Vectren Corporation 2000 Annual Report

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NYSE: VVC

CORPORATE PROFILE

Vectren Corporation is an energy and applied technology holding company headquartered in Evansville, Indiana. Our operations began on March 31, 2000 through the combination of two Indiana-based companies, Indiana Energy, Inc. and SIGCORP, Inc. On October 31, 2000, we acquired the natural gas distribution assets of The Dayton Power and Light Company ("Dayton Power and Light") located in western Ohio.

The name Vectren is a combination of the words "vector" (forward direction) and "energy." It connotes a company moving in new directions consistent with its core energy industry skills to create growing value for its shareholders.

Vectren's regulated subsidiaries provide gas and/or electricity to approximately one million customers in adjoining service territories that cover nearly two-thirds of Indiana and 16 counties in west central Ohio, as well as the production and marketing of wholesale electric power.

Vectren's non-regulated subsidiaries and affiliates consist of three main business groups providing services to customers throughout the region. Energy Services provides energy supply management services, trades and markets natural gas, and provides energy performance contracting to commercial, industrial and municipal customers. Utility Services provides utility products and services, such as outsourced underground construction and facilities locating, meter reading, debt collections, materials management, and the mining and sale of coal. Communications provides broadband communications services, including local and long distance telephone, Internet access and cable television to residential and commercial customers.

IN THE YEAR 2000 WE PROVED THAT TWO HEADS ARE INDEED BETTER THAN ONE!

ABOUT THE COVER:
HEADQUARTERED IN EVANSVILLE, INDIANA, VECTREN HAS INTEGRATED TWO MIDWEST ENERGY COMPANIES TO CREATE ONE MORE POWERFUL, MORE SECURE, AND MORE GROWTH-ENABLED COMPANY.

2

TALENT POOLS

COMBINING HUMAN RESOURCES AND UTILIZING THE SHARPEST SKILL SETS CREATES THE MANAGEMENT DEPTH AND EMPLOYEE TALENT TO REALIZE VECTREN'S VISION OF BECOMING THE LEADING MIDWEST PROVIDER OF ENERGY AND APPLIED TECHNOLOGY.

1 VISION

2

ASSET BASES

COMBINING THE ASSET BASES OF TWO OF THE MIDWEST'S MOST SUCCESSFUL ENERGY COMPANIES CREATED A $2.9 BILLION BALANCE SHEET AT YEAR END AND STRENGTHENED THE FOUNDATION FOR ACQUIRING DAYTON POWER & LIGHT'S NATURAL GAS DISTRIBUTION ASSETS.

1 BALANCE SHEET

2

INCOME STREAMS

THE TWO EQUALLY BALANCED INCOME STREAMS, ELECTRIC AND GAS, FROM THE COMPANIES THAT MERGED TO FORM VECTREN CREATED A SOLID FOUNDATION FOR A SAFE AND GROWING DIVIDEND.

1 SOLID FINANCIAL FOUNDATION

2

GROWTH PLATFORMS

OUR TWO GROWTH PLATFORMS—REGULATED NATURAL GAS AND ELECTRIC POWER AND NON-REGULATED ENERGY SERVICES, UTILITY SERVICES AND COMMUNICATIONS—ARE SHARPLY FOCUSED ON THE KEY TO FUTURE SUCCESS—OUTSTANDING SERVICE TO OUR APPROXIMATELY ONE MILLION CUSTOMERS.

1 CUSTOMER FOCUS

FINANCIAL AND OPERATING HIGHLIGHTS

Year ended December 31,

• In thousands

	2000 [1]	1999	1998	1997 [2]	1996
Net Income •	$ 72,040	$ 90,748	$ 86,600	$ 67,714	$ 83,657
Net Income Before Merger and Integration Costs •	$ 108,896	$ 90,748	$ 86,600	$ 67,714	$ 83,657
Return on Common Shareholders' Equity (ROE)	9.8%	12.8%	12.8%	10.4%	13.1%
ROE Before Merger and Integration Costs	14.9%	12.8%	12.8%	10.4%	13.1%
Average Common Shares Outstanding •	61,297	61,306	61,578	61,611	61,522
Per Common Share					
Earnings	$ 1.18	$ 1.48	$ 1.41	$ 1.10	$ 1.36
Earnings Before Merger and Integration Costs	$ 1.78	$ 1.48	$ 1.41	$ 1.10	$ 1.36
Dividends Paid	$ 0.98	$ 0.94	$ 0.90	$ 0.88	$ 0.85
Book Value	$ 11.91	$ 11.58	$ 11.04	$ 10.61	$ 10.38
VECTREN Closing Market Price	$ 25.63	$ –	$ –	$ –	$ –
Dividend Payout Ratio Before Merger and Integration Costs	55%	64%	64%	80%	63%
Price/Earnings Ratio Before Merger and Integration Costs	14.4	–	–	–	–
Market to Book Ratio	215%	–	–	–	–
GAS					
Gas Sold and Transported (MDth)	181,238	150,711	138,806	153,293	156,064
Weather as a Percent of Normal	96%	87%	79%	101%	105%
Customers (Year-end)	946,043	622,479	609,987	598,201	584,843
ELECTRIC					
Electric Sales (MWh)	7,524,700	6,940,715	6,859,181	6,284,528	6,084,521
Weather as a Percent of Normal	93%	94%	118%	81%	88%
Customers (Year-end)	132,340	126,605	124,340	122,937	122,195
Net Regulated Plant •	$ 1,555,761	$ 1,336,333	$ 1,292,880	$ 1,239,105	$ 1,250,847
Net Non-Regulated Plant •	$ 103,477	$ 64,474	$ 59,533	$ 71,028	$ 26,166
Capital Expenditures - Regulated Plant •	$ 110,663	$ 123,853	$ 111,815	$ 136,693	$ 112,201
Capital Expenditures - Non-Regulated Plant •	$ 53,603	$ 8,306	$ 23,254	$ 2,854	$ 4,954

1 Includes addition of Ohio assets and customers as well as two months of Ohio Operations.
2 Reflects the recording of restructuring costs of $39.5 million ($24.5 million after-tax or $.40 per common share.)
NOTE: Table above reflects selected financial data for Vectren Corporation, which has been restated for the effect of the pooling of interests transaction.

LETTER TO SHAREHOLDERS

VECTREN, WHICH BEGAN OPERATIONS ON MARCH 31, 2000, IS THE SUCCESSFUL CULMINATION OF NEARLY A YEAR'S PLANNING AND EFFORT TO MELD TWO OF THE MIDWEST'S MOST SUCCESSFUL ENERGY COMPANIES INTO A SINGLE, MORE COMPETITIVE COMPANY WITH EXCITING NEW POSSIBILITIES.

We are well on target toward realizing the projected total net savings of $200 million over a 10-year period in merger-related cost reductions and efficiencies. In 2000, we incurred the majority of upfront costs necessary to achieve those future savings. We expect that the largest portion of these benefits will be achieved in the third through sixth years of merged operations, in part from the avoidance of duplicate expenditures for computer systems and other infrastructure requirements.

From an investor's standpoint, Vectren is both an income and a growth story. Our income strategy is to provide steady income gains and secure dividend increases from our successful and efficient core utility operations. Our growth strategy is straightforward and sensible. We will stay focused and grow earnings from our core regulated utility operations by providing safe, reliable, high quality service, adding new customers, and controlling costs. We will build non-regulated businesses around our core strengths and customer relationships and create new technology-oriented products and services appropriate to our customer base. We made important progress last year in each of these strategic directions.

NIEL ELLERBROOK
Chairman and
Chief Executive Officer

INVESTMENTS IN GROWTH – REGULATED BUSINESSES

In late October, we completed the purchase of the natural gas distribution assets of Dayton Power and Light for approximately $465 million, including working capital. This acquisition, now Vectren Energy Delivery of Ohio, added approximately 310,000 new natural gas customers in 16 west central Ohio counties contiguous to our eastern Indiana service area, and raised our total base of utility customers to approximately one million.

The additional scale gained through this purchase will help us achieve further efficiencies in our overall operating costs and enhance our ability to provide competitively priced energy to all of our customers.

INVESTMENTS IN GROWTH – NON-REGULATED BUSINESSES

In this report you will read about the commitments we have made to achieve a future earnings per share growth rate well above that of the energy industry average through a disciplined, highly focused strategy. Our non-regulated initiatives are directed specifically toward businesses that optimize our existing knowledge base, our customer relationships, or both. I will touch on just a few of those opportunities here, but I invite you to review this report for a more in-depth discussion.

Communications represents one of the most promising opportunities for providing new services to our customers and enhanced value to our shareholders. We have built a broadband communications network and now are offering telephone service, two-way interactive digital cable television, and high speed Internet access in Evansville, Indiana, in partnership with Utilicom Networks, LLC ("Utilicom Networks"). Our investment in broadband communications projects now stands at about $33 million, including our minority ownership in our operating partner, Utilicom Networks.

In late December we invested $8 million of our $100 million commitment to help finance the building and operation of similar broadband communications networks in Indianapolis and Dayton, subject to Utilicom Networks raising a total of $600 million of capital to fully fund these ventures.

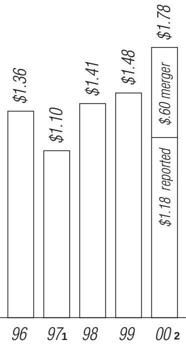
The networks in Indianapolis and Dayton will consist of approximately 4,500 miles of cable passing approximately 470,000 homes and businesses. Vectren has a 14% equity interest in the Evansville project and, upon completion of all new funding and assuming conversion of convertible debt into equity, Vectren also will own up to 31% of both the Indianapolis and Dayton ventures and up to 10% of Utilicom Networks.

In October we announced the purchase of Miller Pipeline Corporation (“Miller Pipeline”) for $68.3 million by our 50%-owned joint venture, Reliant Services, LLC (“Reliant”). Miller Pipeline is one of the premier contractors for installing and repairing natural gas, water, and wastewater distribution systems in the U.S., and is also well positioned to assist Reliant in expanding into fiber optic and electric facilities installation. Miller Pipeline has averaged double-digit revenue growth in recent years, reporting over $80 million in revenues last year.

We also have committed to complete the investment of an additional $20 million in Haddington Energy Partners, L.P. (“Haddington”), raising our total commitment to $30 million. Haddington’s portfolio of energy-related development opportunities, includes gas storage, gathering and processing, as well as fuel cell and distributed generation projects.

EARNINGS RESULTS FOR THE YEAR

Earnings per share, before merger and integration costs, rose to $1.78 from $1.48 per share last year. Net income, on a like basis, grew by 20% to $108.8 million, up from $90.7 million in 1999. We had a very strong year, exceeding expectations and substantially bettering 1999 results. After reflecting merger and integration costs totaling $36.8 million, net of tax, or $.60 a share, reported earnings were $1.18.

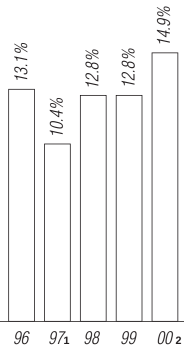


BASIC EARNINGS PER AVERAGE COMMON SHARE
year end December 31

1 Reflects restructuring costs of $.40 per share.
2 Includes Ohio operations for two months.

Regulated earnings before merger and integration costs contributed $1.37 to earnings per share last year. This represents an 11% increase as the result of colder heating weather, increased wholesale and retail electricity sold, and additional gas throughput from two months operation of the natural gas distribution assets acquired from Dayton Power and Light.

Our non-regulated businesses continued to perform well. Earnings from these businesses, many of which are barely out of the startup phase, increased by 64% to $.41 per share, before merger and integration costs. Energy Services, Utility Services, and Communications, our three major non-regulated operating groups, all performed well during the year.



RETURN ON AVERAGE COMMON EQUITY (ROE)
year end December 31

1 Reflects restructuring costs of $24.5 million after tax.
2 9.8% after merger and integration costs.

ENERGY PRICES-EXTRAORDINARY NATURAL GAS COSTS

Weather patterns reversed sharply toward the end of the year, producing record cold spells and soaring natural gas prices. Because of reduced exploration due to low gas prices following two unusually warm winters, production of gas declined. At the same time, because of a greater use of this fuel for electric generation and a growing economy, demand increased. Natural gas prices more than tripled between January 2000 and January 2001, affecting utilities and their customers all across the country.

For the 48 contiguous states, the five-month period from January to May 2000 was the warmest on record and, by contrast, the average temperature for November and December 2000 was the coldest since 1895, when systematic recording of weather data began. The abnormally high gas prices, coupled with colder weather, have resulted in extraordinarily high customers' bills and may affect year 2001 results. Normally, cold weather is favorable to our business, but this winter the abnormally high gas prices have caused significant increases in receivables and inventories. The cost to finance these large increases, higher uncollectible accounts expense and other costs may offset much of the benefit from the additional throughput volumes attributed to the colder weather.

Like most local distribution companies, our rates for delivering natural gas are authorized by a state regulatory commission, and we do not make money on the price of gas itself. While we generally are allowed to pass on to consumers the full amount that we pay for natural gas, in an unprecedented decision issued in early January 2001, the Indiana Utility Regulatory Commission ("IURC") found that there should be a one-time, $3.8 million disallowance related to gas procurement for this winter season. As a result, Indiana Gas recognized a pre-tax charge of $3.8 million during fiscal year 2000. We disagree with the IURC decision and have filed an appeal.

Although we have no control over natural gas prices, we are committed to providing a number of solutions to ease the impact of higher prices on our customers. We have modified our budget bill option to make it easier for customers to enter the plan and level their monthly bill payments over an entire year to help pay the higher winter bills. We have provided information for news stories and editorials, utilized bill inserts and media advertisements, and given a number of public presentations, all attempting to educate customers about the gas price increase, inform them about the budget bill options, and provide them with helpful information on conservation and weatherization. Finally, we have directed financial assistance to highly impacted, low-income customers.

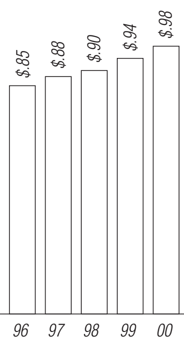
ELECTRIC POWER SUPPLIES ADEQUATE, PRICES LOW

In contrast to the well-publicized electric energy crisis experienced in California, Vectren continues to provide a reliable flow of low-cost electricity to its customers in Southern Indiana. Ownership of our own highly efficient coal mines, which will supply approximately 75% of the fuel for our electricity generating units, has helped us maintain this enviable position.

We have allocated substantial future capital expenditures for building new gas-powered, peak load generating units and meeting newly-promulgated emission control requirements for our coal-fired generating units. These expenditures will assure our continued ability to maintain system reliability, meet our environmental responsibilities, and deliver low prices to consumers. The new gas-powered units will assure an adequate reserve margin to meet the growing needs of customers in our service areas for the foreseeable future.

DIVIDEND INCREASE

In October the board of directors increased the quarterly dividend by 5.2% to 25 1/2 cents per share, or $1.02 on an annualized basis. This is the 41st consecutive year that dividends to shareholders have increased, including those to shareholders of our predecessor companies. Few corporations today can match this exceptional record of annual dividend increases.



DIVIDENDS PAID PER SHARE
year end December 31

SALE OF EQUITY

During early February of 2001, we sold an additional 6.3 million shares of Vectren common stock. We are pleased that many existing and new shareholders committed to investing in Vectren. The net proceeds of the sale, in the amount of approximately $129.4 million, allows us to recapitalize our balance sheet and repay short term debt used to fund the recent investments in growth I described earlier in this Letter.

CUSTOMER FOCUS

We continue to place great emphasis on serving our customers well. Our belief is that a strong record of customer service will assist us in the deregulated world in which customers will be able to choose their energy providers, and where providers may offer a much wider array of products and services than just energy. We presently are building a $10 million customer contact and data center in Evansville that will facilitate our commitment to integrate new technology and add highly trained customer service specialists. Customers will be able to speak to Service Representatives during extended business hours and, as always for emergencies, on a 24-hour basis. Customers also will be able to interact fully with Vectren at all times by the Internet and/or automated telephone systems.

EMPLOYEES AND SHAREHOLDERS

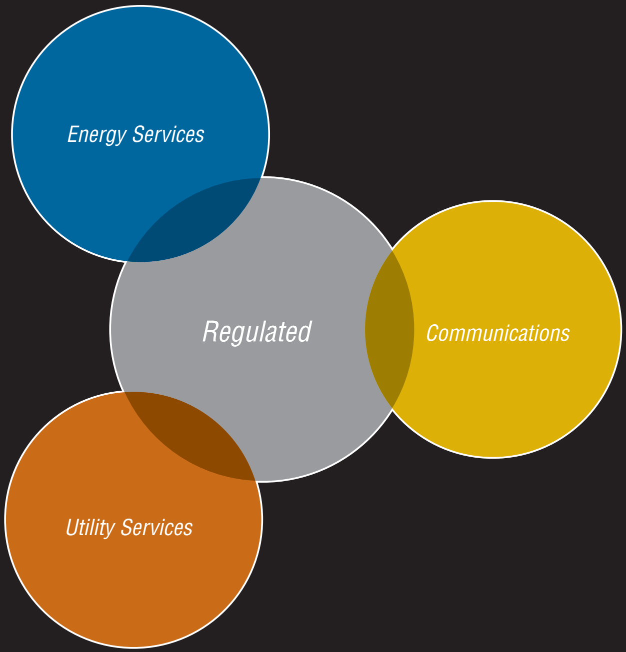
The merger forming Vectren and the acquisition of the Dayton Power and Light natural gas distribution assets are now behind us. With 2001 as Vectren's first full year of operations, our "base" year, we now are moving forward toward our very aggressive five-year goal of growing earnings per share at an average annual rate of 8-10% a year and dividends per share at a rate faster than that of our peer group of energy companies.

We have two business platforms, our income-oriented regulated utility group and our growth-oriented non-regulated group. We believe that together these platforms will provide us with the best of both worlds; steady dividend increases and earnings growth above energy company averages.

I am deeply proud of the performance of the Vectren employees throughout this merger process. Their talent, dedication, and resourcefulness have created Vectren and are making our vision come to pass. I appreciate their determination to succeed and their deep caring for customers, fellow employees, and members of our communities. For this they have my gratitude, and, I am sure, the gratitude of all shareholders.

On behalf of all the Vectren family of employees, I want to thank our shareholders for your continued support as we formed your new, larger, more exciting company, and once again pledge our commitment to continue to faithfully pursue the straight-forward and sensible strategy that defines Vectren and that we think will provide you with superior returns on your investment.

NIEL C. ELLERBROOK,
Chairman and Chief Executive Officer
February 19, 2001



CHANGE

THE WORLD IS CHANGING, AS IT ALWAYS DOES. VECTREN ITSELF IS THE PRODUCT OF CHANGE, OF A DECISION BY TWO SUCCESSFUL AND EQUAL COMPANIES TO JOIN FORCES. BY DECIDING TO MERGE, OUR PREDECESSOR COMPANIES HAVE PRODUCED AN ENTERPRISE THAT IS MORE ABLE TO EXCEL, TO LEAD AND PROFIT FROM THE CHANGES TAKING PLACE, AND THEREBY TO BUILD VALUE FOR ITS SHAREHOLDERS.

VECTREN IS COMPRISED OF FOUR STRATEGIC BUSINESS GROUPS. THE CORE OF OUR OPERATIONS IS OUR REGULATED BUSINESS SERVING APPROXIMATELY ONE MILLION CUSTOMERS. OUR THREE MAIN NON-REGULATED BUSINESS GROUPS BUILD ON THE STRONG UTILITY FOUNDATION, OUR CORE STRENGTHS AND OUR CUSTOMER RELATIONSHIPS.

VECTREN AT A GLANCE *BUSINESS STRATEGY*

	VECTREN CORPORATION	Become the leading regional provider of energy and related applied technology solutions to business, residential, and municipal customers. Continue to emphasize strong customer relations as a key to our success and continue to build on our strong utility foundation to help make our customers more productive, comfortable and secure.
*REGULATED OPERATIONS**	*ENERGY DELIVERY*	Strive to remain a safe, reliable, low-cost provider of energy to enhance customer relationships and serve as a foundation for providing additional products and services.
	POWER SUPPLY	Maintain our position as a low-cost, reliable producer of electric power.
NON-REGULATED OPERATIONS	*ENERGY SERVICES*	Build upon our customer relationships by enhancing the value of products and services provided.
	UTILITY SERVICES	Continue to optimize core strengths by expanding and improving services offered to electric, gas, water, and telecommunication utilities, as well as reducing costs to Vectren's Energy Delivery and Power Supply businesses.
	COMMUNICATIONS	Become the leading provider of bundled communications services that focus on last-mile delivery to residential and commercial customers in the Midwest. Continue to execute our strategy by investing with others in broadband, fiber-optic networks in the Tier 2 and Tier 3 markets and by optimizing the existing customer relationships between our other groups and their customers.
	OTHER BUSINESSES	Develop a complementary portfolio of investments that builds value for both customers and shareholders.

* *AT DECEMBER 31, 2000, REGULATED OPERATIONS WERE ORGANIZED AS GAS AND ELECTRIC. BEGINNING 2001, REGULATED OPERATIONS WERE REORGANIZED AS ENERGY DELIVERY AND POWER SUPPLY.*

BUSINESS – PRODUCTS / SERVICES	*SUBSIDIARY*	*VVC OWNERSHIP*
Energy and applied technology holding company headquartered in Evansville, IN.		
Provides natural gas and electric service to approximately one million customers in Indiana and west central Ohio.	Indiana Gas Co., Inc. Southern Indiana Gas and Electric Co. Vectren Energy Delivery of Ohio, Inc.	100% 100% 100%
Operates and maintains Vectren's six coal-fired electric generating and five peaking units in southwest Indiana, contracts for purchased power and sells power in the wholesale market.	Southern Indiana Gas and Electric Co.	100%
Gas Marketing – Provides gas marketing and fuel supply management to over 600 customers in twelve states across the Midwest, as well as market intelligence through disciplined trading.	ProLiance Energy, LLC SIGCORP Energy Services, LLC	50% 100%
Performance Contracting – Provides energy performance contracting and facility upgrades through its design and installation of energy-efficient equipment.	Energy Systems Group, LLC	67%
Underground Construction & Repair – Provides underground construction and repair, facilities locating, and meter reading.	Reliant Services, LLC	50%
Materials Distribution and Warehousing – Provides materials distribution, warehousing, and other supply-chain services.	CIGMA, LLC	50%
3rd Party Debt Collections – Provides debt collection services.	IEI Financial Services, LLC	100%
Coal Mining Operations – Provides low-cost production of coal.	Vectren Fuels, Inc.	100%
Broadband Communications Provider (BCP) – Invests in broadband communication services such as high-speed Internet, phone, cable TV, and data transfer to homes and businesses in Evansville and plans to offer similar services in Indianapolis, IN and Dayton, OH. Also assists municipal utilities in the implementation of broadband strategy.	Vectren Advanced Communications, Inc. Vectren Communications Services, Inc.	100% 100%
Investment in a portfolio of energy development projects in gas storage, gathering and processing, and fuel cells and other distributed generation projects.	Haddington Energy Partners, L.P.	
Investments in real estate, including structured finance and leveraged leases, as well as low income housing projects.	Southern Indiana Properties, Inc. Energy Realty, Inc.	
Investments in projects to develop coal-based synthetic fuels.	Pace Carbon Synfuels Investors, L.P.	
Investments in corporate information technology, including billing and financial reporting systems.	Vectren Resources, LLC	

VECTREN REGULATED UTILITY BUSINESS GROUP

OUR CORE BUSINESS IS OPERATING GAS AND ELECTRIC UTILITIES. WE DERIVED APPROXIMATELY 77% OF OUR 2000 EARNINGS BEFORE MERGER AND INTEGRATION COSTS FROM REGULATED OPERATIONS. THE SKILLS AND CUSTOMER RELATIONSHIPS ESTABLISHED IN OUR REGULATED OPERATIONS WILL HELP MAKE POSSIBLE THE LAUNCHING OF NEW VENTURES BY VECTREN IN THE NON-REGULATED AREA. OUR GOAL IS TO GROW REGULATED EARNINGS, ON AVERAGE, UP TO 4% ANNUALLY.

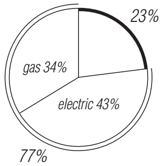
At the beginning of 2001, we aligned the operations of Indiana Gas Co., Inc. (“Indiana Gas”), Southern Indiana Gas and Electric Company, and the natural gas distribution assets of Dayton Power and Light into one business unit, Vectren Energy Delivery. We also aligned our electric generating facilities and our successful wholesale power marketing operations into Vectren Power Supply.

ANDY GOEBEL
President and
Chief Operating Officer of
Vectren Corporation

We expect that our utility customers in Indiana and Ohio and in our wholesale power marketing area will become familiar with the Vectren brand name, and, if we do our job well, will come to hold the same degree of trust in the new brand as in the old ones.

We are off to a good start. Survey data at the end of 2000 showed very high utility customer satisfaction levels. We expect to continue to improve customer service as we implement new technology. We will e-enable our customers, allowing them to pay bills and schedule service via the Vectren website. In Evansville we began a digital mapping program of our gas and electricity delivery system that, in combination with future automated data transmission to service trucks, will provide speedier and more accurate installations and repairs for our customers.

We achieved a near-record employee safety performance in 2000 and maintained our very high levels of system reliability. We had no service interruptions to our firm service customers due to power insufficiencies during high peak load periods. We are investing in new power generating capacity to keep our reserve margins at adequate levels and in environmental control technologies to maintain our commitment to good environmental stewardship.



2000 EARNINGS: $108.8 MILLION[1]
year end December 31

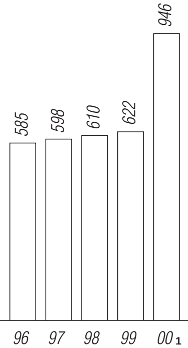
REGULATED NON-REGULATED

1 Before merger and integration costs.

EXPANDING OUR SCALE

Total utility revenues for 2000 were nearly $1.2 billion, exceeding the $1 billion mark in this our first year of operation as Vectren. Excluding acquisitions, we continued to grow our gas and electric customer base by about 2% per year, well above the national average for utility companies.

With the acquisition of the Ohio natural gas distribution assets of Dayton Power and Light we increased the scale of our gas utility operations significantly, adding 310,000 new residential, commercial, industrial, and government customers and 4,500 miles of gas pipelines. Vectren now owns nearly 19,000 miles of gas pipeline in the two states. At year end we had 946,000 gas customers in Indiana and Ohio, up from 622,000 in Indiana alone in 1999.

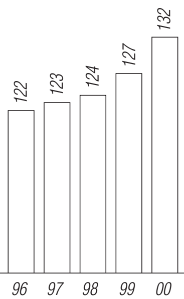


NATURAL GAS CUSTOMERS (in thousands)
year end December 31

1 Includes 310,000 Ohio operations customers. Internal growth at 2% annually.

Total gas throughput for the year, which included the Ohio operations for only November and December, increased to 181,000 MDth from 151,000 in 1999. Gas operating margins increased for the year to $266.2 million from $233.1 million the previous year, principally due to two months of Ohio operations and colder weather.

Electricity sales grew to 7,525,000 MWh in 2000 from 6,941,000 MWh in 1999. Electric operating margins grew to $228.8 million, up from $220.5 million the year before. Electric margins benefited in 2000 as a result of having competitively priced power reserves available during much of the year to sell in the wholesale power markets. The number of electric customers at year-end increased to 132,000 from 127,000 in 1999, including those resulting from our assumption of the operations of a municipal system in the area.



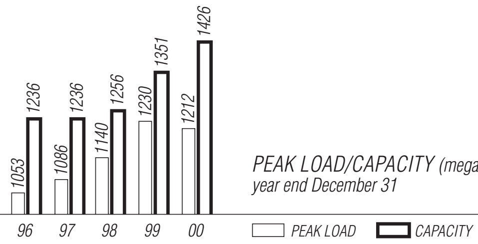
ELECTRIC CUSTOMERS (in thousands)
year end December 31

Our overall retail electric rates continue to be the lowest in the state of Indiana and approximately 33% below the national average. This is partially a direct result of our strategic initiatives over the years to procure our own coal reserves and mine the coal ourselves through Vectren's wholly-owned subsidiary, Vectren Fuels, Inc.

EXPANDING OUR POWER SUPPLY CAPACITY

While we have adequate generating capacity to meet our base demand for electricity during much of the year, demands on our system have been increasing over short-term periods in summer months.

As demand has increased we have maintained our reserve margin, beginning in 2000, through the purchase of a three-year wholesale supply contract. We currently have underway a project to install a new $35 million, 80-megawatt peaking unit that is expected to go into service in midyear 2002. We forecast the need for additional capacity in 2005, and plan to add another 80-megawatt peaking unit at that time. Through these actions we expect to maintain our reserve margin in the 15% range for the next 5 years, which we view as an adequate level to assure our ability to meet our customers' future power needs.



PEAK LOAD/CAPACITY (megawatts)
year end December 31

MAINTAINING ENVIRONMENTAL STEWARDSHIP

We strive to provide low cost and environmentally sound electric generation. Since 1995, we have had SO_2 scrubbers installed on 85% of our coal fired capacity, well exceeding comprehensive standards. In addition, we are participating in an updated State Implementation Plan (SIP) to reduce nitrogen oxide (NOx) emissions from power generating plants as part of an Environmental Protection Agency plan to reduce ozone throughout the U.S. We will be committing approximately $160 million in capital expenditures over four years, including about $40 million in 2001, to bring our plants into compliance with standards set for 2004.

Our coal burning plants already are low producers of NOx because of steps that we took in recent years to retrofit our plants with pollution control equipment. Previous expenditures of approximately $20 million already have cut our NOx emissions by 50%. The new program will install additional NOx reduction technology on our four largest electric generating units and will reduce our NOx emissions by 85% from 1990 levels.

VECTREN NON-REGULATED BUSINESS GROUP

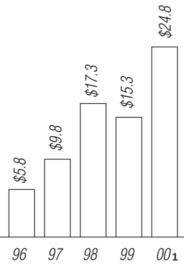
A WIDE RANGE OF BUSINESS OPPORTUNITIES IS OPENING FOR ENERGY COMPANIES. VECTREN HAS FORGED AN ENTREPRENEURIAL CULTURE THAT IS LEADING THE COMPANY INTO A NUMBER OF CAREFULLY SELECTED NEW VENTURES THAT CAPITALIZE ON OUR CORE STRENGTHS, NAMELY, OUR ABILITY TO OPERATE ELECTRIC AND GAS UTILITIES SUCCESSFULLY AND TO DELIVER A HIGH DEGREE OF SATISFACTION TO A LARGE NUMBER OF CUSTOMERS.

Independent surveys show that our retail customers are very receptive to receiving new services from Vectren, particularly in the area of communications. We now have begun to provide these communication services.

CARL CHAPMAN
Executive Vice President of Vectren Corporation and President of Vectren's Non-Regulated Group

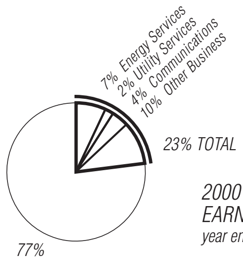
We also are offering a broad base of expertise developed within our regulated operations, including: gas marketing and fuel supply management; energy-efficient retrofitting services to businesses, schools, and hospitals; and underground construction, facilities locating, meter reading services, materials management, and debt collections to other utilities. We have succeeded in reaching out to our large, loyal customer base and have capitalized on our operating skills to build new sources of earnings and growth through non-regulated business initiatives.

At the end of 2000, Vectren's non-regulated businesses accounted for 23% of the company's net income before merger and integration costs. Our goal is to raise this contribution to 35% by 2005.



NON-REGULATED EARNINGS (in millions)
year end December 31

1 Before merger and integration costs of $5 million after tax.



2000 NON-REGULATED EARNINGS CONTRIBUTION: $24.8 MILLION[1]
year end December 31

REGULATED *NON-REGULATED*

1 Before merger and integration costs.

We have organized our investments into three primary groups, Energy Services, Utility Services and Communications. Several of these investments are joint ventures, where we join our skills and resources with those of other companies. Some, such as ProLiance Energy, LLC ("ProLiance"), now one of the Midwest's largest marketers of natural gas, were originally formed to maintain the energy price competitiveness of the utility operations of Vectren and our joint venture partner, Citizens Gas & Coke Utility ("Citizens Gas"), but have expanded into growth businesses in their own right.

BUILDING ENERGY SERVICES

Our Energy Services group utilizes a strong customer-focused, value-added strategy to provide gas marketing, fuel supply management, and energy performance contracting and facility upgrades through its design and installation of energy-efficient equipment. Within this group we have started a number of businesses that are thriving well beyond our initial expectations.

A good example of one non-regulated initiative is our gas marketing group, which includes ProLiance and SIGCORP Energy Services, LLC. The group increased throughput in 2000 to 327,000 MDth of natural gas, up from 287,000 MDth in 1999. In addition to supplying gas to our Energy Delivery group, it provides gas marketing and fuel supply management to over 600 customers, including large industrial firms and commercial and municipal entities in 12 states across the Midwest.

In September, the Indiana Supreme Court issued a decision affirming in all respects the 1997 finding of the IURC that the gas supply agreements between ProLiance and Indiana Gas and Citizens Gas are in the public interest. The removal of the uncertainty created by this legal challenge to ProLiance's formation should preserve the benefits of gas cost savings for our customers and Citizens Gas', which we estimate at more than $60 million since 1996. The decision should also enable ProLiance to continue to grow and pursue new business opportunities.

BUILDING UTILITY SERVICES

Our Utility Services group is a low cost provider of outsourcing services for electric, gas, water, and telecommunication utilities, including Vectren's Energy Delivery group. Those outsourced services include: underground construction, facilities locating, meter reading, warehousing and distribution of materials, and third party collections. In addition, the group provides Vectren's Power Supply group with a dependable, low cost source of coal from its mines in southwest Indiana.

In 2000, we opened the Prosperity Mine, a low sulfur underground coal mine in Indiana. When fully operational, it will deliver two million tons of coal per year for our generating units and for sale to other utility companies. Reliant, our largest company in this group, continues to grow by performing locating, meter reading, and trenching services at cost effective rates for gas, electric, water, and cable companies in Indiana, Ohio and Kentucky. Jointly owned by Vectren and Cinergy Corp., Reliant will grow substantially in 2001 as a result of the acquisition of Miller Pipeline.

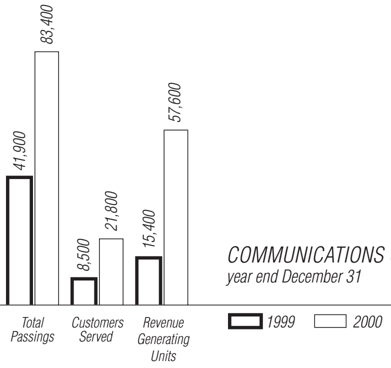
In addition to Reliant, this group includes the following entities: CIGMA, LLC, an equally owned strategic alliance with an affiliate of Citizens Gas; IEI Financial Services, LLC, a wholly owned subsidiary of Vectren; and Vectren Fuels, Inc., a wholly owned subsidiary of Vectren.

BUILDING BROADBAND COMMUNICATIONS NETWORKS

Our Communications group made major progress in 2000 in establishing and expanding our new voice, data and video services business. In partnership with Utilicom Networks, we completed the construction of 880 miles of fiber optic based cable network in the Evansville area in June 2000. At year end, the joint venture provided digital cable television, local and long distance telephone, and high speed Internet access to approximately 22,000 residential and commercial customers.

The network passes 83,000 residences and businesses, and already has achieved penetration levels in some services originally projected much farther into its future. Customers receive discounted pricing for subscribing to multiple services, and at year end the operation had over 57,000 Revenue Generating Units, averaging 2.5 services per residential customer and 2.1 services per commercial customer. We anticipate the existing business generating positive earnings before income taxes, depreciation and amortization in early 2001.

A major expansion of our communications business into Indianapolis and Dayton is currently being planned, with 3,400 miles of broadband network passing 350,000 homes and businesses in Indianapolis and 1,100 miles passing 120,000 residences and businesses in Dayton. A launch date of early 2002 is expected for these projects.



COMMUNICATIONS CUSTOMERS
year end December 31

OTHER BUSINESSES

In addition to the non-regulated business groups previously discussed, we have invested in a portfolio of energy development projects in gas storage, gathering and processing, and fuel cells and other distributed generation projects.

Another significant contribution is tax savings and credits realized from real estate, including structured finance and leveraged leases, as well as low income housing projects and projects to develop coal based synthetic fuels.

FINANCIAL OVERVIEW

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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. The common shareholders of SIGCORP received one and one-third shares of Vectren common stock for each SIGCORP common share and the common shareholders of Indiana Energy received one share of Vectren common stock for each Indiana Energy common share, resulting in the issuance of 61.3 million shares of Vectren common stock. The preferred stock and debt securities of Indiana Energy's and SIGCORP's utility subsidiaries were not affected by the merger.

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 (defined hereafter). VUHI's regulated subsidiaries serve approximately one million customers. Indiana Gas and its subsidiaries provide 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. Vectren's Ohio operations provide natural gas distribution and transportation services to Dayton, Ohio and 16 counties in west central Ohio.

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 provide corporate information technology.

ACQUISITION OF THE NATURAL GAS DISTRIBUTION ASSETS OF THE DAYTON POWER AND LIGHT COMPANY

On December 15, 1999, Indiana Energy, now Vectren, announced that the board of directors had approved a definitive agreement under which it would acquire the natural gas distribution assets of The Dayton Power and Light Company (DP&L), which would add 310,000 gas distribution customers in 16 counties in west central Ohio. On October 31, 2000, Vectren completed the approximate $465 million acquisition. Vectren acquired the natural gas distribution assets as a tenancy in common through two wholly owned subsidiaries. Vectren Energy Delivery of Ohio, Inc. (VEDO) holds a 53 percent undivided ownership interest in the assets and Indiana Gas holds a 47 percent undivided ownership interest in the assets. VEDO is the operator of the assets, operations of which are herein referred to as "the Ohio operations." VUHI established a $435 million commercial paper program to fund the majority of the acquisition. This facility was utilized at October 31, 2000, and will be replaced over time with permanent financing. VEDO's portion of the acquisition was funded with short-term borrowings from VUHI. Indiana Gas' portion of the acquisition was funded with a combination of short-term borrowings from VUHI and its commercial paper program.

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 will be used principally to repay outstanding commercial paper utilized for recent acquisitions.

RESULTS OF OPERATIONS

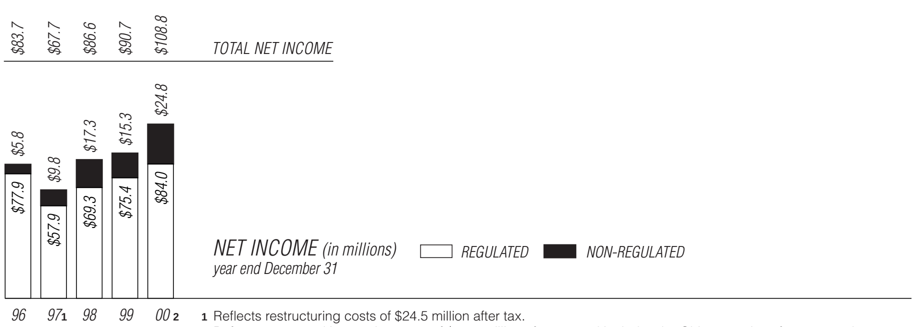
Vectren's consolidated earnings result from the operations of its utility subsidiaries, Indiana Gas, SIGECO and the Ohio operations, and from the non-utility operations and investments of Vectren's non-regulated businesses.

In millions except per share amounts	*2000* [1]	*1999*	*1998*
Net income before merger and integration costs:			
Regulated	$ 84.0	$ 75.4	$ 69.3
Non-regulated	24.8	15.3	17.3
Total	$108.8	$ 90.7	$ 86.6
Basic earnings per share:			
Regulated	$ 1.37	$ 1.23	$ 1.13
Non-regulated	.41	.25	.28
Total	$ 1.78	$ 1.48	$ 1.41

1 Before merger and integration costs of $52.5 million ($36.8 million after tax), or $.60 on a basic earnings per share basis.

NET INCOME

Consolidated net income was $72.0 million, or $1.18 on a basic earnings per share basis, for the year ended December 31, 2000. Consolidated net income before merger and integration costs of $52.5 million, including $11.4 million of additional depreciation included in depreciation and amortization (see merger and integration costs below), was $108.8 million, or $1.78 per share, for the year ended December 31, 2000, as compared to net income of $90.7 million, or $1.48 per share, and $86.6 million, or $1.41 per share, for 1999 and 1998, respectively. Vectren's 2000 results reflect two months of results of the Ohio operations.



1 Reflects restructuring costs of $24.5 million after tax.
2 Before merger and integration costs of $36.8 million after tax and includes the Ohio operations for two months.

DIVIDENDS

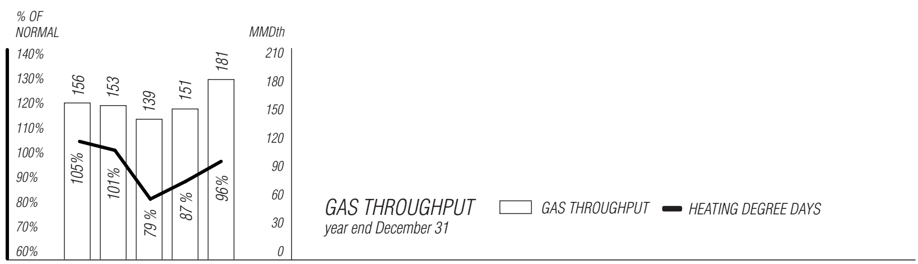
On October 28, 2000, Vectren's board of directors increased the quarterly dividend on common stock to 25.5 cents per share from 24.25 cents per share. This resulted in total dividends paid of 98 cents compared to 94 cents in 1999. In 1998, dividends paid totaled 90 cents per share.

1 Reflects restructuring costs of $.40 per share.
2 Before merger and integration costs of $.60 per share and includes the Ohio operations for two months.

UTILITY MARGIN (UTILITY OPERATING REVENUES LESS UTILITY COST OF GAS, COST OF FUEL FOR ELECTRIC GENERATION AND PURCHASED ELECTRIC ENERGY)

Vectren's utility gas margin increased $33.1 million to $266.2 million compared to the twelve-month period in 1999, $28.2 million of the increase reflected the inclusion of the Ohio operations' results for two months. The remaining $4.9 million, or 2 percent, increase attributable to Indiana Gas and SIGECO gas operations reflects 8 percent (11.9MMDth) greater throughput (combined sales and transportation) due to much colder temperatures during the fourth quarter of 2000 than the 1999 period and a 2 percent growth in customers. Residential and commercial sales rose 7 percent and 10 percent, respectively. Temperatures were 11 percent colder during the current twelve-month period and approached normal for the year. These favorable impacts on gas margin were partially offset by a $3.8 million disallowance of recoverable gas costs by the Indiana Utility Regulatory Commission (IURC), charged against gas revenues in December 2000 (see Rate and Regulatory Matters).

In 1999, gas utility margin was $233.1 million, as compared to $217.3 million for the prior year. The 1999 increase is primarily attributable to weather being 8 percent colder than the same period in 1998 and the addition of new residential and commercial customers.

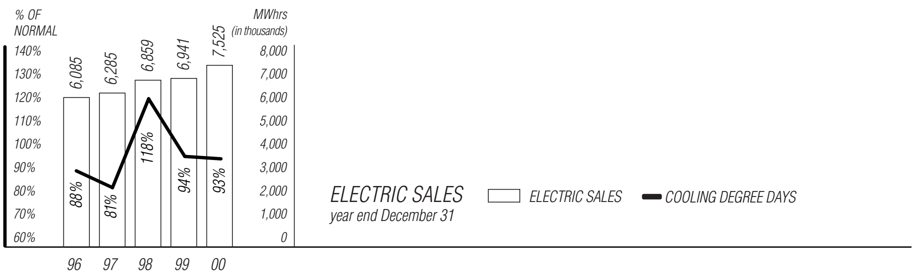


1 Throughput includes Ohio operations for two months.

Vectren's utilities' rates for gas transportation generally provide for the same margins as are earned on the sale of gas under their applicable sales tariffs. Approximately one-half of total gas system throughput represents gas used for space heating and is affected by weather.

Total cost of gas sold was $552.5 million in 2000, $266.4 million in 1999 and $270.0 million in 1998. Excluding $83.2 million related to the Ohio operations for two months, total cost of gas sold increased $202.9 million, or 76 percent, for the year ended December 31, 2000 compared to 1999, primarily due to significantly higher average per unit purchased gas costs. The total average cost per dekatherm of gas purchased by Indiana Gas and SIGECO was $5.77 in 2000 compared to $3.58 in 1999. The price changes are due primarily to changing commodity costs in the marketplace. Lower average per unit cost of gas sold during 1999 as compared to 1998 more than offset the impact of the increased throughput, causing the slight decline in 1999 cost of gas sold. Vectren's utility subsidiaries are generally allowed full recovery of such changes in purchased gas costs from their retail customers through commission-approved gas cost adjustment mechanisms (see Rate and Regulatory Matters).

Electric margin rose $8.3 million, or 4 percent, to $228.8 million for the twelve-month period in 2000 compared to the same period in 1999. Although unit prices were lower than in 1999, sales to the wholesale energy markets contributed $4.4 million of the margin increase with volumes up 39 percent for 2000 compared to 1999. Additionally, the impact of much colder temperatures on electric heating sales and a 5 percent growth in commercial customers contributed to the 2000 electric margin increase. Mild summer temperatures impacted both 2000 and 1999. Retail and firm wholesale electric sales for 2000 increased 2 percent and total electric sales increased 8 percent.



Electric utility margin for the year ended December 31, 1999 was $220.5 million, compared to $211.9 million for the prior year. The $8.6 million increase in margin reflects a 5 percent increase in retail and firm wholesale electric sales primarily due to stronger industrial and commercial sales and a $1.0 million increase in margin from sales to other wholesale customers. Although sales to other wholesale customers declined 17 percent in 1999 due to milder summer temperatures which eased demand in these markets, several new sales contracts produced higher average unit sales prices to these customers.

A 1 percent increase in electric generation and higher per unit coal costs resulted in a $4.9 million, or 7 percent, increase in fuel costs for electric generation for 2000 compared to the prior year. Fuel costs for electric generation increased $1.1 million, or 2 percent, in 1999.

Although SIGECO's sales of electric energy to other wholesale customers are provided primarily from otherwise unutilized capacity, SIGECO's purchases of electricity from other utilities for resale to other wholesale customers typically represent the majority of SIGECO's total purchased electric energy costs. The 39 percent increase in sales to other wholesale customers combined with higher average market prices caused purchased electric energy costs to increase $15.6 million, or 75 percent, for the year ended December 31, 2000 compared to 1999. During 1999, total purchases of electric energy declined 13 percent due to the 17 percent decline in sales to wholesale customers, however higher average market prices for energy purchased resulted in total costs remaining comparable to 1998 costs.

NON-UTILITY MARGIN (ENERGY SERVICES AND OTHER REVENUES LESS COST OF ENERGY SERVICES AND OTHER)
Total margin from Vectren's non-utility operations (primarily the operating companies of its Energy Services, Utility Services, and Communications groups) for the twelve month period in 2000 was $20.3 million compared to $13.7 million and $10.1 million for the same periods in 1999 and 1998, respectively. The $6.6 million increase in 2000 and $3.6 million increase in 1999 were primarily from the Energy Services group reflecting the continued growth of its natural gas marketing operations and its performance contracting and energy efficiency project operations, including several large government contracts in progress. Energy Services' margin increased $3.6 million and $3.7 million for 2000 and 1999, respectively. Expanded coal mining operations at Utility Services and additional municipal projects at Communications also contributed an additional $2.5 million to the rise in 2000 non-utility margin.

During 2000, the cost of energy services and other, which was chiefly the cost of natural gas purchased for resale by Energy Services and project contract costs at Energy Services and Communications, rose $225.7 million, or 91 percent, compared to 1999 due primarily to significantly higher per unit purchased gas costs and growth in gas sales at Energy Services, following $45.1 million higher costs in 1998.

OPERATING EXPENSES (EXCLUDING COST OF GAS SOLD, COST OF FUEL FOR ELECTRIC GENERATION, PURCHASED ELECTRIC ENERGY AND COST OF ENERGY SERVICES AND OTHER)
Excluding $7.1 million in expenses related to the Ohio operations, Vectren's other operating expenses increased $2.9 million, or less than 2 percent, for the year ended December 31, 2000, compared to the same period in 1999. The increase is attributable to higher operating expenses related to continued growth in operations at certain non-regulated subsidiaries, primarily Energy Services. Other operating expenses rose $7.8 million, or 4 percent, for 1999 as compared to 1998. This increase reflects greater other general operating expenses at Vectren's utility subsidiaries, including expenses associated with the new customer information and work management systems and rental expense related to buildings previously owned. Higher other operating expenses were also experienced at Energy Services and Communications due to the continuing growth in their operations.

Depreciation and amortization increased $18.7 million, or 21 percent, and $5.4 million, or 7 percent, for the years ended December 31, 2000 and December 31, 1999, respectively. The increase in 2000 expense is chiefly the result of additional depreciation related to merger integration activities (see below) and $1.7 million of depreciation of utility plant and amortization of goodwill related to the Ohio operations. Goodwill related to the acquisition of the Ohio operations of approximately $198 million is being amortized on a straight-line basis over a 40 year period. The remaining $5.6 million, or 6 percent, increase in expense over 1999 and the increase in expense over 1998 reflects depreciation of normal additions of utility plant at Indiana Gas and SIGECO.

Taxes other than income taxes rose $8.1 million, or 27 percent, during 2000 due to $7.1 million related to the Ohio operations, primarily Ohio excise tax, and increased $2.5 million, or 9 percent, in 1999 due to higher gross receipts and property tax expense.

MERGER AND INTEGRATION COSTS
Merger and integration costs incurred for the year ended December 31, 2000 totaled $41.1 million, including $1.8 million related to the integration of the Ohio operations. These costs relate primarily to transaction costs, severance, and other merger and integration activities such as signage and vehicle identification changes. 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.

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 $11.4 million for the year ended December 31, 2000.

In total, merger and integration costs were $52.5 million ($36.8 million after tax), or $.60 on a basic earnings per share basis, in 2000.

OTHER INCOME

Equity in earnings of unconsolidated investments increased $5.9 million for the year ended December 31, 2000, compared to the prior year. The increase in 2000 is due primarily to a $7.0 million pre-tax net gain related to the restructuring of Communications' investment in SIGECOM. The increase was partially offset by lower pre-tax earnings recognized from ProLiance Energy Services, LLC (ProLiance), Energy Services' energy marketing joint venture, and lower other investment earnings.

Equity in earnings of unconsolidated investments decreased $0.5 million for 1999, compared to 1998. The decrease in 1999 reflected lower pre-tax earnings recognized from ProLiance.

Other–net increased $8.0 million for the year ended December 31, 2000, compared to the prior year due primarily to increased interest income mainly from Vectren's investment in structured finance and investment transactions and increased capitalized interest on utility construction expenditures. SIGECO's final $1.4 million sale in 1998 of a portion of emission allowance credits to another utility under a five-year agreement was the primary reason Other-net declined $1.2 million in 1999.

INTEREST EXPENSE

Interest expense for the twelve-month period in 2000 rose $14.3 million, or 33 percent, compared to 1999. The increase was due primarily to increased working capital requirements resulting from extremely high natural gas prices, additional debt required for Vectren's increased financial investment activities, interest related to the financing of the acquisition of the Ohio operations, and to higher average interest rates on utility debt and short-term borrowings than incurred during 1999. Interest expense increased $2.5 million to $42.9 million for 1999, as compared to 1998, due to increased average debt outstanding required primarily to fund Vectren's increased financial investment activities and higher average interest rates on utility debt.

INCOME TAXES

Federal and state income taxes declined $11.5 million in 2000, compared to 1999 due primarily to $30.1 million lower pre-tax earnings and to additional tax benefits realized from certain non-regulated investments, which were partially offset by the non-deductibility of certain merger costs. Federal and state income taxes increased $3.4 million, or 8 percent during 1999 compared to 1998 due primarily to higher pre-tax income in 1999 and the favorable impact on the 1998 effective tax rate of the liquidation of a leveraged lease investment.

OTHER OPERATING MATTERS

ACQUISITION OF MILLER PIPELINE CORPORATION

On December 13, 2000, Reliant Services, LLC (Reliant), a 50 percent owned, non-regulated utility services affiliate of Vectren and Cinergy Corporation (Cinergy), purchased the common stock of Miller Pipeline Corporation from NiSource, Inc. for $68.3 million. Vectren and Cinergy each contributed $16 million of equity, and the remaining $36.3 million was funded with 7-year intermediate bank loans. Miller Pipeline Corporation is one of the nation's premier natural gas distribution contractors with over 50 years of experience in the construction industry, currently providing such services to Indiana Gas, among other customers. The acquisition will expand Vectren's utility services business by adding underground pipeline construction, replacement and repair to existing utility services.

ADDITIONAL INVESTMENT WITH UTILICOM NETWORKS

Vectren Advanced Communications (VAC), a wholly owned non-regulated subsidiary, was formed to hold Vectren's investments in Utilicom Networks, LLC (Utilicom Networks) and related entities. Utilicom Networks is a provider of bundled communications services through high capacity broadband networks, including high speed Internet service, cable television and telephone service.

In January 2000, VAC completed the restructuring of its investment in SIGECOM, LLC (SIGECOM), which is a venture between VAC and Utilicom Networks that provides communications services to the greater Evansville, Indiana area. On January 28, 2000, affiliates of The Blackstone Group, a private equity fund, invested in Class B units of Utilicom Networks. Concurrent with this investment, VAC exchanged its 49 percent preferred equity interest in SIGECOM for $16.5 million of convertible subordinated debt of Utilicom Networks, a Class A equity position in Utilicom Networks and an indirect common equity interest in SIGECOM. VAC has a 14 percent interest in SIGECOM. The debt is convertible into Class A units of Utilicom Networks at the option of VAC or upon the event of a public offering of stock by Utilicom Networks. The investment restructuring resulted in a pre-tax gain of $8 million, which is classified in equity in earnings in unconsolidated investments in the accompanying Consolidated Statements of Income. For the year ending December 31, 2000, Vectren also recognized losses of $1 million to reflect its share of Utilicom Networks' and SIGECOM's operating results. At December 31, 2000, VAC's equity investment in SIGECOM related entities was $8.2 million.

In December 2000, VAC invested an additional $8.1 million with Utilicom Networks in the form of convertible subordinated debt as part of Utilicom Networks' plans to raise $600 million in capital to establish operating ventures in Indianapolis, Indiana and Dayton, Ohio and to recapitalize the SIGECOM venture. Vectren is committed to invest up to $100 million, inclusive of the $8.1 million already invested, in the form of convertible subordinated debt, subject to Utilicom Networks obtaining all required funding. The debt is convertible into common equity interests in the Indianapolis and Dayton ventures at the option of VAC or upon the event of a public offering of stock by Utilicom Networks. At December 31, 2000, VAC's investment in convertible debt totals approximately $25 million and upon conversion, VAC would have up to a 31 percent interest in the Indianapolis and Dayton ventures and up to a 10 percent interest in Utilicom Networks, assuming completion of all required funding.

Both the Indianapolis and Dayton projects have received all necessary regulatory approvals and are in advanced stages of pre-engineering and pre-construction planning. Pole attachment rights have been secured, and launch dates of early 2002 are expected.

OPERATION OF WARRICK GENERATING STATION

On August 21, 2000, SIGECO announced that no later than April 18, 2001, ALCOA,INC. (ALCOA) would begin operating the Warrick Generating Station. In 1956, arrangements were made for SIGECO to operate the Warrick Generating Station as an agent for ALCOA. Three generating units at the plant are owned by ALCOA. SIGECO owns the fourth unit equally with ALCOA. The operating change will have no impact on SIGECO's generating capacity and is not expected to have any negative impact on Vectren's financial results. Additionally, SIGECO will retain ALCOA as a wholesale power and transmission services customer. Transition of the plant operations is expected to be completed in March 2001.

REALIGNMENT

Effective January 1, 2001, the utility operations were reorganized into two primary business units, Energy Delivery and Power Supply.

PROLIANCE ENERGY, LLC

ProLiance, a 50 percent 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. 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 and two other pricing terms, 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. The IURC has not yet established a schedule for conducting these additional proceedings. 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. However, 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. Pretax income of $5.4 million and $6.7 million was recognized as ProLiance's contribution to earnings for the years ended December 31, 2000 and 1999, respectively. Earnings recognized from ProLiance are included in equity in earnings of unconsolidated investments on the Consolidated Statements of Income. At December 31, 2000 and 1999, Vectren has reserved approximately $2.4 million and $1.7 million, respectively, of ProLiance's earnings after tax pending resolution of the remaining 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 percent 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, which requires 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). Midwestern states (the alliance) have been working together to determine the most appropriate compliance strategy as an alternative to the USEPA proposal. The alliance submitted its proposal, which calls for a smaller, phased in reduction of NOx levels, to the USEPA and the Indiana Department of Environmental Management (IDEM) in June 1998.

In July 1998, Indiana submitted its proposed plan to the USEPA in response to the USEPA's proposed new NOx rule and the emissions budget proposed for Indiana. The Indiana plan, which calls for a reduction of NOx emissions to a rate of 0.25 lb/mmBtu by 2003, is less stringent than the USEPA proposal but more stringent than the alliance proposal.

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.

During the second quarter of 1999, the USEPA lost two federal court challenges to key air-pollution control requirements. In the first ruling by the U.S. Circuit Court of Appeals for the District of Columbia on May 14, 1999, the Court struck down the USEPA's attempt to tighten the one-hour ozone standard to an eight-hour standard and the attempt to tighten the standard for particulate emissions, finding the actions unconstitutional. In the second ruling by the same Court on May 25, 1999, the Court placed an indefinite stay on the USEPA's attempts to reduce the allowed NOx emissions rate from levels required by the Clean Air Act Amendments of 1990. The USEPA appealed both court rulings. On October 29, 1999, the Court refused to reconsider its May 14, 1999 ruling.

On March 3, 2000, the D.C. Circuit 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 by no later than September 30, 1999. Numerous petitioners, including several states, have filed petitions for rehearing with the U.S. Court of Appeals for the District of Columbia in Michigan v. the USEPA. On June 22, 2000, the D.C. Circuit Court of Appeals denied petition for rehearing en banc and lifted its May 25, 1999 stay. Following this decision, on August 30, 2000, the D.C. Circuit Court of Appeals issued an extension of the SIP Call implementation deadline, previously May 1, 2003, 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. Circuit Court's March 3, 2000 Order. The Court has not yet ruled on the Petition for Certiorari. The USEPA granted Section 126 Petitions filed by northeastern states that require named sources in the eastern half of Indiana to achieve NOx reduction by May 1, 2003. No SIGECO facilities are named in the Section 126 Petitions filed by northeastern states, 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 percent 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 percent. 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.

Mercury Emissions. Under the Act, the USEPA is required to study emissions from power plants in order to determine if additional regulations are necessary to protect public health. The USEPA reported its study to Congress in February 1998. That study concluded that of all toxic pollution examined, mercury posed the greatest concern to public health. An earlier USEPA study concluded that the largest single source of human-caused mercury pollution in the United States was coal-fired power plants.

After completion of the study, the Act required the USEPA to determine whether to proceed with the development of regulations. The USEPA announced that it had affirmatively decided that mercury air emissions from power plants should be regulated.

On December 14, 2000, the USEPA released a statement announcing that reductions of mercury emissions from coal-fired plants will be required in the near future. The USEPA has indicated they will propose regulations by December 2003 and will begin developing those regulations shortly. Industry, the public, and state, local and tribal governments will have an opportunity to participate in the process. The USEPA will then issue final regulations by December 2004.

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 complying 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. Consequently, 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 plans to provide 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 (ROD) was issued by 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 (VRP) 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.

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.

Indiana Gas has recovered these estimated accrued costs from insurance carriers and other potentially responsible parties (PRPs). Indiana Gas has PRP agreements in place for 19 of the 26 sites, which serve to limit Indiana Gas' share of response costs at these 19 sites to between 20 and 50 percent. For these sites, Indiana Gas has accrued only its proportionate share of the estimated response costs.

With respect to insurance coverage, as of December 31, 2000, Indiana Gas has received and recorded settlements from all known insurance carriers in an aggregate amount of approximately $20.3 million.

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.

NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 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 utilizes gas storage facilities to ensure operational as well as price risk management of its forward positions. Minimal 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 are for 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.

Derivatives used in the power marketing operations are used to effectively manage the utilization of SIGECO's generation capability. These derivatives include forward physical wholesale sales and purchases. The forward sales contracts are generally used to sell the excess generation capacity of SIGECO when demand conditions warrant this activity. These contracts are for the normal purchase and sale of electricity and therefore do not require fair value accounting under SFAS 133. The forward purchase contracts are entered into as part of "buy-sell" transactions with other utilities and power marketers. These contracts are derivatives and do not qualify for hedge accounting, accordingly, they have been marked to market 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.

The interest rate swap is used to hedge the exposure to interest rate risk associated with VUHI's $150 million floating rate notes that bear interest at the three month US dollar LIBOR rate plus .75 percent that were issued on December 28, 2000. 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 each hedge 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 a gain of approximately $6.3 million due to the derivatives used in power marketing operations. The impact of the derivatives used by SES and the interest rate swap was immaterial.

RATE AND REGULATORY MATTERS

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 Indiana Office of Utility Consumer Counselor (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 significantly limited its exposure to unrecoverable purchased power costs.

Commodity prices for natural gas purchases during the last six months of 2000 unexpectedly increased significantly, primarily due to the expectation of a colder winter, which led to increased demand and tighter supplies. Vectren's utility subsidiaries are allowed full recovery of such charges in purchased gas costs from their retail customers through commission-approved gas cost adjustment mechanisms, and margin on gas sales should not be impacted. 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 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 have appealed this ruling. The Citizens Action Coalition of Indiana, Inc., a not for profit consumer advocate, has also filed with the IURC a petition to intervene and a notice of appeal of the order.

COMPETITION

The utility industry has been undergoing dramatic structural change for several years, resulting in increasing competitive pressures faced by electric and gas utility companies. Increased competition may create greater risks to the stability of utility earnings generally and may in the future reduce our earnings from retail electric and gas sales. Currently, several states, including Ohio, have passed legislation that allows electricity customers to choose their electricity supplier in a competitive electricity market and several other states are considering such legislation. At the present time, Indiana has not adopted such legislation. Ohio regulation provides for choice of commodity for all gas customers. Vectren plans to implement this choice for all of its gas customers in Ohio by 2002. Indiana has not adopted any regulation requiring gas choice except for large volume customers.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Vectren attempts to mitigate its exposure to interest rate fluctuations through management of its short-term borrowings and the use of interest rate hedging instruments. An internal guideline to manage short-term interest rate exposure has been established. This guideline targets a maximum of 25 percent of the company's total debt portfolio to consist of adjustable rate bonds with a maturity of less than one year, short-term notes and commercial paper. However, Vectren acknowledges that there may be times during the business cycle that the guideline may be exceeded. At December 31, 2000, Vectren's short-term debt, including adjustable rate bonds, represented 56 percent of the company's total debt portfolio, due primarily to financing the approximate $465 million acquisition of the Ohio operations initially with short-term debt and the increased working capital requirements resulting from higher purchased gas costs and increased customer consumption. The short-term debt utilized for the Ohio operations acquisition will be replaced over time with permanent financing (see Liquidity and Capital Resources).

ProLiance engages in energy hedging activities to manage pricing decisions, minimize the risk of price volatility, and minimize price risk exposure in the energy markets. ProLiance's market exposure arises from storage inventory, imbalances and fixed-price purchase and sale commitments, which are entered into to support ProLiance's operating activities. Currently, ProLiance buys and sells physical commodities and utilizes financial instruments to hedge its market exposure. However, net open positions in terms of price, volume and specified delivery point do occur. ProLiance manages open positions with policies which limit its exposure to market risk and require reporting potential financial exposure to its management and its members. As a result of ProLiance's risk management policies, Vectren does not believe that ProLiance's exposure to market risk will result in material earnings or cash flow loss to the company.

SES utilizes forward physical contracts for both the purchase and sale of natural gas to its customers, primarily through "back-to-back" transactions where the sale and purchase prices of natural gas are concurrently set. Management believes that exposure from these positions is not material. SES sells fixed-price and capped-price products and reduces its market price risk through the use of fixed-price supplier contracts and storage assets.

SIGECO utilizes contracts for the forward sale of electricity to effectively manage the utilization of its available generating capability. Such contracts include forward physical contracts for wholesale sales of its generating capability during periods when SIGECO's available generating capability is expected to exceed the demands of its retail, or native load, customers. To minimize the risk related to these forward contracts, SIGECO may utilize call option contracts to hedge against the unexpected loss of its generating capability during periods of heavy demand.

SIGECO also utilizes forward physical contracts for the wholesale purchase of generating capability to resell to other utilities and power marketers through non-firm "buy-resell" transactions where the sale and purchase prices of power are concurrently set. These forward physical contracts expose SIGECO to electricity market price risk.

With respect to the provision of electric energy and natural gas to its retail customers in Indiana, SIGECO is permitted by statute to pass through its purchase costs to its customers. Regarding electric energy, this ability to pass through all costs is arguably limited to the fuel cost component of electric energy purchases and does not encompass demand costs. After issuance in 1999 of a generic order by the IURC regarding the recoverability of the cost of purchased electric power which resulted in appeals by certain parties, SIGECO and several other Indiana electric utilities entered into a settlement with the OUCC which sets a benchmark for the recoverability of such costs and provides assurance that regardless of the market cost of power during outage situations, SIGECO will be able to recoup the majority of its costs. The IURC approved the settlement in 1999 and thereby vacated its prior order and all litigation regarding the issue was terminated. This settlement has been extended through March 2002.

Vectren is also exposed to counterparty credit risk when a supplier defaults upon a contract to pay or deliver the commodity. To mitigate risk, procedures to determine and monitor the creditworthiness of counterparties have been established.

At December 31, 2000, Vectren was not engaged in other contracts which would cause exposure to the risk of material earnings or cash flow loss due to changes in market commodity prices, foreign currency exchange rates, or interest rates.

LIQUIDITY AND CAPITAL RESOURCES

Vectren's capitalization objective is 40 – 50 percent 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 common equity component was

51 percent and 56 percent of its total capitalization, including current maturities of long-term debt, at December 31, 2000 and 1999, respectively. The common equity component of 51 percent at December 31, 2000 is expected to be reduced in 2001 upon the refinancing of a substantial amount of short-term debt to long-term debt.

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. Additionally, during the four-year period 2001 through 2004, construction costs for NOx emissions control equipment are estimated to total approximately $160 million. For the years ended December 31, 2000 and 1999, capital expenditures totaled $164.3 million and $132.2 million, respectively. The increase in capital expenditures for 2000 is related primarily to the additional coal mine development costs at Utility Services. Vectren's anticipated investments in non-regulated affiliates during the next five years will also require funding. Capital expenditures and investments in affiliates for the five-year period 2001 – 2005 are as follows:

In millions	*2001*	*2002*	*2003*	*2004*	*2005*	*Total*
Capital expenditures						
Utility [1 2 3]	$160.3	$143.3	$143.1	$122.8	$135.5	$705.0
Non-regulated [4]	66.0	23.4	27.1	11.0	7.6	135.1
Total capital expenditures	$226.3	$166.7	$170.2	$133.8	$143.1	$840.1
Non-regulated investments	$ 83.5	$ 39.2	$ 33.3	$ 17.9	$ 11.0	$184.9

1 Includes expenditures for NOx compliance of approximately $40 million in 2001, $30 million in 2002, $55 million in 2003 and $35 million in 2004.
2 Includes expenditures for an 80-megawatt gas combustion turbine generator of $20 million in 2001 and $13 million in 2002.
3 Includes expenditures for additional generation assets of approximately $40 million in 2005.
4 Includes expenditures for corporate technology hardware and software of approximately $48 million in 2001.

During the five year period 2001 - 2005, maturities and sinking fund requirements on long-term debt subject to mandatory redemption, in millions, are $0.3 in 2001, $16.0 in 2003, $15.0 in 2004, and $38.0 in 2005.

At December 31, 2000, Vectren had $969 million of short-term borrowing capacity for use in its utility and non-regulated operations, of which approximately $209 million was available.

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. During 2000, however, short-term borrowings related to working capital requirements were greatest during the last six months of the year due to the higher natural gas costs. On October 31, 2000, Vectren completed the acquisition of the Ohio operations 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.

Vectren's primary source of liquidity to fund working capital requirements has been cash generated from operations, which totaled approximately $40.7 million, $149.2 million and $156.6 million in 2000, 1999 and 1998 respectively. Cash from operations decreased during 2000 as compared to 1999 by approximately $108.8 million. The decrease is primarily attributable to merger and integration costs causing lower net income, increased recoverable fuel and natural gas costs and increased working capital requirements resulting from higher natural gas costs. The decrease in 1999 cash flow from operations as compared to 1998 of approximately

$7.4 million is primarily attributable to unfavorable changes in working capital accounts offset by increased net income.

At December 31, 2000, Indiana Gas is 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. A waiver on the Indiana Gas facility has been obtained to waive the non-compliance through and including March 31, 2001. Subject to regulatory approval, Vectren will provide an equity investment in Indiana Gas to bring Indiana Gas into compliance. No amount is outstanding under the back up facility.

On December 21, 2000, Vectren Capital Corporation, a wholly owned subsidiary that provides financing for Vectren's non-regulated subsidiaries' operations and investments, issued $78 million of private placement intermediate term notes to three institutional investors. The issues and their terms are: $38.0 million, due December 21, 2005, at 7.67 percent; $17.5 million, due December 21, 2007, at 7.83 percent; and $22.5 million, due December 21, 2010, at 7.98 percent. The proceeds were used to repay outstanding short-term borrowings.

In December 2000, Indiana Gas filed a prospectus with the SEC with respect to the issuance of $70 million in debt securities. On December 28, 2000, $20 million of 15-Year Insured Quarterly (IQ) Notes bearing interest at a rate of 7.15 percent per year and $50 million of 30-Year IQ Notes bearing interest at a rate of 7.45 percent per year were issued. The 15-Year IQ Notes will mature on December 15, 2015, and 30-Year IQ Notes will mature on December 16, 2030, unless, in each case, redeemed prior to that date. Indiana Gas will have the option to redeem the 15-Year IQ Notes, in whole or in part, from time to time on or after December 15, 2004. Indiana Gas will have the option to redeem the 30-Year IQ Notes in whole or in part, from time to time on or after December 15, 2005. The net proceeds of the debt issuance were used to repay outstanding commercial paper.

On December 28, 2000, VUHI issued $150 million in floating rate notes to repay an equal amount of outstanding commercial paper utilized for the Ohio operations acquisition. The notes bear interest at a rate equal to the three month US dollar LIBOR rate plus .75 percent. Concurrently with the completion of this financing, a floating rate to fixed rate swap was executed which in effect resulted in a fixed rate of 6.64 percent on the notes.

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 will be used principally to repay outstanding commercial paper utilized for recent acquisitions.

On March 1, 2000, the interest rate on $31.5 million of Adjustable Rate Pollution Control Bonds of SIGECO, due March 1, 2025, was changed from 3.00 percent to 4.30 percent. The new interest rate was fixed through February 29, 2001. Also on March 1, 2000, the interest rate on $22.2 million of Adjustable Rate Pollution Control Bonds of SIGECO, due March 1, 2020, was changed from 3.05 percent to 4.45 percent. The new interest rate was also fixed through February 29, 2001. For financial statement presentation, the $53.7 million of Adjustable Rate Pollution Control Bonds are shown as a current liability. The two series of bonds will be re-set for a five-year period effective March 1, 2001.

FINANCING ACTIVITIES

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

Indiana Gas' and SIGECO's credit ratings on outstanding debt at December 31, 2000 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.

Cash flow from financing activities of $638.7 million for the year ended December 31, 2000 includes $697.0 million of additional net borrowings offset by $60.0 million of dividends on shares of common stock. This is an increase of $576.5 million over prior year due primarily to funding the acquisition of the Ohio operations and increased working capital requirements.

Cash required for investing activities of $681.5 million for the year ended December 31, 2000 includes, among other things, $463.3 million required for the Ohio operations acquisition, $164.3 million of capital expenditures and $32.0 million additional notes receivable. This is an increase of $480.1 million over prior year due primarily to the Ohio operations acquisition.

FORWARD-LOOKING INFORMATION

A "safe harbor" for forwarding-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:

> *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.*

> *Increased competition in the energy environment including effects of industry restructuring and unbundling.*

> *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.*

> *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.*

> *Economic conditions including inflation rates and monetary fluctuations.*

> *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.*

> *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.*

> *Employee workforce factors including changes in key executives, collective bargaining agreements with union employees, or work stoppages.*

> *Legal and regulatory delays and other obstacles associated with mergers, acquisitions, and investments in joint ventures.*

> *Costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters, including, but not limited to, those described in the Other Operating Matters section of Management's Discussion and Analysis of Results of Operations and Financial Condition.*

> *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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Vectren Corporation is responsible for the preparation of the consolidated financial statements and the related financial data contained in this report. The financial statements are prepared in conformity with accounting principles generally accepted in the United States and follow accounting policies and principles applicable to regulated public utilities.

The integrity and objectivity of the data in this report, including required estimates and judgments, are the responsibility of management. Management maintains a system of internal control and utilizes an internal auditing program to provide reasonable assurance of compliance with company policies and procedures and the safeguard of assets.

The board of directors pursues its responsibility for these financial statements through its audit committee, which meets periodically with management, the internal auditors and the independent auditors, to assure that each is carrying out its responsibilities. Both the internal auditors and the independent auditors meet with the audit committee of Vectren Corporation's board of directors, with and without management representatives present, to discuss the scope and results of their audits, their comments on the adequacy of internal accounting control and the quality of financial reporting.

Niel C. Ellerbrook

Chairman and Chief Executive Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of Vectren Corporation:

We have audited the accompanying consolidated balance sheets of Vectren Corporation (an Indiana corporation) and subsidiary companies as of December 31, 2000 and 1999, and the related consolidated statements of income, common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vectren Corporation and subsidiary companies as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Indianapolis, Indiana,
January 24, 2001 (except with respect
to the matter discussed in Note 22,
as to which the date is February 14, 2001).

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
In thousands	*2000*	*1999*
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 15,170	$ 17,351
Temporary investments	-	903
Accounts receivable, less reserves of $5,716 and $3,949, respectively	295,351	123,612
Accrued unbilled revenues	143,365	55,370
Inventories	95,245	58,863
Prepaid gas delivery service	34,849	20,937
Recoverable fuel and natural gas costs	96,084	5,585
Prepayments and other current assets	20,998	23,091
Total current assets	701,062	305,712
Utility Plant:		
Original cost	2,788,794	2,367,831
Less: accumulated depreciation and amortization	1,233,033	1,031,498
Net utility plant	1,555,761	1,336,333
Other Investments:		
Investments in leveraged leases	93,145	85,737
Investments in partnerships and other corporations	108,645	74,644
Notes receivable	64,276	32,271
Other	1,057	996
Total other investments	267,123	193,648
Nonutility property, net of accumulated depreciation	103,477	64,474
Other Assets:		
Deferred charges, net	31,094	31,672
Goodwill, net	197,977	-
Regulatory assets	52,246	47,593
Other	447	1,035
Total other assets	281,764	80,300
TOTAL ASSETS	$2,909,187	$1,980,467

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

	As of December 31,	
In thousands	*2000*	*1999*
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of adjustable rate bonds subject to tender	$ 53,700	$ 53,700
Current maturities of long-term debt and other obligations	249	776
Short-term borrowings	759,908	207,638
Accounts payable	304,021	95,827
Refunds to customers and customer deposits	22,922	27,396
Accrued taxes	556	26,602
Accrued interest	10,272	12,097
Other current liabilities	70,750	49,467
Total current liabilities	1,222,378	473,503
Deferred Credits and Other Liabilities:		
Deferred income taxes	229,911	215,520
Accrued postretirement benefits other than pensions	45,883	40,942
Unamortized investment tax credit	23,165	25,524
Other	5,826	8,297
Total deferred credits and other liabilities	304,785	290,283
Commitments and Contingencies (Notes 6, 7, 15, 17, 18, and 19)		
Minority Interest in Subsidiary	1,421	916
Long-term debt and other obligations, net of current maturities	631,954	486,726
Preferred stock of subsidiary:		
Redeemable	8,076	8,192
Nonredeemable	8,889	11,090
Total preferred stock	16,965	19,282
Common stock (no par value) – issued and outstanding 61,419 and 61,305, respectively	217,720	215,917
Retained earnings	506,462	493,918
Accumulated other comprehensive income	7,502	(78)
Total common shareholders' equity	731,684	709,757
Total capitalization	1,380,603	1,215,765
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,909,187	$1,980,467

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

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
In thousands, except per share amounts	*2000*	*1999*	*1998*
OPERATING REVENUES:			
Gas utility	$ 818,753	$ 499,573	$ 487,260
Electric utility	336,409	307,569	297,865
Energy services and other	493,528	261,275	212,581
Total operating revenues	1,648,690	1,068,417	997,706
OPERATING EXPENSES:			
Cost of gas sold	552,540	266,429	269,999
Fuel for electric generation	71,170	66,305	65,222
Purchased electric energy	36,394	20,791	20,762
Cost of energy services and other	473,258	247,590	202,441
Other operating	199,591	189,622	181,818
Merger and integration costs	41,145	-	-
Depreciation and amortization	105,661	86,998	81,558
Taxes other than income taxes	38,010	29,910	27,369
Total operating expenses	1,517,769	907,645	849,169
OPERATING INCOME	130,921	160,772	148,537
OTHER INCOME:			
Equity in earnings of unconsolidated investments	17,554	11,642	12,104
Other – net	16,951	8,902	10,105
Total other income	34,505	20,544	22,209
Interest Expense	57,133	42,862	40,301
INCOME BEFORE PREFERRED DIVIDENDS AND INCOME TAXES	108,293	138,454	130,445
Preferred dividend requirement of subsidiary	1,017	1,078	1,095
INCOME BEFORE INCOME TAXES	107,276	137,376	129,350
Income taxes	34,232	45,708	42,328
NET INCOME BEFORE MINORITY INTEREST	73,044	91,668	87,022
Minority interest in subsidiary	1,004	920	422
NET INCOME	$ 72,040	$ 90,748	$ 86,600
AVERAGE COMMON SHARES OUTSTANDING	61,297	61,306	61,578
DILUTED COMMON SHARES OUTSTANDING	61,380	61,430	61,756
BASIC EARNINGS PER AVERAGE SHARE OF COMMON STOCK	$1.18	$1.48	$1.41
DILUTED EARNINGS PER AVERAGE SHARE OF COMMON STOCK	$1.17	$1.48	$1.40

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year Ended December 31,	
In thousands	*2000*	*1999*	*1998*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 72,040	$ 90,748	$ 86,600
Adjustments to reconcile net income to cash provided from operating activities:			
Depreciation and amortization	105,661	86,998	81,558
Preferred dividend requirement of subsidiary	1,017	1,078	1,095
Deferred income taxes and investment tax credits	12,032	8,548	(1,644)
(Gain) loss on sale or retirement of assets or investments	(8,961)	-	(2,102)
Undistributed earnings of unconsolidated investments	(10,554)	(11,642)	(12,104)
Changes in assets and liabilities:			
Receivables – net	(246,771)	(19,978)	18,052
Inventories	17,817	7,823	(30,110)
Prepaid gas delivery service	(13,912)	(20,937)	17,024
Recoverable fuel and natural gas costs	(82,343)	346	3,198
Prepayments and other current assets	7,553	(7,805)	(8,242)
Regulatory assets	(4,653)	1,718	(3,494)
Accounts payable, refunds to customers, customer deposits and other current liabilities	217,122	1,514	7,208
Accrued taxes and interest	(27,871)	13,585	(9,522)
Accrued post-retirement benefits and other than pensions	4,941	3,455	2,472
Other – net	(2,411)	(6,226)	6,598
Total adjustments	(31,333)	58,477	69,987
Net cash flows from operating activities	40,707	149,225	156,587
CASH FLOWS (REQUIRED FOR) FROM FINANCING ACTIVITIES			
Issuance (retirement) of common stock	1,803	(1,349)	(6,075)
Retirement of preferred stock	(2,317)	(116)	(116)
Proceeds from long-term debt	178,000	110,000	60,052
Retirement of long-term debt and other obligations	(33,299)	(67,067)	(50,828)
Net change in short-term borrowings	552,270	81,655	12,253
Dividends on common stock	(59,977)	(57,365)	(55,727)
Other	2,175	(3,614)	(675)
Net cash flows (required for) from financing activities	638,655	62,144	(41,116)
CASH FLOWS (REQUIRED FOR) FROM INVESTING ACTIVITIES			
Capital expenditures	(164,266)	(132,159)	(135,069)
Investment in leveraged leases	(850)	(49,734)	5,194
Investments in partnerships and other corporations	(29,446)	(10,711)	(11,512)
Change in notes receivable	(32,005)	(11,899)	1,032
Cash distributions from unconsolidated investments	7,033	4,550	7,806
Proceeds from sale of assets	-	-	13,317
Acquisition of DPL gas distribution assets	(463,301)	-	-
Other	1,292	(1,456)	3,074
Net cash flows (required for) from investing activities	(681,543)	(201,409)	(116,158)
Net increase (decrease) in cash and cash equivalents	(2,181)	9,960	(687)
Cash and cash equivalents at beginning of period	17,351	7,391	8,078
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 15,170	$ 17,351	$ 7,391

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

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

	Common Stock				Accumulated	
In thousands	*Shares*	*Amount*	*Restricted Stock Grants*	*Retained Earnings*	*Accumulated Other Comprehensive Income (Loss)*	*Total*
Balance at December 31, 1997	61,621	$225,049	$ (1,708)	$430,248	$ 77	$653,666
Net income				86,600		86,600
Other comprehensive income adjustments (net of tax)					(89)	(89)
Common stock dividends ($0.90 per share)				(55,727)		(55,727)
Common stock repurchases	(215)	(4,834)				(4,834)
Common stock issuances for Executives' and Directors' stock plans, net of amortization	14	(1,572)	331			(1,241)
Common stock issuance expense				(33)		(33)
Other				(428)		(428)
Balance at December 31, 1998	61,420	$218,643	$ (1,377)	$460,660	$ (12)	$677,914
Net income				90,748		90,748
Other comprehensive income adjustments (net of tax)					(66)	(66)
Common stock dividends ($0.94 per share)				(57,365)		(57,365)
Common stock repurchases	(113)	(2,331)				(2,331)
Common stock issuances for Executives' and Directors' stock plans, net of amortization	(2)	1,150	(168)			982
Other				(125)		(125)
Balance at December 31, 1999	61,305	$217,462	$ (1,545)	$493,918	$ (78)	$709,757
Net income				72,040		72,040
Other comprehensive income adjustments (net of tax)					7,580	7,580
Common stock dividends ($0.98 per share)				(59,977)		(59,977)
Common stock repurchases	(86)	(2,176)				(2,176)
Common stock issuances for Executives' and Directors' stock plans, net of amortization	200	3,979				3,979
Other				481		481
Balance at December 31, 2000	61,419	$219,265	$ (1,545)	$506,462	$ 7,502	$731,684

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999

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. The common shareholders of SIGCORP received one and one-third shares of Vectren common stock for each SIGCORP common share and the common shareholders of Indiana Energy received one share of Vectren common stock for each Indiana Energy common share, resulting in the issuance of 61.3 million shares of Vectren common stock. The preferred stock and debt securities of Indiana Energy's and SIGCORP's utility subsidiaries were not affected by the merger.

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 (defined hereafter). Indiana Gas and its subsidiaries provide 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 provide natural gas distribution and transportation services to Dayton, Ohio and 16 counties in west central Ohio.

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 provide corporate information technology.

2. ACQUISITION OF THE NATURAL GAS DISTRIBUTION ASSETS OF THE DAYTON POWER AND LIGHT COMPANY
On October 31, 2000, Vectren acquired the natural gas distribution assets of The Dayton Power and Light Company (DP&L) for approximately $465 million. The acquisition has been accounted for as a purchase transaction in accordance with Accounting Principles Board (APB) Opinion No. 16 and accordingly, the results of operations of the acquired businesses are included in the accompanying financial statements since the date of acquisition.

Vectren acquired the natural gas distribution assets as a tenancy in common through two separate wholly owned subsidiaries. Vectren Energy Delivery of Ohio, Inc. (VEDO) holds a 53 percent undivided ownership interest in the assets and Indiana Gas holds a 47 percent undivided ownership interest. VEDO is the operator of the assets, operations of which are referred to as "the Ohio operations." VUHI established a $435 million commercial paper program to fund the majority of the acquisition. This facility was utilized at October 31, 2000 and will be replaced over time with permanent financing. VEDO's portion of the acquisition was funded with short-term borrowings from VUHI. Indiana Gas' portion of the acquisition was funded with a combination of short-term borrowings from VUHI and its commercial paper program.

Goodwill has been recognized for the amount of the excess of the purchase price paid over the book value of the net assets acquired and is being amortized on a straight line basis over 40 years. Goodwill recognized as a result of the acquisition is $198 million. The purchase price is subject to adjustment based on the finalization of the closing balance sheet in accordance with the Asset Purchase Agreement.

The following table depicts, for the years ended December 31, 2000 and 1999, unaudited pro forma consolidated information, as if the acquisition of the Ohio operations occurred on January 1, 1999. The pro forma summary information presented below is not necessarily indicative of the results that actually would have occurred if the transaction indicated above had been consummated at the beginning of the periods presented and is not intended to be a projection of future results.

UNAUDITED		*Year Ended December 31,*
In thousands, except per share amounts	*2000*	*1999*
Total operating revenues	$1,831,136	$1,287,283
Net income	$ 72,007	$ 87,402
Average shares outstanding:		
Basic	61,297	61,306
Diluted	61,380	61,430
Earnings per average share of common stock:		
Basic	$1.17	$1.43
Diluted	$1.17	$1.42

3. MERGER AND INTEGRATION COSTS

Merger and integration costs incurred for the year ended December 31, 2000 totaled $41.1 million, including $1.8 million related to the integration of the Ohio operations. These costs relate primarily to transaction costs, severance and other merger and integration activities such as signage and vehicle identification changes. At March 31, 2000, Vectren accrued $27.2 million for merger related costs and the accrual remaining for such costs at December 31, 2000 is $1.8 million. In addition, during 2000, $13.9 million of merger and integration costs were charged directly to expense. The merger integration activities will be substantially completed in 2001.

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 $11.4 million for the year ended December 31, 2000.

4. INDIANA ENERGY AND SIGCORP RESULTS (PRIOR TO THE COMBINATION)

The results of the predecessor companies, Indiana Energy and SIGCORP, for the three months ended March 31, 2000 and for the years ended December 31, 1999 and 1998 are as follows :

In millions	*Three Months Ended March 31, 2000*	*Twelve Months Ended December 31, 1999*	*Twelve Months Ended December 31, 1998*
INDIANA ENERGY:			
Operating Revenues	$172.0	$433.3	$440.6
Net Income	$ 22.1	$ 38.7	$ 36.1
SIGCORP:			
Operating Revenues	$187.4	$604.5	$557.1
Net Income	$ 19.3	$ 52.1	$ 50.5

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements for the years ended December 31, 1999 and 1998 of Vectren and its subsidiary companies reflect the company on a historical basis as restated for the effects of the pooling-of-interests transaction completed on March 31, 2000 between Indiana Energy and SIGCORP. The consolidated financial statements include the accounts of Vectren and its wholly owned and majority owned subsidiaries, after elimination of intercompany transactions. Investments in limited partnerships and less than majority-owned affiliates are accounted for on the equity method. The financial statements also reflect the consolidation of a majority-owned affiliate, Energy Systems Group, LLC, which was an equity method investment of Indiana Energy and SIGCORP prior to the merger.

B. INVESTMENTS IN PARTNERSHIPS AND OTHER CORPORATIONS

Investments in partnerships and other corporations, which are more than 20 percent owned but less than majority owned, are accounted for by the equity method. Vectren's share of net income or loss from these investments is recorded in equity in earnings of unconsolidated affiliates. Dividends are recorded as a reduction of the carrying value of the investment when received.

Investments in other corporations less than 20 percent owned are carried at cost less writedowns for declines in value judged to be other than temporary. Dividends are recorded as other income when received.

C. RECLASSIFICATIONS

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications have no impact on net income previously reported.

D. UTILITY PLANT AND DEPRECIATION

Utility plant is stated at historical cost, including an allowance for the cost of funds used during construction. Depreciation of utility property is provided using the straight-line method over the estimated service lives of the depreciable assets.

The average depreciation rates, expressed as a percentage of original cost, were 3.5 percent, 3.7 percent and 3.8 percent for the years ended December 31, 2000, 1999 and 1998, respectively.

Vectren follows the practice of charging maintenance and repairs, including the cost of removal of minor items of property, to expense as incurred. When property that represents a retirement unit is replaced or removed, the cost of such property is credited to utility plant, and such cost, together with the cost of removal less salvage, is charged to accumulated depreciation.

E. NONUTILITY PLANT

Nonutility plant consists of property and equipment used by Vectren's non-regulated operations. Costs of nonutility plant are charged against income over their estimated useful lives, using the straight-line method of depreciation. Repairs and maintenance, which are not considered betterments and do no extend the useful life of nonutility plant, are charged to expense as incurred. When nonutility plant is retired, or otherwise disposed of, the asset and accumulated depreciation are removed and the resulting gain or loss is reflected in income.

F. CASH FLOW INFORMATION

For purposes of the Consolidated Statements of Cash Flows, Vectren considers cash investments with an original maturity of three months or less to be cash equivalents. Cash paid during the periods reported for interest, income taxes and acquired assets and liabilities were as follows:

	Year Ended December 31,		
In thousands	*2000*	*1999*	*1998*
Cash paid during the year for			
Interest (net of amount capitalized)	$ 55,734	$ 34,826	$ 35,798
Income taxes	53,450	36,909	53,311
Details of acquisition (Note 2)			
Book value of assets acquired	$278,080	-	-
Liabilities assumed	7,881	-	-
Net assets acquired	$270,199	-	-

G. REVENUES

Revenues are recorded as products and services are delivered to customers. To more closely match revenues and expenses, Vectren's utility subsidiaries record revenues for all gas and electricity delivered to customers but not billed at the end of the accounting period.

H. INVENTORIES

Inventories primarily consist of gas in underground storage, fuel for electric generation and materials and supplies. Gas in underground storage at SIGECO and Indiana Gas is valued using last-in, first-out (LIFO) method, while all other inventories, including the acquired inventories of the Ohio operations, are valued using the average cost method. Based on the average cost of gas purchased during December, the cost of replacing the current portion of gas in underground storage exceeded LIFO cost at December 31, 2000 and 1999 by approximately $64.3 million and $23.2 million, respectively. Inventories consist of the following:

	At December 31,	
In thousands	*2000*	*1999*
Fuel (coal and oil) for electric generation	$ 4,368	$12,824
Materials and supplies	16,958	15,224
Emission allowances	3,860	4,437
Gas in storage – at LIFO cost	18,988	23,068
Gas in storage – at average cost	49,424	-
Other	1,647	3,310
Total inventories	$95,245	$58,863

I. REFUNDABLE OR RECOVERABLE GAS COSTS,
FUEL FOR ELECTRIC PRODUCTION AND PURCHASED POWER
All metered gas rates contain a gas cost adjustment clause, which allows for adjustment in charges for changes in the cost of purchased gas. Metered electric rates typically contain a fuel adjustment clause that allows for adjustment in charges for electric energy to reflect changes in the cost of fuel and the net energy cost of purchased power. SIGECO also collects through a quarterly rate adjustment mechanism the margin on electric sales lost due to the implementation of demand side management programs.

Vectren's utility subsidiaries record any adjustment clause under-or-overrecovery each month in revenues. A corresponding asset or liability is recorded until such time as the under-or-overrecovery is billed or refunded to utility customers. The cost of gas sold is charged to operating expense as delivered to customers and the cost of fuel for electric generation is charged to operating expense when consumed.

J. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION
An allowance for funds used during construction (AFUDC), which represents the cost of borrowed and equity funds used for construction purposes, is charged to construction work in progress during the period of construction and included in other – net on the Consolidated Statements of Income.

The table below reflects the total AFUDC capitalized and the portion of which was computed on borrowed and equity funds for all periods reported.

		Year Ended December 31,	
In thousands	*2000*	*1999*	*1998*
AFUDC – borrowed funds	$2,634	$3,090	$2,394
AFUDC – equity funds	2,645	739	230
Total AFUDC capitalized	$5,279	$3,829	$2,624

K. INCOME TAXES The liability method of accounting is used for income taxes under which deferred income taxes are recognized, at currently enacted income tax rates, to reflect the tax effect of temporary differences between the book and tax bases of assets and liabilities. Deferred investment tax credits are being amortized over the life of the related asset.

L. USE OF ESTIMATES
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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

M. REGULATION
The utility operations of Indiana Gas and SIGECO are subject to regulation by the Indiana Utility Regulatory Commission (IURC) and the Ohio operations are subject to regulation by the Public Utilities Commission of Ohio (PUCO). The wholesale energy sales of SIGECO are subject to regulation by the Federal Energy Regulatory Commission (FERC). The accounting policies of Vectren and its utility subsidiaries give recognition to the ratemaking and accounting practices of these agencies and to accounting principles generally accepted in the United States, including the provisions of Statement of Financial Accounting Standards No. 71 “Accounting for the Effects of Certain Types of Regulation” (SFAS 71). Regulatory assets represent probable future revenues

associated with certain incurred costs, which will be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process.

The following regulatory assets and liabilities are reflected in the financial statements:

	At December 31,	
In thousands	*2000*	*1999*
Regulatory Assets:		
Demand side management programs	$ 26,243	$ 25,298
Unamortized premium on reacquired debt	4,192	4,416
Unamortized debt discount and expenses	16,741	13,233
Regulatory income tax asset	4,723	2,741
Other	347	1,905
Regulatory assets in other assets	52,246	47,593
Recoverable fuel and natural gas costs	96,084	5,585
Total regulatory assets	$148,330	$ 53,178
Regulatory Liabilities:		
Refundable gas costs	$ -	$ 10,204

As of December 31, 2000, the recovery of $126.9 million of Vectren's $148.3 million of total regulatory assets is reflected in rates charged to customers. The remaining $21.4 million of regulatory assets, which are not yet included in rates, represent SIGECO's demand side management (DSM) costs incurred after 1993. When SIGECO files its next electric base rate case, these costs will be included in rate base and requested to earn a return. Amortization of the costs over a period anticipated to be 15 years will be recovered through rates as a cost of operations.

Indiana Gas was authorized as part of an August 17, 1994 financing order from the IURC to amortize over a 15-year period the debt discount and expense related to new debt issues and future debt issues and future premiums paid for debt reacquired in connection with refinancing. Debt discount and expense for issues in place prior to this order are being amortized over the lives of the related issues. Premiums paid prior to this order for debt reacquired in connection with refinancing are being amortized over the life of the refunding issue. SIGECO's debt discounts and expense related to new debt issues and premiums paid for debt reacquired is being amortized over the lives of the related issues.

Of the $126.9 million of regulatory assets currently reflected in rates, a total of $9.1 million is earning a return: $4.9 million of pre-1994 DSM costs and $4.2 million of unamortized premium on reacquired debt. The remaining recovery periods for the DSM costs and premium on reacquired debt are 11.5 years and 20 years, respectively. The remaining $117.9 million of regulatory assets included in rates, but not earning a return, are being recovered over varying periods: $7.1 million of fuel costs and $89.0 million of gas costs, over 12 months; $4.7 million of regulatory income tax asset, over approximately 30 years; and $16.8 million of unamortized debt discount and expense to be recovered as discussed above.

Vectren's utility subsidiaries' policy is to continually assess the recoverability of costs recognized as regulatory assets and the ability to continue to account for their activities in accordance with SFAS 71, based on the criteria set forth in SFAS 71. Based on current regulation, the utility subsidiaries believe such accounting is appropriate. If all or part of Vectren's utility operations cease to meet the criteria of SFAS 71, a write-off of related regulatory assets and liabilities would be required.
In addition, Vectren would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets.

N. NEW ACCOUNTING PRONOUNCEMENT

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 APB 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.

Derivatives used in the power marketing operations are used to effectively manage the utilization of SIGECO's generation capability. These derivatives include forward physical wholesale sales and purchases. The forward sales contracts are generally used to sell the excess generation capacity of SIGECO when demand conditions warrant this activity. These contracts are for the normal purchase and sale of electricity and therefore do not require fair value accounting under SFAS 133. The forward purchase contracts are entered into as part of "buy-sell" transactions with other utilities and power marketers. These contracts are derivatives and do not qualify for hedge accounting, accordingly, they have been marked to market 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.

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 due to the derivatives used in power marketing operations. The impact of the derivatives used by SES and the interest rate swap was immaterial.

O. COMPREHENSIVE INCOME Comprehensive income is a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period other than transactions with shareholders. This information is reported in the Consolidated Statements of Common Shareholders' Equity. Vectren's components of accumulated other comprehensive income (loss) include unrealized gains (losses) on available for sale securities and its portion of ProLiance Energy, LLC's (ProLiance) other comprehensive income. Vectren records its portion of ProLiance's other comprehensive income as increases or decreases to the investment account with a corresponding adjustment to other comprehensive income. As of December 31, 2000, Vectren has recorded an adjustment to other comprehensive income of $7.5 million related to its investment in ProLiance. ProLiance's other comprehensive income was adjusted due its adoption of SFAS 133.

6. PROLIANCE ENERGY, LLC

ProLiance, a 50 percent 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. 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 and two other pricing terms, 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. The IURC has not yet established a schedule for conducting these additional proceedings. 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. However, until the three pricing issues reserved by the IURC are resolved, Vectren will continue to reserve a portion of its share of ProLiance earnings.

On or about August 11, 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. Pretax income of $5.4 million, $6.7 million, and $7.0 million was recognized as ProLiance's contribution to earnings for the years ended December 31, 2000, 1999 and 1998, respectively. Earnings recognized from ProLiance are included in equity in earnings of unconsolidated investments on the Consolidated Statements of Income. At December 31, 2000, and 1999, Vectren has reserved approximately $2.4 million and $1.7 million, respectively, of ProLiance's earnings pending resolution of the remaining issues.

7. VECTREN ADVANCED COMMUNICATIONS

Vectren Advanced Communications (VAC), a wholly owned non-regulated subsidiary, was formed to hold Vectren's investments in Utilicom Networks, LLC (Utilicom Networks) and related entities. Utilicom Networks is a provider of bundled communications services through high capacity broadband networks, including high speed Internet service, cable television and telephone service.

In January 2000, VAC completed the restructuring of its investment in SIGECOM, LLC (SIGECOM), which is a venture between VAC and Utilicom Networks which provides communications services to the greater Evansville, Indiana area. On January 28, 2000, affiliates of The Blackstone Group, a private equity fund, invested in Class B units of Utilicom Networks. Concurrent with this investment, VAC exchanged its 49 percent preferred equity interest in SIGECOM for $16.5 million of convertible subordinated debt of Utilicom Networks, a Class A equity position in Utilicom Networks and an indirect common equity interest in SIGECOM. VAC has a 14 percent interest in SIGECOM. The debt is convertible into Class A units of Utilicom Networks at the option of VAC or upon the event of a public offering of stock by Utilicom Networks. The investment restructuring resulted in a pre-tax gain of $8 million, which is classified in equity in earnings in unconsolidated investments in the accompanying Consolidated Statements of Income. For the year ending December 31, 2000, Vectren also recognized losses of $1 million to reflect its share of Utilicom Networks' and SIGECOM's operating results. At December 31, 2000, VAC's equity investment in SIGECOM related entities was $8.2 million.

In December 2000, VAC invested an additional $8.1 million with Utilicom Networks in the form of convertible subordinated debt as part of Utilicom Networks' plans to raise $600 million in capital to establish operating ventures in Indianapolis, Indiana and Dayton, Ohio and to recapitalize the SIGECOM venture. Vectren is committed to invest up to $100 million, inclusive of the $8.1 million already invested, in the form of convertible subordinated debt, subject to Utilicom Networks obtaining all required funding. The debt is convertible into common equity interests in the Indianapolis and Dayton ventures at the option of VAC or upon the event of a public offering of stock by Utilicom Networks. At December 31, 2000, VAC's investment in convertible debt totals approximately $25 million and upon conversion, VAC would have up to a 31 percent interest in the Indianapolis and Dayton ventures and up to a 10 percent interest in Utilicom Networks, assuming completion of all required funding.

8. SHORT-TERM BORROWINGS

At December 31, 2000, Vectren has approximately $969 million of short-term borrowing capacity, including $803 million for its regulated operations and $166 million for its non-regulated operations, of which approximately $149 million is available for regulated operations and $60 million is available for non-regulated operations. See the table below for outstanding balances and interest rates.

	At December 31,	
In thousands	*2000*	*1999*
Outstanding:		
Bank Loans	$146,494	$124,638
2001, Note Payable, 6.6425%	150,000	-
Commercial paper	463,414	83,000
Total short term borrowings	$759,908	$207,638
Weighted average interest rates:		
Bank Loans	6.95%	8.08%
Commercial paper	6.87%	6.30%
Weighted average interest rates during the year:		
Bank Loans	6.98%	5.76%
Commercial paper	6.53%	5.40%
Weighted average total outstanding during the year	$318,822	$163,762

At December 31, 2000, Indiana Gas is 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. A waiver has been obtained from the banks on the Indiana Gas facility to waive the non-compliance through and including March 31, 2001. Subject to regulatory approval, Vectren will provide an equity investment in Indiana Gas to bring Indiana Gas back into compliance. No amount is outstanding under the back up credit facility.

9. LONG–TERM DEBT AND OTHER OBLIGATIONS

First mortgage bonds, notes payable and partnership obligations outstanding and classified as long-term are as follows:

	At December 31,	
In thousands	*2000*	*1999*
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY		
First Mortgage Bonds due:		
2014, 4.60% Pollution Control Series A	$ 22,500	$ 22,500
Adjustable Rate Pollution Control:		
2015, Series A, presently 4.55%	9,975	9,975
2016, 8.875%	13,000	13,000
2020, 4.40% Pollution Control Series B	4,640	4,640
Adjustable Rate Environmental Improvement:		
2023, Series B, presently 6%	22,800	22,800
2023, 7.60%	45,000	45,000
2025, 7.625%	20,000	20,000
2029, 6.72%	80,000	80,000
2030, 4.40% Pollution Control Series B	22,000	22,000
Total first mortgage bonds	$239,915	$239,915
Notes Payable:		
Tax Exempt, due 2003, 6.25%	$ 1,000	$ 1,000
INDIANA GAS COMPANY		
Notes Payable due:		
2003, Series F, 5.75%	$ 15,000	$ 15,000
2004, Series F, 6.36%	15,000	15,000
2007, Series E, 6.54%	6,500	6,500
2013, Series E, 6.69%	5,000	5,000
2015, Series E, 7.15%	5,000	5,000
2015, Insured Quarterly Notes, 7.15%	20,000	-
2015, Series E, 6.69%	5,000	5,000
2015, Series E, 6.69%	10,000	10,000
2021, Private Placement, 9.375%	25,000	25,000
2021, Series A, 9.125%	7,000	7,000
2025, Series E, 6.31%	5,000	5,000
2025, Series E, 6.53%	10,000	10,000
2027, Series E, 6.42%	5,000	5,000
2027, Series E, 6.68%	3,500	3,500
2027, Series F, 6.34%	20,000	20,000
2028, Series F, 6.75%	14,109	14,849
2028, Series F, 6.36%	10,000	10,000
2028, Series F, 6.55%	20,000	20,000
2029, Series G, 7.08%	30,000	30,000
2030, Insured Quarterly Notes,7.45%	50,000	-
Total notes payable	$281,109	$211,849

LONG–TERM DEBT AND OTHER OBLIGATIONS (continued)	*At December 31,*	
In thousands	*2000*	*1999*
NON-REGULATED		
Notes Payable:		
2005, Senior note, 7.67%	$ 38,000	$ -
2007, Senior note, 7.83%	17,500	-
2010, Senior note, 7.98%	22,500	-
Insurance Company, due 2012, 7.43%	35,000	35,000
Other	249	2,371
Total notes payable and other	$113,249	$ 37,371
Total long-term debt outstanding	$635,273	$490,135
Less: Maturities and sinking fund requirements	(249)	(776)
Unamortized debt premium and discount, net	(3,070)	(2,633)
Total long-term debt and other obligations, net of current maturities	$631,954	$486,726

Consolidated maturities and sinking fund requirements on long-term debt subject to mandatory redemption during the five years following 2000 (in millions) are $0.3 in 2001, $16.0 in 2003, $15.0 in 2004, and $38.0 in 2005.

In addition to the obligations presented in the table above, 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 annually in March. If SIGECO's agent is unable to remarket any bonds tendered at that time, SIGECO would be required to obtain additional funds for payment to bondholders. For financial statement presentation purposes those bonds subject to tender in 2001 are shown as current liabilities. The two series of bonds will be re-set for a five-year period effective March 1, 2001.

Provisions under which certain of Indiana Gas' Series E Notes were issued entitle the holders of $25.0 million of these notes to put the debt back to Indiana Gas at face value at certain specified dates before maturity. Long-term debt subject to the put provisions during the five years following 2000 (in millions) is $6.5 in 2002, $3.5 in 2004 and $10.0 in 2005.

The annual sinking fund requirement of SIGECO's first mortgage bonds is 1 percent of the greatest amount of bonds outstanding under the Mortgage Indenture. This requirement may be satisfied by certification to the Trustee of unfunded property additions in the prescribed amount as provided in the Mortgage Indenture. SIGECO intends to meet the 2001 sinking fund requirement by this means and, accordingly, the sinking fund requirement for 2001 is excluded from current liabilities on the Consolidated Balance Sheets. At December 31, 2000, $220.9 million of SIGECO's utility plant remained unfunded under SIGECO's Mortgage Indenture.

The above debt agreements contain certain financial covenants and other restrictions with which Vectren must comply. Except as described in Note 8, Vectren was in compliance with all remaining financial covenants and restrictions.

On December 21, 2000, Vectren Capital Corporation, a wholly owned subsidiary that provides financing for Vectren's non-regulated subsidiaries' operations and investments, issued $78 million of private placement senior notes to three institutional investors. The issues and their terms are $38.0 million, due December 21, 2005, at 7.67 percent; $17.5 million, due December 21, 2007, at 7.83 percent; and $22.5 million, due December 21, 2010, at 7.98 percent. The net proceeds were used to repay outstanding short-term borrowings.

On October 5, 1999, Indiana Gas issued $30 million in principal amount of Series G Medium-term Notes bearing interest at the per annum rate of 7.08 percent with a maturity date of October 5, 2029. In December 2000, Indiana Gas filed a prospectus with the Securities and Exchange Commission with respect to the issuance of $70 million in debt securities. On December 28, 2000, $20 million of 15-Year Insured Quarterly (IQ) Notes bearing interest at a rate of 7.15 percent per year and $50 million of 30-Year IQ Notes bearing interest at a rate of 7.45 percent per year were issued. The 15-Year IQ Notes will mature on December 15, 2015, and the 30-Year IQ Notes will mature on December 16, 2030, unless, in each case, redeemed prior to that date. Indiana Gas will have the option to redeem the 15-Year IQ Notes, in whole or in part, from time to time on or after December 15, 2004. Indiana Gas will have the option to redeem the 30-Year IQ Notes in whole or in part, from time to time on or after December 15, 2005. The net proceeds of the debt issuance were used to repay outstanding commercial paper utilized for general corporate purposes.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values and estimated fair values of Vectren's financial instruments were as follows:

				At December 31,
In thousands		*2000*		*1999*
	Carrying Amount	*Estimated Fair Value*	*Carrying Amount*	*Estimated Fair Value*
Short-term borrowings	$759,908	$759,908	$207,638	$207,638
Partnership obligations (includes amounts due within one year)	249	312	845	905
Redeemable preferred stock of subsidiary	7,500	7,737	7,500	7,538
Long term debt (includes amounts due within one year)	685,903	758,478	541,202	544,928

Certain methods and assumptions must be used to estimate the fair value of financial instruments. Because of the short maturity of notes payable, the carrying amounts approximate fair values for these financial instruments. The fair value of Vectren's long-term debt was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to Vectren for debt of the same remaining maturities. The fair value of partnership obligations was estimated based on current quoted market rate of comparable debt. The fair value of redeemable preferred stock of SIGECO was based on the current quoted market rate of long-term debt with similar characteristics.

Under current regulatory treatment, call premiums on reacquisition of long-term debt are generally recovered in customer rates over the life of the refunding issue or over a 15-year period (see Note 5M). Accordingly, any reacquisition would not be expected to have a material effect on Vectren's financial position or results of operations.

The market price used to value these transactions reflects management's best estimate of market prices considering various factors, including published prices for certain delivery locations, time value and volatility factors underlying the commitments.

11. COMMON STOCK

On March 31, 2000, the merger of Indiana Energy and SIGCORP with and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling of interests. The common shareholders of SIGCORP received 1.333 shares of Vectren common stock for each SIGCORP common share and the common shareholders of Indiana Energy received one share of Vectren common stock for each Indiana Energy common share, resulting in the issuance of 61.3 million shares of Vectren common stock.

The Vectren board of directors has adopted a Shareholder Rights Agreement. Under the Shareholder Rights Agreement, the Vectren board of directors has declared a dividend distribution of one right for each outstanding Vectren common share. A right will attach to each Vectren common share Vectren issues. Each right entitles the holder to purchase from Vectren one share at a price of $65.00 per share (subject to adjustment to prevent dilution). Initially, the rights will not be exercisable. The rights only become exercisable 10 days following a public announcement that a person or group of affiliated or associated persons (Vectren Acquiring Person) has acquired beneficial ownership of 15 percent or more of the outstanding Vectren common shares (or a 10 percent acquirer who is determined by the Vectren board of directors to be an adverse person), or 10 days following the announcement of an intention to make a tender offer or exchange offer the consummation of which would result in any person or group becoming a Vectren Acquiring Person. The Vectren Shareholder Rights Agreement expires October 21, 2009.

CONVERSION OF OPTIONS

Certain SIGCORP and SIGECO employees held options to purchase SIGCORP common shares granted under the 1994 SIGECO Stock Option Plan and other employee compensation benefits arrangements. When the merger was consummated, each unexpired and unexercised option to purchase SIGCORP common shares was automatically converted into an option to purchase the number of Vectren common shares that could have been purchased under the original option multiplied by 1.333. The exercise price per Vectren common share under the new option is equal to the original per share price divided by 1.333 The new Vectren options will otherwise be subject to the same terms and conditions as the original SIGCORP options. The expiration dates for options outstanding as of December 31, 2000, ranged from July 13, 2004 to July 19, 2009. This stock option activity for the past three years, converted to Vectren common shares, was as follows:

	At December 31,		
	2000	*1999*	*1998*
Outstanding at January 1	931,004	671,389	610,742
Granted	-	272,783	99,973
Cancelled	(30,955)	-	-
Exercised	(40,608)	(13,168)	(39,326)
Outstanding at December 31	859,441	931,004	671,389
Exercisable at December 31	781,415	658,221	508,892
Reserved for future grants at end of year	-	-	272,783
Weighted average option price:			
Exercisable	$18.41	$17.53	$15.88
Outstanding at end of year	18.23	18.33	17.46

						At December 31, 2000
	Options Outstanding				*Options Exercisable*	
Range of Exercise Prices	*Number of Options Outstanding*	*Weighted Average Remaining Contractual Life*	*Weighted Average Exercise Price*		*Number of Options Exercisable*	*Weighted Average Exercise Price*
$12.03-$14.43	229,230	3.4	$13.82		229,230	$13.82
14.44- 16.84	50,779	4.0	15.32		50,779	15.32
16.85- 19.24	52,124	5.2	17.44		52,124	17.44
19.25- 21.65	431,908	7.8	20.09		353,882	20.05
24.05	95,400	7.3	24.05		95,400	24.05
$12.03-$24.05	859,441	6.2	$18.41		781,415	$18.23

Vectren accounts for stock compensation in accordance with APB 25, "Accounting for Stock Issued to Employees." Under APB 25, no compensation cost has been recognized for stock options. Had compensation cost for stock options been determined consistent with SFAS No. 123 "Accounting for Stock-based Compensation," net income would have been reduced to the following pro forma amounts:

			At December 31,
In thousands, except per share amounts	*2000*	*1999*	*1998*
Net Income:			
As reported	$72,040	$90,748	$86,600
Pro forma	71,583	90,077	86,085
Basic Earnings Per Share:			
As reported	$1.18	$1.48	$1.41
Pro forma	1.17	1.47	1.40
Diluted Earnings Per Share:			
As reported	$1.17	$1.48	$1.40
Pro forma	1.17	1.47	1.39

The fair value of each option granted used to determine pro forma net income is estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the years ended December 31, 1999 and 1998: risk-free interest rate of 6.46 percent and 4.44 percent, respectively; expected option term of five years; expected volatilities of 34.00 percent and 33.16 percent, respectively; and dividend rates of 4.46 percent and 3.77 percent, respectively. No options were granted in 2000.

CONVERSION OF RESTRICTED STOCK

Indiana Energy had an Executive Restricted Stock Plan for the principal officers of the company and participating subsidiary companies. Indiana Energy also had a Directors' Restricted Stock Plan through which non-employee directors receive one-third of their combined compensation (exclusive of attendance fees) as directors of Indiana Energy, Indiana Gas or IEI Investments, Inc. in shares of Indiana Energy's common stock subject to certain restrictions on transferability.

Upon consummation of the merger, the restrictions on each outstanding share of restricted stock of Indiana Energy lapsed and all shares of Indiana Energy that were issued as restricted stock were treated as unrestricted shares of Indiana Energy in the merger exchange. During 2000, Vectren adopted these plans and restricted shares were issued to executives and non-employee directors.

Common stock dividends of Vectren may be reinvested under a Dividend Reinvestment and Stock Purchase Plan. Common shares purchased in connection with the plan are currently being acquired through the open market.

At December 31, 2000 and 1999, respectively, shares of common stock reserved for issuance were as follows:

	At December 31, 2000	1999
Dividend Reinvestment and Stock Purchase Plan	1,018,435	417,836
Executive Restricted Stock Plan	222,726	346,319
Directors' Restricted Stock Plan	50,116	54,994
Retirement Savings Plan	853,423	964,208
Total	2,144,700	1,783,357

12. 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 would be dilutive.

The following tables illustrates the basic and dilutive earnings per share calculations.

In thousands, except for per share amounts	*2000*			*1999*			*1998*		
	Income	*Shares*	*Per Share Amount*	*Income*	*Shares*	*Per Share Amount*	*Income*	*Shares*	*Per Share Amount*
Basic EPS	$72,040	61,297	$1.18	$90,748	61,306	$1.48	$86,600	61,578	$1.41
Effect of dilutive stock options		83			124			178	
Diluted EPS	$72,040	61,380	$1.17	$90,748	61,430	$1.48	$86,600	61,756	$1.40

Options to purchase 526,469 common shares for the year ended December 31, 2000 and 99,973 common shares for the years ended December 31, 1999 and 1998 were not included in the computation of dilutive earnings per share because the options' exercise prices were greater than the average market price of the common shares during the period. Exercise prices for options excluded from the computation ranged from $19.83 to $24.05 in 2000 and equaled $24.05 in 1999 and 1998.

Subsequent to December 31, 2000, Vectren issued about 6.3 million common shares in a public offering (see Note 22).

13. RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

Prior to July 1, 2000, SIGCORP and Indiana Energy had separate retirement and other postretirement benefit plans. The activities in these plans are described below by company.

Effective July 1, 2000, the SIGECO and Indiana Energy pension plans for employees not covered by a collective bargaining unit were merged. Also effective July 1, 2000, the SIGECO and Indiana Energy retirement savings plans for employees not covered by a collective bargaining unit were merged, as were their postretirement health care and life insurance plans.

Vectren has multiple defined benefit pension and other postretirement benefit plans which cover eligible full-time regular employees. All of the plans are non-contributory with the exception of the health care plan which contains cost-sharing provisions whereby employees retiring after January 1, 1996, are required to make contributions to the plan when increases in Indiana Energy's health care costs exceed the general rate of inflation, as measured by the Consumer Price Index (CPI). The nonpension plans include plans for health care and life insurance through a combination of self-insured and fully insured plans.

The IURC has authorized SIGECO and Indiana Gas to recover the costs related to postretirement benefits other than pensions under the accrual method of accounting consistent with Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. Amounts accrued prior to that authorization were deferred as allowed by the IURC and amortized over a 60-month period.

The detailed disclosures of benefit components that follow are based on an actuarial valuation performed for the December 31, 2000 financial statements using a measurement date as of September 30, 2000. The disclosures required as of and for the years ended December 31, 1999 and 1998 have been restated based on actuarial valuations previously performed for SIGECO as of December 31 and Indiana Gas as of September 30, respectively. In management's opinion, disclosures from revised actuarial valuations would not differ materially from those presented below.

Net periodic benefit cost consisted of the following components:

						Year Ended December 31,
			Pension Benefits			*Other Benefits*
In thousands	*2000*	*1999*	*1998*	*2000*	*1999*	*1998*
Service cost	$ 4,282	$ 5,053	$ 4,056	$ 1,328	$ 1,502	$ 1,299
Interest cost	11,708	10,550	9,986	5,904	4,844	4,863
Expected return on plan assets	(15,815)	(13,826)	(12,742)	(921)	(751)	(577)
Amortization of prior service cost	157	361	256	-	-	-
Amortization of transitional obligation (asset)	(744)	(734)	(734)	3,738	3,266	3,267
Recognized actuarial gain	(1,040)	(10)	(47)	(1,475)	(889)	(1,204)
Settlement charge	2,123	-	-	-	-	-
Special termination benefit charge	553	-	-	-	-	-
Net periodic benefit cost	$ 1,224	$ 1,394	$ 775	$ 8,574	$ 7,972	$ 7,648

A reconciliation of the plan's benefit obligations, fair value of plan assets, funded status and amounts recognized in the Consolidated Balance Sheets follows:

				At December 31,
Benefit obligation	Pension Benefits		Other Benefits	
In thousands	2000	1999	2000	1999
Benefit obligation at beginning of year	$ 151,505	$ 156,840	$ 68,278	$ 73,598
Service cost - benefits earned during the year	4,282	5,053	1,328	1,502
Interest cost on projected benefit obligation	11,708	10,550	5,904	4,844
Plan amendments	2,418	(3,278)	(711)	-
Acquisitions	700	-	-	-
Settlements	2,123	-	-	-
Benefits paid	(10,382)	(8,001)	(5,396)	(3,605)
Actuarial (gain) loss	4,614	(9,659)	7,975	(8,061)
Benefit obligation at end of year	$ 166,968	$ 151,505	$ 77,378	$ 68,278

Fair value of plan assets	Pension Benefits		Other Benefits	
In thousands	2000	1999	2000	1999
Plan assets at fair value at beginning of year	$ 187,261	$ 180,965	$ 11,710	$ 9,511
Actual return on plan assets	16,959	14,179	595	1,434
Employer contributions	-	118	4,314	4,369
Benefits paid	(10,382)	(8,001)	(5,396)	(3,604)
Fair value of plan assets at end of year	$ 193,838	$ 187,261	$ 11,223	$ 11,710

Funded status	Pension Benefits		Other Benefits	
In thousands	2000	1999	2000	1999
Funded status	$ 26,870	$ 35,756	$ (66,155)	$ (56,568)
Unrecognized transitional obligation (asset)	(1,491)	(2,279)	39,969	44,418
Unrecognized service cost	5,357	3,639	-	-
Unrecognized net (gain) loss and other	(36,968)	(44,733)	(19,697)	(28,792)
Net amount recognized	$ (6,232)	$ (7,617)	$ (45,883)	$ (40,942)

The aggregate benefit obligation and aggregate fair value of the plan assets for pension plans with benefit obligations in excess of plan assets were $10.5 million and $7.9 million, respectively, as of December 31, 2000, and $5.5 million and $4.5 million, respectively, as of December 31, 1999.

Weighted-average assumptions used in the accounting for these plans were as follows:

				Year Ended December 31,
	Pension Benefits		Other Benefits	
In thousands	2000	1999	2000	1999
Discount rate	7.75%	7.50%	7.75%	7.50%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	5.00%	5.00%	N/A	N/A
CPI rate	N/A	N/A	7.00%	6.5%

As of December 31, 2000, the health care cost trend is 7 percent declining to 5 percent in 2004 and remaining level thereafter. The accrued health care cost trend rate for 2001 is 7 percent. The estimated cost of these future benefits could be significantly affected by future changes in health care costs, work force demographics, interest rates or plan changes.

A 1 percent change in the assumed health care cost trend for Vectren's postretirement health care plan would have the following effects:

In thousands	*1% Increase*	*1% Decrease*
Effect on the aggregate of the service and interest cost components	$ 483	$ (394)
Effect on the postretirement benefit obligation	5,107	(4,263)

Vectren has adopted Voluntary Employee Beneficiary Association (VEBA) Trust Agreements for the funding of postretirement health benefits for retirees and their eligible dependents and beneficiaries. Annual funding is discretionary and is based on the projected cost over time of benefits to be provided to cover persons consistent with acceptable actuarial methods. To the extent these postretirement benefits are funded, the benefits will not be shown as a liability on Vectren's financial statements.

Vectren also has defined contribution retirement savings plans that are qualified under sections 401(a) and 401(k) of the Internal Revenue Code. During 2000, 1999, and 1998, Vectren made contributions to these plans of $1.6 million, $1.9 million and $2.3 million, respectively.

14. LEVERAGED LEASES

Southern Indiana Properties, Inc. (SIPI), a wholly owned subsidiary, is a lessor in several leveraged lease agreements under which real estate or equipment is leased to third parties. The economic lives and lease terms vary with the leases. The total equipment and facilities cost was approximately $409.7 million at December 31, 2000 and 1999. The cost of the equipment and facilities was partially financed by nonrecourse debt provided by lenders, who have been granted an assignment of rentals due under the leases and a security interest in the leased property, which they accepted as their sole remedy in the event of default by the lessee. Such debt amounted to approximately $380.0 million and $373.5 million at December 31, 2000 and 1999, respectively. SIPI's net investment in leveraged leases at December 31, 2000 and 1999, respectively, was as follows:

	At December 31,	
In thousands	*2000*	*1999*
Minimum lease payments receivable	$165,210	$161,551
Estimated residual value	29,073	29,073
Less: unearned income	101,138	104,887
Investment in lease financing receivables and loan	93,145	85,737
Less: deferred taxes arising from leveraged leases	38,302	30,700
Net investment in leveraged leases	$ 54,843	$ 55,037

15. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2000 are as follows:

In millions	
2001	$ 4.1
2002	3.9
2003	3.4
2004	3.1
2005	2.4
Thereafter	6.7
Total	$23.6

Total lease expense, in millions, was $3.4 in 2000, $2.7 in 1999, and $2.2 in 1998.

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 the Clean Air Act and ProLiance, there are no legal proceedings pending against Vectren that are likely to have a material adverse effect on the financial position or results of operations. Refer to Note 6 for litigation matters related to ProLiance and Note 17 for litigation matters concerning the Clean Air Act.

A wholly owned subsidiary of Vectren has an 8.3 percent ownership interest in Pace Carbon Synfuels Investors, LP (Pace Carbon), a Delaware limited partnership formed to develop, own and operate four projects to produce and sell coal-based synthetic fuel. In addition to its initial investment of $7.5 million, Vectren has a continuing obligation to invest approximately $40 million in Pace Carbon, with any such additional investments to be funded to the extent it generates federal tax credits that are earned from the production and sale of briquettes by the projects. As of December 31, 2000, Vectren's net investment in Pace Carbon totaled approximately $6.7 million and is included in investments in partnerships and other corporations in the Consolidated Balance Sheets.

A wholly owned subsidiary of Vectren has committed to invest $10 million in Haddington Energy Partners, LP (Haddington) of which $9.8 million has been funded as of December 31, 2000. Haddington, a Delaware limited partnership, raised $77 million to invest in energy projects. On July 28, 2000, Vectren made a commitment to fund an additional $20 million in Haddington Energy Partners II, LP, which is expected to raise an additional $150 million. This second fund will provide additional capital for the initial fund portfolio companies as well as make investments in new areas, such as distributed generation, power backup and quality devices, and emerging technologies such as fuel cells, microturbines and photovoltaics. Through December 31, 2000, Vectren had invested approximately $2.1 million of this $20 million commitment to Haddington II. The remainder of this investment is expected to be made through 2002. As of December 31, 2000, Vectren's net investment in the Haddington Ventures totaled approximately $13.0 million and is included in investments in partnerships and other corporations in the Consolidated Balance Sheets.

Vectren has entered into a contract to purchase and construct an 80-megawatt combustion gas turbine generator which will be owned by SIGECO. The total capital cost of the project is estimated to be $33 million during the 2001-2002 construction period.

Vectren has invested to date approximately $33 million with Utilicom Networks. On December 22, 2000, Vectren announced its commitment to invest up to $100 million with Utilicom Networks, pending completion of all funding (see Note 7).

16. INCOME TAXES

The components of consolidated income tax expense were as follows:

	Year Ended December 31,		
In thousands	*2000*	*1999*	*1998*
Current:			
Federal	$19,976	$33,028	$34,449
State	2,908	5,379	5,450
Total current taxes	22,884	38,407	39,899
Deferred:			
Federal	11,591	8,238	4,625
State	2,117	1,423	181
Total deferred taxes	13,708	9,661	4,806
Amortization of investment tax credits	(2,360)	(2,360)	(2,377)
Consolidated income tax expense	$34,232	$45,708	$42,328

A reconciliation of the statutory rate to the effective income tax rate is as follows:

	Year Ended December 31,		
In thousands	*2000*	*1999*	*1998*
Statutory federal and state rate	37.9%	37.9%	37.9%
Nondeductible merger costs	4.0	-	-
Amortization of investment tax credit	(2.2)	(1.7)	(1.8)
Other tax credits	(7.1)	(3.2)	(2.9)
All other, net	(0.2)	0.3	(0.5)
Effective tax rate	32.4%	33.3%	32.7%

Indiana Gas, SIGECO and the Ohio operations use a normalized method of accounting for deferred income taxes as required by the IURC and PUCO. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income taxes are provided for taxes not currently payable due to, among other things, the use of various accelerated depreciation methods, shorter depreciable lives and the deduction of certain construction costs for tax purposes. Taxes deferred in prior years are being charged and income credited as these tax effects reverse over the lives of the related assets.

Significant components of Vectren's net deferred tax liability as of December 31, 2000 and 1999 are as follows:

	At December 31,	
In thousands	*2000*	*1999*
Deferred tax liabilities:		
Depreciation and cost recovery timing differences	$185,113	$185,799
Deferred fuel costs, net	33,446	2,427
Leveraged leases	38,302	30,700
Regulatory assets recoverable through future rates	28,726	30,519
Deferred tax assets:		
LIFO inventory	(7,900)	-
Regulatory liabilities to be settled through future rates	(32,293)	(29,211)
Tax credit carryforwards	(17,079)	-
Other – net	(15,483)	(4,714)
Net deferred tax liability	$212,832	$215,520

At December 31, 2000, the components of the net deferred tax liability are reflected in the Consolidated Balance Sheets as a long-term liability of approximately $229.9 million and as a reduction to accrued taxes in current liabilities of approximately $17.1 million.

Investment tax credits have been deferred and are being credited to income over the life of the property, giving rise to the credit. The Tax Reform Act of 1986 eliminated investment tax credits for property acquired after January 1, 1986.

At December 31, 2000, Vectren has Alternative Minimum Tax credit carryforward of approximately $13 million, which has no expiration date. Through certain of its non-regulated subsidiaries and investments, Vectren also realizes Federal income tax credits associated with affordable housing projects, historical rehabilitation projects and projects for the production and sale of synthetic fuels. At December 31, 2000, Vectren has tax credit carryforwards of approximately $4.1 million which expire in 20 years.

17. 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 percent 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, which requires 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). Midwestern states (the alliance) have been working together to determine the most appropriate compliance strategy as an alternative to the USEPA proposal. The alliance submitted its proposal, which calls for a smaller, phased in reduction of NOx levels, to the USEPA and the Indiana Department of Environmental Management (IDEM) in June 1998.

In July 1998, Indiana submitted its proposed plan to the USEPA in response to the USEPA's proposed new NOx rule and the emissions budget proposed for Indiana. The Indiana plan, which calls for a reduction of NOx emissions to a rate of 0.25 lb/mmBtu by 2003, is less stringent than the USEPA proposal but more stringent than the alliance proposal.

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.

During the second quarter of 1999, the USEPA lost two federal court challenges to key air-pollution control requirements. In the first ruling by the U.S. Circuit Court of Appeals for the District of Columbia on May 14, 1999, the Court struck down the USEPA's attempt to tighten the one-hour ozone standard to an eight-hour standard and the attempt to tighten the standard for particulate emissions, finding the actions unconstitutional. In the second ruling by the same Court on May 25, 1999, the Court placed an indefinite stay on the USEPA's attempts to reduce the allowed NOx emissions rate from levels required by the Clean Air Act Amendments of 1990. The USEPA appealed both court rulings. On October 29, 1999, the Court refused to reconsider its May 14, 1999 ruling.

On March 3, 2000, the D.C. Circuit 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 by no later than September 30, 1999. Numerous petitioners, including several states, have filed petitions for rehearing with the U.S. Court of Appeals for the District of Columbia in Michigan v. the USEPA. On June 22, 2000, the D.C. Circuit Court of Appeals denied petition for rehearing en banc and lifted its May 25, 1999 stay. Following this decision, on August 30, 2000, the D.C. Circuit Court of Appeals issued an extension of the SIP Call implementation deadline, previously May 1, 2003, 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. Circuit Court's March 3, 2000 Order. The Court has not yet ruled on the Petition for Certiorari. The EPA granted Section 126 Petitions filed by northeastern states that require named sources in the eastern half of Indiana to achieve NOx reduction by May 1, 2003. No SIGECO facilities are named in the Section 126 Petitions filed by northeastern states, therefore the compliance date remains May 31, 2004.

The proposed NOx emissions budget for Indiana stipulated in the USEPA's final ruling requires a 36 percent 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 percent. 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.

Mercury Emissions. On December 14, 2000, the USEPA released a statement announcing that reductions of mercury emissions from coal-fired plants will be required in the near future. The USEPA will propose regulations by December 2003 and issue final rules by December 2004.

Under the Act, the USEPA is required to study emissions from power plants in order to determine if additional regulations are necessary to protect public health. The USEPA reported its study to Congress in February 1998. That study concluded that of all toxic pollution examined, mercury posed the greatest concern to public health. An earlier USEPA study concluded that the largest source of human-made mercury pollution in the United States was coal-fired power plants.

After completion of the study, the Act required the USEPA to determine whether to proceed with the development of regulations. The USEPA announced that it had affirmatively decided that mercury air emissions from power plants should be regulated.

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 complying 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. Consequently, 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 plans to provide 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 IDEM, and a Record of Decision was issued by 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 (VRP) 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.

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.

Indiana Gas has recovered these estimated accrued costs from insurance carriers and other potentially responsible parties (PRPs). Indiana Gas has PRP agreements in place for 19 of the 26 sites, which serve to limit Indiana Gas' share of response costs at these 19 sites to between 20 and 50 percent. For these sites, Indiana Gas has accrued only its proportionate share of the estimated response costs.

With respect to insurance coverage, as of December 31, 2000, Indiana Gas has received and recorded settlements from all known insurance carriers in an aggregate amount of approximately $20.3 million.

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.

18. RATE AND REGULATORY MATTERS

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 Indiana Office of Utility Consumer Counselor (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 significantly limited its exposure to unrecoverable purchased power costs.

Commodity prices for natural gas purchases during the last six months of 2000 increased significantly, primarily due to the expectation of a colder winter, which led to increased demand and tighter supplies. Vectren's utility subsidiaries are typically allowed full recovery of such charges in purchased gas costs from their retail customers through commission-approved GCA. On October 11, 2000, Indiana Gas filed for approval of its 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 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 have appealed this ruling. The Citizens Action Coalition of Indiana, Inc., a not for profit consumer advocate, has also filed with the IURC a petition to intervene and a notice of appeal of the order.

19. AFFILIATE TRANSACTIONS

ProLiance provides natural gas supply and related services to Indiana Gas. Indiana Gas' purchases from ProLiance for resale and for injections into storage for the years ended December 31, 2000 and 1999, totaled $401.4 million and $240.7 million, respectively. As of December 31, 2000, Vectren's net investment in ProLiance totaled approximately $20.3 million and is included in investments in partnerships and other corporations in the Consolidated Balance Sheets.

ProLiance has a standby letter of credit facility with a bank for letters up to $45.0 million. This facility is secured in part by a support agreement from Vectren. Letters of credit outstanding at December 31, 2000 totaled $22.0 million.

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 Indiana Gas and others. Indiana Gas' purchases of these services during the years ended December 31, 2000 and 1999, totaled $17.2 million and $17.3 million, respectively. As of December 31, 2000, Vectren's net investment in CIGMA totaled approximately $4.2 million and is included in investments in partnerships and other corporations in the Consolidated Balance Sheets.

Reliant Services, LLC (Reliant), owned jointly and equally by a wholly owned subsidiary of Vectren and Cinergy Corporation (Cinergy), provides utility locating, meter reading and construction services to Indiana Gas and others. Amounts paid by Indiana Gas to Reliant for such services totaled $3.7 million and $2.9 million for years ended December 31, 2000 and 1999, respectively. On December 13, 2000, Reliant purchased the common stock of Miller Pipeline Corporation from NiSource, Inc. for approximately $68.3 million. Vectren and Cinergy each contributed $16 million of equity, and the remaining $36.3 million was funded with 7-year intermediate bank loans. As of December 31, 2000, Vectren's net investment in Reliant totaled approximately $19.2 million and is included in investments in partnerships and other corporations in the Consolidated Balance Sheets.

Vectren is a two-thirds guarantor of certain surety bond and other obligations of Energy Systems Group, LLC, a two-thirds owned consolidated subsidiary. Vectren's share of the guarantee of such obligations totaled $50.6 million at December 31, 2000.

Amounts owed to unconsolidated affiliates totaled $102.5 million and $29.3 million at December 31, 2000 and 1999, respectively, and are included in accounts payable on the Consolidated Balance Sheets. The $73.2 million increase at December 31, 2000 is due primarily to amounts owed to ProLiance resulting from the much higher gas prices and increased customer consumption. Amounts due from unconsolidated affiliates totaled $17.6 million and $7.6 million at December 31, 2000 and 1999, respectively, and are included in accounts receivable on the Consolidated Balance Sheets.

20. SEGMENT REPORTING

SFAS 131 “Disclosure about Segments of an Enterprise and Related Information” establishes standards for the reporting of information about operating segments in financial statements and disclosures about products, services and geographical areas. 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 2000: (1) Gas Utility Services, (2) Electric Utility Services, and (3) Non-regulated Operations. The Gas Utility Services segment includes regulated gas utilities which provide natural gas distribution and transportation services. The Electric Utility Services segment generates, transmits and distributes and sells electricity within primarily southwestern Indiana communities. 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.

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.

	At and Year Ended December 31,		
In thousands	*2000*	*1999*	*1998*
Operating Revenues:			
Gas Utility Services	$ 818,753	$ 499,573	$ 487,260
Electric Utility Services	336,409	307,569	297,865
Non-regulated Operations	552,838	315,367	256,220
Intersegment Eliminations	(59,310)	(54,092)	(43,639)
Total operating revenues	$1,648,690	$1,068,417	$ 997,706
Interest Expense:			
Gas Utility Services	$ 27,969	$ 18,704	$ 17,601
Electric Utility Services	18,103	17,544	18,191
Non-regulated Operations	23,107	12,535	8,046
Intersegment Eliminations	(12,046)	(5,921)	(3,537)
Total interest expense	$ 57,133	$ 42,862	$ 40,301
Income Taxes:			
Gas Utility Services	$ 11,538	$ 18,830	$ 16,211
Electric Utility Services	23,386	24,331	22,881
Non-regulated Operations	(595)	2,575	3,148
Intersegment Eliminations	(97)	(28)	88
Total income taxes	$ 34,232	$ 45,708	$ 42,328
Net Income:			
Gas Utility Services	$ 15,589	$ 33,612	$ 30,931
Electric Utility Services	36,811	41,820	38,342
Non-regulated Operations	19,799	15,316	17,327
Intersegment Eliminations	(159)	-	-
Net income	$ 72,040	$ 90,748	$ 86,600
Depreciation and amortization:			
Gas Utility Services	$ 43,791	$ 38,623	$ 37,082
Electric Utility Services	38,639	40,829	38,077
Non-regulated Operations	23,231	7,546	6,399
Intersegment Eliminations	-	-	-
Total depreciation and amortization	$ 105,661	$ 86,998	$ 81,558
Capital expenditures:			
Gas Utility Services	$ 73,114	$ 72,773	$ 64,701
Electric Utility Services	37,549	51,080	47,114
Non-regulated Operations	53,603	8,306	23,254
Intersegment Eliminations	-	-	-
Total capital expenditures	$ 164,266	$ 132,159	$ 135,069
Identifiable assets:			
Gas Utility Services	$1,658,778	$ 882,948	$ 827,931
Electric Utility Services	799,104	751,159	740,746
Non-regulated Operations	749,237	505,564	326,048
Intersegment Eliminations	(297,932)	(159,204)	(95,885)
Total identifiable assets	$2,909,187	$1,980,467	$1,798,840

21. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 2000 and 1999 are as follows:

2000

In thousands, except per share amounts	*Q1*	*Q2*	*Q3*	*Q4*	*Total*
Operating revenues	$359,444	$263,477	$317,854	$707,915	$1,648,690
Operating income	34,276	15,716	27,643	53,286	130,921
Net income	22,125	8,273	15,458	26,184	72,040
Basic earnings per average share of common stock	0.36	0.14	0.25	0.43	1.18
Diluted earnings per average share of common stock	0.36	0.13	0.25	0.43	1.17

1999

In thousands, except per share amounts	*Q1*	*Q2*	*Q3*	*Q4*	*Total*
Operating revenues	$321,033	$207,042	$231,160	$309,182	$1,068,417
Operating income	68,133	22,940	29,397	40,302	160,772
Net income	40,723	11,554	16,236	22,235	90,748
Basic earnings per average share of common stock	0.66	0.19	0.26	0.37	1.48
Diluted earnings per average share of common stock	0.66	0.19	0.26	0.37	1.48

22. SUBSEQUENT EVENT

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 will be used principally to repay outstanding commercial paper utilized for recent acquisitions.

5-YEAR OPERATIONS AND FINANCIAL REVIEW

					Year Ended December 31,
In thousands, except per share amounts	*2000*	*1999*	*1998*	*1997*	*1996*
OPERATIONS					
Operating revenues	$ 1,648,690	$ 1,068,417	$ 997,706	$ 972,081	$ 965,335
Operating expenses	1,476,624	907,645	849,169	807,994	805,189
Merger and integration costs	41,145	-	-	-	-
Restructuring costs	-	-	-	39,531	-
Operating income	130,921	160,772	148,537	124,556	160,146
Other income	34,505	20,544	22,209	19,481	7,275
Interest expense	57,133	42,862	40,301	39,403	38,072
Income before income taxes and preferred dividends	108,293	138,454	130,445	104,634	129,349
Income taxes	34,232	45,708	42,328	35,482	44,595
Income before preferred dividends	74,061	92,746	88,117	69,152	84,754
Preferred dividend requirement of subsidiary	1,017	1,078	1,095	1,097	1,097
Income before minority interest	73,044	91,668	87,022	68,055	83,657
Minority interest in subsidiary	1,004	920	422	341	-
Net income	$ 72,040	$ 90,748	$ 86,600	$ 67,714	$ 83,657
Net income before restructuring costs	$ 72,040	$ 90,748	$ 86,600	$ 92,253	$ 83,657
Net income before merger and integration costs	$ 108,896	$ 90,748	$ 86,600	$ 67,714	$ 83,657
COMMON STOCK DATA					
Return on common shareholders' equity (ROE)	9.8%	12.8%	12.8%	10.4%	13.1%
ROE before merger and integration costs	14.9%	12.8%	12.8%	10.4%	13.1%
Average common shares outstanding	61,297	61,306	61,578	61,611	61,522
Earnings per average share	$ 1.18	$ 1.48	$ 1.41	$ 1.10	$ 1.36
Earnings per average share before merger and integration costs	$ 1.78	$ 1.48	$ 1.41	$ 1.10	$ 1.36
Dividends per share of common stock	$ 0.98	$ 0.94	$ 0.90	$ 0.88	$ 0.85
Common stock dividend payout ratio	83%	64%	64%	80%	63%
Common stock dividend payout ratio before merger and integration costs	55%	64%	64%	80%	63%
Common shareholders' equity per share	$ 11.91	$ 11.58	$ 11.04	$ 10.61	$ 10.38
CAPITALIZATION STRUCTURE					
Common shareholders' equity	$ 731,684	$ 709,757	$ 677,914	$ 653,666	$ 639,067
Redeemable preferred shareholder's equity	8,076	8,192	8,308	8,424	8,424
Nonredeemable preferred shareholder's equity	8,889	11,090	11,090	11,090	11,090
Long-term debt [1]	685,903	541,202	499,389	490,595	478,765
Total	$ 1,434,552	$ 1,270,241	$ 1,196,701	$ 1,163,775	$ 1,137,346
Capital expenditures	$ 164,266	$ 132,159	$ 135,069	$ 139,547	$ 117,155
Total assets at year-end	$ 2,909,187	$ 1,980,467	$ 1,798,840	$ 1,758,634	$ 1,719,547

1 Includes current maturities; excludes sinking fund requirements.

	Year Ended December 31,				
	2000	*1999*	*1998*	*1997*	*1996*
GAS SOLD AND TRANSPORTED - UTILITY (MDTH)					
Residential	65,726	51,857	46,699	57,236	61,358
Commercial	25,950	20,690	18,955	23,451	25,751
Contract	89,562	78,164	73,152	72,606	68,955
Total	181,238	150,711	138,806	153,293	156,064
GAS OPERATING REVENUES (IN THOUSANDS)					
Residential	$ 486,916	$ 327,704	$ 316,771	$ 393,217	$ 367,114
Commercial	171,386	112,558	110,221	142,787	133,851
Contract	78,639	46,840	53,429	79,512	126,833
Miscellaneous	81,812	12,471	6,839	(1,897)	17,217
Total revenues	$ 818,753	$ 499,573	$ 487,260	$ 613,619	$ 645,015
GAS CUSTOMERS SERVED - YEAR-END					
Residential	861,869	564,620	552,897	541,649	528,933
Commercial	79,861	56,617	55,839	55,282	54,604
Contract	4,313	1,242	1,251	1,270	1,306
Total customers	946,043	622,479	609,987	598,201	584,843
ELECTRIC SALES (MWH)					
Residential	1,383,163	1,371,580	1,326,024	1,251,376	1,318,043
Commercial	1,336,047	1,304,008	1,243,329	1,192,220	1,173,856
Industrial	2,491,972	2,415,990	2,256,116	2,067,355	2,074,404
Municipals and Jasper	670,195	659,455	623,659	566,354	553,160
Other Wholesale	1,624,091	1,170,315	1,389,898	1,186,287	944,321
Miscellaneous	19,232	19,367	20,155	20,936	20,737
Total	7,524,700	6,940,715	6,859,181	6,284,528	6,084,521
ELECTRIC OPERATING REVENUES (IN THOUSANDS)					
Residential	$ 92,815	$ 90,801	$ 88,467	$ 83,104	$ 89,270
Commercial	73,595	69,906	66,546	63,895	64,577
Industrial	82,634	79,531	75,065	69,925	73,363
Municipals and Jasper	23,646	23,544	22,433	22,016	22,684
Other Wholesale	55,037	36,645	38,254	26,508	18,528
Miscellaneous	8,682	7,142	7,100	7,097	8,057
Total	$ 336,409	$ 307,569	$ 297,865	$ 272,545	$ 276,479
ELECTRIC CUSTOMERS SERVED - YEAR-END					
Residential	114,946	110,064	108,241	107,046	106,605
Commercial	17,207	16,344	15,900	15,692	15,391
Industrial	187	197	199	199	199
Total	132,340	126,605	124,340	122,937	122,195
Total power production costs (cents per KWh sold)	2.10	1.99	1.97	1.80	1.94
Average coal costs (cents per KWh generated)	1.04	1.01	1.00	0.98	1.24
Annual heating degree-days as percent of normal	96%	87%	79%	101%	105%
Annual cooling degree-days as percent of normal	93%	94%	118%	81%	88%

COMMON STOCK

SHAREHOLDER INFORMATION

COMMON STOCK TRANSFER AGENT AND REGISTRAR:
First Chicago Trust Company of NY c/o EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500
800.446.2617
201.222.4955 (TDD for hearing impaired)
http://www.equiserve.com

CORRESPONDENCE FOR DIVIDEND REINVESTMENT:
First Chicago Trust Company of NY c/o EquiServe
P.O. Box 2598
Jersey City, NJ 07303-2598
800.446.2617
201.222.4955 (TDD for hearing impaired)

The company's transfer agent is responsible for our shareholder records, address changes, direct registration system, issuance of stock certificates, dividend reinvestment plan, and distribution of dividend payments and IRS Form 1099s. Requests and inquiries concerning these matters are most efficiently answered by contacting EquiServe Trust Company, N.A.

SHAREHOLDER INQUIRIES

SHAREHOLDER RELATIONS:
Vectren Corporation
P.O. Box 209
Evansville, Indiana 47702-0209
800.227.8625
ltiemann2@vectren.com

INVESTOR CONTACT:
Steven M. Schein
Vice President, Investor Relations
812.491.4209
sschein@vectren.com

COMPANY WEBSITE
http://www.vectren.com

QUARTERLY CHAIRMAN'S LETTER
The quarterly chairman's letter may be viewed on the company website or may be furnished on request by Investor Relations.

STOCK EXCHANGE
Common Stock is listed on New York Stock Exchange. Trading Symbol: VVC

FORM 10-K
Form 10-K, filed annually in March with the Securities Exchange Commission may be furnished on request by Investor Relations.

SHAREHOLDERS
There were 14,830 individual and institutional investors who were shareholders of record as of February 15, 2000.

STREET-NAME ACCOUNTS
Questions on administrative matters should be directed to your broker.

DIVIDENDS
Cash dividends on common stock are considered quarterly by the board of directors for payment on March 1, June 1, September 1 and December 1 of each year.

DIRECT DEPOSIT OF DIVIDENDS
Electronic Deposit is a convenient way to have your dividend payments credited to your bank account on the payment date. This eliminates the possibility of lost, stolen or mail-delayed checks. Contact EquiServe at 800.446.2617 for details and an authorization form.

DIVIDEND REINVESTMENT PLAN
Vectren shareholders can economically and conveniently buy additional Vectren stock without having to pay brokerage commissions or service charges through our dividend reinvestment plan.

The initial stock purchase must be made through a brokerage firm. New shareholders will automatically receive a prospectus and enrollment card.

To receive a prospectus for Vectren's Automatic Dividend Reinvestment and Stock Purchase Plan, please call EquiServe at 800.446.2617.

DIRECT REGISTRATION SYSTEM
Direct Registration means that instead of receiving a paper stock certificate to represent your Vectren shares, your shares are held in "book-entry" form without certificates. The book-entry form of share ownership permits you to hold, transfer and sell your shares electronically. Contact EquiServe at 800.446.2617 for details.

SIGECO PREFERRED STOCK

4.8% PREFERRED STOCK, 6.50% PREFERRED STOCK AND 8 1/2% SPECIAL PREFERRED STOCK:

TRANSFER AGENTS:
SIGECO
Attn: Shareholder Services
P.O. Box 209
Evansville, IN 47702-0209
800.227.8625

Continental Stock Transfer & Trust Co.
2 Broadway
New York, NY 10004

REGISTRARS:
Integra Bank, N.A.
Evansville, IN

Continental Stock Transfer & Trust Co.
New York, NY

4.75% PREFERRED STOCK
TRANSFER AGENT AND REGISTRAR:
Continental Stock Transfer & Trust Co.
2 Broadway
New York NY 10004

DIVIDENDS
4.75% Series – payable on the first day of March, June, September and December
4.8% Series – payable on the first day of February, May August, and November
6.50% Series – payable on the first day of March, June, September and December
8 1/2% Series – payable on the first day of January, April, July and October

ANNUAL MEETING
The annual meeting of shareholders of Vectren Corporation will be held at 9:30 a.m. on Wednesday, April 25, 2001, at the Company's Norman P. Wagner Operations Center, One North Main Street, Evansville, Indiana.

VECTREN CORPORATION BOARD OF DIRECTORS *(PICTURED ON FACING PAGE)*

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Chairman and Chief Executive Officer
Vectren Corporation

Andrew E. Goebel
President and Chief Operating Officer
Vectren Corporation

John M. Dunn
President and CEO
Dunn Hospitality Group, Ltd.

L.A. Ferger
Retired Chairman and CEO
Indiana Energy, Inc.

John D. Engelbrecht
President and CEO
South Central Communications Corp.

Anton H. George
President and Director
Indianapolis Motor Speedway Corp.

Robert L. Koch II
President and CEO
Koch Enterprises, Inc.

William G. Mays
President
Mays Chemical Company, Inc.

J. Timothy McGinley
Managing Partner and Principal Owner
House Investments Securities, Inc.

Donald A. Rausch
Retired Chairman and CEO
Union Federal Savings Bank

Richard P. Rechter
Chairman
Rogers Group, Inc.

Ronald G. Reherman
Retired Chairman and CEO
SIGCORP, Inc.

James C. Shook
Retired President
Coldwell Banker / The Shook Agency

Richard W. Shymanski
Retired Chairman
Harding, Shymanski & Co., P.C.

James S. Vinson
President
University of Evansville

Jean L. Wojtowicz
President
Cambridge Capital Management Corporation

VECTREN CORPORATION OFFICERS

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Chairman and Chief Executive Officer

Andrew E. Goebel
President and Chief Operating Officer

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

Carl L. Chapman
Executive Vice President

J. Gordon Hurst
Executive Vice President

Ronald E. Christian
Senior Vice President,
General Counsel and Corporate Secretary

Richard G. Lynch
Senior Vice President -
Human Resources and Administration

Timothy L. Burke
Vice President and Treasurer

M. Susan Hardwick
Vice President and Controller

Robert E. Heidorn
Deputy General Counsel, Assistant Corporate
Secretary and Assistant Treasurer

Gregg M. McManus
Vice President - Government and Public Affairs

Eric J. Schach
Vice President and Chief Information Officer

Steven M. Schein
Vice President - Investor Relations

Jerrold L. Ulrey
Vice President - Planning and
Corporate Development

Jeffrey W. Whiteside
Vice President - Corporate Communications

VECTREN CORPORATION BOARD OF DIRECTORS

1. James C. Shook
2. Ronald G. Reherman
3. L. A. Ferger
4. Jean L. Wojtowicz
5. John M. Dunn
6. John D. Engelbrecht
7. J. Timothy McGinley
8. Donald A. Rausch
9. Richard W. Shymanski
10. Anton H. George
11. Robert L. Koch II
12. James S. Vinson
13. Andrew E. Goebel
14. William G. Mays
15. Niel C. Ellerbrook
16. Richard P. Rechter

COMMITTEES

EXECUTIVE COMMITTEE
Niel C. Ellerbrook, Chair
Andrew E. Goebel
John M. Dunn
Anton H. George
Robert L. Koch II
Richard P. Rechter

COMPENSATION COMMITTEE
Robert L. Koch II, Chair
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L. A. Ferger
William G. Mays
Ronald G. Reherman
James C. Shook
Richard W. Shymanski

VECTREN

Not just power. Possibility.

Vectren Corporation
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