functions and fully integrated into PJM, a regional transmission organization. The price at which we can sell our generation capacity and energy is now dependent on a number of factors, which include the overall supply and demand of generation and load, other state legislation or regulation, transmission congestion and PJM's business rules. While we can continue to make bilateral transactions to sell our generation through a willing-buyer and willing-seller relationship, any transactions that are not pre-arranged are subject to market conditions at PJM. To the extent we sell electricity into the power markets on a contractual basis, we are not guaranteed any rate of return on our capital investments through mandated rates. The results of the PJM RPM base residual auction are impacted by the supply and demand of generation and load and also may be impacted by congestion and PJM rules relating to bidding for Demand Response and Energy Efficiency resources and other factors. Auction prices could fluctuate substantially over relatively short periods of time and adversely affect our results of operations, financial condition and cash flows. We cannot predict the outcome of future auctions, but low auction prices could have a material adverse effect on our results of operations, financial condition and cash flows.

The rules governing the various regional power markets may also change from time to time which could affect our costs and revenues and have a material adverse effect on our results of operations, financial condition and cash flows. We may be required to expand our transmission system according to decisions made by PJM rather than our internal planning process. Various proposals and proceedings before FERC may cause transmission rates to change from time to time. In addition, PJM has been developing rules associated with the allocation and methodology of assigning costs associated with improved transmission reliability, reduced transmission congestion and firm transmission rights that may have a financial effect on us. We also incur fees and costs to participate in PJM.

SB 221 includes a provision that allows electric utilities to seek and obtain recovery of RTO related charges. Therefore, most if not all of the above costs are currently being recovered through our SSO retail rates. If in the future, however, we are unable to recover all of these costs in a timely manner, and since the SSO retail riders are bypassable when additional customer switching occurs, this could have a material adverse effect on our results of operations, financial condition and cash flows.

As members of PJM, **DP&L** and DPLE are also subject to certain additional risks including those associated with the allocation among PJM members of losses caused by unreimbursed defaults of other participants in PJM markets and those associated with complaint cases filed against PJM that may seek refunds of revenues previously earned by PJM members including **DP&L** and DPLE. These amounts could be significant and have a material adverse effect on our results of operations, financial condition and cash flows.

Costs associated with new transmission projects could have a material adverse effect on our results of operations, financial condition and cash flows.

Annually, PJM performs a review of the capital additions required to provide reliable electric transmission services throughout its territory. PJM traditionally allocated the costs of constructing these facilities to those entities that benefited directly from the additions. Over the last several years, however, some of the costs of constructing new large transmission facilities have been "socialized" across PJM without a direct relationship between the costs assigned to and benefits received by particular PJM members. To date, the additional costs charged to **DP&L** for new large transmission approved projects have not been material. Over time, as more new transmission projects are constructed and if the allocation method is not changed, the annual costs could become material. **DP&L** is recovering the Ohio retail jurisdictional share of these allocated costs from its SSO retail customers through the TCRR rider. To the extent that any costs in the future are material and we are unable to recover them from our customers, it could have a material adverse effect on our results of operation, financial condition and cash flows.

Our inability to obtain financing on reasonable terms, or at all, with creditworthy counterparties could adversely affect our results of operations, financial condition and cash flows.

From time to time we rely on access to the credit and capital markets to fund certain of our operational and capital costs. These capital and credit markets have experienced extreme volatility and disruption and the ability of corporations to obtain funds through the issuance of debt or equity has been negatively impacted. Disruptions in the credit and capital markets make it harder and more expensive to obtain funding for our business. Access to funds under our existing financing arrangements is also dependent on the ability of our counterparties to meet their financing commitments. Our inability to obtain financing on reasonable terms, or at all, with creditworthy counterparties could adversely affect our results of operations, financial condition and cash flows. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability. DP&L has variable rate debt that bears interest based on a prevailing rate that is reset weekly based on a market index that can be affected by market demand, supply, market interest rates and other market conditions. We also currently maintain both cash on deposit and investments in cash equivalents that could be adversely affected by interest rate fluctuations. In addition, ratings agencies issue credit ratings on us and our debt that affect our borrowing costs under our financial arrangements and affect our potential pool of investors and funding sources. Our credit ratings also govern the collateral provisions of certain of our contracts. As a result of the Merger and assumption by DPL of merger-related debt and other factors, our credit ratings were downgraded, resulting in increased borrowing costs and causing us to post cash collateral with certain of our counterparties. If the rating agencies were to downgrade our credit ratings further, our borrowing costs would likely further increase, our potential pool of investors and funding resources could be reduced, and we could be required to post additional cash collateral under selected contracts. These events would likely reduce our liquidity and profitability and could have a material adverse effect on our results of operations, financial condition and cash flows.

Poor investment performance of our benefit plan assets and other factors impacting benefit plan costs could unfavorably affect our liquidity and results of operations.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under our pension and postretirement benefit plans. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below our projected return rates. A decline in the market value of the pension and postretirement benefit plan assets will increase the funding requirements under our pension and postretirement benefit plans if the actual asset returns do not recover these declines in value in the foreseeable future. Future pension funding requirements, and the timing of funding payments, may also be subject to changes in legislation. The Pension Protection Act, enacted in August 2006, requires underfunded pension plans to improve their funding ratios within prescribed intervals based on the level of their underfunding. As a result, our required contributions to these plans at times have increased and may increase in the future. In addition, our pension and postretirement benefit plan liabilities are sensitive to changes in interest rates. As interest rates decrease, the discounted liabilities increase benefit expense and funding requirements. Further, changes in demographics, including increased numbers of retirements or changes in life expectancy assumptions, may also increase the funding requirements for the obligations related to the pension and other postretirement benefit plans. Declines in market values and increased funding requirements could have a material adverse effect on our results of operations, financial condition and cash flows.

Our businesses depend on counterparties performing in accordance with their agreements. If they fail to perform, we could incur substantial expense, which could adversely affect our liquidity, cash flows and results of operations.

We enter into transactions with and rely on many counterparties in connection with our business, including for the purchase and delivery of inventory, including fuel and equipment components (such as limestone for our FGD equipment), for our capital improvements and additions and to provide professional services, such as actuarial calculations, payroll processing and various consulting services. If any of these counterparties fails to perform its obligations to us or becomes unavailable, our business plans may be materially disrupted, we may be forced to discontinue certain operations if a cost-effective alternative is not readily available or we may be forced to enter into alternative arrangements at then-current market prices that may exceed our contractual prices and cause delays. These events could cause our results of operations, financial condition and cash flows to have a material adverse effect.

Our consolidated results of operations may be negatively affected by overall market, economic and other conditions that are beyond our control.

Economic pressures, as well as changing market conditions and other factors related to physical energy and financial trading activities, which include price, credit, liquidity, volatility, capacity, transmission and interest rates, can have a significant effect on our operations and the operations of our retail, industrial and commercial customers and our suppliers. The direction and relative strength of the economy has been increasingly uncertain

due to softness in the real estate and mortgage markets, volatility in fuel and other energy costs, difficulties in the financial services sector and credit markets, high unemployment and other factors. Many of these factors have affected our Ohio service territory.

Our results of operations, financial condition and cash flows may be negatively affected by sustained downturns or a sluggish economy. Sustained downturns, recessions or a sluggish economy generally affect the markets in which we operate and negatively influence our energy operations. A contracting, slow or sluggish economy could reduce the demand for energy in areas in which we are doing business. During economic downturns, our commercial and industrial customers may see a decrease in demand for their products, which in turn may lead to a decrease in the amount of energy they require. In addition, our customers' ability to pay us could also be impaired, which could result in an increase in receivables and write-offs of uncollectible accounts. Our suppliers could also be affected by the economic downturn resulting in supply delays or unavailability. Reduced demand for our electric services, failure by our customers to timely remit full payment owed to us and supply delays or unavailability could have a material adverse effect on our results of operations, financial condition and cash flows.

Our inability to obtain financing on reasonable terms, or at all, with creditworthy counterparties could adversely affect our results of operations, financial condition and cash flows.

From time to time **DPL** and **DP&L** rely on access to the credit and capital markets to fund working capital needs, capital expenditures and to refinance outstanding debt obligations. These markets are subject to extreme volatility and disruption which could make it difficult and/or more expensive to obtain the requisite funding needs with creditworthy counterparties. In addition, ratings agencies issue credit ratings on us and our debt that affect our borrowing costs and affect our potential pool of investors and funding sources. Our credit ratings also govern the collateral provisions of certain of our contracts. As a result of the Merger (and assumption by **DPL** of merger-related debt) and other factors, the credit ratings of **DPL** and **DP&L** were downgraded, resulting in increased borrowing costs and causing us to post increased cash collateral with certain of our counterparties. If the rating agencies were to further downgrade our credit ratings, our borrowing costs and collateral requirements would continue to increase and our potential pool of investors and funding resources could be reduced. Our inability to obtain financing with creditworthy counterparties on reasonable terms, or at all, due to a disruption in the credit and/or capital markets or due to decreased credit ratings, could adversely affect our results of operations, financial condition and cash flows.

A material change in market interest rates could adversely affect our results of operations, financial condition and cash flows.

DPL and **DP&L** have variable rate debt that bears interest based on a prevailing rate that is regularly reset and that can be affected by market demand, supply, market interest rates and other market conditions. We also currently maintain both cash on deposit and investments in cash equivalents that could be adversely affected by interest rate fluctuations. Any event which impacts market interest rates could have a material adverse effect on our results of operations, financial condition and cash flows.

Accidental improprieties and undetected errors in our internal controls and information reporting could result in the disallowance of cost recovery, noncompliant disclosure and reporting or incorrect payment processing.

Our internal controls, accounting policies and practices and internal information systems are designed to enable us to capture and process transactions and information in a timely and accurate manner in compliance with GAAP in the United States of America, laws and regulations, taxation requirements and federal securities laws and regulations in order to, among other things, disclose and report financial and other information in connection with the recovery of our costs and with our reporting requirements under federal securities, tax and other laws and regulations and to properly process payments. We have also implemented corporate governance, internal control and accounting policies and procedures in connection with the Sarbanes-Oxley Act of 2002. Our internal controls and policies have been and continue to be closely monitored by management and our Board of Directors. While we believe these controls, policies, practices and systems are adequate to verify data integrity, unanticipated and unauthorized actions of employees, temporary lapses in internal controls due to shortfalls in oversight or resource constraints could lead to improprieties and undetected errors that could result in the disallowance of cost recovery, noncompliant disclosure and reporting or incorrect payment processing. The consequences of these events could have a material adverse effect on our results of operations, financial condition and cash flows.

New accounting standards or changes to existing accounting standards could materially affect how we report our results of operations, financial condition and cash flows.

Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America. The SEC, FASB or other authoritative bodies or governmental entities

may issue new pronouncements or new interpretations of existing accounting standards that may require us to change our accounting policies. These changes are beyond our control, can be difficult to predict and could materially affect how we report our results of operations, financial condition and cash flows. We could be required to apply a new or revised standard retroactively, which could adversely affect our financial condition. In addition, in preparing our Consolidated Financial Statements, management is required to make estimates and assumptions. Actual results could differ significantly from those estimates.

The SEC is investigating the potential transition to the use of IFRS promulgated by the International Accounting Standards Board for U.S. companies. Adoption of IFRS could result in significant changes to our accounting and reporting, such as in the treatment of regulatory assets and liabilities and property. The SEC does not currently have a timeline regarding the mandatory adoption of IFRS. We are currently assessing the effect that this potential change would have on our Consolidated Financial Statements and we will continue to monitor the development of the potential implementation of IFRS.

If we are unable to maintain a qualified and properly motivated workforce, it could have a material adverse effect on our results of operations, financial condition and cash flows.

One of the challenges we face is to retain a skilled, efficient and cost-effective workforce while recruiting new talent to replace losses in knowledge and skills due to retirements. This undertaking could require us to make additional financial commitments and incur increased costs. If we are unable to successfully attract and retain an appropriately qualified workforce, it could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, we have employee compensation plans that reward the performance of our employees. We seek to ensure that our compensation plans encourage acceptable levels for risk and high performance through pay mix, performance metrics and timing. We also have policies and procedures in place to mitigate excessive risk-taking by employees since excessive risk-taking by our employees to achieve performance targets could result in events that could have a material adverse effect on our results of operations, financial condition and cash flows.

We are subject to collective bargaining agreements and other employee workforce factors that could affect our businesses.

Over half of our employees are represented by a collective bargaining agreement that is in effect until October 31, 2014. While we believe that we maintain a satisfactory relationship with our employees, it is possible that labor disruptions affecting some or all of our operations could occur during the period of the collective bargaining agreement or at the expiration of the collective bargaining agreement before a new agreement is negotiated. Work stoppages by, or poor relations or ineffective negotiations with, our employees could have a material adverse effect on our results of operations, financial condition and cash flows.

Potential security breaches (including cybersecurity breaches) and terrorism risks could adversely affect our businesses.

We operate in a highly regulated industry that requires the continued operation of sophisticated systems and network infrastructure at our generation stations, fuel storage facilities and transmission and distribution facilities. We also use various financial, accounting and other systems in our businesses. These systems and facilities are vulnerable to unauthorized access due to hacking, viruses, other cybersecurity attacks and other causes. In particular, given the importance of energy and the electric grid, there is the possibility that our systems and facilities could be targets of terrorism or acts of war. We have implemented measures to help prevent unauthorized access to our systems and facilities, including certain measures to comply with mandatory regulatory reliability standards. Despite our efforts, if our systems or facilities were to be breached or disabled, we may be unable to recover them in a timely way to fulfill critical business functions, including the supply of electric services to our customers, and we could experience decreases in revenues and increases in costs that could adversely affect our results of operations, cash flows and financial condition.

In the course of our business, we also store and use customer, employee, and other personal information and other confidential and sensitive information. If our third party vendors' systems were to be breached or disabled, sensitive and confidential information and other data could be compromised, which could result in negative publicity, remediation costs and potential litigation, damages, consent orders, injunctions, fines and other relief.

To help mitigate against these risks, we maintain insurance coverage against some, but not all, potential losses, including coverage for illegal acts against us. However, insurance may not be adequate to protect us against all costs and liabilities associated with these risks.

DPL is a holding company and parent of DP&L and other subsidiaries. DPL's cash flow is dependent on the operating cash flows of DP&L and its other subsidiaries and their ability to pay cash to DPL.

DPL is a holding company and its investments in its subsidiaries are its primary assets. A significant portion of **DPL's** business is conducted by its **DP&L** subsidiary. As such, **DPL's** cash flow is dependent on the operating cash flows of **DP&L** and its ability to pay cash to **DPL**. **DP&L's** governing documents contain certain limitations on the ability to declare and pay dividends to **DPL** while preferred stock is outstanding. Certain of **DP&L's** debt agreements also contain limits with respect to the ability of **DP&L** to incur debt. In addition, **DP&L** is regulated by the PUCO, which possesses broad oversight powers to ensure that the needs of utility customers are being met. While we are not currently aware of any plans to do so, the PUCO could attempt to impose restrictions on the ability of **DP&L** to distribute, loan or advance cash to **DPL** pursuant to these broad powers. As part of the PUCO's approval of the Merger, **DP&L** agreed to maintain a capital structure that includes an equity ratio of at least 50 percent and not to have a negative retained earnings balance. While we do not expect any of the foregoing restrictions to significantly affect **DP&L's** ability to pay funds to **DPL** in the future, a significant limitation on **DP&L's** ability to pay dividends or loan or advance funds to **DPL** would have a material adverse effect on **DPL's** results of operations, financial condition and cash flows.

Push-down accounting adjustments in connection with the Merger will have a material effect on DPL's future financial results.

Under U.S. GAAP, pursuant to FASC No. 805 and SEC Staff Accounting Bulletin Topic 5.J. "New Basis of Accounting Required in Certain Circumstances", when an acquisition results in an entity becoming substantially wholly-owned, push-down accounting is applied in the acquired entity's separate financial statements. Push-down accounting requires that the fair value adjustments and goodwill or negative goodwill identified by the acquiring entity be pushed down and reflected in the financial statements of the acquired entity. In connection with the Merger, the cost basis of certain of **DPL's** assets and liabilities has been adjusted and any resulting goodwill was allocated and pushed down to **DPL**. These adjustments have had a material effect on **DPL's** future financial condition and results of operations, including but not limited to changes in depreciation, amortization, impairment and other non-cash charges. As a result, **DPL's** actual future results are not comparable with results in prior periods.

Impairment of goodwill or long-lived assets would negatively affect our consolidated results of operations and net worth.

Goodwill represents the future economic benefits arising from assets acquired in a business combination (acquisition) that are not individually identified and separately recognized. Goodwill is not amortized, but is evaluated for impairment at least annually or more frequently if impairment indicators are present. In evaluating the potential impairment of goodwill, we make estimates and assumptions about revenue, operating cash flows, capital expenditures, growth rates and discount rates based on our budgets and long term forecasts, macroeconomic projections, and current market expectations of returns on similar assets. There are inherent uncertainties related to these factors and management's judgment in applying these factors. Generally, the fair value of a reporting unit is determined using a discounted cash flow valuation model. We could be required to evaluate the potential impairment of goodwill outside of the required annual assessment process if we experience situations, including but not limited to: deterioration in general economic conditions, operating or regulatory environment; increased competitive environment; increase in fuel costs particularly when we are unable to pass along such costs to customers; negative or declining cash flows; loss of a key contract or customer, particularly when we are unable to replace it on equally favorable terms; or adverse actions or assessments by a regulator. These types of events and the resulting analyses could result in goodwill impairment expense, which could substantially affect our results of operations for those periods. See Note 19 of Notes to **DPL's** Consolidated Financial Statements for more information on the Goodwill Impairment.

Long-lived assets are initially recorded at fair value when acquired in a business combination and are amortized or depreciated over their estimated useful lives. Long-lived assets are evaluated for impairment only when impairment indicators are present whereas goodwill is evaluated for impairment on an annual basis or more frequently if potential impairment indicators are present. Otherwise, the recoverability assessment of long-lived assets is similar to the potential impairment evaluation of goodwill particularly as it relates to the identification of potential impairment indicators, and making estimates and assumptions to determine fair value, as described above.

Item 1B – Unresolved Staff Comments

None

Item 2 – Properties

Information relating to our properties is contained in Item 1 – Electric Operations and Fuel Supply and Note 5 of Notes to **DPL's** Consolidated Financial Statements and Note 5 of Notes to **DP&L's** Financial Statements.

Substantially all property and stations of **DP&L** are subject to the lien of the mortgage securing **DP&L's** First and Refunding Mortgage, dated as of October 1, 1935, as amended with the Bank of New York Mellon, as Trustee (Mortgage).

Item 3 - Legal Proceedings

In the normal course of business, we are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations. We are also from time to time involved in other reviews, investigations and proceedings by governmental and regulatory agencies regarding our business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. We believe the amounts provided in our Consolidated Financial Statements, as prescribed by GAAP, for these matters are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims and other matters (including those matters noted below) and to comply with applicable laws and regulations will not exceed the amounts reflected in our Consolidated Financial Statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2012, cannot be reasonably determined.

The following additional information is incorporated by reference into this Item: (i) information about the legal proceedings contained in Item 1 – Competition and Regulation of Part 1 of this Annual Report on Form 10-K and (ii) information about the legal proceedings contained in Item 8 – Financial Statements and Supplementary Data – Note 17 of Notes to **DPL's** Consolidated Financial Statements of Part II of this Annual Report on Form 10-K.

Item 4 – Mine Safety Disclosures

Not applicable.

PART II

Item 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

All of the outstanding common stock of **DPL** is owned indirectly by AES and directly by an AES wholly-owned subsidiary, and as a result is not listed for trading on any stock exchange. **DP&L's** common stock is held solely by **DPL** and, as a result, is not listed for trading on any stock exchange.

Dividends

During the year ended December 31, 2012, **DPL** declared dividends on its common stock to its parent of $70.0 million. During the period January 1, 2011 through November 27, 2011 (Predecessor), **DPL** declared dividends of $1.54 per share of common stock. Of this amount, $0.54 per share was paid during the period November 28, 2011 through December 31, 2011. During the year ended December 31, 2010, **DPL** declared and paid dividends per share of common stock of $1.21. **DP&L** declares and pays dividends on its common shares to its parent **DPL** from time to time as declared by the **DP&L** board. Dividends on common shares in the amount of $145.0 million, $220.0 million and $300.0 million were declared in the years ended December 31, 2012, 2011 and 2010, respectively. **DP&L** declared and paid dividends on preferred shares in the amount of $0.9 million in the years ended December 31, 2012, 2011 and 2010.

DPL's Amended Articles of Incorporation (the "Articles") contain provisions which state that **DPL** may not make a distribution to its shareholder or make a loan to any of its affiliates (other than its subsidiaries), unless: (a) there exists no Event of Default (as defined in the Articles) and no such Event of Default would result from the making of the distribution or loan; **and** either (b)(i) at the time of, and/or as a result of, the distribution or loan, **DPL's** leverage ratio does not exceed 0.67:1.00 and **DPL's** interest coverage ratio is not less than 2.5:1.00 or, (b)(ii) if

such ratios are not within the parameters, **DPL's** senior long-term debt rating from one of the three major credit rating agencies is at least investment grade. Further, the restrictions on the payment of distributions to a shareholder and the making of loans to its affiliates (other than subsidiaries) cease to be in effect if the three major credit rating agencies confirm that a lowering of **DPL's** senior long-term debt rating below investment grade by the credit rating agencies would not occur without these restrictions.

As of December 31, 2012, there was no Event of Default - **DPL's** Articles generally define an "Event of Default" as either (i) a breach of a covenant or obligation under the Articles; (ii) the entering of an order of insolvency or bankruptcy by a court and that order remains in effect and unstayed for 180 days; or (iii) **DPL**, **DP&L** or one of its principal subsidiaries commences a voluntary case under bankruptcy or insolvency laws or consents to the appointment of a trustee, receiver or custodian to manage all of the assets of **DPL**, **DP&L** or one of its principal subsidiaries – but **DPL's** leverage ratio was at 0.86:1.00 and **DPL's** senior long-term debt rating from all three major credit rating agencies was below investment grade. As a result, and as of December 31, 2012, **DPL** was prohibited under its Articles from making a distribution to its shareholder or making a loan to any of its affiliates (other than its subsidiaries).

DPL's unsecured revolving credit agreement and **DPL's** unsecured term loan were amended on October 19, 2012. The amendments include a provision which restrict all dividend payments from **DPL** to AES anytime after December 31, 2012 and up until the maturity or termination of the respective credit facilities.

As long as **DP&L** preferred stock is outstanding, **DP&L's** Amended Articles of Incorporation contain provisions restricting the payment of cash dividends on any of its common stock if, after giving effect to such dividend, the aggregate of all such dividends distributed subsequent to December 31, 1946 exceeds the net income of **DP&L** available for dividends on its common stock subsequent to December 31, 1946, plus $1.2 million. This dividend restriction has historically not affected **DP&L's** ability to pay cash dividends and, as of December 31, 2012, **DP&L's** retained earnings of $534.2 million were all available for **DP&L** common stock dividends payable to **DPL**.

Item 6 – Selected Financial Data

The following table presents our selected consolidated financial data which should be read in conjunction with our audited Consolidated Financial Statements and the related Notes thereto and Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations. The "Results of Operations" discussion in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations addresses significant fluctuations in operating data. **DPL** is a wholly-owned, indirect subsidiary of AES and therefore does not report earnings or dividends on a per-share basis. Other data that management believes is important in understanding trends in our business are also included in this table.

	DPL					
	Successor [a]		Predecessor [a]			
$ in millions except per share amounts or as indicated	**Year ended December 31, 2012**	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010	Year ended December 31, 2009	Year ended Decembe 31, 2008
Basic earnings per share of common stock [b]	**N/A**	N/A	1.31	2.51	2.03	2.22
Diluted earnings per share of common stock [b]	**N/A**	N/A	1.31	2.50	2.01	2.12
Dividends declared per share of common stock [c]	**N/A**	N/A	1.54	1.21	1.14	1.1C
Dividend payout ratio [c]	**N/A**	N/A	117.6%	48.2%	56.2%	49.5%
Total electric sales (millions of kWh)	**16,454**	1,361	15,021	17,237	16,667	17,172
Results of operations:						
Revenues	**1,668.4**	156.9	1,670.9	1,831.4	1,539.4	1,549.2
Goodwill impairment [d]	**(1,817.2)**	-	-	-	-	-
Net income [b]	**(1,729.8)**	(6.2)	150.5	290.3	229.1	244.5

Financial position items at December 31:						
Total assets	**4,247.3**	6,136.2	N/A	3,813.3	3,641.7	3,637.0
Long-term debt (e)	**2,025.0**	2,628.9	N/A	1,026.6	1,223.5	1,376.1
Total construction additions	**179.6**	201.0	N/A	151.4	145.3	227.8
Redeemable preferred stock of subsidiary	**18.4**	18.4	N/A	22.9	22.9	22.9

DP&L					
$ in millions except per share amounts or as indicated	**Year ended December 31, 2012**	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009	Year ended Decembe 31, 2008
Total electric sales (millions of kWh)	**15,606**	15,599	17,083	16,590	17,105
Results of operations:					
Revenues	**1,531.8**	1,677.7	1,738.8	1,500.8	1,520.5
Fixed-asset impairment (f)	**80.8**	-	-	-	-
Earnings on common stock (g)	**90.3**	192.3	276.8	258.0	284.9
Financial position items at December 31:					
Total assets	**3,464.2**	3,538.3	3,475.4	3,457.4	3,397.7
Long-term debt (e)	**332.7**	903.0	884.0	783.7	884.0
Redeemable preferred stock	**22.9**	22.9	22.9	22.9	22.9
Number of shareholders - preferred stock	**209**	223	234	242	256

(a) "Predecessor" refers to the operations of DPL and its subsidiaries prior to the consummation of the Merger. "Successor" refers to the operations of DPL and its subsidiaries subsequent to the Merger. See Note 2 of Notes to DPL's Consolidated Financial Statements for a description of this transaction. As of the Merger date, the disclosure of per share amounts no longer applies.

(b) DPL incurred merger-related costs of $37.9 million ($24.6 million net of tax) and a $15.7 million ($10.2 million net of tax) in the 2011 Predecessor and Successor periods, respectively, and had a $25.1 million ($16.3 million net of tax) favorable adjustment in the period January 1, 2011 through November 27, 2011 as a result of the approval of the fuel settlement agreement by the PUCO.

(c) Of the $1.54 declared in the January 1, 2011 through November 27, 2011 period, $0.54 was paid in the November 28, 2011 through December 31, 2011 period.

(d) Goodwill impairment of $1,817.2 million was recorded in 2012.

(e) Excludes current maturities of long-term debt.

(f) Fixed-asset impairment of $80.8 million ($51.8 million net of tax) was recorded in 2012.

(g) In 2011, DP&L incurred merger-related costs of $19.4 million ($12.6 million net of tax) and had a $25.1 million ($16.3 million net of tax) favorable adjustment as a result of the approval of the fuel settlement agreement by the PUCO.

Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations

This report includes the combined filing of **DPL** and **DP&L**. Throughout this report, the terms "we," "us," "our" and "ours" are used to refer to both **DPL** and **DP&L**, respectively and altogether, unless the context indicates otherwise. Discussions or areas of this report that apply only to **DPL** or **DP&L** will clearly be noted in the section.

The following discussion and analysis should be read in conjunction with **DPL's** audited Consolidated Financial Statements and the related Notes thereto and **DP&L's** audited Financial Statements and the related Notes thereto included in Item 8 – Financial Statements and Supplementary Data of this Form 10-K. The following discussion contains forward-looking statements. Our actual results may differ materially from the results suggested by these forward-looking statements. Please see "Forward-Looking Statements" at the beginning of this Form 10-K and Item 1A – Risk Factors. For a list of certain abbreviations or acronyms in this discussion, see Glossary at the beginning of this Form 10-K.

BUSINESS OVERVIEW

DPL is a regional electric energy and utility company. **DPL's** two reporting segments are the Utility segment, comprised of its **DP&L** subsidiary, and the Competitive Retail segment, comprised of its DPLER subsidiary and DPLER's subsidiary, MC Squared, LLC. Refer to Note 18 of Notes to **DPL's** Consolidated Financial Statements for more information relating to these reportable segments. **DP&L** does not have any reportable segments.

DP&L is primarily engaged in the generation, transmission and distribution of electricity in West Central Ohio and the sale of energy to DPLER in Ohio and Illinois. **DPL** and **DP&L** strive to achieve disciplined growth in energy margins while limiting volatility in both cash flows and earnings and to achieve stable, long-term growth through efficient operations and strong customer and regulatory relations. More specifically, **DPL's** and **DP&L's** strategy

is to match energy supply with load or customer demand, maximizing profits while effectively managing exposure to movements in energy and fuel prices and utilizing the transmission and distribution assets that transfer electricity at the most efficient cost while maintaining the highest level of customer service and reliability.

We operate and manage generation assets and are exposed to a number of risks. These risks include, but are not limited to, electricity wholesale price risk, PJM capacity price risk, regulatory risk, environmental risk, fuel supply and price risk, customer switching risk and the risk associated with electric generating station performance. We attempt to manage these risks through various means. For instance, we operate a portfolio of wholly-owned and jointly-owned generation assets that is diversified as to coal source, cost structure and operating characteristics. We are focused on the operating efficiency of these stations and maintaining their availability.

We operate and manage transmission and distribution assets in a rate-regulated environment. Accordingly, this subjects us to regulatory risk in terms of the costs that we may recover and the investment returns that we may collect in customer rates. We are focused on delivering electricity and maintaining high standards of customer service and reliability in a cost-effective manner.

Additional information relating to our risks is contained in Item 1A – Risk Factors.

The following discussion should be read in conjunction with the accompanying Consolidated Financial Statements and related footnotes included in Item 8 – Financial Statements and Supplementary Data.

BUSINESS COMBINATION

Acquisition by The AES Corporation

On November 28, 2011, **DPL** merged with Dolphin Sub, Inc., a wholly-owned subsidiary of AES pursuant to the Merger agreement whereby AES acquired **DPL** for $30.00 per share in a cash transaction valued at approximately $3.5 billion. At closing, **DPL** became a wholly-owned subsidiary of AES.

See Item 1A – Risk Factors, and Note 2 of Notes to **DPL's** Consolidated Financial Statements for additional risks and information related to the Merger.

Dolphin Subsidiary II, Inc., a subsidiary of AES, issued $1.25 billion in long-term Senior Notes on October 3, 2011, to partially finance the Merger (see Note 2 of Notes to **DPL's** Consolidated Financial Statements). Upon the consummation of the Merger, Dolphin Subsidiary II, Inc. was merged into **DPL** and these notes became long-term debt obligations of **DPL**. This debt has and will have a material effect on **DPL's** cash requirements.

As a result of the Merger and other factors, including the assumption of merger-related debt, **DPL** and **DP&L** were downgraded by all three major credit rating agencies. As a result, we expect that our cost of capital will increase.

DPL incurred Merger transaction costs consisting primarily of banker's fees, legal fees and change of control costs of approximately $53.6 million pre-tax during 2011. Other than these costs, interest on the additional debt and other items noted above, the Merger did not significantly affect **DPL** and **DP&L's** sources of liquidity during 2012.

Predecessor and Successor Financial Presentation

DPL's financial statements and related financial and operating data include the periods before and after the Merger on November 28, 2011, and are labeled as Predecessor and Successor, respectively. In accordance with GAAP, **DPL** applied push-down accounting to account for the Merger. For accounting purposes only, push-down accounting created a new cost basis assigned to assets, liabilities and equity as of the Merger date. AES finalized its purchase price allocation during the third quarter of 2012. Consequently, **DPL's** results of operations and cash flows for the Predecessor and Successor periods are not presented on a comparable basis and therefore are shown separately, rather than combined, in its audited financial statements.

In the Management's Discussion and Analysis of Results of Operations and Financial Condition, we have included disclosure of the combined Predecessor and Successor results of operations and cash flows. Such combined presentation is considered to be a non-GAAP disclosure. We have included such disclosure because we believe it facilitates the comparison of 2012 and 2011 operating and financial performance to 2010, and because the core operations of **DPL** have not changed as a result of the Merger.

REGULATORY ENVIRONMENT

DPL, **DP&L** and our subsidiaries' facilities and operations are subject to a wide range of environmental regulations and laws by federal, state and local authorities. As well as imposing continuing compliance obligations, these laws and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. In the normal course of business, we have investigatory and remedial activities underway at these facilities to comply, or to determine compliance, with such regulations. We record liabilities for losses that are probable of occurring and can be reasonably estimated.

- **Carbon Emissions and Other Greenhouse Gases**

  There is an ongoing concern nationally and internationally about global climate change and the contribution of emissions of GHGs, including most significantly CO_2. This concern has led to regulation and interest in legislation at the federal level, actions at the state level as well as litigation relating to GHG emissions. In 2007, a U.S. Supreme Court decision upheld that the USEPA has the authority to regulate GHG emissions under the CAA. In April 2009, the USEPA issued a proposed endangerment finding under the CAA. The proposed finding determined that CO_2 and other GHGs from motor vehicles threaten the health and welfare of future generations by contributing to climate change. This endangerment finding became effective in January 2010. Numerous affected parties have asked the USEPA Administrator to reconsider this decision. As a result of this endangerment finding and other USEPA regulations, emissions of CO_2 and other GHGs from electric generating units and other stationary sources are subject to regulation. Increased pressure for GHG emissions reduction is also coming from investor organizations and the international community. Environmental advocacy groups are also focusing considerable attention on GHG emissions from power generation facilities and their potential role in climate change. Approximately 97% of the energy we produce is generated by coal. **DP&L's** share of GHG emissions at generating stations we own and co-own is approximately 16 million tons annually. If we are required to implement control of CO_2 and other GHGs at generation facilities, the cost to **DPL** and **DP&L** of such controls could be material.

- **SB 221 Requirements**

SB 221 and the implementation rules contain targets relating to advanced energy portfolio standards, renewable energy, demand reduction and energy efficiency standards. The standards require that, by the year 2025, 25% of the total number of kWh of electricity sold by the utility to retail electric consumers must come from alternative energy resources, which include "advanced energy resources" such as distributed generation, clean coal, advanced nuclear, energy efficiency and fuel cell technology; and "renewable energy resources" such as solar, hydro, wind, geothermal and biomass. At least half of the 25% must be generated from renewable energy resources, including 0.5% from solar energy. The renewable energy portfolio, energy efficiency and demand reduction standards began in 2009 with increased percentage requirements each year thereafter. The annual targets for energy efficiency and peak demand reductions began in 2009 with annual increases. Energy efficiency programs are to save 22.3% by 2025 and peak demand reductions are expected to reach 7.75% by 2018 compared to a baseline energy usage. If any targets are not met, compliance penalties will apply, unless the PUCO makes certain findings that would excuse performance.

SB 221 also contains provisions for determining whether an electric utility has significantly excessive earnings. The PUCO issued general rules for calculating the earnings and comparing them to a comparable group to determine whether there were significantly excessive earnings. Pursuant to the ESP Stipulation, **DP&L** becomes subject to the SEET in 2013 based on 2012 earnings results and the SEET could have a material effect on our results of operations, financial condition and cash flows.

SB 221 also requires that all Ohio distribution utilities file either an ESP or MRO. Under the MRO, a periodic competitive bid process will set the retail generation price after the utility demonstrates that it can meet certain market criteria and bid requirements. Also, under this option, utilities that still own generation in the state are required to phase-in the MRO over a period of not less than five years. An ESP may allow for adjustments to the SSO for costs associated with environmental compliance; fuel and purchased power; construction of new or investment in specified generating facilities; and the provision of standby and default service, operating, maintenance, or other costs including taxes. As part of its ESP, a utility is permitted to file an infrastructure improvement plan that will specify the initiatives the utility will take to rebuild, upgrade, or replace its electric distribution system, including cost recovery mechanisms. Both the MRO and ESP options involve a SEET based on the earnings of comparable companies with similar business and financial risks. On October 5, 2012, **DP&L** filed an ESP with the PUCO which was

to be effective January 1, 2013. The plan was refiled to correct certain costs on December 12, 2012. The refiled plan requested approval of a non-bypassable charge that is designed to recover $137.5 million per year for five years from all customers. **DP&L** also requested approval of a switching tracker that would measure the incremental amount of switching over a base case and defer the lost value into a regulatory asset which would be recovered from all customers beginning January 2014. The ESP states that **DP&L** plans to file on or before December 31, 2013 its plan for legal separation of its generation assets. The ESP proposes a three year, five month transition to market, whereby a wholesale competitive bidding structure will be phased in to supply generation service to customers located in **DP&L's** service territory that have not chosen an alternative generation supplier. The PUCO is currently reviewing the filing and an evidentiary hearing is scheduled to begin on March 11, 2013. The PUCO ordered that the rates being collected prior to December 31, 2012 would continue until the new ESP rates go into effect. The outcome of this filing will have a significant effect on the revenue we collect from our customers.

- ***Legal separation of DP&L's generating* facilities**

As stated in the amended ESP filed on December 12, 2012, **DP&L** will file a separate application with the PUCO no later than December 31, 2013 to request the transfer of its generation assets to an affiliated entity. In this subsequent application, **DP&L** presently expects to request that the Commission authorize **DP&L** to transfer its generation assets to an affiliated entity by no later than December 31, 2017.

- **NOx and SO_2 Emissions – CSAPR**

The CAIR final rules were published on May 12, 2005. CAIR created an interstate trading program for annual NOx emission allowances and made modifications to an existing trading program for SO_2. Litigation brought by entities not including **DP&L** resulted in a decision by the U.S. Court of Appeals for the District of Columbia Circuit on July 11, 2008 to vacate CAIR and its associated Federal Implementation Plan. On December 23, 2008, the U.S. Court of Appeals issued an order on reconsideration that permits CAIR to remain in effect until the USEPA issues new regulations that would conform to the CAA requirements and the Court's July 2008 decision.

In an attempt to conform to the Court's decision, on July 6, 2010, the USEPA proposed the Clean Air Transport Rule (CATR). These rules were finalized as the CSAPR on July 6, 2011, but subsequent litigation has resulted in their implementation being delayed indefinitely. The Ohio EPA has a State Implementation Plan (SIP) that incorporates the CAIR program requirements, which remain in effect pending judicial review of CSAPR. We do not believe the rule will have a material effect on our operations in 2013, but until the CSAPR becomes effective, **DP&L** is unable to estimate the impact of the new requirements in future years.

COMPETITION AND PJM PRICING

- **RPM Capacity Auction Price**

The PJM RPM capacity base residual auction for the 2015/16 period cleared at a per megawatt price of $136/day for our RTO area. The per megawatt prices for the periods 2014/15, 2013/14, and 2012/13 were $126/day, $28/day, and $16/day, respectively, based on previous auctions. Future RPM auction results will be dependent not only on the overall supply and demand of generation and load, but may also be impacted by congestion as well as PJM's business rules relating to bidding for demand response and energy efficiency resources in the RPM capacity auctions. The SSO retail costs and revenues are included in the RPM rider. Therefore increases in customer switching causes more of the RPM capacity costs and revenues to be excluded from the RPM rider calculation. We cannot predict the outcome of future auctions or customer switching but based on actual results attained in 2012, we estimate that a hypothetical increase or decrease of $10 in the capacity auction price would affect net income by approximately $5.9 million and $4.5 million for **DPL** and **DP&L**, respectively. These estimates do not, however, take into consideration the other factors that may affect the impact of capacity revenues and costs on net income such as the levels of customer switching, our generation capacity, the levels of wholesale revenues and our retail customer load. These estimates are discussed further within Commodity Pricing Risk under the Market Risk section of this Management Discussion & Analysis.

- **Ohio Competitive Considerations and Proceedings**

Since January 2001, **DP&L's** electric customers have been permitted to choose their retail electric generation supplier. **DP&L** continues to have the exclusive right to provide delivery service in its state

certified territory and the obligation to supply retail generation service to customers that do not choose an alternative supplier. The PUCO maintains jurisdiction over **DP&L's** delivery of electricity, SSO and other retail electric services.

Lower market prices for power have resulted in increased levels of competition to provide transmission and generation services. This in turn has led to approximately 58% of **DP&L's** customers to switch their retail electric services to CRES providers. DPLER, an affiliated company and one of the registered CRES providers, has been marketing transmission and generation services to **DP&L** customers. The following table provides a summary of the number of electric customers and volumes provided by all CRES providers in our service territory during the years ended December 31, 2012, 2011 and 2010:

Year ended December 31, 2012		Year ended December 31, 2011		Year ended December 31, 2010	
Electric Customers	Sales (in millions	Electric Customers	Sales (in millions	Electric Customers	Sale s (in millions

		of kWh)		of kWh)		of kWh)
Supplied by DPLER	73,672	6,201	36,667	5,731	8,359	4,417
Supplied by non-affiliated CRES providers	79,936	1,981	27,812	862	851	145
Total supplied in our service territory	153,608	8,182	64,479	6,593	9,210	4,562
Supplied by **DP&L** in our service territory (a)	513,266	13,999	513,381	14,022	514,221	14,277

(a) The kWh sales include all distribution sales, including those whose power is supplied by DPLER and non-affiliated CRES providers.

The volumes supplied by DPLER represent approximately 44%, 41% and 31% of **DP&L's** total distribution volumes during the years ended December 31, 2012, 2011 and 2010, respectively. We currently cannot determine the extent to which customer switching to CRES providers will occur in the future and the effect this will have on our operations, but any additional switching could have a significant adverse effect on our future results of operations, financial condition and cash flows.

For the year ended December 31, 2012, approximately 58% of **DP&L's** load was supplied by CRES providers with DPLER supplying 76% of the switched load. Customer switching negatively affected **DPL's** gross margin during the years ended December 31, 2012, 2011 and 2010 by approximately $141.0 million, $58.0 million and $17.0 million, respectively. Customer switching negatively affected **DP&L's** gross margin during the years ended December 31, 2012, 2011 and 2010 by approximately $249.0 million, $104.0 million and $53.0 million, respectively.

Several communities in **DP&L's** service area have passed ordinances allowing the communities to become government aggregators for the purpose of offering retail generation service to their residents. As of February 1, 2013, five communities have active aggregation programs with customers enrolled, and four additional communities have notified the PUCO that they plan to implement government aggregation programs. See Item 1A – Risk Factors for more information.

In 2010, DPLER began providing CRES services to customers in Ohio who are not in **DP&L's** service territory. Additionally, beginning in March 2011 with the purchase of MC Squared, DPLER services business and residential customers in northern Illinois. The incremental costs and revenues have not had a material effect on our results of operations, financial condition or cash flows.

FUEL AND RELATED COSTS

- **Fuel and Commodity Prices**

The coal market is a global market in which domestic prices are affected by international supply disruptions and demand balance. In addition, domestic issues like government-imposed direct costs and permitting issues are affecting mining costs and supply availability. Our approach is to hedge the fuel costs for our anticipated electric sales. We have substantially all of the total expected coal volume needed to meet our retail and wholesale sales requirements for 2013 under contract. The majority of the contracted coal is purchased at fixed prices. Some contracts provide for periodic adjustments and some are priced based on market indices. Fuel costs are affected by changes in volume and price and are driven by a number of variables including weather, the wholesale market price of power, certain provisions in coal contracts related to government imposed costs, counterparty performance and credit, scheduled/forced outages and generation station mix. Due to the installation of emission controls equipment at certain commonly owned units and barring any changes in the regulatory environment in which we operate, we expect to have balanced positions for SO_2, NOx and renewable energy credits for 2013. If our suppliers do not meet their contractual commitments or we are not hedged against price volatility and we are unable to recover costs through the fuel and purchased power recovery rider, our results of operations, financial condition or cash flows could be materially affected.

Effective January 2010, the SSO retail customer portion of fuel price changes, including coal requirements and purchased power costs, was reflected in the implementation of the fuel and purchased power recovery rider, subject to PUCO review. An audit of 2010 fuel costs occurred in 2011 and issues raised were resolved by a Stipulation approved by the PUCO in November 2011. As a result of this approval, **DP&L** recorded a \$25 million pretax (\$16 million net of tax) adjustment. The adjustment was due to the reversal of a provision recorded in accordance with the regulatory accounting rules. An audit of 2011 fuel costs was settled with an immaterial adjustment that will be credited to customers in early 2013.

FINANCIAL OVERVIEW

In the Management's Discussion and Analysis of Results of Operations and Financial Condition, we have included disclosure of the combined Predecessor and Successor results of operations and cash flows. Such combined presentation is considered to be a non-GAAP disclosure. We have included such disclosure because we believe it facilitates the comparison of 2012 operating and financial performance to 2011 and 2010, and because the core operations of **DPL** have not changed as a result of the Merger.

The results of operations for both **DPL** and **DP&L** are separately discussed in more detail in the following pages.

The following table summarizes the significant components of **DPL's** Results of Operations for the years ended December 31, 2012, 2011 (Combined) and 2010:

$ in millions	**Successor**	**Combined**	**Successor**	**Predecessor**	
	Year ended December 31, 2012	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Total operating revenues	**1,668.4**	1,827.8	156.9	1,670.9	1,831.4
Cost of revenues:					
Total cost of fuel	**361.9**	391.6	35.8	355.8	383.9
Total cost of purchased power	**342.1**	441.3	36.7	404.6	387.4
Amortization of intangibles	**95.1**	11.6	11.6	-	-
Total cost of revenues	**799.1**	844.5	84.1	760.4	771.3
Total gross margin [(a)]	**869.3**	983.3	72.8	910.5	1,060.1
Operating expenses:					
Operation and maintenance	**406.4**	425.3	47.5	377.8	340.6
Depreciation and amortization	**125.4**	141.0	11.6	129.4	139.4
General taxes	**79.5**	83.1	7.6	75.5	75.7
Goodwill impairment	**1,817.2**	-	-	-	-
Total operating expenses	**2,428.5**	649.4	66.7	582.7	555.7
Operating income / (loss)	**(1,559.2)**	333.9	6.1	327.8	504.4
Investment income / (loss), net	**2.5**	0.5	0.1	0.4	1.8
Interest expense	**(122.9)**	(85.5)	(11.5)	(74.0)	(70.6)
Other expense, net	**(2.5)**	(2.0)	(0.3)	(1.7)	(2.3)
Income / (loss) before income taxes	**(1,682.1)**	246.9	(5.6)	252.5	433.3
Income taxes	**47.7**	102.6	0.6	102.0	143.0
Net income / (loss)	**(1,729.8)**	144.3	(6.2)	150.5	290.3

(a) For purposes of discussing operating results, we present and discuss gross margins. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

RESULTS OF OPERATIONS – DPL Inc.

DPL's results of operations include the results of its subsidiaries, including the consolidated results of its principal subsidiary **DP&L**. All material intercompany accounts and transactions have been eliminated in consolidation. A separate specific discussion of the results of operations for **DP&L** is presented elsewhere in this report.

In the Management's Discussion and Analysis of Results of Operations and Financial Condition, we have included disclosure of the combined Predecessor and Successor results of operations and cash flows. Such combined presentation is considered to be a non-GAAP disclosure. We have included such disclosure because we believe it facilitates the comparison of 2012 operating and financial performance to 2011 and 2010, and because the core operations of **DPL** have not changed as a result of the Merger.

Income Statement Highlights – DPL

	Successor	**Combined**	**Successor**	**Predecessor**	
$ in millions	**Year ended December 31, 2012**	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Revenues:					
Retail	**1,391.2**	1,429.0	126.3	1,302.7	1,404.8
Wholesale	**104.5**	129.7	8.4	121.3	142.2
RTO revenue	**92.2**	81.7	6.6	75.1	86.6
RTO capacity revenues	**74.5**	179.7	13.9	165.8	186.2
Other revenues	**11.0**	10.8	0.9	9.9	11.5
Mark-to-market gains / (losses) (a)	**(5.0)**	(3.1)	0.8	(3.9)	0.1
Total revenues	**1,668.4**	1,827.8	156.9	1,670.9	1,831.4
Cost of revenues:					
Fuel costs	**358.6**	381.2	34.8	346.4	399.5
Losses / (gains) from sale of coal	**11.8**	(8.8)	(0.6)	(8.2)	(4.1
Gains from sale of emission allowances	-	-	-	-	(0.8
Mark-to-market losses / (gains)	**(8.5)**	19.2	1.6	17.6	(10.7
Net fuel cost	**361.9**	391.6	35.8	355.8	383.9
Purchased power	**181.7**	156.2	12.9	143.3	81.5
RTO charges	**101.5**	115.1	9.2	105.9	113.4
RTO capacity charges	**68.1**	172.9	13.1	159.8	191.9
Mark-to-market losses / (gains)	**(9.2)**	(2.9)	1.5	(4.4)	0.6
Net purchased power	**342.1**	441.3	36.7	404.6	387.4
Amortization of intangibles	**95.1**	11.6	11.6	-	-

Total cost of revenues	**799.1**	844.5	84.1	760.4	771.3
Gross margins [(b)]	**869.3**	983.3	72.8	910.5	1,060.1
Gross margins as % of revenue	**52%**	54%	46%	54%	58%
Operating income / (loss)	**(1,559.2)**	333.9	6.1	327.8	504.4

(a) For the year ended December 31, 2012, this amount includes $5.1 million related to the amortization of asset balances related to retail power contracts that were previously accounted for as derivatives, but in accordance with ASC 815 no longer need to be. The fair value of these contracts is to be amortized to earnings over the remaining term of the associated agreements. A similar situation did not exist in periods prior to the year ended December 31, 2012.

(b) For purposes of discussing operating results, we present and discuss gross margins. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

DPL – Revenues

Retail customers, especially residential and commercial customers, consume more electricity on warmer and colder days. Therefore, our retail sales volume is affected by the number of heating and cooling degree days occurring during a year. Cooling degree days typically have a more significant effect than heating degree days since some residential customers do not use electricity to heat their homes.

Degree days

	Years ended December 31,		
Number of days	**2012**	2011	2010
Heating degree days [(a)]	**4,752**	5,368	5,636
Cooling degree days [(a)]	**1,264**	1,160	1,245

(a) Heating and cooling degree days are a measure of the relative heating or cooling required for a home or business. The heating degrees in a day are calculated as the difference of the average actual daily temperature below 65 degrees Fahrenheit. If the average temperature on March 20th was 40 degrees Fahrenheit, the heating degrees for that day would be the 25 degree difference between 65 degrees and 40 degrees. In a similar manner, cooling degrees in a day are the difference of the average actual daily temperature in excess of 65 degrees Fahrenheit.

Since we plan to utilize our internal generating capacity to supply our retail customers' needs first, increases in retail demand may decrease the volume of internal generation available to be sold in the wholesale market and vice versa. The wholesale market covers a multi-state area and settles on an hourly basis throughout the year. Factors affecting our wholesale sales volume each hour of the year include: wholesale market prices; our retail demand; retail demand elsewhere throughout the entire wholesale market area; our stations' and other utility stations' availability to sell into the wholesale market; and weather conditions across the multi-state region. Our plan is to make wholesale sales when market prices allow for the economic operation of our generation facilities not being utilized to meet our retail demand or when margin opportunities exist between the wholesale sales and power purchase prices.

The following table provides a summary of changes in revenues from prior periods:

$ in millions	**2012 vs. 2011**	2011 vs. 2010
Retail		
Rate	**(37.8)**	45.9
Volume	**2.5**	(29.1
Other	**(2.3)**	6.7
Total retail change	**(37.6)**	23.5
Wholesale		
Rate	**(27.8)**	15.3
Volume	**2.6**	(27.8
Total wholesale change	**(25.2)**	(12.5
RTO capacity and other		
RTO capacity and other	**(94.7)**	(11.4
Other		
Unrealized MTM	**(1.9)**	(3.2
Total revenue changes	**(159.4)**	(3.6

During the year ended December 31, 2012, Revenues decreased $159.4 million to $1,668.4 million from $1,827.8 million in the same period of the prior year. This decrease was primarily the result of decreased retail

and wholesale rates, decreased RTO capacity and other revenues, offset by increased retail and wholesale volume. The revenue components for the year ended December 31, 2012 compared to 2011 are further discussed below:

- Retail revenues decreased $37.6 million primarily due to a 3% decrease in average retail rates. The decrease is the result of customers switching from **DP&L** to DPLER, an affiliated CRES provider. Although **DP&L** had a number of customers that switched their retail electric service from **DP&L** to DPLER, **DP&L** continued to provide distribution services to those customers within its service territory. The remaining distribution services provided by **DP&L** were billed at a lower rate resulting in a reduction of total average retail rates. The effect of sales procured by DPLER and MC Squared outside our service territory, or off-system sales, caused sales volume to slightly increase by 0.2%; however the rates offered to the off-system customers are lower than the rates in our service territory. Weather also contributed to the relatively even volumes; cooling degree days increased 9% and heating degree days decreased 11% from prior year, however, cooling degree days have more of an impact on electricity usage than heating degree days due to the non-heat residential customer mix. The above resulted in an unfavorable $37.8 million retail sales rate variance offset slightly by a favorable $2.5 million retail volume variance.

- Wholesale revenues decreased $25.2 million primarily as a result of a 21% decrease in average wholesale prices. The decrease was slightly offset by a 2% increase in wholesale volume. This resulted in an unfavorable $27.8 million wholesale price variance partially offset by a favorable wholesale volume variance of $2.6 million.
- RTO capacity and other revenues, consisting primarily of compensation for use of **DP&L's** transmission assets, regulation services, reactive supply and operating reserves, and capacity payments under the RPM construct, decreased $94.7 million compared to 2011. This decrease in RTO capacity and other revenues was primarily the result of a $105.2 million decrease in revenues realized from the PJM capacity auction and a decrease of $2.3 million in transmission, congestion and other revenues, offset by the receipt of $12.8 million of revenue recognized as a result of the SECA settlement.

For the year ended December 31, 2011, Revenues decreased $3.6 million to $1,827.8 million from $1,831.4 million in the same period of the prior year. This decrease was primarily the result of decreased retail and wholesale volumes, decreased RTO capacity and other revenues, offset by increased retail and wholesale rates and increased other miscellaneous retail revenues. The revenue components for the year ended December 31, 2011 are further discussed below:

- Retail revenues increased $23.5 million resulting primarily from a 3.4% increase in average retail rates due largely to the implementation of the fuel and energy efficiency riders, an increase in the TCRR and RPM riders, combined with the incremental effect of the recovery of costs under the EIR, as well as improved economic conditions. This increase in the average retail rates was partially offset by the effect of lower revenues due to customer switching which has resulted from increased levels of competition to provide transmission and generation services in our service territory. Retail sales volume experienced a 2.1% decrease compared to the prior year period largely due to unfavorable weather. The unfavorable weather conditions resulted in a 6% decrease in the number of cooling degree days to 1,160 days from 1,245 days in 2010. The above resulted in a favorable $45.9 million retail price variance and an unfavorable $29.1 million retail sales volume variance.
- Wholesale revenues decreased $12.5 million primarily as a result of a 19.6% decrease in wholesale sales volume which was largely a result of lower generation by our electric generating stations, partially offset by a 13.4% increase in wholesale average prices. This resulted in an unfavorable $27.8 million wholesale sales volume variance partially offset by a favorable wholesale price variance of $15.3 million.
- RTO capacity and other revenues, consisting primarily of compensation for use of **DP&L's** transmission assets, regulation services, reactive supply and operating reserves, and capacity payments under the RPM construct, decreased $11.4 million compared to the same period in 2010. This decrease in RTO capacity and other revenues was primarily the result of a $6.5 million decrease in revenues realized from the PJM capacity auction, including a $4.9 million decrease in transmission, congestion and other revenues.

<u>DPL – Cost of Revenues</u>

During the year ended December 31, 2012:

- Net fuel costs, which include coal, gas, oil and emission allowance costs, decreased $29.7 million, or 8%, compared to 2011, primarily due to increased mark-to-market gains on coal contracts and decreased fuel costs partially offset by increased losses from the sale of coal. During the year ended December 31, 2012, there was a 10% decrease in the volume of generation at our stations and mark-to-market gains were $8.5 million compared to $19.2 million of mark-to-market losses for the same period during 2011. Offsetting these decreases were $11.8 million in realized losses from the sale of coal, compared to $8.8 million of realized gains during the same period in 2011.

- Net purchased power decreased $99.2 million, or 22%, compared to the same period in 2011 due largely to decreased RTO capacity and other charges of $118.4 million which were incurred as a member of PJM, including costs associated with **DP&L's** load obligations for retail customers. RTO capacity prices are set by an annual auction. This decrease also includes the net impact of the deferral and recovery of **DP&L's** transmission, capacity and other PJM-related charges. Partially offsetting these decreases were increased purchased power costs of $25.5 million, $75.8 million due to increased volume offset by a decrease of $50.3 million due to lower average market prices for purchased power. Purchased power volume increased due to lower internal generation and increased off-system sales. We purchase power to satisfy retail sales volume when generating facilities are not available due to planned and unplanned outages or when market prices are below the marginal costs associated with our generating facilities.
- Amortization of intangibles increased in 2012 compared to 2011 due to eleven months of amortization of the ESP during 2012.

During the year ended December 31, 2011:

- Net fuel costs, which include coal, gas, oil and emission allowance costs, increased $7.7 million, or 2%, compared to 2010, primarily due to increased mark-to-market losses on coal contracts partially offset by decreased fuel costs. During the year ended December 31, 2011, **DP&L** realized $8.8 million in gains from the sale of coal, compared to $4.1 million realized during the same period in 2010. In addition to these gains, there was a 12% decrease in the volume of generation at our stations. Also offsetting the increase in fuel costs was a $15.0 million decrease due to an adjustment as a result of the approval of the fuel settlement agreement by the PUCO. The adjustment was due to the reversal of a provision recorded in accordance with the regulatory accounting rules.
- Net purchased power increased $53.9 million, or 14%, compared to the same period in 2010 due largely to an increase of $74.7 million in purchased power partially offset by a decrease of $17.3 million in RTO capacity and other charges which were incurred as a member of PJM, including costs associated with **DP&L's** load obligations for retail customers. This increase included the net impact of the deferral and recovery of **DP&L's** transmission, capacity and other PJM-related charges. The increase in purchased power of $74.7 million was comprised of a $100.3 million increase associated with higher purchased power volumes due to lower internal generation partially offset by a $25.6 million decrease related to lower average market prices for purchased power. We purchase power to satisfy retail sales volume when generating facilities are not available due to planned and unplanned outages or when market prices are below the marginal costs associated with our generating facilities.
- Amortization of intangibles increased in 2011 compared to 2010 due to the amortization of the value of the ESP recognized at the Merger date.

<u>DPL - Operation and Maintenance</u>

$ in millions	2012 vs. 2011
Merger-related costs	(51.7
Maintenance of overhead transmission and distribution lines	(10.2
Low-income payment program [a]	21.3
Competitive retail operations	9.3
Energy efficiency programs [a]	9.2
Generating facilities operating and maintenance expenses	5.8
Legal and other consulting costs	3.0
Other, net	(5.6
Total operation and maintenance expense	(18.9

(a) There is a corresponding increase in Revenues associated with these programs resulting in no impact to Net income.

During the year ended December 31, 2012, Operation and maintenance expense decreased $18.9 million, or 4%, compared to the same period in 2011. This variance was primarily the result of:

- higher costs in the prior year related to the Merger, and
- decreased expense related to the maintenance of overhead transmission and distribution lines primarily as a result of storms, including a significant ice storm in February 2011.

These decreases were partially offset by:

- increased assistance for low-income retail customers which is funded by the USF revenue rate rider,
- increased marketing, customer maintenance and labor costs associated with the competitive retail business as a result of increased sales volume and number of customers,
- increased expenses relating to energy efficiency programs that were put in place for our customers,
- increased expenses for generating facilities largely due to the length and timing of planned outages at jointly-owned production units relative to the same period in 2011, and
- increased expenses related to legal and other consulting services that were not related to the 2011 Merger.

$ in millions	2011 vs. 2010
Merger-related costs	53.6
Low-income payment program [a]	14.6
Generating facilities operating and maintenance expenses	12.9
Maintenance of overhead transmission and distribution lines	9.1
Competitive retail operations	7.6

Insurance settlement, net	3.4
Health insurance / long-term disability	(6.2
Pension	(3.3
Other, net	(7.0
Total operation and maintenance expense	84.7

(a) There is a corresponding increase in Revenues associated with this program resulting in no impact to Net income.

During the year ended December 31, 2011, Operation and maintenance expense increased $84.7 million, or 25%, compared to the same period in 2010. This variance was primarily the result of:

- increased costs related to the Merger,
- increased assistance for low-income retail customers which is funded by the USF revenue rate rider,
- increased expenses for generating facilities largely due to the length and timing of planned outages at jointly-owned production units relative to the same period in 2010,
- increased expenses related to the maintenance of overhead transmission and distribution lines primarily as a result of storms, including a significant ice storm in February 2011,
- increased marketing, customer maintenance and labor costs associated with the competitive retail business as a result of increased sales volume and number of customers, and
- a prior year insurance settlement that reimbursed us for legal costs associated with our litigation against certain former executives.

These increases were partially offset by:

- lower health insurance and disability costs primarily due to fewer employees going onto long-term disability during the current year as compared to the same period in 2010, and
- lower pension expenses primarily related to a $40 million contribution to the pension plan during 2011.

DPL – Depreciation and Amortization

During the year ended December 31, 2012, Depreciation and amortization expense decreased $15.6 million, or 11%, as compared to 2011. The decrease primarily reflects the effect of a reduction in electric generating station values as a consequence of the Merger, partially offset by additional investments in fixed assets.

During the year ended December 31, 2011, Depreciation and amortization expense increased $1.6 million, or 1%, as compared to 2010. The decrease was primarily the result of investments in fixed assets partially offset by the effect of a depreciation study which resulted in lower depreciation rates on generation property which were implemented on July 1, 2010, reducing the expense by approximately $4.8 million during the year ended December 31, 2011.

DPL – General Taxes

During the year ended December 31, 2012, General taxes decreased $3.6 million, or 4%, as compared to 2011. This decrease was primarily due to an unfavorable determination of $4.5 million from the Ohio gross receipts tax audit in 2011 partially offset by higher property tax accruals in 2012 compared to 2011.

During the year ended December 31, 2011, General taxes increased $7.4 million, or 10%, as compared to 2010. This increase was primarily the result of higher property tax accruals in 2011 compared to 2010 and an unfavorable determination of $4.5 million from the Ohio gross receipts tax audit.

DPL – Goodwill Impairment

During the year ended December 31, 2012, **DPL** recorded an impairment of goodwill of $1,817.2 million. See Note 19 of Notes to **DPL's** Consolidated Financial Statements.

DPL – Interest Expense

During the year ended December 31, 2012, Interest expense and charge for early redemption of debt increased $37.4 million, or 44%, as compared to 2011 due primarily to higher interest cost subsequent to the Merger as a result of the $1.25 billion of debt that was assumed by **DPL** in connection with the Merger.

During the year ended December 31, 2011, Interest expense and charge for early redemption of debt increased $14.9 million, or 21%, as compared to 2011 due primarily to a $15.3 million charge for the early redemption of DPL Capital Trust II securities in February 2011 and higher interest cost subsequent to the Merger as a result of the $1.25 billion of debt that was assumed by **DPL** in connection with the Merger.

DPL – Income Tax Expense

During the year ended December 31, 2012, Income tax expense decreased $54.9 million, or 54%, as compared to 2011 primarily due to decreases in pre-tax income, lower non-deductible expenses related to the Merger, lower non-deductible compensation related to the Merger and a 2011 write-off of a deferred tax asset on the termination of the ESOP. These were partially offset by a reduction in Internal Revenue Code Section 199 tax benefits.

During the year ended December 31, 2011, Income tax expense decreased $40.4 million, or 28%, as compared to 2010 primarily due to decreases in pre-tax income partially offset by non-deductible expenses related to the Merger, non-deductible compensation related to the Merger, a reduction in Internal Revenue Code Section 199 tax benefits and a write-off of a deferred tax asset on the termination of the ESOP.

RESULTS OF OPERATIONS BY SEGMENT – DPL Inc.

DPL's two segments are the Utility segment, comprised of its **DP&L** subsidiary, and the Competitive Retail segment, comprised of its competitive retail electric service subsidiaries. These segments are discussed further below:

Utility Segment

The Utility segment is comprised of **DP&L's** electric generation, transmission and distribution businesses which generate and sell electricity to residential, commercial, industrial and governmental customers. Electricity for the segment's 24-county service area is primarily generated at eight coal-fired power stations and is distributed to more than 513,000 retail customers who are located in a 6,000 square mile area of West Central Ohio. **DP&L** also sells electricity to

DPLER and any excess energy and capacity is sold into the wholesale market. **DP&L's** transmission and distribution businesses are subject to rate regulation by federal and state regulators while rates for its generation business are deemed competitive under Ohio law.

Competitive Retail Segment

The Competitive Retail segment is comprised of DPLER's competitive retail electric service business and includes its wholly owned subsidiary, MC Squared. DPLER sells retail electric energy under contract to

residential, commercial, industrial and governmental customers who have selected DPLER or MC Squared as their alternative electric supplier. The Competitive Retail segment sells electricity to approximately 198,000 customers currently located throughout Ohio and Illinois. MC Squared, a Chicago-based retail electricity supplier, serves approximately 104,000 customers in Northern Illinois. The Competitive Retail segment's electric energy used to meet its sales obligations was purchased from **DP&L** and PJM. During 2010, a new wholesale agreement was implemented between **DP&L** and DPLER. Under this agreement, intercompany sales from **DP&L** to DPLER are based on the market prices for wholesale power. In periods prior to 2010, DPLER's purchases from **DP&L** were transacted at prices that approximated DPLER's sales prices to its end-use retail customers. The Competitive Retail segment has no transmission or generation assets. The operations of the Competitive Retail segment are not subject to cost-of-service rate regulation by federal or state regulators.

Other

Included within Other are other businesses that do not meet the GAAP requirements for separate disclosure as reportable segments as well as certain corporate costs including interest expense on **DPL's** debt.

Management evaluates segment performance based on gross margin. In the discussions that follow, we have not provided extensive discussions of the results of operations related to 2010 for the Competitive Retail segment because we believe that financial information is not comparable to the 2011 financial information. We have, however, included brief descriptions of the Competitive Retail segment's financial results for 2010 for informational purposes as required by GAAP following the Income Statement Highlights table below.

See Note 18 of Notes to **DPL's** Consolidated Financial Statements for further discussion of **DPL's** reportable segments.

The following table presents **DPL's** gross margin by business segment:

	Successor	**Combined**	**Successor**	**Predecessor**	
$ in millions	**Year ended December 31, 2012**	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010

Utility	**867.4**	895.5	78.5	817.0	983.4
Competitive Retail	**68.6**	61.5	4.8	56.7	38.5
Other	**(63.3)**	30.4	(10.1)	40.5	42.7
Adjustments and Eliminations	**(3.4)**	(4.1)	(0.4)	(3.7)	(4.5
Total consolidated	**869.3**	983.3	72.8	910.5	1,060.1

The financial condition, results of operations and cash flows of the Utility segment are identical in all material respects and for all periods presented to those of **DP&L** which are included in this Form 10-K. We do not believe that additional discussions of the financial condition and results of operations of the Utility segment would enhance an understanding of this business since these discussions are already included under the **DP&L** discussions below.

Income Statement Highlights – Competitive Retail Segment

	Successor	**Combined**	**Successor**	**Predecessor**	
$ in millions	**Year ended December 31, 2012**	Year ended December 31, 2011	November 28, 2011 through December 31, 2011	January 1, 2011 through November 27, 2011	Year ended December 31, 2010
Revenues:					
Retail	**496.7**	426.1	37.1	389.0	275.5
RTO and other	**(3.6)**	(0.7)	1.1	(1.8)	1.5
Total revenues	**493.1**	425.4	38.2	387.2	277.0
Cost of revenues:					
Purchased power	**424.5**	363.9	33.4	330.5	238.5
Gross margins [(a)]	**68.6**	61.5	4.8	56.7	38.5
Operation and maintenance expense	**24.7**	15.4	1.7	13.7	7.8
Other expense	**3.0**	2.5	0.3	2.2	1.4
Total expenses	**27.7**	17.9	2.0	15.9	9.2
Earnings from operations	**40.9**	43.6	2.8	40.8	29.3
Income tax expense	**18.1**	17.8	1.1	16.7	10.5
Net income	**22.8**	25.8	1.7	24.1	18.8
Gross margin as a % of revenues	**14%**	14%			14%

(a) For purposes of discussing operating results, we present and discuss gross margins. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

Competitive Retail Segment – Revenue

During the year ended December 31, 2012, the segment's retail revenues increased $70.6 million, or 17%, as compared to 2011. The increase was primarily driven by an increase of $37.5 million in the Illinois market primarily by approximately 100,000 additional customers obtained by MC Squared. Also contributing to the year over year increase was increased levels of competition in the competitive retail electric service business in the state of Ohio which in turn has resulted in a significant number of **DP&L's** retail customers switching their retail electric service to DPLER or other CRES providers. As a result of the additional customers and switching to DPLER discussed above, the Competitive Retail segment sold approximately 8,315 million kWh of power to 198,098 customers in 2012 compared to 6,677 million kWh of power to 40,171 customers during 2011.

For the year ended December 31, 2011, the segment's retail revenues increased $150.6 million, or 55%, as compared to 2010. The increase was primarily driven by increased levels of competition in the competitive retail electric service business in the state of Ohio which in turn has resulted in a significant number of **DP&L's** retail customers switching their retail electric service to DPLER or other CRES providers. Also contributing to the year over year increase is $41.7 million of retail revenue from MC Squared which was purchased on February 28, 2011. Primarily as a result of the customer switching discussed above, the Competitive Retail segment sold approximately 6,677 million kWh of power to 40,171 customers in 2011 compared to 4,546 million kWh of power to 9,002 customers during 2010.

Competitive Retail Segment – Purchased Power

During the year ended December 31, 2012, the Competitive Retail segment purchased power increased $60.6 million, or 17%, as compared to 2011 primarily due to higher purchased power volumes required to satisfy an increase in customer base resulting from customer switching and also $35.4 million relating to increased volumes in the Illinois market related to additional customers obtained by MC Squared. The Competitive Retail segment's electric energy used to meet its sales obligations was purchased from **DP&L** and PJM. Beginning September 1, 2012, all of MC Squared's power needs are supplied by **DP&L**. Intercompany sales from **DP&L** to DPLER are

based on fixed-price contracts for each DPLER customer which approximate market prices for wholesale power at the inception of each customer's contract.

During the year ended December 31, 2011, the Competitive Retail segment purchased power increased $125.4 million, or 53%, as compared to 2010 primarily due to higher purchased power volumes required to satisfy an increase in customer base resulting from customer switching and also $36.9 million relating to MC Squared customers as MC Squared was acquired on February

28, 2011. The Competitive Retail segment's electric energy used to meet its sales obligations was purchased from **DP&L** and PJM. Intercompany sales from **DP&L** to DPLER are based on fixed-price contracts for each DPLER customer which approximate market prices for wholesale power at the inception of each customer's contract.

Competitive Retail Segment – Operation and Maintenance

DPLER's operation and maintenance expenses include employee-related expenses, accounting, information technology, payroll, legal and other administration expenses. The higher operation and maintenance expense in 2012 as compared to 2011 and 2010 is reflective of increased marketing and customer maintenance costs associated with the increased sales volume and number of customers and the purchase of MC Squared.

RESULTS OF OPERATIONS – The Dayton Power and Light Company (DP&L)

Income Statement Highlights – DP&L

	Years ended December 31,		
$ in millions	**2012**	2011	2010
Revenues:			
Retail	**898.4**	1,007.4	1,133.7
Wholesale	**483.7**	441.2	365.6
RTO revenues	**88.5**	76.7	81.7
RTO capacity revenues	**63.4**	152.4	157.6
Mark-to-market gains / (losses)	**(2.2)**	-	0.2
Total revenues	**1,531.8**	1,677.7	1,738.8
Cost of revenues:			
Cost of fuel:			
Fuel costs	**351.6**	370.2	387.5
Losses / (gains) from sale of coal	**11.8**	(8.8)	(4.1
Gains from sale of emission allowances	**(0.1)**	-	(0.8
Mark-to-market (gains) / losses	**(8.4)**	19.2	(10.7
Net fuel costs	**354.9**	380.6	371.9
Purchased power:			
Purchased power	**151.6**	121.5	81.3
RTO charges	**98.8**	114.9	109.7
RTO capacity charges	**64.1**	165.4	191.9
Mark-to-market (gains) / losses	**(5.0)**	(0.2)	0.6
Net purchased power	**309.5**	401.6	383.5

Total cost of revenues	**664.4**	782.2	755.4
Gross margins [(a)]	**867.4**	895.5	983.4
Gross margins as a % of revenues	**57%**	53%	57%
Operating income	**185.0**	319.9	450.2

(a) For purposes of discussing operating results, we present and discuss gross margins. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

DP&L – Revenues

The following table provides a summary of changes in **DP&L's** Revenues from prior periods:

	2012 vs. 2011	2011 vs. 2010
Retail		
Rate	**(20.3)**	(45.5
Volume	**(85.8)**	(87.9
Other	**(2.9)**	7.1
Total retail change	**(109.0)**	(126.3
Wholesale		
Rate	**(44.8)**	27.6
Volume	**87.3**	48.0
Total wholesale change	**42.5**	75.6
RTO capacity and other		
RTO capacity and other revenues	**(77.2)**	(10.2
Other		
Unrealized MTM	**(2.2)**	(0.2
Total revenues change	**(145.9)**	(61.1

During the year ended December 31, 2012, revenues decreased $145.9 million, or 9%, to $1,531.8 million from $1,677.7 million in the prior year. This decrease was primarily the result of lower average retail and wholesale prices, retail sales volumes and decreased RTO capacity and other revenues, partially offset by higher wholesale sales volumes. The revenue components for the year ended December 31, 2012 are further discussed below:

- Retail revenues decreased $109.0 million primarily as a result of a 9% decrease in retail sales volumes compared to those in the prior year largely as a result of customer switching due t(increased levels of competition to provide transmission and generation services in our service territory. Although **DP&L** had a number of customers that switched their retail electric service from **DP&L** to DPLER, an affiliated CRES provider, **DP&L** continued to provide distribution services to those customers within its service territory, but these services are billed at a lower rat(causing a 2% decrease in retail rates. This decrease in sales volume was partially offset by improved economic conditions and warmer summer weather. The weather conditions resulted in a 9% increase in the number of cooling degree days to 1,264 from 1,160 days in 2011 offset slightly by an 11% decrease in the number of heating degree days to 4,752 days from 5,368 days in 2011. The decrease in average retail rates resulting from customers switching was partially offset by the fuel and energy efficiency riders, increased TCRR and RPM riders and the incremental effect of the recovery of costs under the EIR. The above resulted in an unfavorable $85.8 million retail sales volume variance and an unfavorable $20.3 million retail price variance.
- Wholesale revenues increased $42.5 million primarily as a result of a 20% increase in wholesale sales volume which was largely a result of the effect of customer switching discussed in the immediately preceding paragraph. **DP&L** records wholesale revenues from its sale of transmission and generation services to DPLER associated with these switched customers. This increase was partially offset by a 9% decrease in average wholesale rates. This resulted in a favorable $87.3 million wholesale volume variance offset by a $44.8 million unfavorable wholesale price variance.
- RTO capacity and other revenues, consisting primarily of compensation for use of **DP&L's** transmission assets, regulation services, reactive supply and operating reserves, and capacity payments under the RPM construct, decreased $77.2 million compared to the same period in 2011. This decrease in RTO capacity and other revenues was primarily the result of an $89.0 million decrease in revenues realized from the PJM capacity auction and a decrease of $1.0 million in transmission and congestion revenues, offset by $12.8 million of revenue recognized as a result of the SECA settlement.

For the year ended December 31, 2011, Revenues decreased $61.1 million, or 4%, to $1,677.7 million from $1,738.8 million in the prior year. This decrease was primarily the result of lower average retail rates, retail sales volumes and decreased RTO capacity and other revenues, partially offset by higher wholesale sales volumes and higher average wholesale prices. The revenue components for the year ended December 31, 2011 are further discussed below:

- Retail revenues decreased $126.3 million primarily as a result of an 8% decrease in retail sales volumes compared to those in the prior year largely due to unfavorable weather conditions. The unfavorable weather conditions resulted in a 7% decrease in the number of cooling degree days to 1,160 days from 1,245 days in 2010. Although **DP&L** had a number of customers that switched their retail electric service from **DP&L** to DPLER, an affiliated CRES provider, **DP&L** continued to provide distribution services to those customers within its service territory. The average retail rates decreased 4% overall primarily as a result of customers switching from **DP&L** to DPLER. The remaining distribution services provided by **DP&L** were billed at a lower rate resulting in a reduction of total average retail rates. The decrease in average retail rates resulting from customers switching was partially offset by the implementation of the fuel and energy efficiency riders, increased TCRR and RPM riders, and the incremental effect of the recovery of costs under the EIR. The above resulted in an unfavorable $87.9 million retail sales volume variance and an unfavorable $45.5 million retail price variance.

- Wholesale revenues increased $75.6 million primarily as a result of a 7% increase in average wholesale prices combined with a 13% increase in wholesale sales volume due in large part to the effect of customer switching discussed in the immediately preceding paragraph. **DP&L** records wholesale revenues from its sale of transmission and generation services to DPLER associated with these switched customers. This resulted in a favorable $48.0 million wholesale volume variance and a favorable $27.6 million wholesale price variance.
- RTO capacity and other revenues, consisting primarily of compensation for use of **DP&L's** transmission assets, regulation services, reactive supply and operating reserves, and capacity payments under the RPM construct, decreased $10.2 million compared to the same period in 2010. This decrease in RTO capacity and other revenues was primarily the result of a $5.2 million decrease in revenues realized from the PJM capacity auction, including a decrease of $5.(million in transmission and congestion revenues.

DP&L – Cost of Revenues

During the year ended December 31, 2012:

- Net fuel costs, which include coal, gas, oil and emission allowance costs, decreased $25.7 million, or 7%, compared to 2011, primarily due to increased mark-to-market gains on coal contracts and decreased fuel costs partially offset by increased losses from the sale of coal. During the year ended December 31, 2012, there was an 11% decrease in the volume of generation at our electric generating stations and mark-to-market gains were $8.4 million compared to $19.2 million of mark-to-market losses for the same period during 2011. Offsetting these decreases were $11.8 million in realized losses from the sale of coal, compared to $8.8 million of realized gains during the same period in 2011.
- Net purchased power decreased $92.1 million, or 23%, compared to the same period in 2011 due largely to decreased RTO capacity and other charges of $117.4 million which were incurred as a member of PJM, including costs associated with **DP&L's** load obligations for retail customers. RTO capacity prices are set by an annual auction. This decrease also includes the net impact of the deferral and recovery of **DP&L's** transmission, capacity and other PJM-related charges. Partially offsetting these decreases were increased purchased power costs of $30.1 million, $83.5 million due to increased volume offset by $53.3 million due to lower average market prices for purchased power. Purchased power volume increased due to lower internal generation and increased power sales to DPLER and MC Squared. We purchase power to satisfy retail sales volume when generating facilities are not available due to planned and unplanned outages or when market prices are below the marginal costs associated with our generating facilities.

For the year ended December 31, 2011:

- Net fuel costs, which include coal, gas, oil, and emission allowance costs, increased $8.7 million, or 2%, compared to 2010, primarily due to the impact of mark-to-market losses on coal contracts in 2011 compared to gains in 2010, partially offset by a reduction in fuel costs and an increase in gains on the sale of coal. Also offsetting the increase in fuel costs was a $15.0 millior adjustment as a result of the approval of the fuel settlement agreement by the PUCO. The adjustment was due to the reversal of a provision recorded in accordance with the regulatory accounting rules.

- Net purchased power increased $18.1 million, or 5%, compared to 2010, due largely to an increase of $40.2 million in purchased power costs partially offset by a decrease of $21.3 million in RTO capacity and other charges which were incurred as a member of PJM, including costs associated with **DP&L's** load obligations for retail customers. This decrease included the net impact of the deferral and recovery of **DP&L's** transmission, capacity and other PJM-related charges. Also contributing to the increase in net purchased power was a $54.6 million increase associated with higher purchased power volumes, partially offset by a $14.4 million decrease related to lower average market prices for purchased power. We purchase power to satisfy retail sales volume when generating facilities are not available due to planned and unplanned outages or when market prices are below the marginal costs associated with our generating facilities.

DP&L – Operation and Maintenance

$ in millions	2012 vs. 2011
Low-income payment program [(a)]	21.3
Energy efficiency programs [(a)]	9.2
Generating facilities operating and maintenance expenses	6.0
Pension	5.7
Legal and other consulting costs	3.1
Merger-related costs	(19.4
Maintenance of overhead transmission and distribution lines	(10.2
Other, net	5.4
Total operation and maintenance expense	21.1

(a) There is a corresponding increase in Revenues associated with these programs resulting in no impact to Net income.

During the year ended December 31, 2012, Operation and maintenance expense increased $21.1 million, or 6%, compared to 2011. This variance was primarily the result of:

- increased assistance for low-income retail customers which is funded by the USF revenue rate rider,
- increased expenses relating to energy efficiency programs that were put in place for our customers,
- increased expenses for generating facilities largely due to the length and timing of planned outages at jointly-owned production units relative to the same period in 2011,
- higher pension expenses primarily related to changes in plan assumptions, specifically a lower discount rate and lower expected rate of return on plan assets, and
- increased expenses related to legal and other consulting services that were not related to the Merger.

These increases were partially offset by:

- higher costs in the prior year related to the Merger, and
- decreased expense related to the maintenance of overhead transmission and distribution lines primarily as a result of storms, including a significant ice storm in February 2011.

$ in millions	2011 vs. 2010
Merger-related costs	19.4
Low-income payment program [(a)]	14.6

Generating facilities operating and maintenance expenses	12.8
Maintenance of overhead transmission and distribution lines	9.1
Health insurance / long-term disability	(6.3
Pension	(3.3
Other, net	(11.6
Total operation and maintenance expense	34.7

(a) There is a corresponding increase in Revenues associated with these programs resulting in no impact to Net income.

During the year ended December 31, 2011, Operation and maintenance expense increased $34.7 million, or 11%, compared to 2011. This variance was primarily the result of:

- increased costs related to the Merger,
- increased assistance for low-income retail customers which is funded by the USF revenue rate rider,
- increased expenses for generating facilities largely due to the length and timing of planned outages at jointly-owned production units relative to the same period in 2010, and
- increased expenses related to the maintenance of overhead transmission and distribution lines primarily as a result of storms, including a significant ice storm in February 2011.

These increases were partially offset by:

- lower health insurance and disability costs primarily due to fewer employees going onto long-term disability during the current year as compared to the same period in 2010, and
- lower pension expenses primarily related to a $40 million contribution to the pension plan during 2011.

DP&L – Depreciation and Amortization

During the year ended December 31, 2012, Depreciation and amortization expense increased $6.4 million as compared to 2011. The increase primarily reflects the effect of investments in plant and equipment, partially offset by a reduction of approximately $1.8 million related to a decrease in plant values as a result of impairment in the value of certain electric generating stations in the third quarter of 2012.

During the year ended December 31, 2011, Depreciation and amortization expense increased $4.2 million as compared to 2010. The increase primarily reflected the effect of investments in property, plant and equipment, partially offset by the effect of a depreciation study which resulted in lower depreciation rates on generation property which were implemented on July 1, 2010, reducing the expense by $3.4 million during the year ended December 31, 2011.

DP&L – General Taxes

During the year ended December 31, 2012, General taxes decreased $1.5 million to $74.4 million compared to 2011. This decrease was primarily the result of lower payroll and Ohio commercial activity taxes in 2012 compared to 2011.