VECTREN CORP
Form 10-Q/A
August 29, 2001

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

FORM 10-Q/A

Amendment No. 1

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended March 31, 2001

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 1-15467

VECTREN CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA	35-1654378
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

20 N.W. Fourth Street, Evansville, Indiana 47741
(Address of principal executive offices and Zip Code)

(812) 491-4000

(Registrant's telephone number, including area code)

Indicate by check mark whether the 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.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of shares	Date
Common Stock - Without par value	67,716,725	May 10, 2001

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited - Thousands)

ASSETS	March 31, 2001	March 31, 2000	December 31, 2000
Current Assets:			
Cash and cash equivalents	$ 23,115	$ 19,559	$ 15,170
Temporary investments	-	1,058	-
Accounts receivable, less reserves of $6,883, $4,863 and $5,716, respectively	359,463	125,414	295,351
Accrued unbilled revenues	63,134	32,651	143,365
Inventories	30,401	38,690	95,245
Prepaid gas delivery service	4,589	114	34,849
Recoverable fuel and natural gas costs	120,003	6,210	96,084
Prepayments and other current assets	10,978	23,253	20,998
Total current assets	611,683	246,949	701,062
Utility Plant:			
Original cost	2,805,073	2,375,474	2,786,694
Less: accumulated depreciation and amortization	1,254,515	1,042,326	1,233,033
Net utility plant	1,550,558	1,333,148	1,553,661
Other Investments:			
Investments in leveraged leases	93,551	86,978	93,145
Investments in partnerships and other corporations	114,328	76,338	109,766
Notes receivable	66,888	55,234	64,276
Other	1,057	1,010	1,057
Total other investments	275,824	219,560	268,244

Nonutility property, net of accumulated depreciation	125,334	85,338	104,456
Other Assets:			
Deferred charges, net	47,444	25,671	31,541
Goodwill, net	196,806	-	197,977
Regulatory assets	52,552	44,983	52,246
Total other assets	296,802	70,654	281,764
TOTAL ASSETS	$2,860,201	$1,955,649	$2,909,187

The accompanying notes are an integral part of these condensed consolidated financial statements.

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited - Thousands)

	March 31,		Decemb
LIABILITIES AND SHAREHOLDERS' EQUITY	2001	2000	
Current Liabilities:			
Current maturities of adjustable rate bonds subject to tender	$ -	$ 53,700	$ 5
Current maturities of long-term debt and other obligations	-	190	
Short-term borrowings	639,462	171,921	75
Accounts payable	150,249	49,104	20
Accounts payable to affiliated companies	40,196	39,476	10
Refunds to customers and customer deposits	18,544	23,495	2
Accrued taxes	55,660	30,904	
Accrued interest	8,960	7,058	1
Deferred income taxes	23,221	1,483	1
Other current liabilities	66,326	72,779	7
Total current liabilities	1,002,618	450,110	1,24
Deferred Credits and Other Liabilities:			
Deferred income taxes	200,570	206,983	20
Accrued postretirement benefits other than pensions	42,983	42,346	4
Unamortized investment tax credits	22,595	24,934	2
Other	14,007	8,038	
Total deferred credits and other liabilities	280,155	282,301	27

Commitments and Contingencies (Notes 10, 11 and 12)

Minority Interest in Subsidiary	984	1,021	
Capitalization:			
Long-term debt and other obligations, net of current maturities	678,881	485,770	63
Preferred stock of subsidiary:			
Redeemable	5,759	8,076	
Nonredeemable	11,053	11,090	1
Total preferred stock	16,812	19,166	1
Common stock (no par value) - issued and outstanding 67,712, 61,299 and 61,419, respectively	347,140	215,917	21
Retained earnings	533,643	501,348	50
Accumulated other comprehensive income	(32)	16	
Total common shareholders' equity	880,751	717,281	73
Total capitalization	1,576,444	1,222,217	1,38
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,860,201	$ 1,955,649	$ 2,90

The accompanying notes are an integral part of these condensed consolidated financial statements.

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited - Thousands, except per share data)

	Three Months Ended March 31,		Twelve Months Ended March 31,	
OPERATING REVENUES:	2001	2000	2001	20
Gas utility	$ 522,889	$ 200,845	$1,140,797	$ 509,2
Electric utility	88,209	72,990	351,628	309,5
Energy services and other	271,990	85,609	679,909	288,0
Total operating revenues	883,088	359,444	2,172,334	1,106,8
OPERATING EXPENSES:				
Cost of gas sold	404,072	118,527	838,085	281,4
Fuel for electric generation	14,561	16,573	69,158	67,2
Purchased electric energy	13,153	3,477	46,070	21,0
Cost of energy services and other	265,204	81,722	656,740	273,1
Other operating	61,432	46,426	214,597	191,2
Merger and integration costs	962	27,181	14,926	27,1
Depreciation and amortization	31,471	22,662	114,470	88,4

Taxes other than income taxes	19,543	8,600	48,953	30,2
Total operating expenses	810,398	325,168	2,002,999	979,9
OPERATING INCOME	72,690	34,276	169,335	126,9
OTHER INCOME:				
Equity in earnings of unconsolidated investments	6,165	9,750	6,271	9,2
Other - net	3,368	5,145	22,872	20,0
Total other income	9,533	14,895	29,143	29,3
INTEREST EXPENSE	22,819	12,273	67,679	44,9
INCOME BEFORE PREFERRED DIVIDENDS AND INCOME TAXES	59,404	36,898	130,799	111,3
PREFERRED DIVIDEND REQUIREMENT OF SUBSIDIARY	238	269	986	1,0
INCOME BEFORE INCOME TAXES	59,166	36,629	129,813	110,2
INCOME TAXES	18,775	14,362	38,645	37,4
INCOME BEFORE MINORITY INTEREST	40,391	22,267	91,168	72,7
MINORITY INTEREST IN SUBSIDIARY	(22)	142	840	6
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	40,413	22,125	90,328	72,1
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE-NET OF TAX (NOTE 8)	3,938	-	3,938	
NET INCOME	$ 44,351	$ 22,125	$ 94,266	$ 72,1
AVERAGE COMMON SHARES OUTSTANDING	65,604	61,299	62,446	61,2
DILUTED COMMON SHARES OUTSTANDING	65,758	61,407	62,498	61,3
EARNINGS PER SHARE OF COMMON STOCK:				
BASIC				
INCOME BEFORE EFFECT OF ACCOUNTING CHANGE	$ 0.62	$ 0.36	$ 1.45	$ 1.
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	0.06	-	0.06	
TOTAL EARNINGS PER SHARE OF COMMON STOCK	$ 0.68	$ 0.36	$ 1.51	$ 1.
DILUTED				
INCOME BEFORE EFFECT OF ACCOUNTING CHANGE	$ 0.61	$ 0.36	$ 1.45	$ 1.
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	0.06	-	0.06	

TOTAL EARNINGS PER SHARE OF COMMON STOCK	$ 0.67	$ 0.36	$ 1.51	$ 1.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - Thousands)

	Three Months Ended March 31,		Twelv Ended
CASH FLOWS FROM OPERATING ACTIVITIES	2001	2000	2001
Net income	$ 44,351	$ 22,125	$ 94,266
Adjustments to reconcile net income to cash provided from operating activities -			
Depreciation and amortization	31,471	22,662	114,470
Preferred dividend requirement of subsidiary	238	269	986
Deferred income taxes and investment tax credits	203	(5,491)	21,039
Allowance for funds used during construction	(640)	(128)	(3,158
(Gain) loss on sale or retirement of assets	-	(8,961)	-
Undistributed earnings of unconsolidated investments	(8,083)	(11,695)	(13,942
Cumulative effect of accounting change	(3,938)	-	(3,938
Unrealized gain on derivatives	(5,498)	-	(5,498
Changes in assets and liabilities -			
Receivables - net	16,119	23,213	(253,865
Inventories	64,844	20,173	62,488
Prepaid gas delivery service	30,260	20,823	(4,475
Recoverable fuel and natural gas costs	(23,919)	(625)	(105,637
Prepayments and other current assets	10,020	(162)	17,735
Regulatory assets	(306)	2,610	(7,569
Accounts payable, refunds to customers, customer deposits, other current liabilities	(122,378)	12,164	82,580
Accrued taxes and interest	43,278	(2,890)	14,984
Accrued post-retirement benefits other than pensions	(2,900)	1,404	637
Other - net	3,378	9,073	(1,781
Total adjustments	32,149	82,439	(84,944
Net cash flows from operating activities	76,500	104,564	9,322
CASH FLOWS (REQUIRED FOR) FROM FINANCING ACTIVITIES			
Issuance of common stock	129,420	-	133,398
Retirement of common and preferred stock	(153)	(116)	(2,354
Proceeds from long-term debt and other obligations	-	-	298,000
Retirement of long-term debt and other obligations	(7,022)	(1,542)	(8,779
Net change in short-term borrowings	(120,446)	(35,717)	317,541
Dividends on common stock	(17,219)	(14,695)	(62,500

Other	(189)	1,231	1,043
Net cash flows (required for) from financing activities	(15,609)	(50,839)	676,349
CASH FLOWS (REQUIRED FOR) FROM INVESTING ACTIVITIES			
Capital expenditures	(46,211)	(40,855)	(169,622
Investment in leveraged leases	-	112	(328
Investments in partnerships and other corporations	(4,419)	11,946	(35,254
Change in notes receivable	(2,612)	(22,963)	(11,654
Cash distributions from unconsolidated investments	-	-	3,413
Acquisition of DPL natural gas distribution assets	-	-	(463,301
Other	296	243	(5,369
Net cash flows (required for) investing activities	(52,946)	(51,517)	(682,115
Net increase (decrease) in cash	7,945	2,208	3,556
Cash and cash equivalents at beginning of period	15,170	17,351	19,559
Cash and cash equivalents at end of period	$ 23,115	$ 19,559	$ 23,115

The accompanying notes are an integral part of these condensed consolidated financial statements.

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Nature of Operations

Vectren Corporation (Vectren) is an Indiana corporation that was organized on June 10, 1999, solely for the purpose of effecting the merger of Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP). On March 31, 2000, the merger of Indiana Energy with SIGCORP and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling-of-interests.

Vectren is a public utility holding company, whose wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), is the intermediate holding company for Vectren's three operating public utilities, Indiana Gas Company, Inc. (Indiana Gas), formerly a wholly owned subsidiary of Indiana Energy, Southern Indiana Gas and Electric Company (SIGECO), formerly a wholly owned subsidiary of SIGCORP, and the Ohio operations. VUHI's regulated subsidiaries serve approximately one million customers. Indiana Gas provides natural gas and transportation services to a diversified base of customers in 311 communities in 49 of Indiana's 92 counties. SIGECO provides generation, transmission, distribution and the sale of electric power to Evansville, Indiana, and 74 other communities, and the distribution and sale of natural gas to Evansville, Indiana, and 64 communities in ten counties in southwestern Indiana. The Ohio operations, owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc., a wholly owned subsidiary, (53 % ownership) and Indiana Gas (47 % ownership), provide natural gas distribution and transportation services to Dayton, Ohio and 16 counties in west

central Ohio. The Ohio operations were acquired from the Dayton Power & Light Company on October 31, 2000.

Vectren is involved in non-regulated activities through three primary business groups: Energy Services, Utility Services, and Communications. Energy Services trades and markets natural gas and provides energy performance contracting services. Utility Services provides utility products and services, such as underground construction and facilities locating, meter reading and materials management, and the mining and sale of coal. Communications provides integrated broadband communications services, including local and long distance telephone, Internet access and cable television. In addition, other businesses invest in other energy-related opportunities and corporate technology.

2. Basis of Presentation

The interim condensed financial statements included in this report have been prepared by Vectren, without audit, as provided in the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted as provided in such rules and regulations. Vectren believes that the information in this report reflects all adjustments necessary to fairly state the results of the interim periods reported. These condensed financial statements and related notes should be read in conjunction with Vectren's audited annual consolidated financial statements for the year ended December 31, 2000 filed on Form 10-K. Because of the seasonal nature of Vectren's utility operations, the results shown on a quarterly basis are not necessarily indicative of annual results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statements

and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Certain reclassifications have been made to prior period financial statements to conform with the current year classification. These reclassifications have no impact on previously reported net income.

3. Merger and Integration Costs

Merger and integration costs incurred for the three and twelve months ended March 31, 2001 were $1.0 million and $14.9 million, respectively. The continued merger integration activities will be substantially completed in 2001. Merger costs are reflected in the financial statements of the operating subsidiaries in which merger savings are expected to be realized.

Since March 31, 2000, $42.1 has been expensed associated with merger and integration activities. Accruals were established at March 31, 2000 totaling $20.7 million. Of this amount, $5.5 million related to employee and executive severance cots, $13.1 million related to transaction costs and regulatory filing fees incurred prior to the closing of the merger, and the remaining $2.1 related to employee relocations that occurred prior to or coincident with the merger closing. At March 31, 2001, the accrual remaining for such costs totaled $1.6 million, all related to severance costs. Of the $42.1 million expensed, the remaining $21.4 million was expensed through March 31, 2001 ($20.4 million in 2000 and $1.0 in 2001) for accounting fees resulting from merger related filing

requirements, consulting fees related to integration activities such as organization structure, employee travel between company locations as part of integration activities, internal labor of employees assigned to integration teams, investor relations communications activities, and certain benefit costs. The integration activities experienced by the company included such things as information system consolidation, process review and definition, organization design and consolidation, and knowledge sharing.

As a result of merger integration activities, management has identified certain information systems that are expected to be retired in 2001. Accordingly, the useful lives of these assets have been shortened to reflect this decision, resulting in additional depreciation expense of approximately $3.2 million ($2.0 million after tax) and $14.6 million ($9.1 million after tax), respectively, for the three and twelve months ended March 31, 2001.

4. Short - Term Borrowings

At March 31, 2001, Indiana Gas was not in compliance with the total indebtedness to capitalization ratio contained in its back up credit facility for its commercial paper program. The non-compliance resulted from the indebtedness incurred to purchase its ownership interest in the Ohio operations and working capital requirements associated with higher gas costs. A waiver on the Indiana Gas facility has been obtained to waive the non-compliance through and including March 31, 2001 which effectively waives the noncompliance up to June 30, 2001, the date of the next quarterly test of the financial covenants. Vectren anticipates making an equity investment in Indiana Gas to bring Indiana Gas back into compliance. No amount is outstanding under the back up facility.

5. Long - Term Debt

SIGECO has $53.7 million of adjustable rate pollution control series first mortgage bonds which could, at the election of the bondholder, be tendered to SIGECO when the interest rates are reset. Prior to the latest reset on March 1,

2001, the interest rates were reset annually, and the bonds subject to tender were presented in the Condensed Consolidated Balance Sheets as current liabilities. Effective March 1, 2001, the bonds were reset for a five-year period and have been classified as long-term debt. Resulting from the reset, the interest rate on the $31.5 million Series A bonds increased from 4.30 % to 4.75 %, and the interest rate on the $22.2 million Series C bonds increased from 4.45 % to 5.00 %.

6. Common Stock Offering

On January 19, 2001, Vectren filed a registration statement with the Securities and Exchange Commission with respect to a public offering of 5.5 million shares of new common stock. On February 8, 2001, the registration became effective and agreement was reached to sell 5.5 million shares to a group of underwriters. On February 14, the shares were sold, at which time, the underwriters exercised their over-allotment option to sell an additional 825,000 shares for a total of about 6.3 million shares. The net proceeds of $129.4 million were used to repay outstanding commercial paper utilized for recent acquisitions.

7. Earnings Per Share

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share assumes the conversion of stock options into common shares using the treasury stock method to the extent the effect of the

conversion would be dilutive.

The following table details the number of shares of common stock added to the average common shares outstanding to show the effects of the assumed exercise of stock options for the purpose of calculating diluted earnings per share.

	Three Months Ended March 31,					
	2001			2000		
In thousands, except per share amounts	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS	$44,351	65,604	$ 0.68	$22,125	61,299	$ 0.36
Effect of dilutive stock options	-	154		-	108	
Diluted EPS	$44,351	65,758	$ 0.67	$22,125	61,407	$ 0.36

	Twelve Months Ended March 31,					
	2001			2000		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS	$94,266	62,446	$ 1.51	$72,150	61,298	$ 1.18
Effect of dilutive stock options	-	52		-	91	
Diluted EPS	$94,266	62,498	$ 1.51	$72,150	61,389	$ 1.18

For the three months ended March 31, 2001 and 2000, options to purchase an additional 95,400 and 615,847 common shares of the company's common stock were outstanding, but were not included in the computation of diluted earnings per share because their effect would be antidilutive. Exercise prices for options excluded from the computation equaled $24.05 in 2001 and ranged from $17.44 to $24.05 in 2000.

For the twelve months ended March 31, 2001 and 2000, options to purchase an additional 95,400 and 558,506 common shares of the company's common stock were outstanding, but were not included in the computation of diluted earnings per share because their effect would be antidilutive. Exercise prices for options excluded from the computation equaled $24.05 in 2001 and ranged from $19.83 to $24.05 in 2000.

8. New Accounting Principle

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), which requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000 and must be applied to derivative instruments and certain derivative instruments embedded in hybrid contracts that were issued, acquired or substantively modified after December 31, 1998. Vectren has completed the process of identifying all derivative instruments, determining fair market values of these derivatives, designating and documenting hedge relationships, and evaluating the effectiveness of those hedge relationships. As a result of the successful completion of this process, Vectren adopted SFAS 133 as of January 1, 2001.

SFAS 133 requires that as of the date of initial adoption, the difference between the fair market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle in accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes."

A limited number of Vectren's contracts are defined as derivatives under SFAS 133. These derivatives are forward physical contracts for both the purchase and sale of natural gas and electricity by its wholly owned gas marketing subsidiary, SIGCORP Energy Services, Inc. (SES) and SIGECO, respectively, and an interest rate swap.

SES's primary business is the buying and re-selling of physical natural gas to the industrial market segment. SES manages its pricing risk by entering into corresponding gas commodity contracts that ensure a reasonable matching of the associated risk. In addition, SES takes physical delivery of gas in storage facilities to ensure operational as well as price risk management of its forward positions. Open positions in terms of price, volume and specified delivery locations do occur and are managed by SES using the above instruments and through management reporting. These commodity contracts and gas storage facilities involve the normal purchase and sale of natural gas and therefore do not require fair value accounting under SFAS 133. SES also utilizes price swap agreements that are accounted for under SFAS 133 to mitigate price risk related to certain forward physical contracts. These derivatives have not been designated as hedges; accordingly, the changes in market value will be recorded currently in earnings. The mark to market impact of these derivatives has been reflected as part of the transition adjustment recorded to earnings on January 1, 2001.

SIGECO uses derivative and non-derivative forward contracts in its power marketing operations to effectively manage the utilization of its generation capacity. Certain forward sales contracts are used to sell the excess generation capacity of SIGECO when demand conditions warrant this activity. These contracts involve the normal sale of electricity and therefore do not require fair value accounting under SFAS 133. Certain forward purchase and sale contracts entered into as part of "buy-sell" transactions with other utilities and power marketers are derivatives but do not qualify for hedge accounting. The mark to market

impact of these derivatives upon adoption of SFAS 133 is reflected as part of

the transition adjustment recorded to earnings on January 1, 2001.

The interest rate swap is used to hedge the exposure to interest rate risk associated with VUHI's $150 million floating rate notes. The swap was entered into concurrently with the issuance of the floating rate debt. Vectren has formally documented the hedging relationship between the swap and floating rate debt as well as its risk management objectives and strategies for undertaking the hedging transaction. The swap has been designated as a cash flow hedge and the mark to market impact has been reflected as part of the transition adjustment recorded to other comprehensive income on January 1, 2001.

The cumulative impact of the adoption of SFAS 133 on January 1, 2001 is an earnings gain of approximately $6.3 million ($3.9 million after tax) due to the derivatives used in power marketing operations. The impact of the derivatives used by SES and the interest rate swap was immaterial.

As of March 31, 2001, the fair value of power marketing derivative contracts totals $11.8 million and is included in deferred charges, net in the Condensed Consolidated Balance Sheets. The difference between the current market value and the market value on the date of adoption of $5.5 million is included in purchased electric energy in the Condensed Consolidated Statements of Operations. The fair value of the interest rate swap is $1.4 million and is included in other current liabilities on the Condensed Consolidated Balance Sheets. The difference between the current market value and the market value on the date of adoption of $1.4 million ($0.9 million after tax) is included in accumulated other comprehensive income on the Condensed Consolidated Balance Sheets and will be reclassified to interest expense by December 31, 2001 as the swap expires in 2001. Derivatives used by SES remain immaterial.

In addition to these wholly owned subsidiaries, ProLiance Energy, LLC (ProLiance), a 50 % owned equity method investment, adopted SFAS 133 on August 31, 2000. The impact of adoption on ProLiance is reflected in accumulated other comprehensive income due to the nature of the derivatives used.

9. Comprehensive Income

Vectren's components of comprehensive income (loss) include its portion of ProLiance's comprehensive income and market value fluctuation of an interest rate swap designated as a cash flow hedge. ProLiance's component of comprehensive income is the result of its adoption of SFAS 133.

Comprehensive income consists of the following:

	Three Months Ended March 31,		Twelve Months Ended March 31,	
In thousands	2001	2000	2001	2000
Net income	$ 44,351	$ 22,125	$ 94,266	$ 72,150
Comprehensive income (loss) of unconsolidated investments, net of tax	(6,628)	-	874	-
Interest rate swap and other, net of tax	(906)	62	(922)	(22)
Total comprehensive income	$ 36,817	$ 22,187	$ 94,218	$ 72,128

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10. Contingencies

Vectren is party to various legal proceedings arising in the normal course of business. In the opinion of management, with the exception of litigation matters related to ProLiance (See Note 11) and the Clean Air Act (See Note 12), there are no legal proceedings pending against Vectren that are likely to have a material adverse effect on its financial position or results of operations.

11. ProLiance Energy, LLC

ProLiance, a 50 % owned, non-regulated, energy marketing affiliate of Vectren, began providing natural gas and related services to Indiana Gas, Citizens Gas and Coke Utility (Citizens Gas) and others effective April 1, 1996. The sale of gas and provision of other services to Indiana Gas by ProLiance is subject to regulatory review through the quarterly gas cost adjustment (GCA) process administered by the Indiana Utility Regulatory Commission (IURC).

On September 12, 1997, the IURC issued a decision finding the gas supply and portfolio administration agreements between ProLiance and Indiana Gas and ProLiance and Citizens Gas to be consistent with the public interest and that ProLiance is not subject to regulation by the IURC as a public utility. The IURC's decision reflected the significant gas cost savings to customers obtained through ProLiance's services and suggested that all material provisions of the agreements between ProLiance and the utilities are reasonable. Nevertheless, with respect to the pricing of gas commodity purchased from ProLiance, the pricing of fees paid by ProLiance to the utilities for the prospect of using pipeline entitlements if and when they are not required to serve the utilities' firm customers, and the pricing of fees paid by the utilities to ProLiance for portfolio administration services, the IURC concluded that additional review in the GCA process would be appropriate and directed that these matters be considered further in the pending, consolidated GCA proceeding involving Indiana Gas and Citizens Gas. Through a series of appeals, the order was finally considered by the Indiana Supreme Court.

On September 22, 2000, the Indiana Supreme Court issued a decision affirming the IURC's decision on ProLiance in all respects. The IURC has recently commenced the processing of these further proceedings by conducting a prehearing conference. Discovery is ongoing in the further proceeding at the current time. Until the three pricing issues reserved by the IURC are resolved, Vectren will continue to reserve a portion of its share of ProLiance earnings.

In August 1998, Indiana Gas, Citizens Gas and ProLiance each received a Civil Investigative Demand (CID) from the United States Department of Justice requesting information relating to Indiana Gas' and Citizens Gas' relationship with and the activities of ProLiance. The Department of Justice issued the CID to gather information regarding ProLiance's formation and operations, and to determine if trade or commerce has been restrained. Indiana Gas has provided all information requested and management continues to believe that there are no significant issues in this matter.

Indiana Gas continues to record gas costs in accordance with the terms of the ProLiance contract and Vectren continues to record its proportional share of ProLiance's earnings. Pre-tax income of $5.6 million and $3.4 million was recognized as ProLiance's contribution to earnings for the three months ended March 31, 2001 and 2000, respectively. Pre-tax income of $7.9 million and $5.1 million was recognized as ProLiance's contribution to earnings for the twelve months ended March 31, 2001 and 2000, respectively. Earnings recognized from ProLiance are included in equity in earnings of unconsolidated investments on the Condensed Consolidated Statements of Operations. At March 31, 2001, March

31, 2000 and December 31, 2000, Vectren has reserved approximately $2.7 million,

$2.2 million and $2.4 million, respectively, of ProLiance's earnings after tax pending resolution of the remaining issues. The reserve represents 10% of ProLiance's pretax earnings and serves as management's best estimate of potential exposure arising from the three pricing issues.

12. Environmental Matters

Clean Air Act
NOx SIP Call Matter. In October 1997, the United States Environmental Protection Agency (USEPA) proposed a rulemaking that could require uniform nitrogen oxide (NOx) emissions reductions of 85 % by utilities and other large sources in a 22-state region spanning areas in the Northeast, Midwest, Great Lakes, Mid-Atlantic and South. This rule is referred to as the "NOx SIP call." The USEPA provided each state a proposed budget of allowed NOx emissions, a key ingredient of ozone, requiring a significant reduction of such emissions. Under that budget, utilities may be required to reduce NOx emissions to a rate of 0.15 lb/mmBtu below levels already imposed by Phase I and Phase II of the Clean Air Act Amendments of 1990 (the Act).

On October 27, 1998, USEPA issued a final rule "Finding of Significant Contribution and Rulemaking for Certain States in the Ozone Transport Assessment Group Region for Purposes of Reducing Regional Transport of Ozone," (63 Fed. Reg. 57355). The final rule requires that 23 states and jurisdictions must file revised state implementation plans (SIPs) with the USEPA by no later than September 30, 1999, which was essentially unchanged from its October 1997, proposed rule. The USEPA has encouraged states to target utility coal-fired boilers for the majority of the reductions required, especially NOx emissions. Northeastern states have claimed that ozone transport from midwestern states (including Indiana) is the primary reason for their ozone concentration problems. Although this premise is challenged by others based on various air quality modeling studies, including studies commissioned by the USEPA, the USEPA intends to incorporate a regional control strategy to reduce ozone transport. The USEPA's final ruling is being litigated in the federal courts by approximately ten midwestern states, including Indiana.

On March 3, 2000, the United States Circuit Court of Appeals for the District of Columbia (D.C. Court of Appeals) upheld the USEPA's October 27, 1998 final rule requiring 23 states and the District of Columbia to file revised SIPs with the USEPA. Numerous petitioners, including several states, filed petitions for rehearing with the D.C. Court of Appeals. On June 22, 2000, the D.C. Court of Appeals denied petition for rehearing en banc. Following this decision, on August 30, 2000, the D.C. Court of Appeals issued an extension of the SIP Call implementation deadline to May 31, 2004. On September 20, 2000, petitioners filed a Petition of Writ of Certiori with the United States Supreme Court requesting review of the D.C. Court of Appeals March 3, 2000 Order, which was denied. Therefore, SIGECO's compliance date remains May 31, 2004.

The proposed NOx emissions budget for Indiana stipulated in the USEPA's final ruling requires a 36 % reduction in total NOx emissions from Indiana. The ruling, pending finalization of state rule making, could require SIGECO to lower its system-wide emissions by approximately 70 %. Depending on the level of system-wide emissions reductions ultimately required, and the control technology utilized to achieve the reductions, the estimated construction costs of the control equipment could reach $160 million, which are expected to be expended during the 2001-2004 period, and related additional operation and maintenance expenses could be an estimated $8 million to $10 million, annually. No accrual

has been recorded by the company related to the NOx SIP Call matter. The rules governing NOx emissions, once finalized, are to be applied prospectively.

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Culley Generating Station Investigation Matter. The USEPA initiated an investigation under Section 114 of the Act of SIGECO's coal-fired electric generating units in commercial operation by 1977 to determine compliance with environmental permitting requirements related to repairs, maintenance, modifications and operations changes. The focus of the investigation was to determine whether new source performance standards should be applied to the modifications and whether the best available control technology was, or should have been, used. Numerous other electric utilities were, and are currently, being investigated by the USEPA under an industry-wide review for similar compliance. SIGECO responded to all of the USEPA's data requests during the investigation. In July 1999, SIGECO received a letter from the Office of Enforcement and Compliance Assurance of the USEPA discussing the industry-wide investigation, vaguely referring to the investigation of SIGECO and inviting SIGECO to participate in a discussion of the issues. No specifics were noted; furthermore, the letter stated that the communication was not intended to serve as a notice of violation. Subsequent meetings were conducted in September and October with the USEPA and targeted utilities, including SIGECO, regarding potential remedies to the USEPA's general allegations.

On November 3, 1999, the USEPA filed a lawsuit against seven utilities, including SIGECO. The USEPA alleges that, beginning in 1992, SIGECO violated the Act by: (i) making modifications to its Culley Generating Station in Yankeetown, Indiana without obtaining required permits; (ii) making major modifications to the Culley Generating Station without installing the best available emission control technology; and (iii) failing to notify the USEPA of the modifications. In addition, the lawsuit alleges that the modifications to the Culley Generating Station required SIGECO to begin to comply with federal new source performance standards.

SIGECO believes it performed only maintenance, repair and replacement activities at the Culley Generating Station, as allowed under the Act. Because proper maintenance does not require permits, application of the best available emission control technology, notice to the USEPA, or compliance with new source performance standards, SIGECO believes that the lawsuit is without merit, and intends to vigorously defend the lawsuit.

The lawsuit seeks fines against SIGECO in the amount of $27,500 per day per violation. The lawsuit does not specify the number of days or violations the USEPA believes occurred. The lawsuit also seeks a court order requiring SIGECO to install the best available emissions technology at the Culley Generating Station. If the USEPA is successful in obtaining an order, SIGECO estimates that it would incur capital costs of approximately $40 million to $50 million complying with the order. In the event that SIGECO is required to install system-wide NOx emission control equipment, as a result of the NOx SIP call issue, the majority of the $40 million to $50 million for best available emissions technology at Culley Generating Station would be included in the $160 million expenditure previously discussed.

The USEPA has also issued an administrative notice of violation to SIGECO making the same allegations, but alleging that violations began in 1977.

While it is possible that SIGECO could be subjected to criminal penalties if the Culley Generating Station continues to operate without complying with the new source performance standards and the allegations are determined by a court to be valid, SIGECO believes such penalties are unlikely as the USEPA and the electric utility industry have a bonafide dispute over the proper interpretation of the

Act. Accordingly, no accrual has been recorded by the company, and SIGECO anticipates at this time that the plant will continue to operate while the matter is being decided.

Information Request. On January 23, 2001, SIGECO received an information request from the USEPA under Section 114(a) of the Act for historical operational information on the Warrick and A.B. Brown generating stations. SIGECO has

provided all information requested, and management believes that no significant issues will arise from this request.

Manufactured Gas Plants
In the past, Indiana Gas and others operated facilities for the manufacture of gas. Given the availability of natural gas transported by pipelines, these facilities have not been operated for many years. Under currently applicable environmental laws and regulations, Indiana Gas, and others, may now be required to take remedial action if certain byproducts are found above the regulatory thresholds at these sites.

Indiana Gas has identified the existence, location and certain general characteristics of 26 gas manufacturing and storage sites for which it may have some remedial responsibility. Indiana Gas has completed a remedial investigation/feasibility study (RI/FS) at one of the sites under an agreed order between Indiana Gas and the Indiana Department of Environmental Management (IDEM), and a Record of Decision was issued by the IDEM in January 2000. Although Indiana Gas has not begun an RI/FS at additional sites, Indiana Gas has submitted several of the sites to the IDEM's Voluntary Remediation Program and is currently conducting some level of remedial activities including groundwater monitoring at certain sites where deemed appropriate and will continue remedial activities at the sites as appropriate and necessary.

In conjunction with data compiled by expert consultants, Indiana Gas has accrued the estimated costs for further investigation, remediation, groundwater monitoring and related costs for the sites. While the total costs that may be incurred in connection with addressing these sites cannot be determined at this time, Indiana Gas has accrued costs that it reasonably expects to incur totaling approximately $20.3 million.

The estimated accrued costs are limited to Indiana Gas' proportionate share of the remediation efforts. Indiana Gas has arrangements in place for 19 of the 26 sites with other potentially responsible parties, which serve to limit Indiana Gas' share of response costs at these 19 sites to between 20 and 50 percent.

With respect to insurance coverage, as of March 31, 2001, Indiana Gas has received and recorded settlements from all known insurance carriers in an aggregate amount approximating its $20.3 million accrual.

Environmental matters related to manufactured gas plants have had no material impact on earnings since costs recorded to date approximate PRP and insurance settlement recoveries. While Indiana Gas has recorded all costs which it presently expects to incur in connection with activities at these sites, it is possible that future events may require some level of additional remedial activities which are not presently foreseen.

13. Rate and Regulatory Matters

Gas Costs Proceedings
Commodity prices for natural gas purchases have increased significantly, primarily due to a colder winter, increased demand and tighter supplies.

Vectren's utility subsidiaries are allowed full recovery of such changes in purchased gas costs for their retail customers through commission-approved gas cost adjustment mechanisms.

On October 11, 2000, Indiana Gas filed for approval of its regular quarterly GCA. In early December, the IURC issued an interim order approving the request by Indiana Gas for a GCA factor for December 2000. On January 4, 2001, the IURC approved the January and February 2001 GCA as filed. The order also addressed

the claim by the Indiana Office of Utility Consumer Counselor (OUCC) that a portion of the requested GCA be disallowed because Indiana Gas should have entered into additional commitments for this winter's gas supply in late 1999 and early 2000. In procuring gas supply for this winter, Indiana Gas followed the gas procurement practices that it had employed over the last several years. In response to the claim by the OUCC, the IURC found that there should be a $3.8 million disallowance related to gas procurement for the winter season. As a result, Indiana Gas recognized a pre-tax charge of $3.8 million in December 2000. Both Indiana Gas and the OUCC appealed the ruling. The Citizens Action Coalition of Indiana, Inc.(CAC), a not for profit consumer advocate, also filed with the IURC a petition to intervene and a notice of appeal of the order.

In March 2001, Vectren, Indiana Gas and SIGECO reached agreement with the OUCC and CAC regarding the IURC Order. As part of the agreement, among other things, the companies agreed to contribute an additional $1.9 million to the state of Indiana's Low Income Heating Assistance Program in 2001 and to credit $3.3 million of the $3.8 million disallowed amount to Indiana Gas customers' April 2001 utility bills in exchange for both the OUCC and the CAC dropping their appeals of the IURC Order. In April 2001, the IURC issued an order approving the settlement. The contribution to Indiana's Low Income Heating Assistance Program totaling $1.9 million were made in 2001 and were charged to other operating expense. There was no impact to 2000 operations as a result of this contribution.

Purchased Power Costs

As a result of the ongoing appeal of a generic order issued by the IURC in August 1999 regarding guidelines for the recovery of purchased power costs, SIGECO entered into a settlement agreement with the OUCC that provides certain terms with respect to the recoverability of such costs. The settlement, originally approved by the IURC on August 9, 2000, has been extended by agreement through March 2002. Under the settlement, SIGECO can recover the entire cost of purchased power up to an established benchmark, and during forced outages, SIGECO will bear a limited share of its purchased power costs regardless of the market costs at that time. Based on this agreement, SIGECO believes it has limited its exposure to unrecoverable purchased power costs.

14. Affiliate Transactions

ProLiance provides natural gas supply and related services to certain wholly owned subsidiaries of Vectren. Purchases from ProLiance for resale and for injections into storage for the three months ended March 31, 2001 and 2000 totaled $268.5 million and $66.1 million, respectively; and for the twelve months ended March 31, 2001 and 2000 totaled $681.3 million and $240.4 million, respectively.

ProLiance has a standby letter of credit facility with a bank for letters up to $45 million, $30 million and $45 million at March 31, 2001, March 31, 2000 and December 31, 2000. This facility is collaterialized in part by a support agreement from Vectren. Letters of credit outstanding at March 31, 2001, March

31, 2000 and December 31, 2000 totaled $14.8 million, $12.8 million and $22.0 million, respectively.

CIGMA, LLC (CIGMA), owned jointly and equally by a wholly owned subsidiary of Vectren and a third party, provides materials acquisition and related services that are used by certain wholly owned subsidiaries of Vectren. Purchases of these services during the three months ended March 31, 2001 and 2000 totaled $3.7 million and $4.1 million, respectively; and for the twelve months ended March 31 2001 and 2000 totaled $17.2 million and $16.9 million, respectively.

Vectren is a two-thirds guarantor of certain surety bonds and other obligations of Energy Systems Group, LLC, a two-thirds owned consolidated subsidiary. Vectren's share of the guarantee of such obligations totaled $56.4 million,

$43.8 million and $50.6 million at March 31, 2001, March 31, 2000 and December 31, 2000, respectively.

Amounts owed to unconsolidated affiliates totaled $40.2 million, $39.5 million and $102.5 million at March 31, 2001, March 31, 2000 and December 31, 2000, respectively, and are included in accounts payable to affiliated companies on the Condensed Consolidated Balance Sheets. Amounts due from unconsolidated affiliates totaled $24.8 million, $17.0 million and $17.6 million at March 31, 2001, March 31, 2000 and December 31, 2000 respectively, and are included in accounts receivable on the Condensed Consolidated Balance Sheets.

15. Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in the assessment of performance.

There were three operating segments of Vectren during the reported periods: (1) Gas Utility Services, (2) Electric Utility Services, and (3) Non-regulated Operations. The Gas Utility Services segment distributes, transports and sells natural gas in southwest and central Indiana and west central Ohio and is comprised of the operations of Indiana Gas, the Ohio operations and SIGECO's natural gas business. The Electric Utility Services segment generates, transmits, distributes and sells electricity within primarily southwestern Indiana and in periods of under utilized capacity, sells excess electricity to other wholesale customers. This segment is comprised of SIGECO's electric business. The Non-regulated Operations segment is made up of various businesses providing energy-related products and services; telecommunication products and services; materials management, debt collection and meter reading services; underground utility asset location and construction services; structured finance and investment transactions including leveraged leases of real estate and equipment; venture capital projects; coal mining and sales; and other energy-related services. Revenues for each segment are principally attributable to customers in the United States.

Effective January 1, 2001, the utility operations announced the reorganization of those operations into two primary business units: Energy Delivery and Power Supply. During 2001, organizational alignment will occur along with the development of management reporting processes. As a result, Vectren will report utility segment information as Gas Utility Services and Electric Utility Services.

The following tables provide information about business segments. Vectren makes decisions on finance and dividends at the corporate level; these topics are

addressed on a consolidated basis. In addition, adjustments have been made to the segment information to arrive at information included in the consolidated results of operations and financial position. These adjustments include unallocated corporate assets, revenues and expenses and the elimination of intercompany transactions.

In thousands	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000	Twelve Months Ended March 31, 2001	Twelve Months Ended March 31, 2000
Operating Revenues:				
Gas Utility Services	$ 522,889	$ 200,845	$ 1,140,797	$ 509,236
Electric Utility Services	88,209	72,990	351,628	309,572
Non-regulated Operations	292,465	101,456	743,847	344,987
Intersegment Eliminations	(20,475)	(15,847)	(63,938)	(56,967)
Total operating revenues	$ 883,088	$ 359,444	$ 2,172,334	$ 1,106,828
Net Income:				
Gas Utility Services	$ 18,804	$ 10,222	$ 24,172	$ 17,009
Electric Utility Services	16,869	2,607	51,072	35,017
Non-regulated Operations	8,678	9,296	19,181	20,124
Intersegment Eliminations	-	-	(159)	-
Net income	$ 44,351	$ 22,125	$ 94,266	$ 72,150

	March 31, 2001	March 31, 2000	December 31, 2000
Identifiable Assets:			
Gas Utility Services	$ 1,511,901	$ 828,785	$ 1,658,778
Electric Utility Services	788,056	755,884	799,104
Non-regulated Operations	842,762	526,983	749,237
Intersegment Eliminations	(282,518)	(156,003)	(297,932)
Total identifiable assets	$ 2,860,201	$ 1,955,649	$ 2,909,187

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

VECTREN CORPORATION AND SUBSIDIARY COMPANIES

Description of the Business

Vectren Corporation (Vectren) is an Indiana corporation that was organized on June 10, 1999, solely for the purpose of effecting the merger of Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP). On March 31, 2000, the merger of Indiana Energy with SIGCORP and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling-of-interests.

Vectren is a public utility holding company, whose wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), is the intermediate holding company for Vectren's three operating public utilities, Indiana Gas Company, Inc. (Indiana Gas), formerly a wholly owned subsidiary of Indiana Energy, Southern Indiana Gas and Electric Company (SIGECO), formerly a wholly owned subsidiary of SIGCORP, and the Ohio operations. VUHI's regulated subsidiaries serve approximately one million customers. Indiana Gas provides natural gas and transportation services to a diversified base of customers in 311 communities in 49 of Indiana's 92 counties. SIGECO provides generation, transmission, distribution and the sale of electric power to Evansville, Indiana, and 74 other communities, and the distribution and sale of natural gas to Evansville, Indiana, and 64 communities in ten counties in southwestern Indiana. The Ohio operations, owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc., a wholly owned subsidiary, (53 % ownership) and Indiana Gas (47 % ownership), provide natural gas distribution and transportation services to Dayton, Ohio and 16 counties in west central Ohio. The Ohio operations were acquired from the Dayton Power & Light Company on October 31, 2000.

Vectren is involved in non-regulated activities through three primary business groups: Energy Services, Utility Services, and Communications. Energy Services trades and markets natural gas and provides energy performance contracting services. Utility Services provides utility products and services, such as underground construction and facilities locating, meter reading and materials management, and the mining and sale of coal. Communications provides integrated broadband communications services, including local and long distance telephone, Internet access and cable television. In addition, other businesses invest in other energy-related opportunities and corporate technology.

Overview

Vectren's consolidated earnings result from the operations of its utility subsidiaries, Indiana Gas, SIGECO and the Ohio operations, and from the non-utility operations and investments of Vectren's non-regulated businesses.

In millions, except per share amounts	Three Months Ended March 31,		Twelve Mon Ended March	
	2001	2000	2001	2000
Net income, as reported	$ 44.4	$ 22.1	$ 94.3	$ 72.
Merger and integration costs, net of tax	2.5	19.3	20.1	19.
Cumulative effect of accounting change	(3.9)	-	(3.9)	-
Gain on restructuring of a non-regulated investment, net of tax	-	(4.9)	-	(4.

Net income before merger and integration costs, cumulative effect of accounting change and gain on restructuring of a non-regulated investment	$ 43.0	$ 36.5	$ 110.5	$ 86.
Attributed to:				
Regulated	$ 34.4	$ 31.3	$ 87.1	$ 70.
Non-regulated	$ 8.6	$ 5.2	$ 23.4	$ 16.
Basic earnings per share, as reported	$ 0.68	$ 0.36	$ 1.51	$ 1.1
Merger and integration costs, net of tax	0.04	0.32	0.32	0.3
Cumulative effect of accounting change	(0.06)	-	(0.06)	-
Gain on restructuring of a non-regulated investment, net of tax	-	(0.08)	-	(0.0
Basic earnings per share before merger and integration costs, cumulative effect of accounting change and gain on restructuring of a non-regulated investment	$ 0.66	$ 0.60	$ 1.77	$ 1.4
Attributed to:				
Regulated	$ 0.52	$ 0.52	$ 1.39	$ 1.1
Non-regulated	$ 0.14	$ 0.08	$ 0.38	$ 0.2

Net Income

For the three months ended March 31, 2001, consolidated net income was $44.4 million, or $0.68 per share on a basic earnings per share basis. Consolidated net income before merger and integration costs of $4.2 million, including $3.2 million of additional depreciation expense (see merger and integration costs below), and the cumulative effect of the accounting change (adoption of FAS 133) was $43.0 million, or $0.66 per share, compared to net income and basic earnings per share before merger and integration costs and the one time gain from the restructuring of a non-regulated investment for the first quarter of 2000 of $36.5 million, or $0.60 per share, respectively.

For the twelve months ended March 31, 2001, consolidated net income was $94.3 million, or $1.51 per share on a basic earnings per share basis. Consolidated net income before merger and integration costs of $29.5 million, including $14.6 million of additional depreciation expense (see merger and integration costs below), and the cumulative effect of the accounting change was $110.5 million, or $1.77 per share, compared to net income and basic earnings per share before merger and integration costs and the one time gain from the restructuring of a non-regulated investment for the twelve months ended March 31, 2000 of $86.6 million, or $1.42 per share, respectively. Vectren's results for the twelve months ended March 31, 2001 reflect the results of the Ohio operations for five months.

Dividends

On January 24, 2001, the board of directors declared a dividend of $0.255 per share, payable on March 1, 2001, to common shareholders of record on February 15, 2001. Total dividends paid were $1.00 per share for the twelve months ended March 31, 2001, compared to $0.95 per share for the twelve months ended March 31, 2000.

Results of Regulated Operations

Regulated utility operations contributed net income before merger and integration costs (as described below) and the cumulative effect of the accounting change (adoption of SFAS 133) of $34.4 million, or $0.52 per share, for the three months ended March 31, 2001, compared to $31.3 million, or $0.52 for the same period in 2000.

For the twelve months ended March 31, 2001, regulated operations contributed net income before merger and integration costs (as described below) and the cumulative effect of the accounting change (adoption of SFAS 133) of $87.1 million, or $1.39 per share, compared to $86.6 million, or $1.16 for the same period in 2000.

The results for regulated operations were primarily driven by colder weather, the inclusion of the Ohio operations, the impact marking certain whole contracts to market as required by SFAS 133, and additional wholesale marketing sales. These increases were offset somewhat by reduced consumption and additional operating expenses, both primarily attributable to the significant increase in natural gas costs.

Utility Margin (Operating Revenues Less Cost of Gas Sold, Fuel for Electric Generation, Purchased Electric Energy)

Gas Utility Margin
Gas Utility margin for the three months ended March 31, 2001 of $118.8 million increased $36.5 million, or 44 %, compared to 2000. The Ohio operations represent $35.5 million of the increase. The remaining increase of $1.0 million related to Indiana Gas and SIGECO is due to a 2 % increase in throughput resulting primarily from temperatures being 15 % colder than the previous year. These favorable impacts were partially offset by reduced consumption and the cost of unaccounted for gas due to much higher gas costs (see below).

Total cost of gas sold was $404.1 million for the three months ended March 31, 2001 and $118.5 million in 2000. Excluding $147.4 million related to the Ohio operations, total cost of gas sold increased $138.2 million, or 116 %, during 2001 compared to 2000, primarily due to significantly higher per unit purchased gas costs. The total average cost per dekatherm of gas purchased by Indiana Gas and SIGECO for the three months ended March 31, 2001 was $7.40 compared to $3.84 for the same period in 2000.

Gas Utility margin for the twelve months ended March 31, 2001 of $302.7 million increased $74.9 million, or 33 %, compared to 2000. The Ohio operations represent $63.7 million of the increase. The remaining increase of $11.2 million related to Indiana Gas and SIGECO is due to a 11 % increase in throughput resulting primarily from temperatures being 26 % colder than the previous year and a 2 % increase in their combined residential customer base. These favorable impacts on gas margin were partially offset by a $3.8 million disallowance of gas costs by the Indiana Utility Regulatory Commission (IURC) and the cost of unaccounted for gas due to higher gas costs.

Total cost of gas sold was $838.1 million for the twelve months ended March 31, 2001 and $281.5 million in 2000. Excluding $230.6 million related to the Ohio operations, total cost of gas sold increased $326.0 million, or 116 %, during 2001 compared to 2000, and is primarily due to significantly higher per unit purchased gas costs.

The price changes in the cost of gas purchased are due primarily to changing commodity costs in the marketplace. Vectren's utility subsidiaries are allowed

full recovery of such changes in purchased gas costs from their retail customers through commission-approved gas cost adjustment mechanisms. For further information on matters affecting gas utility margin, see Rate and Regulatory Matters.

Electric Utility Margin
Electric Utility margin for the three months ended March 31, 2001 of $60.5 million, increased $7.6 million, or 14 %, over 2000 primarily due to a $5.5 million gain recorded to reflect certain wholesale power marketing purchase and sale contracts at current market values as required by Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) (see below). The remaining $2.1 million resulted primarily from a 8 % increase in sales to residential and commercial customers for the quarter due to the impact of colder weather on retail electric heating sales and an increasing customer base.

Electric Utility margin for the twelve months ended March 31, 2001 of $236.4 million, increased $15.1 million, or 7 %, over 2000 primarily due to the current quarter $5.5 million gain recorded to reflect certain wholesale power marketing purchase and sale contracts at current market values as required by SFAS 133 (see below). The remaining $9.6 million increase results from increased margin from sales to wholesale energy markets with volumes increasing 69 % over 2000, and a 5 % increase in sales to retail customers for the period due to the impact of colder weather on retail electric heating sales and an increasing customer base.

Purchased electric energy increased $9.7 million, or 278 %, and $25.1 million, or 119 %, for the three and twelve month periods ended March 31, 2001, compared to the same periods in the prior year due primarily to increased purchased power related to the greater sales to other utilities and power marketers.

Utility Operating Expenses (excluding Cost of Gas Sold, Fuel for Electric Generation and Purchased Electric Energy)

Utility Other Operating
Excluding $11.8 million in expenses related to the Ohio operations, utility other operating expenses increased $3.2 million for the three months ended March 31, 2001 compared to the prior year, and excluding $18.9 million in expenses related to the Ohio operations, utility other operating expenses increased $4.5 million for the twelve months ended March 31, 2001. The increases reflect additional Low Income Heating Assistance Program contributions and bad debts provisions due to the increased gas costs which resulted in higher customer billings.

Utility Depreciation and Amortization
Utility depreciation and amortization increased $8.8 million and $26.0 million, respectively, for the three and twelve months ended March 31, 2001 compared to the prior year due primarily to additional depreciation related to merger and integration activities (see below) and the inclusion of the Ohio operations. Utility depreciation and amortization related to the Ohio operations was $3.9 million and $6.4 million for the three and twelve months ended March 31, 2001, respectively. The remaining increases are attributable to depreciation of additions to utility plant.

Utility Taxes Other Than Income Taxes
Utility taxes other than income taxes increased $10.9 million and $18.7 million, respectively, for the three and twelve month periods ended March 31, 2001. The three and twelve month periods include $9.7 million and $16.8 million,

respectively, of primarily Ohio state excise tax related to the Ohio operations. The remaining increases result from increases in gross receipts and property taxes.

Merger and Integration Costs

Merger and integration costs incurred for the three and twelve months ended March 31, 2001 were $1.0 million and $14.9 million, respectively and for both the three and twelve months ended March 31, 2000, totaled $27.2 million Vectren expects to realize net merger savings of nearly $200 million over the next ten years from the elimination of duplicate corporate and administrative programs and greater efficiencies in operations, business processes and purchasing. The continued merger integration activities, which will contribute to the merger savings, will be substantially completed in 2001. Merger costs are primarily reflected in the operations of the utility operating subsidiaries where merger savings are expected to be realized.

Since March 31, 2000, $42.1 million has been expensed associated with merger and integration activities. Accruals were established at March 31, 2000 totaling $20.7 million. Of this amount, $5.5 million related to employee and executive severance costs, $13.1 related to transaction costs and regulatory filing fees incurred prior to the closing of the merger, and the remaining $2.1 million related to employee relocations that occurred prior to or coincident with the merger closing. At March 31, 2001, the accrual remaining for such costs totaled $1.6 million, all related to severance costs. Of the $42.1 million expensed, the remaining $21.4 million was expensed through March 31, 2001 ($20.4 million in 2000 and $1.0 in 2001) for accounting fees resulting from merger related filing requirements, consulting fees related to integration activities such as organization structure, employee travel between company locations as part of integration activities, internal labor of employees assigned to integration teams, investor relations communications activities, and certain benefit costs.

The integration activities experienced by the company included such things as information system consolidation, process review and definition, organization design and consolidation, and knowledge sharing.

As a result of the merger and integration activities, management has identified certain information systems that are expected to be retired in 2001. Accordingly, the useful lives of these assets have been shortened to reflect this decision, resulting in additional depreciation expense of approximately $3.2 million ($2.0 million after tax) and $14.6 million ($9.1 million after tax) for the three and twelve months ended March 31, 2001.

In total, for the three months ended March 31, 2001, merger and integration costs totaled $4.2 million ($2.5 million after tax), or $0.04 on a basic earnings per share basis compared to $27.2 million ($19.3 million after tax), or $0.32 on a basic earnings per share basis for the same period in 2000.

In total, for the twelve months ended March 31, 2001, merger and integration costs totaled $29.5 million ($20.1 million after tax), or $0.32 on a basic earnings per share basis compared to $27.2 million ($19.3 million after tax), or $0.32 on a basic earnings per share basis for the same period in 2000.

Utility Other Income, Net

Utility other income, net decreased $1.3 million for the three months ended March 31, 2001 compared to the prior year due to increased charitable contributions including the 2001 funding of Vectren Foundation, a not for profit

organization formed in 2000. Utility other income, net for the twelve months ended March 31, 2001 was comparable to 2000 results.

Utility Interest Expense

Utility interest expense increased $9.6 million and $18.2 million, respectively, for the three and twelve months ended March 31, 2001, when compared to the prior year. The increases were due primarily to interest related to the financing of the acquisition of the Ohio operations, increased working capital requirements resulting from extremely high natural gas prices, and higher average interest rates on utility debt and short-term borrowings.

Utility Income Tax Expense

Federal and state income taxes related to utility operations increased $7.0 million and $9.6 million for the three and twelve months ended March 31, 2001, respectively, compared to the prior year due primarily to higher pre-tax earnings, partially offset by normal effective tax rates in 2001. The effective tax rate in 2000 was higher as a result of the non-deductibility of certain merger and integration costs.

Results of Non-regulated Operations

Before merger and integration costs (as described below) and the one time gain on the restructuring of a non-regulated investment, non-regulated operations contributed net income of $8.6 million, or $0.14 per share, for the three months ended March 31, 2001, compared to $5.2 million, or $0.08 per share, for the same period in 2000.

Before merger and integration costs (as described below) and the one time gain on the restructuring of a non-regulated investment, non-regulated operations contributed net income of $23.4 million, or $0.38 per share, for the twelve months ended March 31, 2001, compared to $16.1 million, or $0.26 for the same period in 2000.

The increases of $0.06 and $0.12 per share for the three and twelve months ended March 31, 2001, respectively, is primarily driven by continued growth of the gas marketing operations and the gain on sale of an investment.

Energy Services and Other Revenues

Revenues from Vectren's non-utility operations (primarily the operating companies of its Energy Services, Utility Services and Communications groups) for the three and twelve months ended March 31, 2001 were $272.0 million and $679.9 million, respectively, compared to $85.6 million and $288.0 million in 2000. The significant increases over prior year amounts are primarily from Energy Services' natural gas marketing operations resulting from higher prices for natural gas reflected in sales to its customers during the periods and increased volume.

Costs of Energy Services and Other Revenues

Cost of energy services and other, which is primarily the cost of natural gas purchased for resale by Energy Services and project contract costs at Energy Services and Communications, increased $183.5 million and $383.6 million for the three and twelve months ended March 31, 2001, respectively, over 2000. The increase is primarily due to higher per unit purchased gas costs and growth in gas sales at Energy Services.

Non-regulated Margin

Margins for the three months and twelve months ended March 31, 2001 from non-regulated operations increased $2.9 million, or 75 %, to $6.8 million for the three month period and increased $8.3 million, or 56 %, to $23.2 million for the twelve month period. Growth in margin for both the three and twelve month periods principally results from continued growth of the company's natural gas marketing operations, performance contracting and energy efficiency project operations, and expanded coal mining operations.

Non-regulated Operating Expenses (excluding Costs of Energy Services and Other Revenues)

Non-regulated operating expenses consist of other operating expenses, depreciation and amortization, and taxes other than income taxes. For the three and twelve months ended March 31, 2001, non-regulated operating expenses were comparable to the prior year periods.

Non-regulated Other Income

Equity in Earnings of Unconsolidated Investments
Earnings from unconsolidated investments decreased $3.6 million and $3.0 million, respectively, for the three and twelve months ended March 31, 2001, compared to the prior year. The decreases for both periods reflect an $8.0 million gain recognized in 2000 related to restructuring Communication's investment in SIGECOM, partially offset by the current quarter gain on the sale of one of Haddington Energy Partners, LP's (Haddington) investments.

In March 2001, Haddington, a non-regulated investment accounted for on the equity method, sold its investment in Bear Paw Investments, LLC (Bear Paw) in exchange for a combination of cash and securities. The cost of Haddington's Bear Paw investment approximated $5.1 million, and the net proceeds received approximated $18.1 million, resulting in a pre tax gain of $13.0 million. Vectren recognized its portion of the pre-tax gain, allocated per the terms of the partnership agreement, through equity earnings in unconsolidated investments. The amount of the pre-tax gain recognized by Vectren approximates $3.9 million.

Non-regulated Other Income, Net
Non-regulated other income, net decreased $0.4 million for the three months ended March 31, 2001 and increased $2.8 million for the twelve months ended March 31, 2001 when compared to the prior year primarily due to fluctuations in interest income and leveraged lease income.

Non-regulated Interest Expense

Non-regulated interest expense increased by $0.9 million and $4.5 million, respectively, for the three and twelve months ended March 31, 2001, when compared to the prior year. The increases were due primarily to increased debt to fund additional investments in non-regulated businesses.

Non-regulated Income Tax Expense

Federal and state income taxes related to non-regulated operations have decreased $2.6 million and $8.4 million, respectively, for the three and twelve months ended March 31, 2001, compared to the prior year. The decrease results from lower pretax earnings and additional utilization of tax credits.

Other Operating Matters

New Accounting Principle and Cumulative Effect of Change in Accounting Principle

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), which requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000 and must be applied to derivative instruments and certain derivative instruments embedded in hybrid contracts that were issued, acquired or substantively modified after December 31, 1998. Vectren has completed the process of identifying all derivative instruments, determining fair market values of these derivatives, designating and documenting hedge relationships, and evaluating the effectiveness of those hedge relationships. As a result of the successful completion of this process, Vectren adopted SFAS 133 as of January 1, 2001.

SFAS 133 requires that as of the date of initial adoption, the difference between the fair market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle in accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes."

A limited number of Vectren's contracts are defined as derivatives under SFAS 133. These derivatives are forward physical contracts for both the purchase and sale of natural gas and electricity by its wholly owned gas marketing subsidiary, SIGCORP Energy Services, Inc. (SES) and SIGECO, respectively, and an interest rate swap.

SES's primary business is the buying and re-selling of physical natural gas to the industrial market segment. SES manages its pricing risk by entering into corresponding gas commodity contracts that ensure a reasonable matching of the associated risk. In addition, SES takes physical delivery of gas in storage facilities to ensure operational as well as price risk management of its forward positions. Open positions in terms of price, volume and specified delivery locations do occur and are managed by SES using the above instruments and through management reporting. These commodity contracts and gas storage facilities involve the normal purchase and sale of natural gas and therefore do not require fair value accounting under SFAS 133. SES also utilizes price swap agreements that are accounted for under SFAS 133 to mitigate price risk related to certain forward physical contracts. These derivatives have not been designated as hedges; accordingly, the changes in market value will be recorded currently in earnings. The mark to market impact of these derivatives has been reflected as part of the transition adjustment recorded to earnings on January 1, 2001.

SIGECO uses derivative and non-derivative forward contracts in its power marketing operations to effectively manage the utilization of its generation capacity. Certain forward sales contracts are used to sell the excess generation capacity of SIGECO when demand conditions warrant this activity. These contracts involve the normal sale of electricity and therefore do not require fair value accounting under SFAS 133. Certain forward purchase and sale contracts entered into as part of "buy-sell" transactions with other utilities and power marketers are derivatives but do not qualify for hedge accounting. The mark to market impact of these derivatives upon adoption of SFAS 133 is reflected as part of the transition adjustment recorded to earnings on January 1, 2001.

The interest rate swap is used to hedge the exposure to interest rate risk associated with VUHI's $150 million floating rate notes. The swap was entered into concurrently with the issuance of the floating rate debt. Vectren has formally documented the hedging relationship between the swap and floating rate debt as well as its risk management objectives and strategies for undertaking the hedging transaction. The swap has been designated as a cash flow hedge and the mark to market impact has been reflected as part of the transition adjustment recorded to other comprehensive income on January 1, 2001.

The cumulative impact of the adoption of SFAS 133 on January 1, 2001 is an earnings gain of approximately $6.3 million, ($3.9 million after tax) due to the derivatives used in SIGECO's power marketing operations. The impact of derivatives used by SES and the interest rate swap was immaterial.

As of March 31, 2001, the fair value of power marketing derivative contracts totals $11.8 million and is included in deferred charges, net on the Condensed Consolidated Balance Sheets. The difference between the current market value and the market value on the date of adoption of $5.5 million is included in purchased electric energy in the Condensed Consolidated Statements of Operations. The fair value of the interest rate swap is $1.4 million and is included in other current liabilities on the Condensed Consolidated Balance Sheets. The difference between the current market value and the market value on the date of adoption of $1.4 million ($0.9 million after tax) is included in accumulated other comprehensive income on the Condensed Consolidated Balance Sheets and will be reclassified to interest expense by December 31, 2001. Derivatives used by SES remain immaterial.

In addition to these wholly owned subsidiaries, ProLiance Energy, LLC, a 50 % owned equity method investment, adopted SFAS 133 on August 31, 2000. The impact of adoption on ProLiance is reflected in accumulated other comprehensive income due to the nature of the derivatives used.

Realignment

Effective January 1, 2001, the utility operations announced the reorganization of those operations into two primary business units: Energy Delivery and Power Supply. During 2001, organizational alignment will occur along with the development of management reporting processes. As a result, Vectren will report utility segment information as Gas Utility Services and Electric Utility Services.

Financial Condition

ProLiance Energy, LLC

ProLiance, a 50 % owned, non-regulated, energy marketing affiliate of Vectren, began providing natural gas and related services to Indiana Gas, Citizens Gas and Coke Utility (Citizens Gas) and others effective April 1, 1996. The sale of gas and provision of other services to Indiana Gas by ProLiance is subject to regulatory review through the quarterly gas cost adjustment (GCA) process administered by the IURC.

On September 12, 1997, the IURC issued a decision finding the gas supply and portfolio administration agreements between ProLiance and Indiana Gas and ProLiance and Citizens Gas to be consistent with the public interest and that ProLiance is not subject to regulation by the IURC as a public utility. The IURC's decision reflected the significant gas cost savings to customers obtained through ProLiance's services and suggested that all material provisions of the agreements between ProLiance and the utilities are reasonable. Nevertheless,

with respect to the pricing of gas commodity purchased from ProLiance, the pricing of fees paid by ProLiance to the utilities for the prospect of using pipeline entitlements if and when they are not required to serve the utilities' firm customers, and the pricing of fees paid by the utilities to ProLiance for portfolio administration services, the IURC concluded that additional review in the GCA process would be appropriate and directed that these matters be considered further in the pending, consolidated GCA proceeding involving Indiana Gas and Citizens Gas. Through a series of appeals, the order was finally considered by the Indiana Supreme Court.

On September 22, 2000, the Indiana Supreme Court issued a decision affirming the IURC's decision on ProLiance in all respects. The IURC has recently commenced the processing of these further proceedings by conducting a prehearing conference. Discovery is ongoing in the further proceeding at the current time. Until the three pricing issues reserved by the IURC are resolved, Vectren will continue to reserve a portion of its share of ProLiance earnings.

In August 1998, Indiana Gas, Citizens Gas and ProLiance each received a Civil Investigative Demand (CID) from the United States Department of Justice requesting information relating to Indiana Gas' and Citizens Gas' relationship with and the activities of ProLiance. The Department of Justice issued the CID to gather information regarding ProLiance's formation and operations, and to determine if trade or commerce has been restrained. Indiana Gas has provided all information requested and management continues to believe that there are no significant issues in this matter.

Indiana Gas continues to record gas costs in accordance with the terms of the ProLiance contract and Vectren continues to record its proportional share of ProLiance's earnings. Pre-tax income of $5.6 million and $3.4 million was recognized as ProLiance's contribution to earnings for the three months ended March 31, 2001 and 2000, respectively. Pre-tax income of $7.9 million and $5.8 million was recognized as ProLiance's contribution to earnings for the twelve months ended March 31, 2001 and 2000, respectively. Earnings recognized from ProLiance are included in equity in earnings of unconsolidated investments on the Condensed Consolidated Statements of Operations. At March 31, 2001, March 31, 2000 and December 31, 2000, Vectren has reserved approximately $2.7 million, $2.2 million and $2.4 million, respectively, of ProLiance's earnings after tax pending resolution of the remaining issues. The reserve represents 10% of ProLiance's pretax earnings and serves as management's best estimate of potential exposure arising from the three pricing issues.

Environmental Matters

Clean Air Act
NOx SIP Call Matter. In October 1997, the United States Environmental Protection Agency (USEPA) proposed a rulemaking that could require uniform nitrogen oxide (NOx) emissions reductions of 85 % by utilities and other large sources in a 22-state region spanning areas in the Northeast, Midwest, Great Lakes, Mid-Atlantic and South. This rule is referred to as the "NOx SIP call." The USEPA provided each state a proposed budget of allowed NOx emissions, a key ingredient of ozone, requiring a significant reduction of such emissions. Under that budget, utilities may be required to reduce NOx emissions to a rate of 0.15 lb/mmBtu below levels already imposed by Phase I and Phase II of the Clean Air Act Amendments of 1990 (the Act).

On October 27, 1998, USEPA issued a final rule "Finding of Significant Contribution and Rulemaking for Certain States in the Ozone Transport Assessment Group Region for Purposes of Reducing Regional Transport of Ozone," (63 Fed.

Reg. 57355). The final rule requires that 23 states and jurisdictions must file revised state implementation plans (SIPs) with the USEPA by no later than

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September 30, 1999, which was essentially unchanged from its October 1997, proposed rule. The USEPA has encouraged states to target utility coal-fired boilers for the majority of the reductions required, especially NOx emissions. Northeastern states have claimed that ozone transport from midwestern states (including Indiana) is the primary reason for their ozone concentration problems. Although this premise is challenged by others based on various air quality modeling studies, including studies commissioned by the USEPA, the USEPA intends to incorporate a regional control strategy to reduce ozone transport. The USEPA's final ruling is being litigated in the federal courts by approximately ten midwestern states, including Indiana.

On March 3, 2000, the United States Circuit Court of Appeals for the District of Columbia (D.C. Court of Appeals) upheld the USEPA's October 27, 1998 final rule requiring 23 states and the District of Columbia to file revised SIPs with the USEPA. Numerous petitioners, including several states, filed petitions for rehearing with the D.C. Court of Appeals. On June 22, 2000, the D.C. Court of Appeals denied petition for rehearing en banc. Following this decision, on August 30, 2000, the D.C. Court of Appeals issued an extension of the SIP Call implementation deadline to May 31, 2004. On September 20, 2000, petitioners filed a Petition of Writ of Certiori with the United States Supreme Court requesting review of the D.C. Court of Appeals March 3, 2000 Order, which was denied. Therefore, SIGECO's compliance date remains May 31, 2004.

The proposed NOx emissions budget for Indiana stipulated in the USEPA's final ruling requires a 36 % reduction in total NOx emissions from Indiana. The ruling, pending finalization of state rule making, could require SIGECO to lower its system-wide emissions by approximately 70 %. Depending on the level of system-wide emissions reductions ultimately required, and the control technology utilized to achieve the reductions, the estimated construction costs of the control equipment could reach $160 million, which are expected to be expended during the 2001-2004 period, and related additional operation and maintenance expenses could be an estimated $8 million to $10 million, annually. No accrual has been recorded by the company related to the NOx SIP Call matter. The rules governing NOx emissions, once finalized, are to be applied prospectively.

Culley Generating Station Investigation Matter. The USEPA initiated an investigation under Section 114 of the Act of SIGECO's coal-fired electric generating units in commercial operation by 1977 to determine compliance with environmental permitting requirements related to repairs, maintenance, modifications and operations changes. The focus of the investigation was to determine whether new source performance standards should be applied to the modifications and whether the best available control technology was, or should have been, used. Numerous other electric utilities were, and are currently, being investigated by the USEPA under an industry-wide review for similar compliance. SIGECO responded to all of the USEPA's data requests during the investigation. In July 1999, SIGECO received a letter from the Office of Enforcement and Compliance Assurance of the USEPA discussing the industry-wide investigation, vaguely referring to the investigation of SIGECO and inviting SIGECO to participate in a discussion of the issues. No specifics were noted; furthermore, the letter stated that the communication was not intended to serve as a notice of violation. Subsequent meetings were conducted in September and October with the USEPA and targeted utilities, including SIGECO, regarding potential remedies to the USEPA's general allegations.

On November 3, 1999, the USEPA filed a lawsuit against seven utilities, including SIGECO. The USEPA alleges that, beginning in 1992, SIGECO violated the

Act by: (i) making modifications to its Culley Generating Station in Yankeetown, Indiana without obtaining required permits; (ii) making major modifications to the Culley Generating Station without installing the best available emission control technology; and (iii) failing to notify the USEPA of the modifications. In addition, the lawsuit alleges that the modifications to the Culley Generating Station required SIGECO to begin to comply with federal new source performance standards.

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SIGECO believes it performed only maintenance, repair and replacement activities at the Culley Generating Station, as allowed under the Act. Because proper maintenance does not require permits, application of the best available emission control technology, notice to the USEPA, or compliance with new source performance standards, SIGECO believes that the lawsuit is without merit, and intends to vigorously defend the lawsuit.

The lawsuit seeks fines against SIGECO in the amount of $27,500 per day per violation. The lawsuit does not specify the number of days or violations the USEPA believes occurred. The lawsuit also seeks a court order requiring SIGECO to install the best available emissions technology at the Culley Generating Station. If the USEPA is successful in obtaining an order, SIGECO estimates that it would incur capital costs of approximately $40 million to $50 million complying with the order. In the event that SIGECO is required to install system-wide NOx emission control equipment, as a result of the NOx SIP call issue, the majority of the $40 million to $50 million for best available emissions technology at Culley Generating Station would be included in the $160 million expenditure previously discussed.

The USEPA has also issued an administrative notice of violation to SIGECO making the same allegations, but alleging that violations began in 1977.

While it is possible that SIGECO could be subjected to criminal penalties if the Culley Generating Station continues to operate without complying with the new source performance standards and the allegations are determined by a court to be valid, SIGECO believes such penalties are unlikely as the USEPA and the electric utility industry have a bonafide dispute over the proper interpretation of the Act. Accordingly, no accrual has been recorded by the company, and SIGECO anticipates at this time that the plant will continue to operate while the matter is being decided.

Information Request. On January 23, 2001, SIGECO received an information request from the USEPA under Section 114(a) of the Act for historical operational information on the Warrick and A.B. Brown generating stations. SIGECO has provided all information requested, and management believes that no significant issues will arise from this request.

Manufactured Gas Plants
In the past, Indiana Gas and others operated facilities for the manufacture of gas. Given the availability of natural gas transported by pipelines, these facilities have not been operated for many years. Under currently applicable environmental laws and regulations, Indiana Gas, and the others, may now be required to take remedial action if certain byproducts are found above the regulatory thresholds at these sites.

Indiana Gas has identified the existence, location and certain general characteristics of 26 gas manufacturing and storage sites for which it may have some remedial responsibility. Indiana Gas has completed a remedial investigation/feasibility study (RI/FS) at one of the sites under an agreed order between Indiana Gas and the Indiana Department of Environmental Management (IDEM), and a Record of Decision was issued by the IDEM in January 2000.

Although Indiana Gas has not begun an RI/FS at additional sites, Indiana Gas has submitted several of the sites to IDEM's Voluntary Remediation Program and is currently conducting some level of remedial activities including groundwater monitoring at certain sites where deemed appropriate and will continue remedial activities at the sites as appropriate and necessary.

In conjunction with data compiled by expert consultants, Indiana Gas has accrued the estimated costs for further investigation, remediation, groundwater monitoring and related costs for the sites. While the total costs that may be incurred in connection with addressing these sites cannot be determined at this

time, Indiana Gas has accrued costs that it reasonably expects to incur totaling approximately $20.3 million.

The estimated accrued costs are limited to Indiana Gas' proportionate share of the remediation efforts. Indiana Gas has arrangements in place for 19 of the 26 sites with other potentially responsible parties, which serve to limit Indiana Gas' share of response costs at these 19 sites to between 20 and 50 percent.

With respect to insurance coverage, as of March 31, 2001, Indiana Gas has received and recorded settlements from all known insurance carriers in an aggregate amount approximating its $20.3 million accrual.

Environmental matters related to manufactured gas plants have had no material impact on earnings since costs recorded to date approximate PRP and insurance settlement recoveries. While Indiana Gas has recorded all costs which it presently expects to incur in connection with activities at these sites, it is possible that future events may require some level of additional remedial activities which are not presently foreseen.

Rate and Regulatory Matters

Gas Cost Proceedings
Commodity prices for natural gas purchases have increased significantly, primarily due to a colder winter, increased demand and tighter supplies. Vectren's utility subsidiaries are allowed full recovery of such changes in purchased gas costs from their retail customers through commission-approved gas cost adjustment mechanisms, and margin on gas sales should not be impacted. However, in 2001, Vectren 's utility subsidiaries have experienced and may continue to experience higher working capital requirements, increased expenses including unrecoverable interest costs, uncollectibles and unaccounted for gas, and some level of price sensitive reduction in volumes sold.

On October 11, 2000, Indiana Gas filed for approval of its regular quarterly GCA. In early December, the IURC issued an interim order approving the request by Indiana Gas for a GCA factor for December 2000. On January 4, 2001, the IURC approved the January and February 2001 GCA as filed. The order also addressed the claim by the Indiana Office of Utility Consumer Counselor (OUCC) that a portion of the requested GCA be disallowed because Indiana Gas should have entered into additional commitments for this winter's gas supply in late 1999 and early 2000. In procuring gas supply for this winter, Indiana Gas followed the gas procurement practices that it had employed over the last several years. In response to the claim by the OUCC the IURC found that there should be a $3.8 million disallowance related to gas procurement for the winter season. As a result, Indiana Gas recognized a pre-tax charge of $3.8 million in December 2000. Both Indiana Gas and the OUCC appealed the ruling. The Citizens Action Coalition of Indiana, Inc.(CAC), a not for profit consumer advocate, also filed with the IURC a petition to intervene and a notice of appeal of the order.

In March 2001, Vectren, Indiana Gas and SIGECO reached agreement with the OUCC and CAC regarding the IURC Order. As part of the agreement, among other things, the companies agreed to contribute an additional $1.9 million to the state of Indiana's Low Income Heating Assistance Program in 2001 and to credit $3.3 million of the $3.8 million disallowed amount to Indiana Gas customers' April 2001 utility bills in exchange for both the OUCC and the CAC dropping their appeals of the IURC Order. In April 2001, the IURC issued an order approving the settlement. The contribution to Indiana's Low Income Heating Assistance Program totaling $1.9 million were made in 2001 and were charged to operations and maintenance expense. There was no impact to 2000 operations as a result of this contribution.

Purchased Power Costs

As a result of the ongoing appeal of a generic order issued by the IURC in August 1999 regarding guidelines for the recovery of purchased power costs, SIGECO entered into a settlement agreement with the OUCC that provides certain terms with respect to the recoverability of such costs. The settlement, originally approved by the IURC on August 9, 2000, has been extended by agreement through March 2002. Under the settlement, SIGECO can recover the entire cost of purchased power up to an established benchmark, and during forced outages, SIGECO will bear a limited share of its purchased power costs regardless of the market costs at that time. Based on this agreement, SIGECO believes it has limited its exposure to unrecoverable purchased power costs.

Liquidity and Capital Resources

Vectren's capitalization objective is 40-50 % permanent capitalization. This objective may have varied, and will vary, from time to time, depending on particular business opportunities and seasonal factors that affect the company's operation. Vectren's permanent component was 56 %, 56 % and 51 % of total capitalization, including current maturities of long-term debt, at March 31, 2001, March 31, 2000 and December 31, 2000, respectively. The common equity component of 56 % at March 31, 2001 is expected to be reduced in 2001 upon the refinancing of a substantial amount of short-term debt to long-term debt.

Short-term cash working capital is required primarily to finance customer accounts receivable, unbilled utility revenues resulting from cycle billing, gas in underground storage, prepaid gas delivery services, capital expenditures and investments until permanently financed. Short-term borrowings tend to be greatest during the summer when accounts receivable and unbilled utility revenues related to electricity are highest and gas storage facilities are being refilled. However, working capital requirements have been significantly higher during the fourth quarter of 2000 and the first quarter of 2001 due to the higher natural gas costs and the acquisition of the Ohio operations.

Cash Flow from Operations

Vectren's primary source of liquidity to fund working capital requirements has been cash generated from operations, which totaled approximately $76.5 million and $104.6 million for the three months ended March 31, 2001 and 2000, respectively, and $9.3 million and $149.1 million for the twelve months ended March 31, 2001 and 2000, respectively.

Cash flow from operations decreased during the three and twelve months ended March 31, 2001 compared to 2000 by $28.1 million and $139.8, respectively, due primarily to increased working capital requirements due to higher gas costs, offset by additional net income.

Vectren expects the majority of its capital expenditures and debt security redemptions to be provided by internally generated funds.

Financing Activities
Cash flow required for financing activities of $15.6 million for the three months ended March 31, 2001 includes $127.5 million of reductions in net borrowings and $17.2 million common stock dividends, offset by the issuance of $129.4 million of common stock. This is a decrease in cash required for financing activities when compared to the three months ended March 31, 2000 of $35.2 million. The decrease in cash requirements is primarily due to decreased payments on short-term borrowings using internally generated funds in 2001.

Cash flow from financing activities of $676.3 million for the twelve months ended March 31, 2001 includes $606.8 million of additional net borrowings and the issuance of common stock of $133.4 million offset by $62.5 million of common stock dividends. This is an increase of $644.9 million over the same period in the prior year due primarily to financing acquisitions with commercial paper and increased working capital requirements.

SIGECO has $53.7 million of adjustable rate pollution control series first mortgage bonds which could, at the election of the bondholder, be tendered to SIGECO when the interest rates are reset. Prior to the latest reset on March 1, 2001, the interest rates were reset annually, and the bonds subject to tender were presented in the Condensed Consolidated Balance Sheets as current liabilities. Effective March 1, 2001, the bonds were reset for a five-year period and have been classified as long-term debt. Resulting from the reset, the interest rate on the $31.5 million Series A bonds increased from 4.30 % to 4.75 %, and the interest rate on the $22.2 million Series C bonds increased from 4.45 % to 5.00 %.

On January 19, 2001, Vectren filed a registration statement with the Securities and Exchange Commission with respect to a public offering of 5.5 million shares of new common stock. On February 8, 2001, the registration became effective and agreement was reached to sell 5.5 million shares to a group of underwriters. On February 14, the shares were sold, at which time, the underwriters exercised their over-allotment option to sell an additional 825,000 shares for a total of about 6.3 million shares. The net proceeds of $129.4 million were used to repay outstanding commercial paper utilized for recent acquisitions.

At March 31, 2001, Vectren has approximately $995 million of short-term borrowing capacity, including $814 million for its regulated operations and $181 million for its non-regulated operations, of which approximately $285 million is available for regulated operations and $71 million is available for non-regulated operations. On October 31, 2000, the acquisition of the Ohio operations was completed for a purchase price of approximately $465 million. Commercial paper was issued to fund the purchase and will be replaced over time with permanent financing.

At March 31, 2001, Indiana Gas was not in compliance with the total indebtedness to capitalization ratio contained in its back up credit facility for its commercial paper program. The non-compliance resulted from the indebtedness incurred to purchase its ownership interest in the Ohio operations and working capital requirements associated with higher gas costs. A waiver on the Indiana Gas facility has been obtained to waive the non-compliance through and including March 31, 2001 which effectively waives the noncompliance up to June 30, 2001, the date of the next quarterly test of financial covenants. Vectren anticipates making an equity investment in Indiana Gas to bring Indiana Gas back into compliance. No amount is outstanding under the back up facility.

Indiana Gas' and SIGECO's credit ratings on outstanding debt at March 31, 2001 were A/A2 and A/A1, respectively. VUHI's commercial paper related to the October

2000 Ohio operations acquisition has a credit rating of A-1/P-2. Indiana Gas' commercial paper retains an A-1/P-1 rating.

Capital Expenditures and Other Investment Activities

Cash required for investing activities of $52.9 million for the three months ended March 31, 2001 includes $46.2 million of capital expenditures. Investing activities for the three months ended March 31, 2000 were $51.5 million. The increase from the prior period results from additional capital expenditures, offset by changes in investment activity in partnerships and notes receivable.

Cash required for investing activities of $682.1 million for the twelve months ended March 31, 2001 includes $463.3 million required for the Ohio operations acquisition, $169.6 million of capital expenditures and $46.9 million of investments in partnerships, other corporations and notes receivable. This is an

increase of $469.2 million over the same period in the prior year due primarily to the Ohio operations acquisition.

New construction, normal system maintenance and improvements, and information technology investments needed to provide service to a growing customer base will continue to require substantial expenditures. Capital expenditures and non-regulated investments for the remainder of 2001 are estimated at $249 million.

Forward-Looking Information

A "safe harbor" for forward-looking statements is provided by the Private Securities Litigation Reform Act of 1995 (Reform Act of 1995). The Reform Act of 1995 was adopted to encourage such forward-looking statements without the threat of litigation, provided those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the statement. Certain matters described in Management's Discussion and Analysis of Results of Operations and Financial Condition, including, but not limited to Vectren's realization of net merger savings and ProLiance, are forward-looking statements. Such statements are based on management's beliefs, as well as assumptions made by and information currently available to management. When used in this filing, the words "believe," "anticipate," "endeavor," "estimate," "expect," "objective," "projection," "forecast," "goal," and similar expressions are intended to identify forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause Vectren and its subsidiaries' actual results to differ materially from those contemplated in any forward-looking statements included, among others, the following:

- |X| Factors affecting utility operations such as unusual weather conditions; catastrophic weather-related damage; unusual maintenance or repairs; unanticipated changes to fossil fuel costs; unanticipated changes to gas supply costs, or availability due to higher demand, shortages, transportation problems or other developments; environmental or pipeline incidents; transmission or distribution incidents; unanticipated changes to electric energy supply costs, or availability due to demand, shortages, transmission problems or other developments; or electric transmission or gas pipeline system constraints.

- |X| Increased competition in the energy environment including effects of industry restructuring and unbundling.

- |X| Regulatory factors such as unanticipated changes in rate-setting policies or procedures, recovery of investments and costs made under traditional regulation, and the frequency and timing of rate increases.

- |X| Financial or regulatory accounting principles or policies imposed by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Federal Energy Regulatory Commission, state public utility commissions, state entities which regulate natural gas transmission, gathering and processing, and similar entities with regulatory oversight.

- |X| Economic conditions including inflation rates and monetary fluctuations.

- |X| Changing market conditions and a variety of other factors associated with physical energy and financial trading activities including, but not limited to, price, basis, credit, liquidity, volatility, capacity, interest rate, and warranty risks.

- |X| Availability or cost of capital, resulting from changes in Vectren Corporation and its subsidiaries, interest rates, and securities ratings or market perceptions of the utility industry and energy-related industries.

- |X| Employee workforce factors including changes in key executives, collective bargaining agreements with union employees, or work stoppages.

- |X| Legal and regulatory delays and other obstacles associated with mergers, acquisitions, and investments in joint ventures.

- |X| Costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters, including, but not limited to, those described in Management's Discussion and Analysis of Results of Operations and Financial Condition.

- |X| Changes in federal, state or local legislature requirements, such as changes in tax laws or rates, environmental laws and regulations.

Vectren and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VECTREN CORPORATION
Registrant

August 27, 2001

/s/Jerome A. Benkert, Jr.

Jerome A. Benkert, Jr.
Executive Vice President and
Chief Financial Officer

/s/M. Susan Hardwick

M. Susan Hardwick
Vice President and Controller