

# Report of the Audit and Risk Management Committee

The Audit and Risk Management Committee (Audit Committee) oversees the Company's financial reporting process on behalf of the full Board. The Audit Committee consists of four members, who each satisfy the "independence" standard established by the full Board, as well as the independence requirements contained in the Corporate Governance Listing Standards of the New York Stock Exchange ("NYSE").

Audit Committee members Michael L. Smith (committee chair), Derrick Burks and Jean L. Wojtowicz are each designated an "Audit Committee Financial Expert," as determined by the Board and approved by the Governance Committee. Due to his significant financial acumen, the other member of the committee, R. Daniel Sadlier, has been determined to be "financially literate," as defined by the NYSE Corporate Governance Listing Standards. The "Nominee Biographies" section of this proxy statement beginning on page 6 contains biographies on each Audit Committee member.

The Audit Committee met seven times during the past year.

## Scope of Responsibilities

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The Audit Committee operates under a written Audit and Risk Management Committee Charter, which addresses requirements enacted by the Securities and Exchange Commission ("SEC") and the NYSE. The charter is posted on the Corporate Governance section of the Company's website at [www.vectren.com](http://www.vectren.com). The charter, which is reviewed annually by committee members, specifies the Audit Committee's oversight of SEC and other financial compliance matters, as well as a number of additional responsibilities. These include:

- Overseeing the integrity of the Company's financial statements;
- Overseeing the registered public accounting firm's qualifications and independence;
- Overseeing the performance of the Company's internal audit function ("Corporate Audit") and independent auditor;
- Overseeing the Company's system of disclosure controls and system of internal controls regarding finance, accounting, SEC compliance, and ethics that management and the Board have established; and
- Overseeing the Company's practices and processes relating to strategic risk assessment and risk management, including cybersecurity related risks.

## 2017 Accomplishments

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In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management and the independent registered public accounting firm, Deloitte, the financial and related internal control information included in the Company's annual report filed with the SEC on Form 10-K. The Audit Committee received reports from management with respect to each of the Company's quarterly filings on Form 10-Q and reviewed drafts of the Company's earnings releases prior to public dissemination.

In compliance with the Public Company Accounting Oversight Board ("PCAOB") Auditing Standard 16, "Communications with Audit Committees," the Audit Committee discussed with Deloitte the timing of the audit, audit strategy and scope, and significant risks and unusual transactions. More specifically, items addressed by Deloitte with the Audit Committee in 2017, among others, related to the accounting for 1) state commission regulatory actions and filings; 2) ongoing actions to comply with United States Environmental Protection Agency regulations; and 3) the carrying value of certain assets and investments.

The Audit Committee also participated in discussions with Deloitte regarding its independence and received written disclosures from Deloitte as required by the PCAOB. The Audit Committee approved the terms of Deloitte's engagement letter.

The vice president of corporate audit reports functionally to the Audit Committee, and in early 2017, the Audit Committee reviewed and approved the corporate audit department's charter, engagement plan, and budget for that year.

The Audit Committee met periodically and separately with the vice president of corporate audit and Deloitte, with and without management present, to discuss the results of their audits and other engagements, their evaluations of the Company's internal controls, and their judgments on the quality and acceptability of the Company's financial reporting.

During the past year, the Audit Committee has monitored the transition of leadership within the controller and corporate audit groups. This transition involved the lateral movement of the controller to the role of vice president of corporate audit,

the lateral movement of the vice president of corporate audit to the role of vice president and treasurer and the promotion of an existing director within the controller group to the role of vice president and controller. These movements were all executed in furtherance of the Company's ongoing succession planning and leadership development initiatives and have resulted in a seamless transition of changes in these roles and responsibilities.

During the year, the Audit Committee received updates from the Company's chief legal officer regarding compliance with SEC rules and regulations, as well as other litigation, claims, and legal matters that could potentially affect the Company's financial statements.

## Corporate Code of Conduct

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The Audit Committee is responsible for establishing, reviewing, and updating the Corporate Code of Conduct ("Code"), as well as ensuring management enforces and monitors compliance with the Code and that the Code complies with applicable rules and regulations.

The Audit Committee confirmed management has a proper review system to monitor the Code and for ensuring that publicly available financial information satisfies applicable legal requirements. The Audit Committee also confirmed, with assistance from the corporate audit department, that the members of the Board complied with the Code during 2017. The Code provides employees and others with contact information for the chair of the Audit Committee. The Code also identifies other methods to report issues or seek advice, such as through an anonymous third-party administered hotline. The Code is available on the Corporate Governance section of the Company's website at [www.vectren.com](http://www.vectren.com) (link is titled "Corporate Code of Conduct").

## Risk Management

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The Audit Committee reviewed reports from management regarding enterprise risk that were considered by management's Risk Management Committee. This included a comprehensive and regular review of numerous business matters that present potential risks for the Company. One such risk regularly reviewed by both the Audit Committee and the full Board involves technology risks, including cybersecurity risks. During 2017, the Audit Committee received four reports from the company's chief information officer with respect to technology and cybersecurity risk management strategies employed by the company.

## Sarbanes-Oxley Section 404 Compliance

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Throughout the year, the Audit Committee reviewed reports from the vice president of corporate audit regarding the Company's ongoing compliance with the certification and attestation requirements of Sarbanes-Oxley Section 404. The Audit Committee also received similar reports from the Company's chief financial and accounting officer and the corporate controller, as well as commentary from Deloitte on the Company's compliance.

## Independent Registered Public Accounting Firm Activities

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Pursuant to the Audit Committee's responsibility to oversee the qualifications, independence, and performance of the Company's independent registered public accounting firm, the Audit Committee appoints the firm and, following approval of that action by the full Board, submits the appointment to the shareholders for ratification. With management's assistance, the Audit Committee is actively involved in approving the fees paid to Deloitte. In determining these fees, the Audit Committee and management considers the quality of work performed by Deloitte, the staffing mix Deloitte expects to employ, and the fees charged by Deloitte's peers and Deloitte on similar engagements.

The Audit Committee has adopted a formal policy on the pre-approval of audit and permissible non-audit services that Deloitte performs. Pre-approval is assessed on a case-by-case basis. In assessing requests for Deloitte's services, the Audit Committee considers whether the service is consistent with Deloitte's independence, whether Deloitte is likely to provide the most effective and efficient service based upon the firm's familiarity with the Company, and whether the service could enhance the Company's risk management capabilities or improve audit quality. The fees related to audit, tax, and other services provided by Deloitte in the last year were approved by the Audit Committee in accordance with this policy. Audit fees are disclosed in more detail in the section titled "Audit and Non-Audit Fees of the Company's Independent Registered Public Accounting Firm," on page 72 of this proxy statement.

## Appointment of Deloitte

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The Audit Committee has recommended to the full Board that Deloitte be appointed as the Company's independent registered public accounting firm for 2018. This appointment is subject to ratification by the Company's shareholders at the 2018 annual meeting. In determining whether Deloitte's appointment is in the best interest of the Company and its shareholders, the Audit Committee took into consideration a number of factors including, but not limited to:

- The quality of the Audit Committee's ongoing discussions with Deloitte;
- Deloitte's independence;
- Management's perceptions of Deloitte's industry expertise and past performance;
- External data relating to audit quality and performance, including recent PCAOB reports on Deloitte and its peers; and
- The appropriateness of fees charged.

Deloitte has been the Company's independent registered public accounting firm since May 17, 2002.

PCAOB regulations mandate that firms rotate engagement partners every five years. In May of 2017, the current Deloitte engagement partner began leading the audit. He assumed this role as part of the transition from the prior lead engagement partner, who had served the maximum allowable time.

## Delineation of Responsibilities Among Management, the Independent Registered Public Accounting Firm, and the Audit Committee

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Management is responsible for the Company's financial reporting process, which includes its system of internal control, and for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Furthermore, management must establish and maintain disclosure controls and procedures and internal control over financial reporting; it must evaluate the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting; and it must evaluate any changes that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

The Company's independent registered public accounting firm, Deloitte, is responsible for auditing the financial statements prepared by management, and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America. Deloitte also provides an opinion on the effectiveness of the Company's internal control over financial reporting.

The Audit Committee is responsible for monitoring and reviewing the processes performed by management and Deloitte. However, it is not the Audit Committee's duty or responsibility to conduct audits, or accounting reviews or procedures, or to independently verify Deloitte's representation that the firm is independent. The Audit Committee members are not employees of the Company; therefore, they rely on management's representation that the financial statements have been prepared with integrity and objectivity and in conformity with the accounting principles generally accepted in the United States of America, and on Deloitte's reports regarding the Company's financial statements and internal control over financial reporting and its representations regarding independence. The Audit Committee's efforts do not guarantee that the Company's financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, or that the Company's independent registered public accounting firm is in fact "independent."

## 2017 Form 10-K

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After conducting the reviews and discussions detailed above, the Audit Committee recommended to the full Board that the audited, consolidated financial statements for the Company and its subsidiaries be included in the annual report on Form 10-K for the year ended December 31, 2017 for filing with the SEC.

A copy of the Company's 2017 Form 10-K is available upon request, free of charge. Send your request to:

Attn: Investor Relations  
Vectren Corporation  
One Vectren Square  
Evansville, IN 47708  
vvcir@vectren.com

## Annual Committee Charter Review and Performance Evaluation

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The Audit Committee confirmed the completion of requirements stipulated in its charter for 2017, which included an annual performance evaluation and a review of its charter. These actions assist the committee with continuously improving its processes. The charter was last amended and restated, effective November 1, 2017.

## Commitment

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The Audit Committee is committed to ensuring that the Company establishes and abides by the necessary and appropriate financial reporting processes. The Audit Committee anticipates meeting seven times in 2018.

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

Michael L. Smith, *Chair*,  
Derrick Burks,\*  
R. Daniel Sadlier, and  
Jean L. Wojtowicz

\* Following his election to the Board in the fall of 2017, Mr. Burks was appointed to replace James H. DeGraffenreidt, Jr. as a member of the Audit and Risk Management Committee. Mr. DeGraffenreidt remains a member of the Nominating and Corporate Governance Committee and Corporate Responsibility and Sustainability Committee. This change was made to equitably balance committee service among all board members.