

# Report of the Compensation and Benefits Committee

The Compensation Committee has four members and met five times during 2017. The Compensation Committee is comprised solely of non-employee directors, all of whom meet the independence requirements established by the NYSE. The Compensation Committee members also meet other independence requirements imposed by federal laws and regulations. The Board has adopted a charter for the Compensation Committee, which is available on the Company's website at [www.vectren.com](http://www.vectren.com). At each meeting, the Compensation Committee conducts an executive session without management present. As appropriate, the Compensation Committee also conducts private sessions with its independent compensation consultant.

## Scope of Responsibilities

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The Compensation Committee's responsibilities, which are discussed in detail in its charter, include, among other duties, the responsibility to:

- Establish the base salary, incentive compensation and any other compensation for the Company's chair, president and chief executive officer (Mr. Chapman) and each of the other executive officers;
- Administer the Company's management incentive and stock-based compensation plans, and provide oversight of the administration of the Company's and its regulated subsidiaries' retirement and welfare plans; and
- Conduct the performance appraisal for Mr. Chapman; and perform other duties deemed appropriate and requested by the full Board.

Compensation determinations for the Company's executive officers, including Mr. Chapman, named in the Summary Compensation Table in this proxy statement (collectively, "executive officers") are made by the Compensation Committee. Determinations regarding non-equity compensation for other Company officers and the leadership of primary subsidiary companies are made by Mr. Chapman and reviewed for reasonableness by the Compensation Committee. Compensation for the other officers of the Company's nonutility businesses is determined by the boards for those entities.

The Compensation Committee has engaged Korn Ferry/Hay Group (Hay Group), an independent outside human resources consulting firm, to conduct an annual review of the Company's total compensation program (base salaries, annual incentives and long-term incentives) for the executive officers. At the Compensation Committee's direction, Hay Group also provides advice with respect to the total compensation for the Company's other officers, as well as the officers of the Company's primary subsidiaries. The Hay Group also periodically reports to the Compensation Committee regarding developments in applicable regulations and trends pertaining to compensation programs.

The agendas for Compensation Committee meetings are established by its chair with assistance from the other members of the Compensation Committee, the Compensation Committee's independent compensation consultant, and the executive officers. Compensation Committee meetings are regularly attended by the executive officers, as well as the vice president of Human Resources. The Compensation Committee's chair reports the Compensation Committee's recommendations on executive compensation to the Board, including the results of their review of compensation determined by Mr. Chapman, and the Board approves the base salaries for the executive officers. Independent advisors, as directed by the Compensation Committee, support the Compensation Committee in its duties. In addition, one or more of the Company's officers, as well as the Company's Human Resources department, may be delegated authority to fulfill certain administrative duties regarding the compensation programs. The Company's Human Resources department is charged by the Compensation Committee with executing the compensation plans and programs adopted by the Compensation Committee, as well as implementing changes in compensation levels as directed by the Compensation Committee. The Compensation Committee has authority under its charter to retain, approve fees for and terminate advisors, consultants and agents as necessary or advisable to assist with its responsibilities.

## Role of Board Chair, President and Chief Executive Officer in the Compensation Process

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Compensation determinations for the Company's executive officers, including Mr. Chapman, are made by the Compensation Committee. The Compensation Committee delegates certain administrative duties to, and solicits recommendations from, Mr. Chapman in his role as chair, president and chief executive officer. He provides recommendations to the Compensation Committee regarding the base salary, annual incentive and long-term incentive opportunity for each of the other executive officers. He receives and reviews market data from the Compensation Committee's independent compensation consultant. In making his recommendations, Mr. Chapman considers the market data, as well as each executive officer's overall

performance, contributions to the Company over the past year, experience and potential, internal pay equity, and any change in an executive officer's functional responsibility. Mr. Chapman's recommendations are reviewed by the Compensation Committee with assistance from its independent compensation consultant, and the Compensation Committee can accept or modify the recommended amounts. Determinations regarding short-term and long-term incentive opportunities under the At-Risk Compensation Plan ("At-Risk Plan") for the other executive officers are approved by the Compensation Committee. Mr. Chapman also provides to the Compensation Committee compensation data for other Company officers and for certain officers of the Company's primary subsidiaries.

Mr. Chapman regularly attends Compensation Committee meetings to provide input as a representative of management. At each meeting, the Compensation Committee goes into an executive session and excuses Mr. Chapman and any other members of management who may be present. Actions required by the Compensation Committee relating to the establishment of executive compensation are deferred to, and acted upon, during the executive sessions. As appropriate, in those executive sessions Hay Group will also attend and provide counsel to the Compensation Committee.

## Share Ownership Policy for Officers

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The Company's share ownership policy requires officers to maintain share ownership targets and provides for a five-year transition period for officers to comply with these share ownership targets. The Compensation Committee expects officers to make ratable progress toward compliance each year. The program includes these key features:

- Participants who are officers have a share ownership target based on a multiple of their base salary, which is five times base salary for Mr. Chapman and three times base salary for Ms. Hardwick and Messrs. Schach and Christian. As of February 23, 2018, the executive officers listed in the Summary Compensation Table exceeded the established ownership requirements. The Compensation Committee reviews executive officers' stock ownership on an annual basis. As of February 23, 2018, all other officers who are subject to the share ownership policy either met the ownership guidelines or were still in the five year compliance transition period and progressing toward the required ownership level. Moreover, based upon research conducted at the Compensation Committee's direction, the Compensation Committee determined in 2017 that the existing share ownership targets are in line with the market for such matters.
- Participants may count toward their targets the value of owned shares, phantom Vectren stock units held in nonqualified deferred compensation plans, and outstanding restricted shares and stock unit awards, with value based on a current market price of the Company's common stock.

For officers who have not met their ownership target at the time a stock unit award is settled under the At-Risk Plan, the above policy provides that the award will be settled in shares of Company common stock (unless such officer previously elected to defer such amounts into the Company's nonqualified deferred compensation plan). Effective January 1, 2015, and irrespective of the five-year transition period provided above, the Compensation Committee determined that officers receiving Company common stock (or phantom stock units under the Company's nonqualified deferred compensation plan) must continue to hold 50% or more of such common stock (or phantom stock units) until their ownership targets are met or exceeded.

## Compensation Consultant

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In accordance with the Compensation Committee's authority to retain consultants, Hay Group has been engaged as its independent compensation consultant for 2018. The Compensation Committee began its relationship with Hay Group in 2005. The representatives of Hay Group report directly to the Compensation Committee and, in performing engagements, are supervised by the Compensation Committee's chair. Once engagements are completed, reports to the entire Compensation Committee are made. With the chair's direction and supervision, Hay Group provides market data concerning the compensation of executives at comparable companies in order to determine whether the Company's compensation program is reasonable. From time to time, Hay Group also provides the Compensation Committee advice regarding other elements of executive compensation. These matters include regulatory updates and advice on executive compensation matters, including positions of corporate governance firms, as well as advice on employment, change in control, severance and retention agreements, and other arrangements and practices affecting executives. As discussed on page 23, Hay Group is also engaged from time to time by the Governance Committee to assist with the review and establishment of appropriate, market-based compensation for the non-employee members of the Board.

The Compensation Committee requires that its compensation consultant must be independent. Therefore, the consultant can only perform engagements for the Company under the direction and supervision of the Compensation Committee's chair

or under the direction and supervision of the Governance Committee. No fees were paid to Hay Group for services other than executive officer and other officer compensation and non-employee director compensation consulting during 2017.

The Board has adopted the Vectren Corporation Compensation and Benefits Committee Consultant Engagement Policy, which is available on the Company's website at [www.vectren.com](http://www.vectren.com), to ensure that the Compensation Committee remains in compliance with applicable independence requirements. The Compensation Committee has developed internal controls to ensure compliance with this policy and as part of those controls, at each meeting, the Compensation Committee reviews work performed by Hay Group since the prior meeting and confirms such work relates only to engagements requested by the Compensation Committee or Governance Committee. In light of SEC and NYSE rules, the Compensation Committee considered the independence of Hay Group, including assessment of the following factors: (i) other services provided to the Company by the consultant (of which, other than advice provided to the Governance Committee regarding non-employee board compensation, there were none); (ii) fees paid as a percentage of the consulting firm's total revenue; (iii) policies or procedures maintained by the consulting firm that are designed to prevent a conflict of interest; (iv) any business or personal relationships between the individual consultants involved in the engagement and any member of the Compensation Committee; (v) any Company stock owned by individual consultants involved in the engagement; and (vi) any business or personal relationships between the Company's executive officers and the consulting firm or the individual consultants involved in the engagement. The Compensation Committee has concluded that no conflict of interest exists preventing Hay Group from independently representing the Compensation Committee and that Hay Group is in compliance with the independence requirements discussed above. In 2017, the Compensation Committee completed its annual review of the external compensation consultant's performance to ensure the Compensation Committee receives appropriate counsel to carry out its key responsibilities.

## Recoupment ("Clawback") Policy

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The Compensation Committee has adopted a pay recoupment or clawback policy which provides, under certain conditions, for the return of certain annual incentive compensation received by officers of the Company and its subsidiaries for a period of up to three years. Generally stated, those conditions are a material restatement of the Company's consolidated financial statements for a prior period, which, if such restated financial statements had been in effect at the time that incentive compensation was paid would have resulted in a lesser payment. The policy is intended to position the Company to comply with the requirements of the Dodd-Frank Act, recognizing that neither the SEC nor the NYSE has adopted final rules implementing this part of the law and it is unclear whether and when such rules will be finalized. The policy explicitly acknowledges that upon the adoption of further guidance from these authorities, the policy will need to be further reviewed and possibly revised. Given the continuing uncertainty in this area, due to the lack of definitive guidance from the SEC and the NYSE, and following the adoption of the policy, the Compensation Committee reserved the right in long-term incentive compensation agreements issued under the At-Risk Plan to subject those agreements to any successor policy during the agreement's vesting period. The Compensation Committee's clawback policy has been approved by the Board and is available on the Company's website at [www.vectren.com](http://www.vectren.com).

## Oversight of Company Benefit Plans

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The Compensation Committee also has general oversight authority of benefit plans of the Company and its subsidiaries applicable to employees and retirees. In furtherance of that charge, during 2017 the Compensation Committee received reports from management regarding retirement and welfare plans. Those reports also addressed issues arising from federal health care legislation. The Compensation Committee anticipates continuing to receive such informational reports during 2018.

The Compensation Committee also received reports from management regarding ongoing efforts to continuously improve the design of the Company's incentive and benefit plans applicable to the majority of employees (primarily, at the corporate level and at the utility business). While the Compensation Committee does not directly administer those plans, it provides counsel to management with respect to plan design issues. The Compensation Committee anticipates continuing to perform such a role in 2018.

## Company's Human Resources Advisory Committee

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The Company has a Human Resources Advisory Committee ("HRAC") that is composed solely of officers and is focused upon establishing policy with respect to human resource matters. Under its charter, the Compensation Committee is charged with appointing the HRAC's membership. Each year, the Compensation Committee reviews the membership of the HRAC, and, with input from Mr. Chapman, selects members of management to serve on that committee.

## Regulatory Updates and Governance Practices

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Throughout 2017, the Compensation Committee received regular updates from Hay Group regarding regulatory developments in the area of executive compensation. Those updates also addressed executive pay and governance practices as established by corporate governance rating firms. In establishing the executive compensation program that is more fully described in the "Compensation Discussion and Analysis" section beginning on page 41, the Compensation Committee is ever mindful of these regulatory developments and executive pay and governance practices and endeavors to ensure that the Company's executive compensation program is in alignment with those developments and practices.

As part of this oversight responsibility, in response to a report received by the Compensation Committee with respect to recent actions by the Securities and Exchange Commission (SEC) relating to "whistleblowers," the Compensation Committee took actions to ensure that nothing in the Company's existing severance and/or employment agreement arrangements is inconsistent with individuals exercising their legal rights with respect to freely communicating concerns that could constitute "whistleblowing." These actions included advising individuals with employment agreements (which included a very limited group within the Company's non-regulated businesses) that such communications are not precluded by the terms of those agreements, as well as modifying the Vectren Corporation Severance Plan for Executive Officers to explicitly recognize this right of communication.

Throughout the year, the Compensation Committee also received reports from management and Hay Group with respect to the compliance requirement relating to the "CEO Pay Ratio" rule. Those reports provided preliminary insight as to the expected ratio to be reported, as well as the methodologies for calculating the ratio. The reports also addressed communications plans to ensure all of the Company's stakeholders will be provided an appropriate informational framework in order to understand the final ratio that is presented on page 70 of this proxy statement.

## Deductibility of Executive Compensation

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In 1993, Congress enacted Section 162(m) of the Internal Revenue Code ("Section 162(m)"). As enacted, that law disallowed corporate deductibility for "compensation" paid in excess of one million dollars to the chief executive officer and the other three highest paid executives, unless the compensation is "qualified performance-based compensation," which includes a requirement that it be payable solely on achievement of objective performance goals. The Company's At-Risk Plan, which was most recently amended and restated in May 2016, was structured to provide the Compensation Committee the discretion to award compensation satisfying the qualified performance-based compensation requirements of Section 162(m). In accordance with that authority, the Compensation Committee has acted, to the extent practical and consistent with the best interests of the Company and its shareholders, to use compensation policies that preserve the tax deductibility of grandfathered compensation expenses. On November 2, 2017, the Tax Cuts and Jobs Act (Tax Act) was introduced in the U. S. House of Representatives and signed into law on December 22, 2017. The Tax Act repealed the performance-based compensation exception to the \$1 million yearly limit on the deduction for compensation under Section 162(m). The Tax Act did, however, grandfather existing compensation arrangements that were in place prior to November 2, 2017, and which have not been materially modified on or after that date. The Compensation Committee intends, to the extent practical, to preserve the grandfathered status of this preexisting compensation in order to provide for its eligibility for tax deductibility. With respect to compensation provided on and after that date (including 2018 compensation), the Compensation Committee will work with Hay Group to assess the appropriate market supported response to this law change. The Compensation Committee intends to preserve the performance based aspects of the Company's executive compensation program, irrespective of whether one hundred percent of that compensation is eligible for tax deductibility. In responding to the Tax Act, and to ensure compliance with that law, the Compensation Committee may conclude that some modifications to the At-Risk Plan are necessary or advisable. The Company will report to the public on these matters as they continue to develop.

## Annual Committee Charter Review and Performance Evaluation

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The Compensation Committee determined that during 2017 it fulfilled the responsibilities under its charter, including the completion of an annual performance evaluation. The Committee also determined that no changes to the charter were necessary or advisable at this time.

## Compensation and Benefits Committee Report

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The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis included in this proxy statement beginning on page 41 with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Company's annual report on Form 10-K.

## Commitment

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The Compensation Committee is committed to fulfilling its responsibilities as set forth in the committee charter. The Compensation Committee expects to meet at least three times in 2018.

### **COMPENSATION AND BENEFITS COMMITTEE\***

R. Daniel Sadlier, *Chair*,  
Anton H. George,  
Patrick K. Mullen, and  
Teresa J. Tanner

\*For a portion of 2017, the Compensation Committee included former Board member, Martin C. Jischke, who retired from service following the 2017 annual meeting of shareholders.