

sustainability  in practice

2012-2013 Vectren Corporation

Sustainability Report



Environmental Policy Mission Statement

Environmental stewardship is a basic value and belief for each one of us at Vectren. Our employees and their families live and work in the same cities and towns, breathe the same air and utilize the same natural resources as our customers. Each of us is committed to fully comply with all environmental regulation and ensure that our energy products and services not only meet customer needs, but also enhance the quality of life in each of our communities and leave behind a better environment for us all.



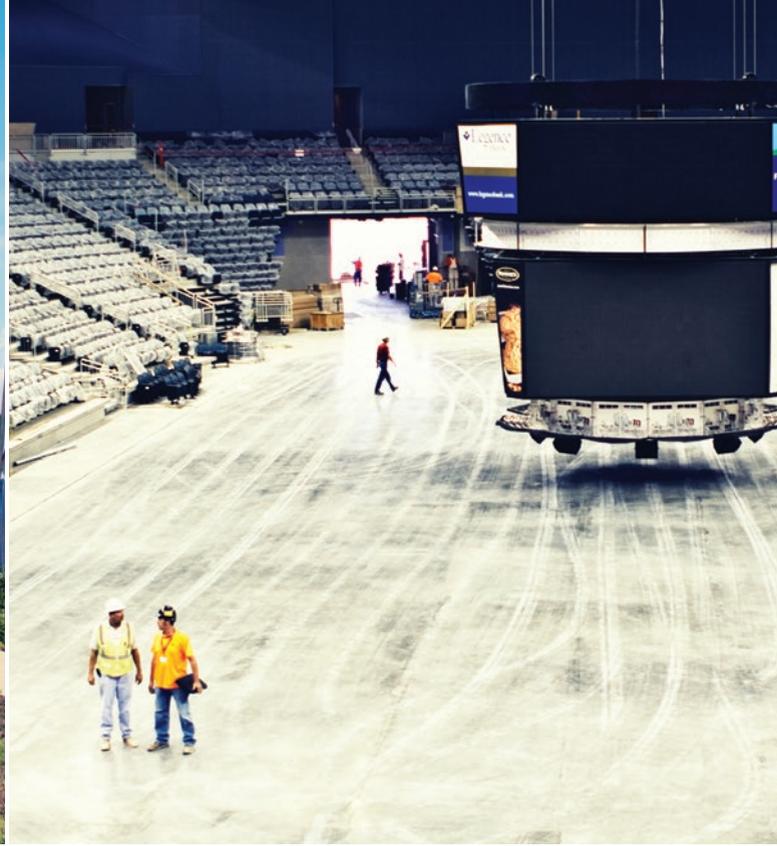
Welcome

Sustainability: the capacity to endure; remain diverse and productive without jeopardizing the potential for future generations to meet their needs. This embodies the principles and practices throughout Vectren Corporation. Our long-term goals, annual strategies and daily practices exhibit our focus and dedication to creating sustainable communities, companies and customers all while preserving our environment and natural resources.

Supporting our local communities with redevelopment, revitalization and financial support, we equip them with the resources to flourish and grow. The strength and success of our company is directly connected to the strength and growth of the communities we serve. From assisting the City of Marion, Ind., in securing a grant to weatherize 100 homes and playing an integral role in the renovation of the riverfront in Dayton, Ohio, to partnering with city government to develop a Bark Park in Terre Haute, Ind., Vectren remains focused promoting sustainable leadership in our service territories.

Poised for sustainable growth, our company is comprised of a diverse set of businesses. From supplying natural gas and electricity to more than 1 million customers throughout Indiana and Ohio to laying thousands of miles of pipeline infrastructure across the country and supplying energy solutions that allow building owners to maximize their energy efficiency and operational performance while reducing their carbon footprint, Vectren continues to look for opportunities in the expanding energy market. This sound business strategy has been a key factor in the company's continued growth and the reason shareholders have enjoyed an increase in the common stock dividend for 53 consecutive years.





Providing education and tools for our utility customers to live smart, Vectren offers energy tips, residential and commercial appliance rebates, access to energy assistance and payment solutions. Dedicated to conservation and making energy bills more manageable, we continue to partner with our customers to provide specialized programs and support.

Our goal is to set a new sustainable precedent in our industry and in the communities we serve. From procurement practices to power generation, we stitch sustainability into the fabric of our operations. We must continue framing the conversation about the company's success in terms of sustainability. By investing in our natural capital—our land, air and water—we secure our economic future.

Sincerely,

Carl L. Chapman
Vectren Corporation
Chairman, President & CEO

Angila Retherford
Vectren Corporation
Vice President, Environmental Affairs
& Corporate Sustainability





Performance

Employees of wholly owned subsidiary Miller Pipeline Corporation perform modernization work on a large natural gas transmission pipeline in Cincinnati, Ohio.

Pipeline Safety and Gas Infrastructure Modernization

As a part of its commitment to safety and reliability, Vectren has invested more than \$320 million over the past several years in upgrading portions of our 22,000-mile gas system across 74 counties in Indiana and Ohio. These resources have gone toward inspections and upgrades of our 1,030 miles of transmission lines and execution of a robust bare steel and cast iron replacement program that will permanently retire nearly 2,000 miles of existing infrastructure.

The work has involved inspecting and upgrading transmission lines in densely-populated areas and replacing older, aging bare steel and cast iron distribution mains with corrosion-resistant plastic lines, which ensure we continue to provide safe and reliable natural gas service to more than one million customers.

To date, more than 325 miles of bare steel/cast iron mains have been retired and replaced and all required transmission line assessments are complete and reassessments have begun. In total, these efforts will impact nearly 100 cities and towns over the next decade and create hundreds of jobs.





Completed in late 2012, Vectren's 345-kilovolt transmission line is the first of its size in the company's electric service territory and will help ensure continued reliability for southwestern Indiana and western Kentucky.

Expanding a Reliable Transmission System

In late 2012, Vectren concluded the year by energizing its 345-kilovolt transmission line, the first of its size in the company's electric service territory, which will help ensure continued reliability for southwestern Indiana and western Kentucky in connecting Vectren's A.B. Brown power plant to other plants in Gibson County, Ind., and Webster County, Ky.

This significant capital project to expand Vectren's regional transmission system very much complements the ongoing improvements being made at the distribution level and at our power plants to safely and reliably meet the energy needs of our 142,000 electric customers.

"Essentially, this project creates a robust route whereby electricity can readily travel throughout the region to help ensure reliability," said Bill Doty, Vectren's executive vice president of utility operations.

Consistent Financial Growth

Vectren's financial performance exceeded shareholder expectations in 2012 as net income increased \$18 million, or \$0.21 per share, over 2011 results. This unprecedented growth was driven by strong utility performance and better-than-expected performance from Vectren's Infrastructure Services Group, which is part of the company's nonutility footprint and consists of Miller Pipeline Corporation and Minnesota Limited, Inc. Vectren ended 2012 with \$2.3 billion in revenues and \$5 billion in assets.

The company's well-diversified business structure has been a driver in our ability to sustain 53 years of increased annual dividends paid and a targeted annual shareholder return of 8-10%. Vectren continues to receive "A-" ratings from the largest credit rating agencies in the country. In order to maintain this growth, the company is focused on customer service in a cost-effective manner via process improvement and cost control.

One area that highlights Vectren's focus is through the early involvement of the company's strategic sourcing team during the procurement and sourcing processes. Through contract analyses and negotiations, the company has seen sustainable savings of nearly \$5 million in 2012 alone. In addition to this cost savings, the company has been able to increase its spend with minority-, women- and veteran-owned businesses.



Diversity Action Council Awards

Vectren's Diversity Action Council has been honored with numerous awards for its inclusion and diversity efforts, including the 2012 Evansville-Area Human Resource Association (EHRA) Leadership Diversity Award, the 2011 EHRA Diversity & Inclusion Programs Award, the 2011 Edison Electric Institute (EEI) Innovation Award and the 2010 Indiana Minority Supplier Development Council (IMSDC) Procurement Leader of the Year.

Building on Diversity

The Vectren Diversity Action Council (DAC) was formed in 2008 to support the attraction, development and retention of a talented, diverse workforce and supplier network and is responsible for promoting a respectful and inclusive environment, which creates a competitive advantage for Vectren. The 28-member team is composed of colleagues across all operating units from executive management to front-line employees and is comprised of five committees focused on the following areas: leadership development, performance management, attraction and retention, marketing and branding and supplier diversity and development.

Since its inception, the DAC has been instrumental in implementing the Diversity & Inclusion strategic plan, providing diversity articles/topics within the company newsletter, conducting a company-wide diversity survey, increasing the awareness of spend with diverse suppliers, the attraction and retention of a diverse workforce, evaluation of internal and external educational opportunities and the encouragement and participation in diverse volunteer opportunities.

Diversity and inclusion are integral to Vectren's vision, strategy and business success.

"We believe diversity and inclusion is a business imperative and an ethical and social responsibility grounded in our core values of colleagues, customers, community and capital," said Ellis Redd, vice president of human resources. "In our continuing effort to attain an inclusive organization, we embrace, leverage and respect the diversity of our workforce, our customers and the communities in which we live, work and serve."

Safety in Numbers

In 2012, Vectren was recognized by the American Gas Association (AGA) as one of only 18 energy delivery companies in the U.S. that achieved outstanding records for employee safety in 2011.

Vectren experienced the lowest incident rate for the number of days away from work, restricted or transferred (DART) among companies of its size and type in the combination natural gas and electric category. The DART incident rate, commonly used across many industries, is a calculation that describes the number of recordable injuries per 100 full-time employees that resulted in days away from work or restricted activity. Vectren ended 2011 with 11 DART cases, an all-time best for the company.

While Vectren is accustomed to performing in the top quartile of AGA companies, 2013 began with some challenges. During the first quarter, the company saw an increase in the number of safety incidents involving motor vehicle accidents. In an effort to mitigate this from becoming a trend for the remainder of the year, the company launched a number of initiatives, including safe driving classes and employee safety incentives. Additionally, there is an increased focus on the day-to-day practices of all employees to ensure they continue to operate in a safe manner and environment.





Minnesota Limited, Inc., has nearly completed an 80-mile pipeline in North Dakota that will ultimately be part of a larger line transporting natural gas from the Bakken shale region to the Chicago marketplace.

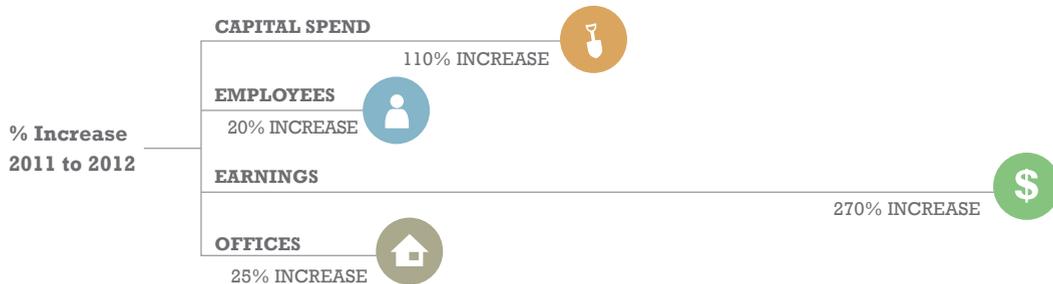
A Leader in the Shale Revolution

Natural gas extracted from dense shale rock formations has become the fastest-growing source of this fuel in the U.S. Although the energy industry has long known about these resources, two established technologies – hydraulic fracturing and horizontal drilling – have allowed companies to cost-effectively unlock these reserves. Natural gas is a clean-burning fuel, with half the carbon emissions of coal.

Shale gas has changed the economic and energy landscape by impacting various industries and markets, including power generation, natural gas liquids and the potential for liquefied natural gas exports. Not only have these proven technologies transformed our nation’s energy landscape, they also are making a large impact on our infrastructure services division, which is comprised of Miller Pipeline Corporation and Minnesota Limited, Inc. Our infrastructure services business is poised to benefit from increasing activity in the Bakken, Marcellus and Utica shale territories.

Vectren’s Infrastructure Services Business

The infographic below illustrates the growth of Vectren's infrastructure services division, comprised of Miller Pipeline Corporation and Minnesota Limited, Inc., from 2011 through 2012.





Responsibility

The Evansville Greenway (above) is a 15-mile path and was partially constructed on a former MGP site revitalized by Vectren.

Revitalizing MGP Sites in Evansville & Terre Haute

Since 1992, Vectren has spent \$38 million remediating 31 former Manufactured Gas Plant (MGP) sites across Indiana. During the 1800s to early 1900s, cities and towns manufactured gas from coal. This gas was primarily used for lighting. When these plants were decommissioned in the early 1900s, they were decommissioned with the standards of the period, not in accordance with the environmental standards we have today. Vectren was the first company to voluntarily place these sites into the Indiana Department of Environmental Management's (IDEM) Voluntary Remediation Program.

In 2008, Vectren worked with the Indiana Department of Transportation (INDOT) and IDEM to clean the soil at a former MGP site in Evansville, Ind. This work was completed prior to INDOT's construction of the new Lloyd Expressway-Fulton Ave. Interchange.

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Vectren partnered with local and state officials to revitalize a former MGP site, shown here in a photo dated 1927. The location is now part of the Evansville Greenway Passage.



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The plant, which manufactured coal gas for the City of Evansville between 1852 and 1902, had become obsolete by 1931 and was subsequently dismantled after all storage and manufacturing operations halted around 1954.

Between July 2008 and January 2009, tar wells, purifiers and nearly 20,000 tons of soil were removed from the plant site and replaced with clean soil. Approximately half the property was converted into the Lloyd Expressway and its Fulton Avenue off-ramps. The Evansville Greenway Passage stretches across the remaining portion of this site, bringing new life to a previous industrial brownfield.

In 2012, Vectren also collaborated with city officials in Terre Haute, Ind., to build a “Bark Park” on a 3-acre plot of Vectren-owned land located adjacent to the city park. The Bark Park will provide a safe and secure environment for people to exercise their dogs and restores a former brownfield site to a property benefiting the community.

The site on Dresser Drive formerly functioned as a MGP site in the early 1900s, and was completed as part of a larger remediation on property that is currently the site of Vectren’s regional service center. Remedial work for the Bark Park property was completed in 2012 and included removing contaminated soil and replacing with more than two feet of clean soil. IDEM cleared the property for development of the park.

“We are extremely excited to bring a Bark Park to the community. It is important to have community partners like Vectren to help make projects like this a reality.”

Mayor Duke Bennett
Terre Haute, Ind.

Preserving Native Bat Populations

In 2012, Vectren took measures to help conserve the Indiana bat population and enhance bat habitat during the construction of its 345-kilovolt electric transmission line.

The Indiana bat, listed as an endangered species in 1967, has experienced a population decline of more than 50% in the past 40 years. The species is increasingly at risk due to white-nose syndrome, a fungal infection that spreads through bat colonies as they hibernate in caves.

Under a Memorandum of Agreement with the U.S. Fish & Wildlife Service, Vectren observed seasonal restrictions on tree clearing and made a contribution to the Indiana Bat Conservation Fund.

In order to compensate for the loss of trees in Indiana, three habitat mitigation sites were constructed in Gibson and Posey counties. From 2009 to 2012, more than 77 acres of trees, including 49 acres of forested wetlands and 28 acres of forested floodway, were planted across the three mitigation sites.

These mitigation efforts allowed the construction of the transmission line while protecting and preserving the wildlife and habitat of the communities served.



Prioritizing Recycling

In 2012, Vectren transitioned recycling service to Veolia Environmental Service, now Advanced Disposal. This transition allowed Vectren to grow the recycling program from six facilities to 14, expand the collection of plastics and streamline internal collection processes.

The program's growth has substantially impacted the volumes of paper, aluminum, plastic and cardboard recycled company-wide, resulting in more than 314,000 pounds of solid waste diverted from the landfill in 2012 alone. Plans are in place to expand the number of facilities included in this effort.

Vectren is also forging sustainable partnerships with local companies to decrease its environmental impact while providing growth opportunities for small businesses and supplementing the local economy. Beaver Dam, Ky.-based partner Tamarlane Industries refurbishes and repairs damaged wooden pallets, rather than sending them to the landfill. Tamarlane, which has been helping the mentally and physically disabled in the Beaver Dam community find employment since 1983, provides valuable work experience to nearly 30 employees with various disabilities ranging from learning disorders to Multiple Sclerosis.

Vectren is also teaming up with Verde Partners in Wadesville, Ind., to recycle expired and excess natural gas pipeline. The program is currently being piloted at 12 Vectren sites in southwestern Indiana and approximately 10,000 pounds of old pipeline have already been collected. Plans are in development to expand the program to other sites.



"Vectren is a true leader when it comes to developing and nurturing its sustainability programs," said Rick Lamble, Verde Partners co-owner. "Partnerships with companies like ours show the company's commitment to making sustainability a key consideration in operations and set an important standard for others in the area."

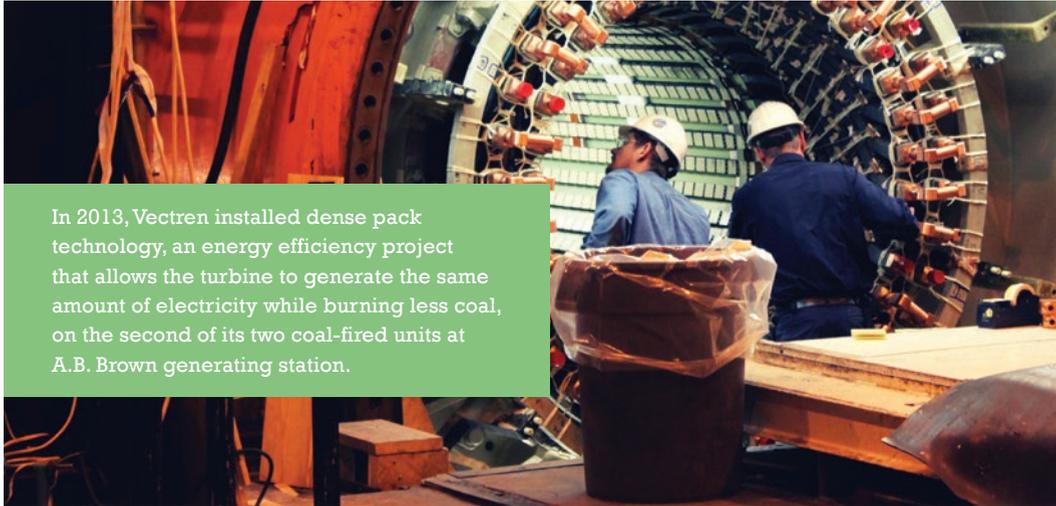
2012 Vectren Recycling at a Glance

- 314,000 lbs. of paper, aluminum, plastic and cardboard
- 135,750 tons of fly ash
- 205,700 tons of gypsum
- 12,450 lbs. of electronics
- 1,058,600 lbs. of scrap metal
- 482,850 lbs. of retired transformers
- 3,000 lbs. of universal waste (lamps, ballasts and batteries)
- 6,000+ gallons of used oil and glycol
- 370 printer and toner cartridges



Vectren is teaming up with local contractor Verde Partners to recycle expired and excess natural gas pipeline. The program, currently being piloted at 12 sites, has resulted in the collection of approximately 10,000 pounds of old pipeline for recycling since its inception.





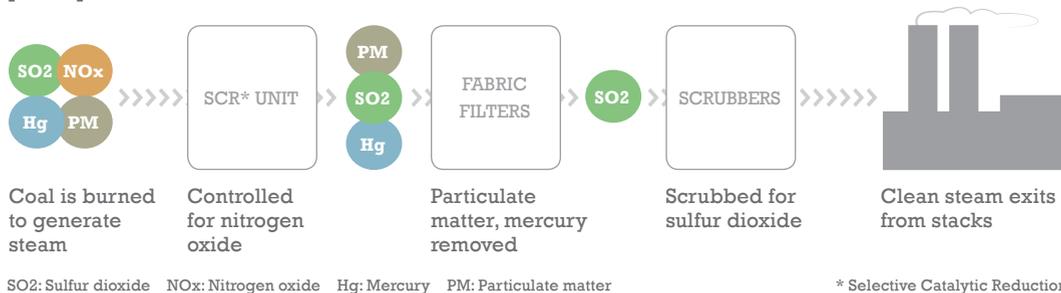
Investing in Cleaner Air

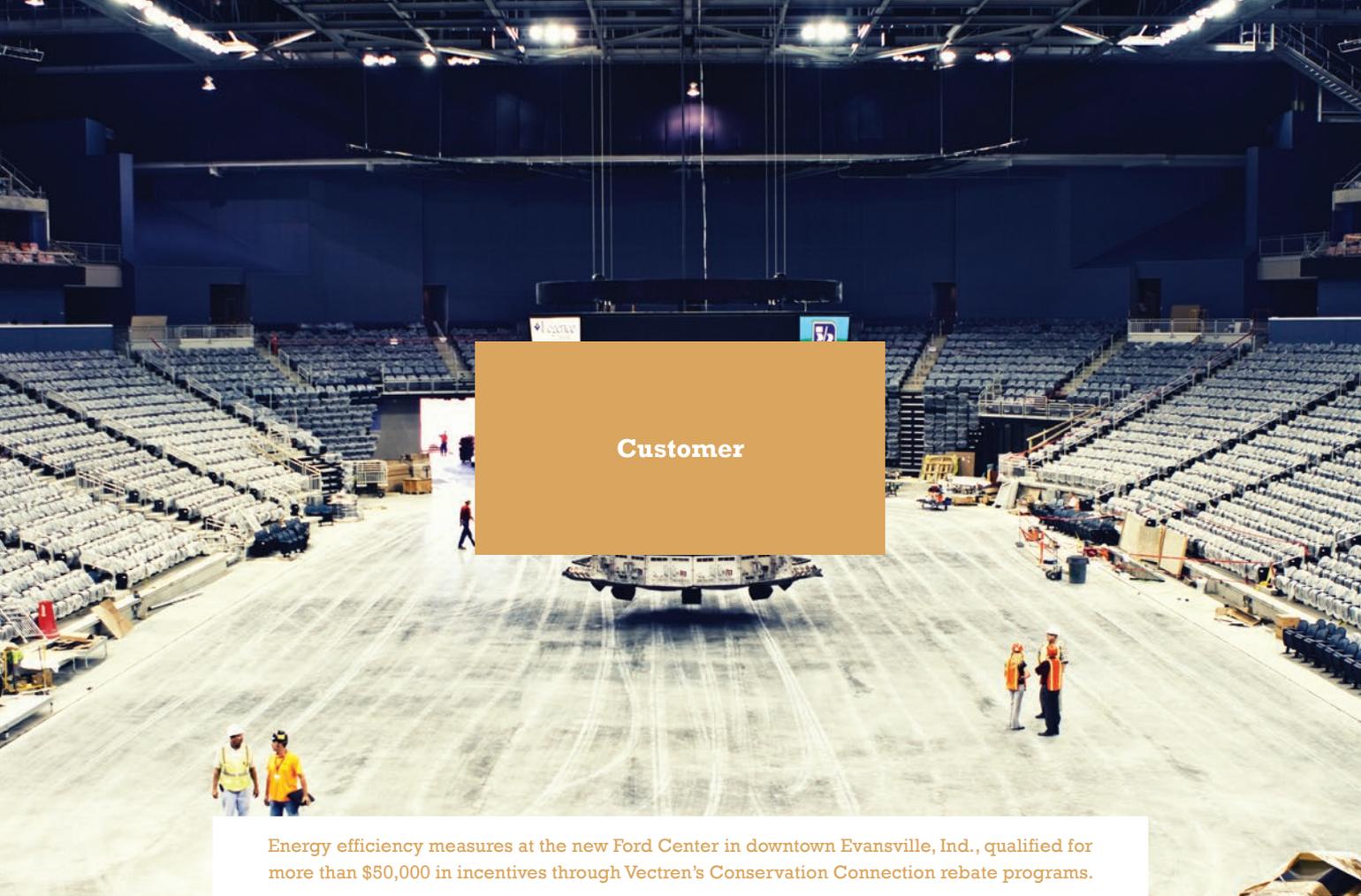
In 2013, Vectren completed installation of dense pack technology on the second of its two coal-fired units at the A.B. Brown generating station in Mt. Vernon, Ind. Dense pack technology allows the turbine to use steam more efficiently resulting in the generation of the same amount of electricity while burning less coal. This improvement initiates an environmental domino effect that positively impacts air quality, reduces the amount of ash generated for disposal and enhances Vectren's ability to meet current and future EPA regulations.

Energy efficiency projects such as this are currently the most cost-effective way of reducing carbon emissions from the nation's coal-fired power fleet and are just one of the measures that Vectren has taken to advance its commitment to environmental stewardship. Projects such as the dense pack technology have helped Vectren meet President Obama's goal, as reiterated in his recent Climate Action Plan, of reducing greenhouse gas emissions by 17% from 2005 levels by 2020. Vectren's coal plants have already significantly surpassed the President's goal of a 17% reduction from 2005 levels.

Our Investments at Work

See below for a step-by-step look at how our investments in pollution control at Vectren's two coal-fired power plants work to clean the air.





Energy efficiency measures at the new Ford Center in downtown Evansville, Ind., qualified for more than \$50,000 in incentives through Vectren's Conservation Connection rebate programs.

Partnering with Customers to Conserve Energy

Vectren strives to position itself as the conservation company. Programs internally and externally encourage sustainable practices and a complete portfolio of both natural gas and electric conservation programs continue to help customers save energy and money.

Natural gas energy efficiency programs have helped customers cumulatively save more than 48 million therms of natural gas since program inception in late 2006, which equates to enough gas to heat 61,000 homes for a year — nearly 4.5 million therms in 2012 alone.

On the electric side of the business, where customer programs have been operational for three years, we're having a similar level of success. Through 2012, electric programs have helped residential and business customers save nearly 80 million kilowatt hours, which is enough to power more than 7,200 homes for a year.

Vectren is also a proud partner of Energizing Indiana, the statewide, utility-supported effort to help further reduce electric demand, through which we teamed up on a multi-year home weatherization program for income-eligible electric and gas customers in southwestern Indiana. Launched in July 2012, we intend to weatherize more than 2,000 homes by the end of 2013 to help financially-challenged customers break the cycle of high energy bills in older, inefficient homes.



“The City of Evansville wanted the Ford Center to be as energy efficient as possible. With the help of more than \$50,000 in cash rebates from Vectren, we were able to reach our goal, and the arena will save energy and money for years to come.”

David Rector

General Manager, Evansville-Vanderburgh County Building Authority

Helping to Create an Energy Efficient Ford Center

The Ford Center, located in the heart of downtown Evansville, was recently constructed by the city to serve as the region’s center for sports and entertainment. During the design process, Vectren partnered with the city and identified several energy-saving opportunities.

The efficiency initiatives, projected to save the Ford Center an estimated \$40,000 in electrical energy costs annually compared to standard efficiency equipment required by code, qualified for more than \$50,000 in rebates through Vectren Conservation Connection programs.



Lisa Slade, president of Alphagraphics in Evansville, Ind., receives an energy assessment of her facility from an energy advisor as part of her company’s participation in Vectren’s new Small Business Energy Solutions program.

Small Upgrades, Big Impact

In 2013, Vectren unveiled Small Business Energy Solutions, an energy efficiency offering tailored specifically for small business electric customers in the southwestern Indiana service territory. The new program consists of an on-site energy assessment and the direct installation of several energy efficiency measures, including LED bulbs, energy-saving faucet aerators, vending machine sensors and pre-rinse sprayers, at no direct cost to the customer.

The customer receives a detailed report from a professional energy advisor of how their building and equipment use energy and improvements that they can choose to make in order to reduce energy consumption. Additionally, Vectren provides instant discounts of up to 50% off the cost, up to \$10,000, of the recommended upgrades the customer decides to pursue.

“As a company, we’ve set aggressive goals to partner with our customers in reducing electric demand to help conserve natural resources, lower customer bills and further delay the need to build new generation equipment,” said Rick Schach, senior vice president of marketing and energy delivery. “These programs serve as an incentive for those who choose to be energy efficient.”

Any materials removed from small businesses in this effort are recycled.



Transforming Marion, Ind., Neighborhoods

What began in early 2011 as a vision for the City of Marion, Ind., has now become a reality. Vectren assembled a strategic partnership with the City of Marion, including representatives from City Hall, businesses, nonprofit organizations, educational institutions and faith-based communities, to develop a unified, collaborative approach for revitalizing economically-challenged neighborhoods.

A neighborhood, dubbed the Magnificent Se7en (M7) due to its geographic area being shaped like the number seven, was chosen, and the 200 residents immediately got engaged and embraced the idea of change. The residents took ownership and pride in the project and began meeting to capture everyone's input. Before long, they implemented a community garden, filled vacant lots with duplexes and community buildings and developed a Quality of Life Plan.

In conjunction with these on-going efforts, Vectren partnered with Affordable Housing and Community Development and College Wesleyan Church to secure a grant from the Indiana Office of Energy Development, which funded the weatherization of 100 homes in the M7 neighborhood. More than 1,400 hours of labor were donated by the homeowners and volunteers to complete the project that is reducing air infiltration by an average of 18%. Homes are now more comfortable and utility bills are lower. This community-wide event served as a catalyst for neighborhood empowerment.

2012 Vectren Foundation at a Glance

- \$2.3 million+ awarded in grants
- 450+ organizations served
- 74 counties served across Indiana and Ohio
- 25,250 employee volunteer hours

Impacting Communities Through the Vectren Foundation

Since 2000, Vectren Corporation has provided nearly \$25 million in grants and contributions to nonprofit organizations throughout 74 counties in Indiana and west central Ohio. Aimed at achieving sustainable improvement in the communities served, Vectren contributed in excess of \$2.3 million to more than 450 organizations in 2012.

In addition to providing monetary support directly, Vectren encourages community service, providing employees paid time off to volunteer. In 2012 alone, Vectren employees recorded more than 25,000 volunteer hours.

The Foundation aims to make sustainable impacts on the communities served through targeted giving to organizations involved in energy conservation and environmental stewardship, community revitalization and education and sustainability.





Since 1994, Vectren subsidiary Energy Systems Group has completed \$1.4 billion in projects, including a recent efficiency initiative with Nashville International Airport.

Modernizing Nashville International Airport

Underlining its commitment to sustainability, environmental conservation and providing passengers with exceptional quality, the Nashville Metropolitan Airport Authority (MNA) selected Energy Systems Group (ESG), a wholly owned Vectren subsidiary, to design and implement energy efficiency and sustainable facility improvements.

The ESG team worked closely with the MNA leadership to design and install a \$4.5 million, two-phase energy performance contract. Energy conservation measures such as lighting retrofits will reduce the airport’s operating and maintenance costs while modernizing infrastructure through guaranteed energy savings.

ESG is one of the nation’s leading energy service providers and has been providing innovative solutions for the modernization of buildings and energy infrastructures in the government, education, healthcare and commercial sectors since 1994. To date, ESG has completed \$1.4 billion in projects.

ESG’s Green Impact

Since its inception in 1994, ESG has reduced its customers’ carbon footprints by more than 752,000 metric tons of carbon dioxide (CO₂). The graphic below shows what this savings equates to over the next decade.

Equivalent Values of ESG Customer CO₂ Savings Over the Next Decade

REMOVING EMISSIONS FROM 1,475,000+ CARS



PLANTING 1,603,000+ ACRES OF FOREST



CREATING ENERGY TO POWER 651,000+ HOMES

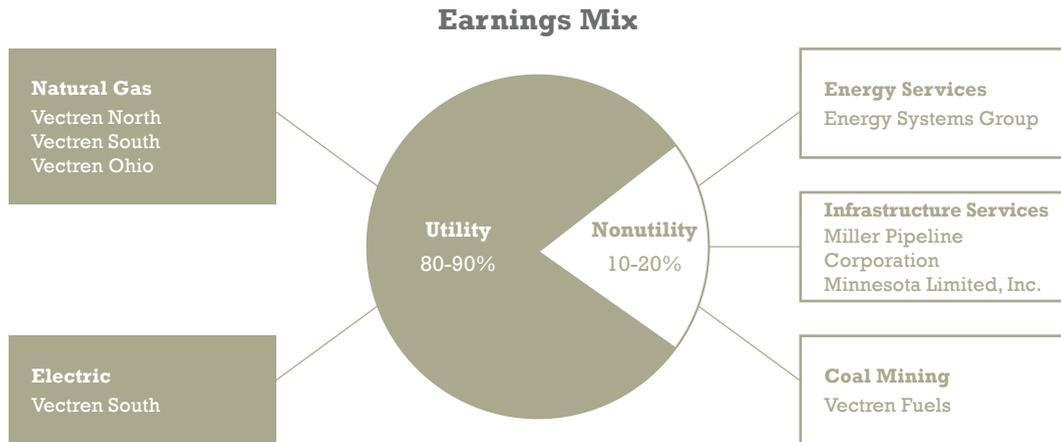


= 100,000 units



About Vectren

Vectren Corporation is an energy holding company headquartered in Evansville, Ind. Our core utility operations of gas and electric energy delivery serve more than 1 million customers in Indiana and Ohio and are supported by our nonutility operations that provide energy and energy-related services to customers throughout the U.S.



Vectren Utility Service Areas





One Vectren Square | Evansville, IN 47708 | www.vectren.com