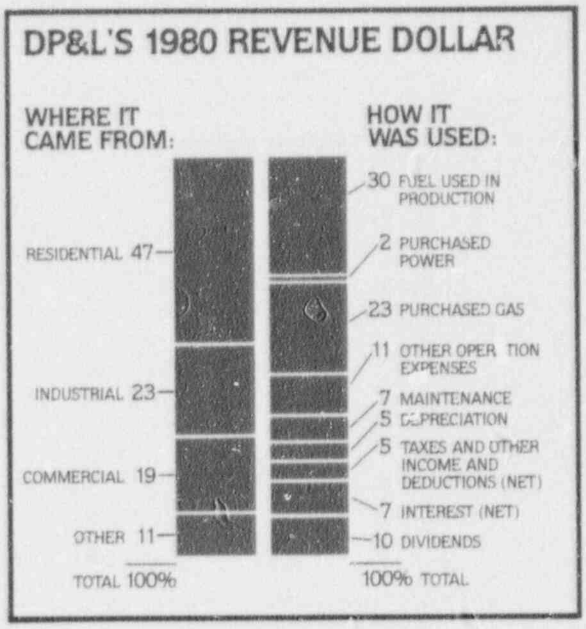


Highlights

		1980	1979	Percent Change
Financial Statistics				
Return on shareholders' investment	%	**10.1**	10.8	(6)
Earnings per share of common stock	$	**1.85**	2.01	(8)
Dividends declared per share	$	**1.74**	1.72	1
Federal, state and local taxes per share	$	**2.47**	2.48	—
Book value per share	$	**18.06**	18.60	(3)
Net property and plant in service (000)	$	**801,850**	767,541	4
Capital expenditures (000)	$	**222,345**	217,946	2
Operating Statistics				
Electric:				
Customers—year end		**419,018**	416,546	1
Total sales (000)-megawatt hours		**10,171**	10,230	(1)
System peak load (net)-megawatts		**2,045**	2,105	(3)
Average use per residential customer-kilowatt hours		**10,042**	9,794	3
Gas:				
Customers—year end		**263,835**	262,596	—
Total sales (000)-thousand cubic feet (mcf)		**58,024**	63,355	(8)
System peak-day load-mcf		**452,218**	488,024	(7)
Average use per residential customer-hundreds of cubic feet		**1,339**	1,422	(6)

This annual report and the financial statements it contains are submitted for general information and not in connection with any sale or offer for sale of, or solicitation of any offer to buy, any securities.

8104070351

To Our Shareholders:

We were pleased to announce on January 28, 1981, that annual dividends on your common stock were increased 8¢ per share, raising the dividend rate to $1.82 per share for 1981. It is the desire of the Board of Directors to be able to authorize dividend increases each year. However, dividend increases will depend, in part, on favorable rate decisions from regulatory commissions in the future. Currently, the Company has three rate increase requests pending, totaling $121 million in additional annual revenues. We anticipate favorable decisions on these cases which will permit us to earn a higher level of return.

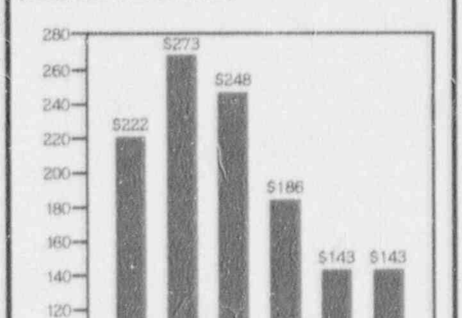
In 1980 earnings per share of common stock declined to $1.85 per share from $2.01 in 1979. The return on shareholders' investment was 10.1%, still below the 14.58% return determined by the state utility commission as the appropriate level for the Company.

We find these results disappointing because your management and employees instituted measures that improved operations and cut costs in all areas of the Company in 1980. However, rising costs of coal and natural gas, higher interest rates, inflation at 10% to 13% and the burden of more government regulation continue to erode revenue increases.

Our efforts to reduce the costs of producing electricity have saved millions of dollars annually. Preventive maintenance programs and employee training have contributed to a significant increase in the number of kilowatt hours produced by our generating plants. These improvements reduced purchased power a second straight year and resulted in savings of about $20 million over 1978.

Ninety-eight percent of the Company's electricity is generated from coal, and fortunately our nation has an abundant supply. However, the Company's system generating reserve capacity is lower than desired. This past winter the Company operated with a generating reserve of only 15%. This reserve percentage will improve since

CAPITAL EXPENDITURES 1980–1985
(MILLIONS OF DOLLARS)



the first East Bend coal-fired generating unit is scheduled for full operation in March 1981, followed by the Zimmer nuclear unit and the Killen coal unit, both scheduled for start-up in 1982. With these units operating, the Company will have sufficient generating capacity until late in the decade. To complete the construction of these three generating units on the current schedule will result in the largest, two-year capital expenditures budget ever incurred by the Company—$273 million in 1981 and $248 million in 1982. Capital expenditures last year were $222 million.

Last fall we announced a $400 million cutback in the Company's five-year construction program. This was made possible by anticipated energy conservation on the part of our customers and a lower forecasted level of economic activity in the area served. This reduction in construction expenditures was accomplished by the cancellation of the second Killen generating unit and a change in ownership shares of coal generating units owned with The Cincinnati Gas & Electric Company. The cutback in capital outlays will become significant beginning in 1983 and also will reduce the need for sales of securities.

The estimated construction cost of the three generating units, scheduled to be placed in service in the next two years, will be $785 million, all of which will have been paid with proceeds from sales of stocks and bonds and from earnings reinvested in construction. The average cost of the new coal and nuclear generating units will be about $912 per kilowatt (KW) of generating capacity. This compares with $154 per KW for the four Stuart generating units that were placed in service about 10 years ago. This unit cost increase of nearly 500% is caused principally by inflation of construction costs, additional environmental equipment and interest payments added to construction cost during the extended construction period caused by excessive governmental delays. Revenue increases will be required to pay for the higher capital costs when these units begin generating electricity for customers.

In November the Company was granted a $48 million interim electric rate increase, pending a final decision this summer on our request for a permanent increase totaling $103 million. In January 1981 the Company requested an additional $55 million revenue increase to begin recovering the capital cost of the East Bend station. The Company also has requested an $11 million increase in natural gas revenues on which a decision is expected in November.

We recognize that rising energy costs at this time of extreme inflation create a serious hardship on the people of this nation, and we are concerned about the customers we serve. To help our customers live within their family budgets, we have designed several programs to assist them with their utility bills. In 1980 we announced a change in our customer Budget Payment Plan, offering to pay 7% interest to any customer with an average net credit balance over the billing year. Over 33,000 additional customers took advantage of this offer, and presently 38% of our customers are on the Budget Payment Plan.

In addition, for the benefit of economically disadvantaged people in the service area, we organized a series of workshops with 20 social service agencies. Through cooperative efforts, communications were streamlined to provide quick response to more than 35,000 families in need. Also during 1980, more than 119,000 customers having difficulty paying their utility bills were provided individual contracts to extend their payments over several months and, in some cases, on a weekly basis to coincide with their paychecks. We are pleased to help our customers in these efforts.

While there is considerable concern over the vitality of the nation's economy, we are extremely pleased that the new administration in Washington plans to take positive action on the problems of inflation, to curtail and roll back government regulation and to promote the development of this nation's energy resources. We concur that these are necessary national goals if we are to restore long-range economic growth and increase employment in this country.

Mr. James R. Thomas, President of The Dayton Tire and Rubber Company, with eight years of distinguished service on the Board of Directors, resigned as a result of his transfer to the corporate headquarters of the Firestone Tire and Rubber Company.

We are fortunate that Mr. Daniel C. Boone, President and Chief Operating Officer of Armco Inc., an Ohio based corporation with steel, financial and manufacturing interests, has joined the Board and brings a wealth of experience and knowledge.

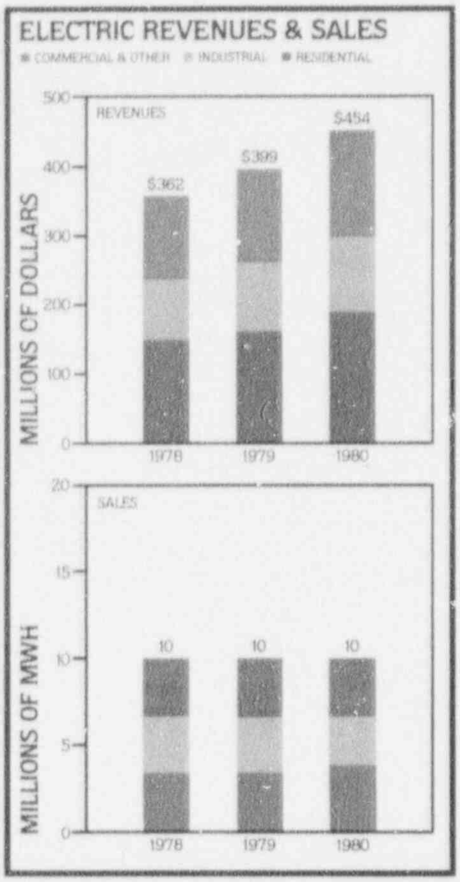
We continue to be a goal-oriented company committed to earning a fair return for our shareholders and providing energy and related services to our customers in an efficient, cost-effective manner. All our employees are dedicated to this goal.

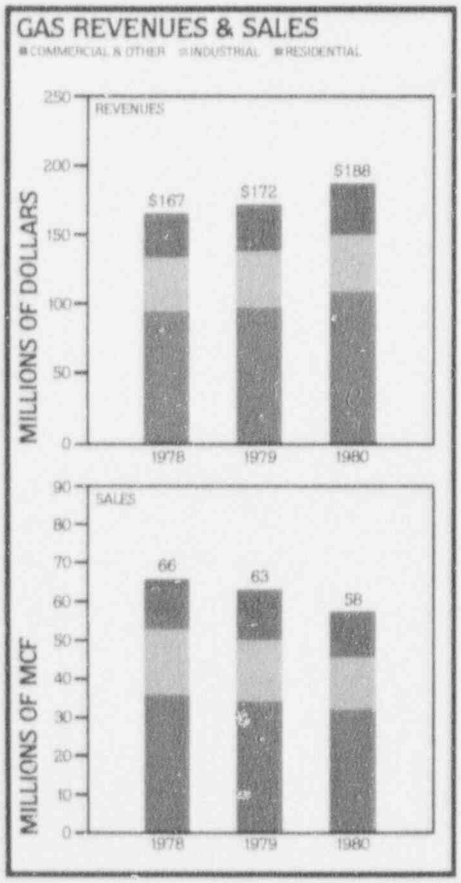
Robert B. Killen
Chairman

Robert E. Frazer
President and
Chief Executive Officer

February 16, 1981

Financial Review





The charts on these pages are designed to provide, at a glance, an understanding of the changes in results of operations for the years 1978, 1979 and 1980.

Energy Sales

Electric and gas energy sales are impacted by a variety of factors including the level of business activity, the number of new households, customer conservation and general weather conditions. Total electric sales for the three years have been stable, while natural gas sales have declined.

During this three-year period, volumes of energy sales reflected the recessionary business conditions that began in 1979 and steadily grew worse through 1980. The economy of the greater Dayton metropolitan area is very dependent upon automotive and related industries. Consequently, the area was more adversely affected by the current recession than other portions of our service territory and the country as a whole. As a result, industrial electric sales dropped 7% in 1980, while industrial gas sales fell 17%.

Residential electric sales in 1980 increased 3½% due principally to a warmer summer than in 1979. Residential gas sales fell nearly 6%, mostly due to customer conservation. The downturn in nationwide home construction was also experienced within the Company's service area, as evidenced by the addition of only 2,200 residential electric customers in 1980, down from the prior 10-year annual average of 6,700.

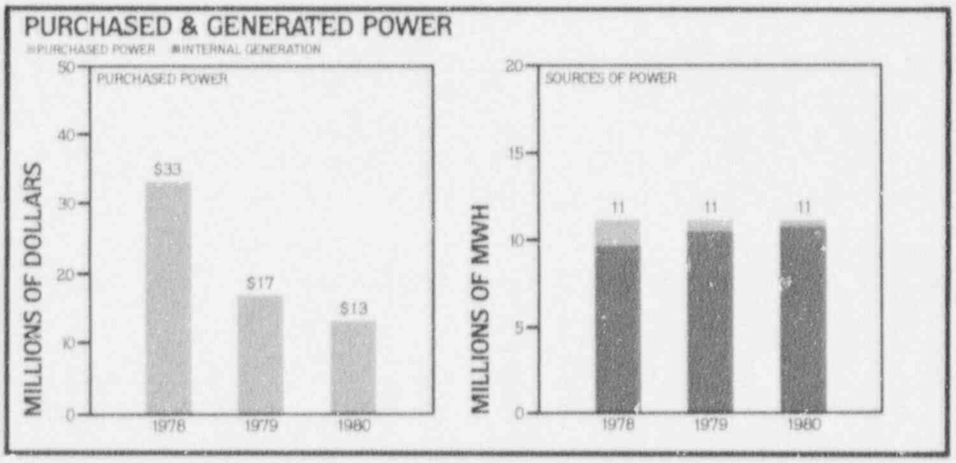
Revenues

Total operating revenues have increased in each of the last three years, with an increase of 13% in 1980. The higher revenues resulted from base rate increases and higher coal and natural gas costs, part of which are recovered through cost adjustment clauses. In March 1979, the Public Utilities Commission of Ohio (PUCO) authorized an annual increase in electric revenues of approximately $40 million, which included a $30 million interim increase in effect since June 1978. In July 1980, the PUCO authorized a $32 million increase in annual electric revenues, which included a $29 million interim increase in effect since March 1980. Effective December 1980, the PUCO granted an interim electric increase of $48 million. In June 1980, the PUCO also authorized an increase in annual gas revenues of $7 million. As discussed in the Energy 1980 section, which follows, other pending electric and gas rate increase requests will be acted upon during 1981.

Operating Expenses

Total operating expenses have increased in each of the last three years with an increase of 13% in 1980. One of the principal reasons for these increases is the higher expense for coal used to produce electricity. Coal burned in 1980 cost $38 per ton, a 31% increase over the cost of $29 per ton in 1978. This increase in coal expense is due in part to the purchase of more expensive, low sulfur coal to meet the more stringent government environmental requirements.

The Company's efforts to increase the output of electricity from its generating plants and, in particular, from its more efficient units at Stuart Station, have been very successful and, as a result, have helped to hold down expenditures for coal and purchased power. Purchased power expenditures in 1980 were $13 million, compared with $33 million in 1978.



In each of the past three years, the Company has purchased reduced volumes of natural gas. However, the cost of gas has risen so rapidly that the overall expense increased. The cost per thousand cubic feet (MCF) in 1980 was $2.53, compared with $1.90 in 1978, an increase of 33%. We expect this cost to continue to rise as the Federal government permits natural gas prices to rise to their true value in the world market which is currently approximately $5 per MCF.

Other operation and maintenance expenses include wages and benefits for employees, material and supplies used to maintain facilities and outside contract services including tree trimming, legal, accounting and other services. The most significant increase resulted from additional maintenance costs of electric generating units to improve operating efficiency and productivity. In 1980 two of the 600-megawatt (MW) Stuart Station units, as well as two smaller units, underwent scheduled five-year generator overhauls. In addition, there were several major unscheduled maintenance projects which included the repair of a large generator rotor at the Conesville Station, and repairs of the main transformer and cooling tower at the Miami Fort Station. These commonly-owned units are operated by other companies.

We have also hired additional employees to perform maintenance at generating plants, to design and program new computer systems and to handle the burgeoning government demands. All other items of expense have increased due to the impact of inflation.

Financing Costs

Interest charges and preferred dividends increased primarily due to the issuance of securities required to finance the construction program.

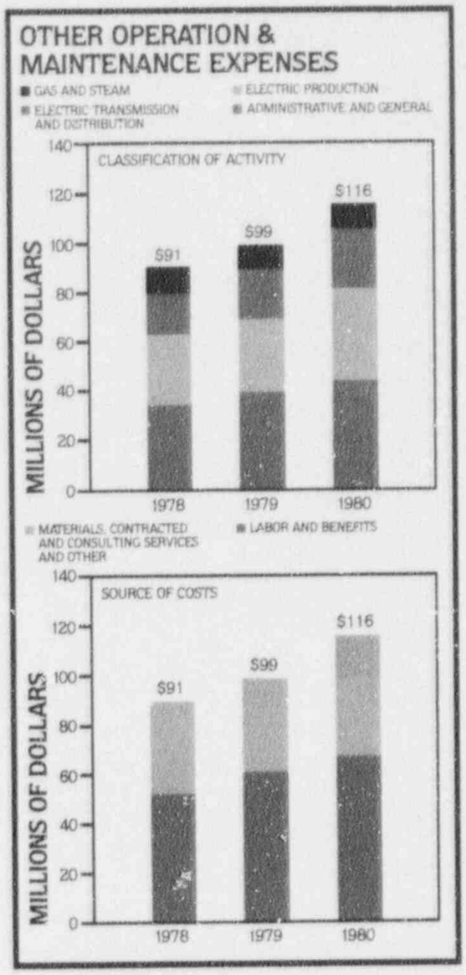
The amounts of financing costs (Allowance for Funds Used During Construction) transferred to construction in 1980 rose because of the increase in Construction Work in Progress during the year and the higher interest rates and cost of equity financing.

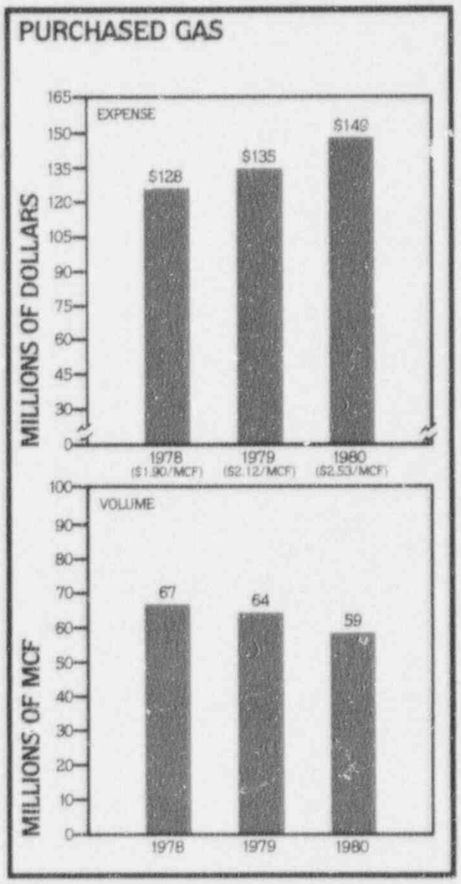
Construction Program and Capital Resources

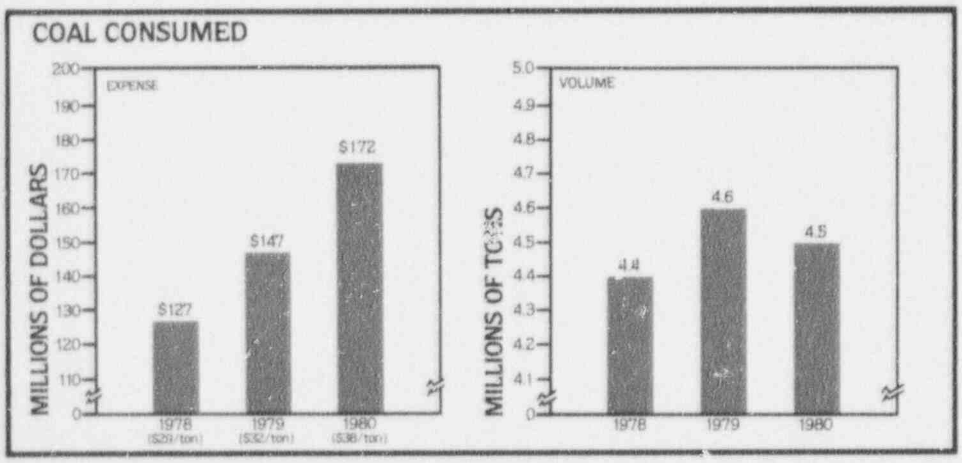
In 1980 the Company invested $222 million principally for electric generating plants to provide energy for our customers. Funds for this investment were obtained through sales of securities. The Company currently estimates that its capital expenditures program will total approximately $273 million in 1981 and $993 million for the 1981-1985 period. In addition, $69 million of securities come due in 1981 and $121 million come due in the 1981-1985 period.

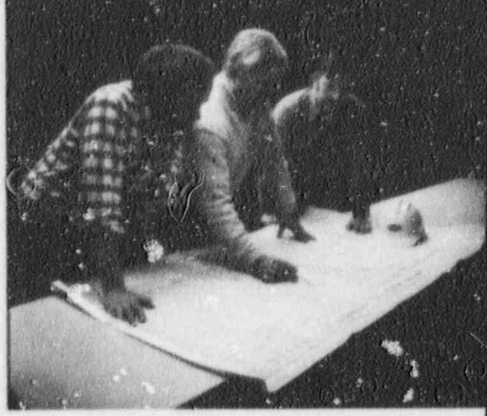
The Company anticipates that it will finance a significant portion of these requirements from external sources in the form of debt and equity securities. The amounts and types of these additional securities will be affected by the timing and amount of rate increases, conditions of the capital markets, restrictions on the issuance of additional first mortgage bonds under the Company's Indenture and other factors.

At December 31, 1980, the Company had $96 million in informal bank lines of credit and a $75 million bank loan agreement of which $46 million and $20 million, respectively, were outstanding. The Company from time to time issues commercial paper as a means of raising short term funds instead of bank borrowings and had $9 million outstanding at year end.









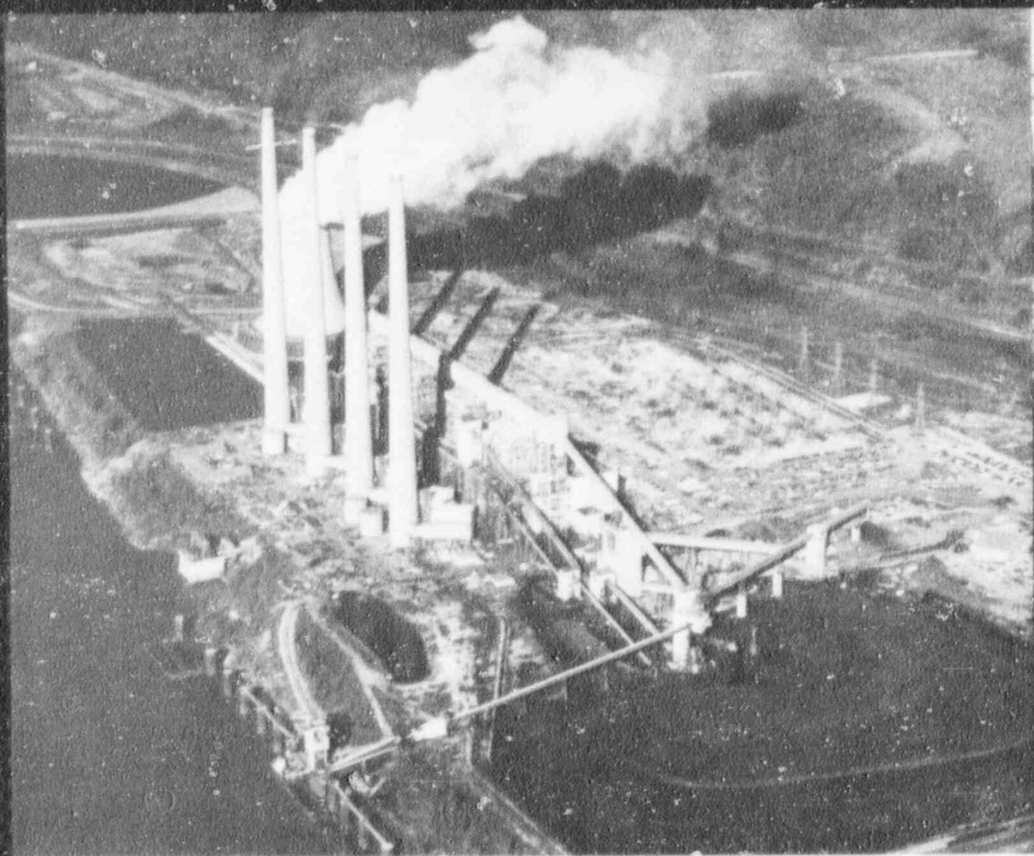
Energy 1980

Operations at DP&L's coal-fired power plants continued to improve and contributed substantially to the 1980 level of earnings. For example, improvements at the 2,400 MW J.M. Stuart Station, one of the nation's largest generating plants, helped to significantly offset rising fuel costs and saved customers approximately $20 million over the last two years. Each of the four Stuart units operates under the direction of a unit manager and a management team trained specifically for this operation. Extensive equipment modification, the acceleration of computerized preventive maintenance programs and continued training for management, operations and maintenance personnel contributed to increased generating equipment availability.

This on-going improvement program has a great impact on the Company's overall system performance since our share of the large, modern units at Stuart represents almost a third of our total system generating capacity. DP&L's system heat rate has also improved over the last two years. Heat rate is a measure of the energy needed to produce one kilowatt hour of electricity. The less energy required, the lower the cost to our customers. However, improving existing generating stations is only one part of DP&L's Energy Development Program.

Work continued in 1980 on the construction of the East Bend and Killen coal-fired stations and the William H. Zimmer nuclear station. Both the East Bend and Killen units are located on the Ohio River for access to economical, barged coal. DP&L has invested $119 million in the 600-MW East Bend unit which will be operated by The Cincinnati Gas & Electric Company. Our customers will receive 31% of the electricity generated when the first unit at East Bend goes into commercial operation this March.

DP&L is responsible for construction and operation of Killen Station, scheduled for completion in October 1982. Helping make this project successful are EBASCO Services Incorporated, which is providing engineering and procurement support, and Daniel Construction Company, which is providing construction management for the project. Two innovative approaches make this project an example of the Company's commitment to efficiency and cost control. A master project schedule provides management control over 20,000 engineering, procurement, construction and start-up activities. This master schedule ensures coordination of this $500 million project. As a result, the 50% completion benchmark was achieved on December 31, 1980, exactly as planned. A computerized cost-control system tracks more than 2,600 construction tasks. This system enables productivity



J.M. Stuart Station, one of the country's largest coal-fired generating plants, represents nearly one-third of the Company's total system generating capacity. At Killen Station, a master project schedule provides management control over engineering, procurement, construction and start up activities. Construction timelines have been met with no cost overruns. The plant is scheduled for completion in October 1982. In December 1979 natural gas was once again offered to customers in our service area. Last year new natural gas services required 56 miles of plastic gas main extensions. Plastic gas pipe is used as a cost saving measure because it does not corrode with continued exposure to moisture. With an adequate supply of natural gas and the additional capacity to provide electricity, DP&L will be in a good position to meet our customers' energy requirements throughout the coming decade.

and cost information to be maintained and updated weekly. Monitoring actual and projected costs on a timely basis has provided the information needed to prevent cost overruns.

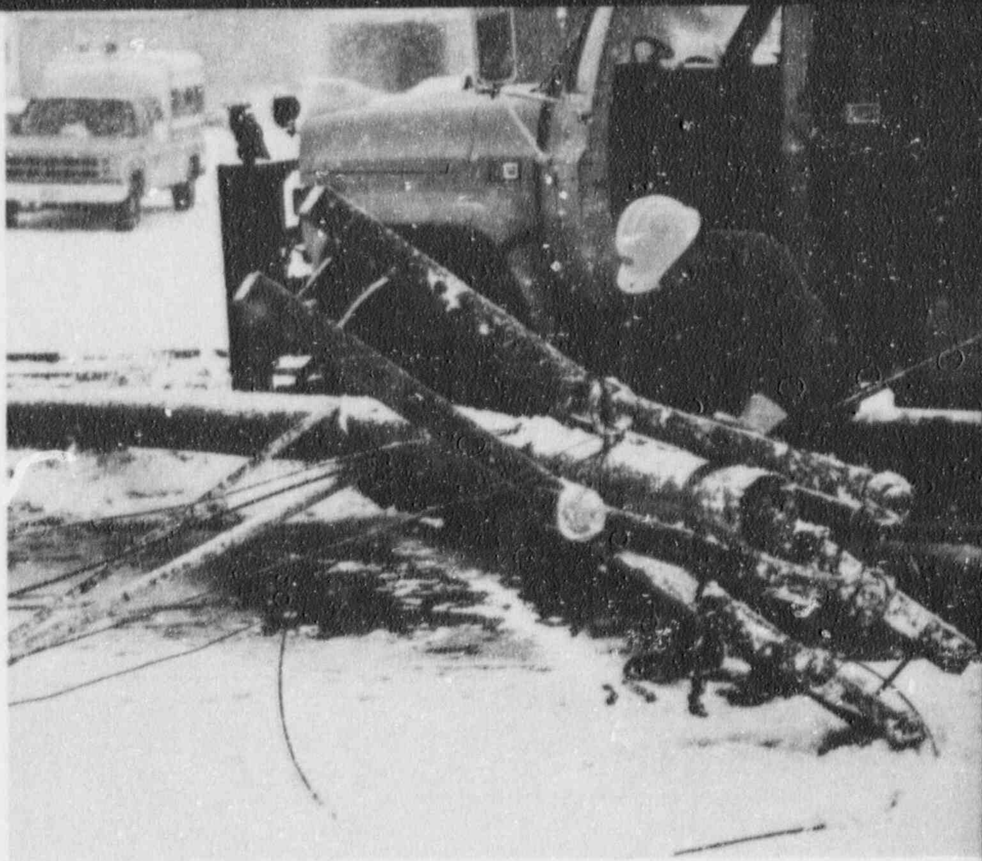
DP&L recognized that the Killen project could increase job opportunities in the area around Wrightsville, Ohio, which has one of the highest unemployment levels in the state. DP&L and Daniel initiated pre-employment training programs in welding, boilermaking, pipefitting and iron working and encouraged local men and women to seek employment at the construction site. The development of basic construction skills enabled 950 local people to join the Killen construction force.

Nuclear power is an economical and safe energy source and is vitally needed in reaching America's goal of energy independence. The accident at Three-Mile Island in March 1979 still impacts the industry. A 14 month moratorium in licensing, retrofits on existing stations and modifications to those under construction have delayed nuclear progress nationwide. Zimmer nuclear station, although 95% complete, has experienced delays as newly required changes are implemented. Because DP&L owns 31.5% of this 807 MW station, timely completion is vital to the Company's Energy Development Program. Operating license hearings for Zimmer are expected to resume in 1981. Zimmer is one of the major projects which will help reduce energy cost increases to our customers in the 1980s.

DP&L's service strategy was modified in December 1979 to once again offer natural gas in our service area. More than 3,000 new natural gas services were installed in 1980, reversing the downward trend caused by the 1972 ban on new connections. Conversions from other heating fuels, such as oil, accounted for many of DP&L's new gas customers. In coming years, increasing numbers of new homes will use this clean, efficient fuel. Because of conservation programs, consumers will use less natural gas, thereby helping to stretch available supplies. Columbia Gas Transmission Corporation, our major supplier, projects that natural gas will be available to meet our customers' energy requirements throughout the next decade and beyond.

In May the PUCO granted DP&L a 4% increase in natural gas revenues. Meanwhile, costs for operating and maintaining our 3,700-mile natural gas distribution system continued to rise. As a result, in November DP&L announced the need for an additional 5% increase in natural gas rates. The new rates are expected to take effect in late 1981.

Last March a 12% interim increase in electric revenues was granted. In July DP&L also submitted the first of a series of requests for electric rate increases to begin to recover costs of our energy development program as new units start producing electricity. We asked that part of the revenue from the July request be granted on an accelerated basis due to the Company's strained financial condition. The PUCO agreed that the circumstances confronting the Company required immediate action. In November the Commission granted DP&L the accelerated $48 million increase, the full amount requested. We view this as a positive first step toward a decision on the remaining part of the increase to be received in mid-1981.



With the start up of the first East Bend unit, a second electric rate increase request of 9% was announced in early January. Electricity from East Bend is needed now to meet the changing, but still growing energy needs of the citizens of West Central Ohio.

It is evident that the financial and operating challenges of the past year will continue. DP&L's efforts to increase productivity in order to combat inflation and offset rising costs of fuel, labor and money will continue. Our commitment to improving existing programs will help ensure adequate future supplies of energy to the people in West Central Ohio at the lowest possible cost during the coming decade.

Service 1980

A new feature to our Budget Payment Plan for customers, major renovation projects and stronger emphasis on customer relations were among our 1980 service programs. Despite the past year's spiraling inflation, DP&L found opportunities to hold down costs and refine existing programs.

Better use of existing facilities was a priority throughout 1980. For example, DP&L began a major renovation of the 25-year-old Dayton service building to better utilize existing space. By centralizing service, repair and system operating functions, customer requests will be processed more efficiently and field crews will be directed to trouble spots more quickly. These changes saved $2 million compared with new construction.

An innovative, radar-equipped weather center was introduced in 1980. Advance warning of 26 severe thunderstorms between June and August drastically reduced the time and costs required to mobilize repair crews.

In September we modified the standard Budget Payment Plan. The plan is designed to help residential customers budget home energy costs and now offers a 7% annual interest credit to customers whose average monthly balance shows a credit. The offer to pay interest is a first for Ohio utility companies. Today more than 145,000 of DP&L's residential customers are participating.

We work hard to communicate with the people we serve. In August we directed public attention to one of our environmental projects. Environmental scientists from the Ohio Biological Conservancy and the Sierra Club toured acres of unspoiled prairie land which DP&L maintains under its high voltage transmission lines in Union County.

Each year the men and women of DP&L renew their pledge to fulfill corporate citizenship responsibilities through community involvement. Our employees donated their individual time, effort and money to many area civic and charitable organizations. DP&L employees contributed a record $200,000 to United Way and participated by the hundreds in the American Cancer Society's annual Bike-A-Thon fund-raiser. In 1980 contacts with groups through DP&L's Speaker's Bureau and increased communications with local radio, television and newspapers promoted discussion of energy issues with the citizens of West Central Ohio. We expanded our energy information and electrical safety program for over 25,000 students in service-area schools. This dialogue is an important part of our energy development effort.

Commitment to service is more than merely providing electricity, natural gas and steam at the lowest possible cost. It means being alert to opportunities for increased customer services. We are fulfilling this commitment through innovative programs, efficient operating practices and on-going civic involvement.

Dayton Power and Light's community service commitments during 1980 ranged from an expanded electrical safety program in service-area schools to employee participation in an annual bike ride for charity. Although our corporate offices are located in downtown Dayton, DP&L's service area encompasses 24 counties in West Central Ohio. In Union County, the Company preserves several acres of unspoiled prairie land beneath high voltage transmission lines. Georgene Hall, Supervisor of Environmental Management, accompanies tour groups to the site to discuss our conservation efforts. DP&L's customer service commitments are most visible when repair crews brave the elements to restore service. Behind the scenes are hundreds of other employees dedicated to ensuring reliable service to our customers.

Non-Management Directors


Daniel C. Boone


Stephen T. Bow


Robert G. Chollar


Charity E. Earley


Jane G. Haley


Robert J. Kegerreis


Robert A. Kerr


Robert B. Killen
Chairman


James W. McSwiney


David B. Meeker


James R. Thomas


John F. Torley

Directors

Daniel C. Boone (A,C)
President and Chief Operating Officer
Armco Inc.
Middletown, Ohio

Stephen T. Bow (A,B)
Senior Vice President
Metropolitan Life Insurance Co.
Dayton, Ohio

Robert G. Chollar (B*,E)
Chairman of the Board
Charles F. Kettering Foundation
Dayton, Ohio

Charity E. Earley (B,D)
Member, Trustee or Director
Various community organizations
Dayton, Ohio

Peter H. Forster
Executive Vice President
The Dayton Power and Light Company
Dayton, Ohio

Robert E. Frazer (F*)**
President and Chief Executive Officer
The Dayton Power and Light Company
Dayton, Ohio

Jane G. Haley (D,E)
President
C.H. Gosiger Machinery Company
Dayton, Ohio

Robert J. Kegerreis (D*,F)
President
Wright State University
Dayton, Ohio

Robert A. Kerr (A,E)
President
Winters National Corporation
Dayton, Ohio

Robert B. Killen (A,D,F)
Chairman of the Board
The Dayton Power and Light Company
Dayton, Ohio

James W. McSwiney (C,E*,F)
Chairman of the Board
Mead Corporation
Dayton, Ohio

David B. Meeker (C*,F)
President and Chief Executive Officer
Hobart Corporation
Troy, Ohio

James R. Thomas [1]
President
The Dayton Tire and Rubber Company
Dayton, Ohio

John F. Torley (A*,C,F)
Chairman, Executive Committee
Dayton Malleable Inc.
Dayton, Ohio

1981 Committee Assignments
A Energy Resources and Forecasts
B Audit Review
C Compensation and Management Review
D Community and External Relations
E Finance
F Executive
* Denotes Committee Chairman
** Ex officio member of all committees
1 Resigned Oct. 16, 1980
2 Retired Feb. 1, 1981

Officers

Robert E. Frazer
President and Chief Executive Officer

Peter H. Forster
Executive Vice President

Carl R. Morey
Vice President—Energy Production

John R. Newlin
Vice President and General Counsel

Howard R. Palmer [2]
Vice President—Environmental Management

Paul R. Anderson
Treasurer

John R. Dill
Comptroller

Pauline M. Easter
Secretary

James E. Clark
Assistant Vice President—Computer Services

Allen M. Hill
Assistant Vice President—Planning

Charles W. Shoup
Assistant Vice President—Customer Business Operations

Steven G. Smith
Assistant Vice President—Engineering and Purchasing

Richard L. Stump
Assistant Vice President—Customer Service Operations

Management Report on the Financial Statements

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Auditors' Report

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Financial and Statistical Summary

The Dayton Power and Light Company

		1980	1979	1978	1977	1976	1975
For the years ended December 31.							
Return on shareholders' investment	%	**10.1**	10.8	9.3	9.1	11.2	12.3
Earnings per share of common stock	$	**1.85**	2.01	1.73	1.70	2.05	2.24
Dividends declared per share	$	**1.74**	1.72	1.66	1.66	1.66	1.66
Dividend payout ratio	%	**94.3**	85.7	95.8	96.1	80.8	73.8
Earnings on common stock (000)	$	**47,166**	47,239	36,774	31,728	34,932	32,774
Operating revenues (000)	$	**650,000**	577,232	535,813	446,524	397,862	357,575
December 31.							
Book value per share	$	**18.06**	18.60	18.39	18.60	18.39	18.15
Total assets (000)	$	**1,685,044**	1,480,808	1,270,453	1,118,707	992,109	895,132
Long-term debt and preferred stock with mandatory redemption provisions (000)	$	**807,991**	774,903	602,168	505,623	485,979	435,966
Number of Shareholders							
Common		**74,920**	70,969	70,857	65,173	56,869	51,325
Preferred		**4,013**	4,142	4,205	4,218	4,231	4,012

Selected Quarterly Information

The Dayton Power and Light Company

	Operating Revenues	Operating Income	Net Income	Earnings on Common Stock	Earnings per Share of Common Stock	Dividends Paid	Common Stock Market Price High	Common Stock Market Price Low
	thousands	thousands	thousands	thousands				
For the quarters ended 1980:								
March 31	$ 195,801	20,256	18,918	14,889	.62	.435	15⅜	12½
June 30	$ 145,763	16,871	14,774	10,772	.45	.435	15	12¾
September 30	$ 138,563	18,105	15,983	11,255	.42	.435	15	13
December 31	$ 169,873	17,788	15,096	10,250	.36	.435	13⅞	11¼
For the quarters ended 1979:								
March 31	$ 185,296	21,057	19,417	16,430	.70	.415	16⅞	14¾
June 30	$ 130,385	15,783	14,636	11,250	.48	.435	16⅜	15
September 30	$ 114,938	14,620	13,988	10,053	.43	.435	17⅛	15⅞
December 31	$ 146,613	13,799	13,495	9,506	.40	.435	16½	13⅞

Statement of Results of Operations

The Dayton Power and Light Company

For the years ended December 31,	1980	% Change from 1979	1979	1978
		— thousands —		
Operating Revenues				
Electric	$454,062	14	$398,552	$362,145
Gas	188,466	10	171,819	166,922
Steam	7,472	9	6,861	6,746
Total operating revenues	650,000	13	577,232	535,813
Operating Expenses				
Operation				
Fuel used in production	191,573	17	163,958	141,830
Purchased power	13,258	(21)	16,874	32,549
Purchased gas	149,675	10	135,687	128,037
Other	70,243	11	63,185	58,443
Maintenance	46,139	28	36,116	32,377
Provision for depreciation and amortization	32,345	7	30,183	28,580
Taxes other than income taxes	48,604	8	45,085	38,831
Income taxes	20,672	20	17,239	8,846
Deferred investment tax credit (net)	4,471	23	3,646	8,506
Total operating expenses	576,980	13	511,973	477,999
Operating Income	73,020	12	65,259	57,814
Other Income and Deductions				
Allowance for equity funds used during construction	27,947	12	24,908	16,058
Income taxes—credits	10,904	47	7,442	5,065
Other (net)	857	(38)	1,383	2,479
Total other income and deductions	39,708	18	33,733	23,602
Income Before Interest Charges	112,728	14	98,992	81,416
Interest Charges				
First mortgage bonds	53,761	25	42,995	37,036
Other	6,703	100	3,348	2,466
Allowance for borrowed funds used during construction—credit	(12,507)	41	(8,887)	(5,637
Net interest charges	47,957	28	37,456	33,865
Net Income	64,771	5	61,536	47,551
Preferred dividends	17,605	23	14,297	10,777
Earnings on Common Stock	$ 47,166	—	$ 47,239	$ 36,774
Average Number of Common Shares Outstanding	25,489	8	23,556	21,253
Earnings Per Share of Common Stock	$ 1.85	(8)	$ 2.01	$ 1.73
Return on Shareholders' Investment	10.1%	(6)	10.8%	9.3%

The accompanying notes are an integral part of the above statement.

Statement of Sources of Funds Invested in Plant and Facilities

The Dayton Power and Light Company

For the years ended December 31,	1980	1979	1978
		— thousands —	
INTERNALLY GENERATED FUNDS			
Funds Retained in the Business			
Net income	**$ 64,771**	$ 61,536	$ 47,551
Add (deduct)			
Depreciation and amortization	**34,541**	32,448	30,594
Deferred income taxes	**6,957**	5,865	3,226
Investment tax credit (net)	**4,473**	3,621	8,547
Allowance for equity funds used during construction	**(27,947)**	(24,908)	(16,058)
Funds provided from operations	**82,795**	78,562	73,860
Dividends paid on common stock	**(44,501)**	(40,485)	(35,216)
Dividends paid on preferred stock	**(17,605)**	(14,297)	(10,777)
Funds retained in the business	**20,689**	23,780	27,867
Other Funds Provided—net			
Changes in working capital (excluding short-term debt and temporary cash investments)			
Accounts receivable	**(6,563)**	(2,349)	(4,754)
Fuel stock	**(18,602)**	(17,323)	2,106
Prepayments and other	**(8,403)**	289	2,754
Accounts payable	**4,468**	6,146	6,646
Other current assets and liabilities	**(1,018)**	10,886	9,768
Other	**(2,161)**	(4,451)	(3,911)
Other funds provided—net	**(32,279)**	(6,802)	12,609
Internally generated funds	**(11,590)**	16,978	40,476
FUNDS PROVIDED BY INVESTORS—net			
Issuance of common stock	**51,325**	7,351	48,317
Issuance of preferred stock	**29,542**	44,727	39,759
Issuance of long-term debt	**58,693**	135,450	63,732
Reduction in long-term debt and preferred stock	**(6,071)**	(3,430)	(24,639)
Temporary cash investments (net)	**16,824**	(8,038)	(8,786)
Short-term debt (net)	**55,675**	—	(4,500)
Funds provided by investors—net	**205,988**	176,060	113,883
Net invested in plant and facilities	**194,398**	193,038	154,359
Allowance for equity funds used during construction	**27,947**	24,908	16,058
Total Invested In Plant and Facilities	**$222,345**	$217,946	$170,417

The accompanying notes are an integral part of the above statement.

Balance Sheet

The Dayton Power and Light Company

Assets

December 31,	1980	1979	1978
		— thousands —	
Property and Plant			
Electric plant in service	**$1,028,893**	$ 970,292	$ 900,360
Gas plant in service	**110,446**	105,854	104,393
Steam plant in service	**12,305**	11,902	10,205
Construction work in progress	**659,701**	506,916	370,756
Acquisition adjustments, being amortized	**3,744**	3,991	4,237
	1,815,089	1,598,955	1,389,951
Less accumulated provision for depreciation and amortization	**349,794**	320,507	298,524
Less accumulated deferred income taxes related to liberalized depreciation and amortization	**14,567**	9,189	5,176
Net property and plant	**1,450,728**	1,269,259	1,086,251
Current Assets			
Cash	**7,708**	5,462	5,323
Temporary cash investments, at cost	**—**	16,824	8,786
Accounts receivable, less provision for uncollectible accounts of $3,338,000, $2,457,000 and $1,828,000, respectively	**54,429**	47,866	45,517
Fuel stock, at average cost	**68,255**	49,653	32,330
Materials and supplies, at average cost	**16,228**	11,596	9,908
Prepayments and other	**28,609**	20,206	20,495
Total current assets	**175,229**	151,607	122,359
Other Assets	**59,087**	59,942	61,843
Total Assets	**$1,685,044**	$1,480,808	$1,270,453

The accompanying notes are an integral part of the above statement.

Capitalization and Liabilities

December 31,	1980	1979	1978
	— thousands —		
Capitalization (see Statement of Capitalization)			
Common shareholders' equity	**$ 496,798**	$ 443,266	$ 429,434
Preferred stock			
Without mandatory redemption provisions	**82,851**	82,851	82,851
With mandatory redemption provisions	**136,250**	107,500	63,750
Long-term debt	**671,741**	667,403	538,418
Total capitalization	**1,387,640**	1,301,020	1,114,453
Current Liabilities			
Current portion of first mortgage bonds and preferred stock	**46,250**	1,250	1,250
Notes payable	**57,882**	2,420	1,928
Accounts payable	**50,719**	46,251	40,105
Accrued taxes	**50,068**	47,187	46,121
Accrued interest	**12,414**	10,636	7,754
Gas supplier refunds due customers	**7,510**	11,223	2,268
Other	**13,694**	8,780	8,970
Total current liabilities	**238,537**	127,747	108,396
Deferred Credits and Other			
Income taxes other than those related to liberalized depreciation and amortization	**20,399**	18,827	17,923
Investment tax credit	**36,083**	31,610	27,989
Other	**2,385**	1,604	1,692
Total deferred credits and other	**58,867**	52,041	47,604
Total Capitalization and Liabilities	**$1,685,044**	$1,480,808	$1,270,453

The accompanying notes are an integral part of the above statement.

Statement of Capitalization

The Dayton Power and Light Company

December 31,	1980	1979	1978
	— thousands —		
Common Shareholders' Equity			
Common stock			
Authorized 50,000,000 shares of $7 par value, outstanding 27,503,847, 23,835,462 and 23,356,046 shares, respectively	**$192,526**	$166,848	$163,492
Other paid-in capital	**178,700**	153,511	149,789
Earnings reinvested in the business	**125,572**	122,907	116,153
Total common shareholders' equity	**496,798**	443,266	429,434
Preferred Stock—Cumulative			
Authorized 4,000,000 shares of $25 par value and 4,000,000 shares of $100 par value			
Outstanding $100 par value without mandatory redemption provisions			
3.75% Series A, 93,280 shares	**9,328**	9,328	9,328
3.75% Series B, 69,398 shares	**6,940**	6,940	6,940
3.90% Series C, 65,830 shares	**6,583**	6,583	6,583
7.48% Series D, 150,000 shares	**15,000**	15,000	15,000
7.70% Series E, 200,000 shares	**20,000**	20,000	20,000
7.375% Series F, 250,000 shares	**25,000**	25,000	25,000
Total without mandatory redemption provisions	**82,851**	82,851	82,851
Outstanding $100 par value with mandatory redemption provisions (exclusive of sinking fund payment due within one year)			
12.50% Series G, 212,500, 225,000 and 237,500 shares, respectively	**21,250**	22,500	23,750
8⅝% Series H, 400,000 shares	**40,000**	40,000	40,000
9⅜% Series I, 450,000 shares	**45,000**	45,000	—
11.60% Series J, 300,000 shares	**30,000**	—	—
Total with mandatory redemption provisions	**136,250**	107,500	63,750

The accompanying notes are an integral part of the above statement.

Statement of Capitalization

The Dayton Power and Light Company

December 31,	1980	1979	1978
		— thousands —	
Long-term Debt			
First mortgage bonds			
10⅛% Series Due 1981	—	45,000	45,000
3¼% Series Due 1982	**15,000**	15,000	15,000
3% Series Due 1984	**15,000**	15,000	15,000
4.45% Series Due 1993	**50,000**	50,000	50,000
5⅝% Series Due 1997	**40,000**	40,000	40,000
6¾% Series Due 1998	**25,000**	25,000	25,000
8.95% Series Due 1998	**20,000**	20,000	20,000
8¼% Series Due 1999	**30,000**	30,000	30,000
10¼% Series Due 1999	**45,000**	30,000	—
9½% Series Due 2000	**35,000**	35,000	35,000
8⅛% Series Due 2001	**45,000**	45,000	45,000
8% Series Due 2003	**40,000**	40,000	40,000
9½% Series Due 2003	**50,000**	50,000	35,000
10.70% Series Due 2005	**3,175**	3,175	3,175
8¾% Series Due 2006	**50,000**	50,000	50,000
6.35% Series Due 2007 (Pollution Control)	**14,200**	14,200	14,200
8½% Series Due 2007	**60,000**	60,000	60,000
12⅛% Series Due 2009	**63,620**	57,000	—
	600,995	624,375	522,375
Unamortized debt discount and premium (net)	**(228)**	(176)	295
	600,767	624,199	522,670
Guarantee of pollution control obligations— 7½% and 7¾% Series A Due 1999 through 2009	**29,995**	26,390	—
10½% 1980 Series Due 2000	**6,651**	—	—
Bank loan agreement	**20,000**	—	—
Notes payable—Due through 1984, average rate 6.9%, 7.0% and 6.9%, respectively	**55**	95	130
10% mortgage note payable—Due in installments through 2012	**8,828**	8,871	8,911
Capital lease obligations	**5,445**	7,848	6,707
Total long-term debt	**671,741**	667,403	538,418
Total Capitalization	**$1,387,640**	$1,301,020	$1,114,453

Statement of Earnings Reinvested in the Business

The Dayton Power and Light Company

For the years ended December 31,	1980	1979	1978
		— thousands —	
Earnings Reinvested in the Business			
Balance at beginning of year	**$122,907**	$116,153	$114,595
Net income	**64,771**	61,536	47,551
	187,678	177,689	162,146
Dividends paid—common stock	**(44,501)**	(40,485)	(35,216)
preferred stock	**(17,605)**	(14,297)	(10,777)
Balance at End of Year	**$125,572**	$122,907	$116,153

The accompanying notes are an integral part of the above statements.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation

The Company's financial statements include a wholly owned subsidiary which owns the Company's corporate headquarters building. The other subsidiaries are not significant and are accounted for on the equity basis.

Revenues

The Company records revenues when customers are billed. The revenues include charges for fuel and gas costs billed to customers through cost adjustment clauses.

Purchased Gas and Fuel Costs

Prior to December 1979, each month's gas costs included suppliers' deliveries from the 20th of the prior month through the 19th of the current month. As a result of an order by the Public Utilities Commission of Ohio (PUCO) effective December 1979, the Company records gas cost as an expense as it is recovered through cost adjustment billings to customers. The portion of gas costs recoverable in future periods is deferred. The cost of fuel used to produce electricity and steam is expensed as the fuel is consumed.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFC) reflects the estimated cost of capital funds applicable to utility plant under construction. This cost represents interest charges on borrowed funds and the cost of equity funds. The portion of AFC related to borrowed funds is recorded as a reduction of interest charges, and the portion related to equity funds is recorded as other income. This accounting practice results in these capital costs being included as part of the utility plant in the same manner as labor and material costs. The AFC rate in 1980 was 8%, in 1979 was 7¾% through June and 8% thereafter, and in 1978 was 7½%. These rates are net of income tax effect and are compounded semi-annually.

Income Taxes

Income taxes are computed based on pre-tax income adjusted for AFC and other differences between pre-tax income and taxable income. Income tax expense differs from income tax currently payable due to transactions which affect book net income and taxable income in different accounting periods. The tax effects of certain of these timing differences, consistent with PUCO regulatory policies, are deferred to future periods and are reflected in the balance sheet as deferred credits, other assets and, if associated with property, as a reduction to property and plant.

In determining income tax currently payable, the Company has used liberalized depreciation which currently is greater than depreciation for financial statement purposes, and, as a result of PUCO rate orders, the Company has deferred taxes on a portion of the additional depreciation (the difference between liberalized and straight-line tax depreciation using guideline lives for 1976 and subsequent property additions).

Investment tax credit, which reduces tax currently payable, is deferred and amortized over the lives of the related property. The Company also has unused investment tax credit of approximately $38 million which will be used to the extent permitted by tax regulations to reduce future tax liability.

The income taxes—credits, classified under Other Income and Deductions, result primarily from the Federal income tax deductions related to interest expense arising from investments in Construction Work in Progress.

The following schedules depict the computation of tax expense, the current and deferred components of tax expense and the manner in which tax expense is reflected in the Statement of Results of Operations:

	1980		1979		1978	
	(000)	%	(000)	%	(000)	%
Computation of Tax Expense						
Federal income tax at statutory rate applied to pre-tax income	$36,345	46	$34,490	46	$28,722	48
Decreases in tax from—						
AFC which does not constitute taxable income	18,609	24	15,545	20	10,414	17
Excess of tax depreciation and amortization over book depreciation and amortization not deferred	3,528	4	4,341	6	5,689	9
Investment tax credit	562	1	418	1	351	1
Other (net)	(593)	(1)	743	1	(19)	—
Total tax expense	$14,239	18	$13,443	18	$12,287	21

	1980	1979	1978
Components of Tax Expense			
Total tax currently payable (refundable)	$ 2,165	$ 2,646	$ (719)
Deferred taxes -			
Liberalized depreciation and amortization	5,359	4,023	2,922
Other	1,598	1,842	304
Deferred investment tax credit (net)	4,473	3,621	8,547
Other deferred items	644	1,311	1,233
Total tax expense	$14,239	$13,443	$12,287

	1980	1979	1978
Classification of Tax Expense as Shown in the Statement of Results of Operations			
Operating Expenses			
Income taxes	$20,672	$17,239	$ 8,846
Deferred investment tax credit (net)	4,471	3,646	8,506
Other Income and Deductions			
Income taxes—credits	(10,904)	(7,442)	(5,065)
Total tax expense	$14,239	$13,443	$12,287

Pensions

The Company's trusteed Retirement Income Plans, which cover substantially all employees, do not require contributions by the employees. The Company's contribution provides for the annual pension expense, including the amortization of unfunded past service costs over twenty years. Contributions amounted to $5.7 million in 1980, $5.5 million in 1979 and $5.1 million in 1978.

Accumulated plan benefits represent the value at a certain date of the benefits expected to be paid to former eligible employees and present employees, based on the employee's salary and service.

At January 1, 1980 (the most recent actuarial valuation date) the actuarial present value of accumulated plan benefits, assuming a 6% rate of return, was as follows:

	—thousands—
Contingent on employees' future service	$10,443
Not contingent on employees' future service	70,456
Total	$80,899

The net assets available for such benefits were $94 million at January 1, 1981 and $71 million at January 1, 1980.

Property and Plant, Maintenance and Depreciation

Property and plant in service is stated at the cost when first put into utility service (original cost). Construction costs include material, labor, overheads for payroll-related costs, administrative and general expenses and AFC. When a unit of property is retired, the accumulated provision for depreciation is charged with the book value of the property plus the cost of removal, less salvage value. Routine repairs and maintenance of property and replacements of minor items of property are charged to the appropriate maintenance expense accounts.

Utility plant depreciation is calculated using the straight-line method which depreciates the cost of property, less salvage value, in equal amounts over its estimated useful life. Studies are conducted periodically to determine whether these useful lives and salvage values are appropriate. The annual composite depreciation rates by utility are as follows:

	1980	1979	1978
Electric plant .... %	3.1	3.2	3.1
Gas plant .... %	2.5	2.2	2.2
Steam plant .... %	2.3	2.2	2.1

Reclassifications

Certain reclassifications have been made in the prior years' amounts to make them comparable to the classifications of such items in 1980.

2. Revenues Subject to Refund

In October 1980, the Company filed an application with the PUCO to increase annual retail electric revenues by $103 million. The application also requested the PUCO to allow the collection of $48 million of this increase on an interim basis pending the decision on the permanent increase. The PUCO approved the $48 million effective December 1, 1980, and accordingly, Revenues, Earnings on Common Stock and Earnings per Share include for 1980 $2.2 million, $1.2 million and $0.05, respectively, resulting from the increase. These revenues are subject to refund if the final order in this proceeding (expected in July 1981) approves an increase in revenues of less than $48 million.

3. Notes Payable and Compensating Balances

At December 31, 1980, the Company had informal lines of credit of $96 million including unused lines of $49 million. The Company maintains $5.7 million of compensating balances for $86 million and pays commitment fees for $10 million of these lines of credit.

Notes payable include $9 million of the Company's commercial paper.

In addition, the Company has a $75 million bank loan agreement with $55 million unused at year end.

4. Capitalization

Common Shareholders' Equity

Shares of common stock were issued as follows:

	1980	1979	1978
Public offerings	3,000,000	—	2,500,000
Dividend reinvestment plan	458,949	360,732	261,651
Employee plans	209,436	118,684	178,404
Total	3,668,385	479,416	2,940,055

At December 31, 1980, the Company had 407,344 and 508,100 shares of authorized but unissued stock reserved for the dividend reinvestment plan and employee plans, respectively.

The changes in other paid-in capital are as follows:

	1980	1979	1978
		—thousands—	
Balance at beginning of year	$153,511	$149,789	$122,293
Premium, net of expense, received from sales of common stock	25,647	3,995	27,737
Expenses of sales of preferred stock......	(458)	(273)	(241)
Balance at end of year	$178,700	$153,511	$149,789

Preferred Stock

Without Mandatory Redemption Provisions

The following series of preferred stock may be redeemed at the option of the Company at the following per share redemption prices, plus accrued dividends:

	Current Redemption Price		
	Amount	Prior to	Eventual Minimum
3.75% Series A	$102.50	—	$102.50
3.75% Series B	$103.00	—	$103.00
3.90% Series C	$101.00	—	$101.00
7.48% Series D	$105.095	5-1-84	$103.225
7.70% Series E	$106.00	4-1-81	$101.00
7.375% Series F	$105.00	6-2-83	$101.00

With Mandatory Redemption Provisions

The following series of preferred stock, which are redeemable pursuant to mandatory sinking fund requirements, may also be redeemed at the option of the Company at the following per share redemption prices, plus accrued dividends:

	Current Redemption Price			Annual Sinking Fund Requirements	
	Amount	Prior to	Eventual Minimum	(1)	(2)
12.50% Series G ..	$112.00	11-1-84	$101.00	5%	11-1-79
8⅝% Series H	$110.00	4-1-83	$101.00	5%	4-1-83
9⅜% Series I	$110.00	5-1-84	$101.00	5%	5-1-85
11.60% Series J ..	$111.60	7-1-85	$101.00	3%	7-1-86

(1) Percentage of the original amount of each issue.
(2) Sinking fund commencement date.

No redemptions may be made for Series G, H, I and J at effective interest rates or dividend yields less than the par value yields of the respective series prior to the current redemption dates in the above table.

Mandatory redemptions for preferred stock over the next five years are as follows:

Year	—thousands—
1981	$1,250
1982	$1,250
1983	$3,250
1984	$3,250
1985	$5,500

If four full quarterly preferred stock dividends are in arrears, the preferred shareholders would have the right to elect one-third of the members of the Board of Directors.

Long-term Debt

Substantially all property and plant of the Company is subject to the lien of the mortgage securing the Company's first mortgage bonds.

Improvement and sinking fund requirements for each of the next five years average $4.5 million and may be satisfied by (a) cash or (b) delivery of bonds of the respective series or (c) unfunded property additions at 60% of the lesser of cost or fair value thereof.

The mortgage also provides for annual payments as a maintenance and replacement fund of a sum equivalent to the minimum provision for depreciation (as defined), which approximated $24 million in 1980. This fund may be satisfied by (a) cash or (b) delivery of bonds issued under the liens or (c) the cost of unfunded property additions.

The Company has been using the cost of unfunded property additions to meet these requirements of the funds, but may follow a different alternative in the future with respect to certain series of bonds.

The amounts of maturities and mandatory redemptions for first mortgage bonds over the next five years are as follows:

Year	—thousands—
1981	$45,000
1982	$15,000
1983	—
1984	$16,330
1985	$ 4,330

The Company expects to issue an additional $60 million of first mortgage bonds in February 1981.

5. Construction Program

The Company estimates that its construction program will amount to $273 million in 1981 and $248 million in 1982. These amounts include the Company's share of construction costs associated with its commonly-owned facilities (See Note 8). The Company's ability to complete its proposed construction program depends upon its financial condition, the availability of external funds at reasonable costs and adequate and timely rate increases.

The Company has announced plans for the cancellation of the second unit at Killen Station. The Company believes that recovery of accumulated costs and further cancellation costs will be allowed by regulatory agencies in future rates.

6. Supplementary Income Information

The amounts of maintenance, depreciation and taxes other than income taxes (other than those set forth in the Statement of Results of Operations) charged to other accounts are not material.

The amounts of rents, royalties, advertising and research and development are not considered material.

7. Financial Information by Business Segments

The Company's primary business is the generation, distribution and sale of electric energy and the purchase, distribution and sale of natural gas. The following is certain information relating to the Company's business segments:

	1980	1979	1978
	— thousands —		
For the years ended December 31,			
Operating revenues (a)			
Electric	$ 454,062	$ 398,552	$ 362,145
Gas	188,466	171,819	166,922
Steam	7,472	6,861	6,746
Total	$ 650,000	$ 577,232	$ 535,813
Operating income (a)			
Electric	$ 67,449	$ 59,821	$ 49,439
Gas	5,685	5,597	8,589
Steam	(114)	(159)	(214)
Total	$ 73,020	$ 65,259	$ 57,814
Income taxes (b)			
Electric	$ 24,363	$ 20,754	$ 14,335
Gas	1,112	493	3,638
Steam	(332)	(362)	(621)
Total	$ 25,143	$ 20,885	$ 17,352
Provision for depreciation and amortization			
Electric	$ 29,489	$ 27,738	$ 26,205
Gas	2,599	2,226	2,181
Steam	257	219	194
Total	$ 32,345	$ 30,183	$ 28,580
Capital expenditures			
Electric	$ 214,997	$ 214,657	$ 167,101
Gas	7,087	2,043	2,247
Other, primarily steam	261	1,246	1,069
Total	$ 222,345	$ 217,946	$ 170,417
December 31,			
Identifiable assets			
Electric	$1,478,680	$1,279,385	$1,081,236
Gas	120,442	105,332	105,085
Other, primarily steam	8,828	10,346	9,608
Corporate assets (c)	77,094	85,745	74,524
Total	$1,685,044	$1,480,808	$1,270,453

(a) Excludes intersegment transactions which are not material.
(b) Includes income taxes and deferred investment tax credit (net) applicable to operating income only.
(c) Includes primarily cash, accounts receivable and certain deferred items.

8. Commonly Owned Facilities

The Company, The Cincinnati Gas & Electric Company and, on certain projects, Columbus and Southern Ohio Electric Company own as tenants in common certain electric generating and transmission facilities and have made commitments for additional construction. The agreements among the companies obligate each individual company to pay its ownership share of construction and operation costs of each facility. Included in the Statement of Results of Operations is the Company's share of direct expenses. These expenses are included as either fuel used in production or other operation and maintenance.

Certain information relating to the commonly-owned facilities at December 31, 1980 is as follows:

Unit	Company Ownership	Company Portion: Plant in Service	Company Portion: Accumulated Provision for Depreciation	Company Portion: Plant Under Construction
	percent		— millions —	
Production				
Beckjord Unit 6	50	$ 38	$11	$ —
Conesville Unit 4	16.5	22	6	—
Stuart Units 1-4	35	167	31	6
Miami Fort Units 7&8	36	94	13	1
East Bend Units 1&2	31	7	—	112
Killen Unit 2	67	—	—	218
Zimmer Unit 1 (nuclear)	31.5	—	—	274
Transmission (at varying ownership percentages)		62	9	1
Total		$390	$70	$612

Supplementary Information on Reporting the Effects of Inflation

The information provided below is an estimate of the economic impact inflation had on the Company and the common shareholders' investment during 1980. It supplements the basic financial statements, which are based on historical cost.

The Company is subject to rate regulation and tax laws that are based on the recovery of original (historical) cost only. Therefore, inflationary increases in the value of the Company's property create an economic loss because the Company is recovering its cost of investments in dollars that have less purchasing power. Conventional accounting, which is based on historical cost, does not recognize this economic loss. It also does not recognize the partially offsetting gain that arises through financing facilities with fixed money obligations, such as long-term debt and preferred stock.

	Conventional Historical Cost	Current Cost (1)	Constant Dollar (2)
		Average 1980 Dollars	
		—millions—	
NET PROPERTY AND PLANT ADJUSTED FOR INFLATION			
December 31, 1980 . . .	$ 1,451	$ 2,702	$ 2,503
EARNINGS ON COMMON STOCK FOR 1980 ADJUSTED FOR INFLATION			
As reported in the conventional financial statements (p. 14) . .	$ 47	$ 47	$ 47
Additional provision for depreciation and amortization (3). . . .	—	50	41
Earnings on common stock as adjusted . . .	$ 47	$ (3)	$ 6
Earnings per common share	$ 1.85	$ (.12)	$ .25
EARNINGS ON COMMON STOCK FOR 1979 ADJUSTED FOR INFLATION			
Earnings on common stock as adjusted . . .	$ 47	$ 1	$ 17
Earnings per common share	$ 2.01	$ .03	$ .70

TOTAL ADJUSTMENT TO EARNINGS ON COMMON STOCK FOR 1980

Additional provision for depreciation and amortization	$ (41)
Economic loss from holding property and plant	(125)
Economic gain from holding fixed money obligations (4) . . .	109
Total adjustment to earnings on common stock (5)	$ (57)

(1) Current cost measures changes in specific prices of utility property and plant primarily through the use of the Handy-Whitman Index of Public Utility Construction Costs. During 1980, the current cost of property and plant increased $234 million, which is $91 million less than the effects of general inflation.

(2) Constant dollar, computed by using the Consumer Price Index for all Urban Consumers, is a measure of general inflation.

(3) The provisions for depreciation and amortization under constant dollar and current cost are calculated by applying current depreciation rates to the constant dollar and current cost plant amounts. Income taxes are not adjusted.

(4) The 1979 economic gain from holding fixed money obligations is $106 million.

(5) The adjustment to earnings on common stock on a current cost basis equals the adjustment on a constant dollar basis. This reflects the effects of rate regulation which limits the recovery of property and plant to original (historical) cost.

The following schedule, a comparison of reported historical data with data adjusted for general inflation, shows that a significant part of the reported Company five-year growth has resulted from inflation. For example, the increase in revenues between the years 1976 and 1980 was only $74 million after adjustment for the effects of inflation, rather than the reported $252 million increase. Inflation has actually caused a decrease in the purchasing power of the Company's dividends.

	Year Ended December 31, 1976	Year Ended December 31, 1980	Increase (Decrease) Between 1976 and 1980 $	Annual Percentage Rate
	—millions—			
Operating revenues				
—as reported	$ 398	$ 650	252	13
—in average 1980 dollars	$ 576	$ 650	74	3
Net assets at year end at net recoverable cost				
—as reported	$ 324	$ 497	173	11
—in average 1980 dollars	$ 460	$ 471	11	1
Cash dividends—declared per common share				
—as reported	$ 1.66	$ 1.74	.08	1
—in average 1980 dollars	$ 2.40	$ 1.74	(.66)	(8)
Market price per common share at year end				
—as reported	$19.88	$11.88	(8.00)	(12)
—in average 1980 dollars	$28.16	$11.26	(16.90)	(20)
Average consumer price index	170.5	246.8	76.3	10