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Vectren Corporation is an energy holding company headquartered in Evansville, Ind. Vectren's wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), serves as the intermediate holding company for three operating utilities: Indiana Gas Company, Inc. (Vectren North), Southern Indiana Gas and Electric Company (Vectren South), and Vectren Energy Delivery of Ohio (VEDO).

Vectren North provides energy delivery services to approximately 569,000 natural gas customers located in central and southern Indiana. Vectren South provides energy delivery services to approximately 141,000 electric customers and approximately 112,000 gas customers located in southwestern Indiana. Vectren South also owns and operates electric generation to serve its electric customers and optimizes those assets in the wholesale power market. VEDO provides energy delivery services to approximately 319,000 natural gas customers located in west central Ohio.

Vectren is also a low-cost provider of wholesale power in southwestern Indiana. Total generation capacity is 1,425 MW and includes 1,295 MW of coal and gas-fired generation, 30 MW of wind power and 100 MW of purchased power. Furthermore, interruptible load and demand side management initiatives can yield more than 60 MW of energy savings to meet peak demand if needed.

Vectren's Nonutility Group is involved in three primary business areas: Energy Marketing and Services, Coal Mining, and Energy Infrastructure Services. Energy Marketing and Services markets natural gas (ProLiance Energy) and retail products and services (Vectren Source). Coal Mining mines and sells coal (Vectren Fuels). Energy Infrastructure Services provides energy performance contracting services (Energy Systems Group or ESG) and underground construction, repair, and replacement services (Miller Pipeline).

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Utility Operations

Vectren Energy Delivery
Vectren's regulated subsidiaries deliver gas and/or electricity to more than one million customers in adjoining service territories that cover two-thirds of Indiana and west central Ohio. Vectren is also a low-cost provider of wholesale electricity to other utilities and power marketers in the Midwest.

Vectren Energy Delivery is comprised of three utilities.

- Vectren Energy Delivery of Indiana - North: Provides natural gas service to 49 counties in central and southeastern Indiana.
- Vectren Energy Delivery of Indiana - South: Provides natural gas and electric service to 10 counties in southwestern Indiana.
- Vectren Energy Delivery of Ohio: Provides natural gas service to 17 counties in west central Ohio.

NonUtility Operations

Vectren's nonutility entities fall within four categories:

Energy Marketing & Services

Coal Mining

Energy Infrastructure Services

Other Businesses

TAB 2

fallen to levels not seen since early 2001, energy bills will continue to be a burden, especially to those households that are managing job losses or other financial hardships. For customers who are facing these challenges, we have encouraged them to contact us, so we may assist with a number of tools and resources to help reduce their energy consumption and manage costs.

While the economic environment ahead is uncertain, Vectren's core utility business provides a solid foundation for long-term growth. Over time, needed infrastructure investments, combined with significant cost controls, will continue to be key drivers of utility results. Future nonutility results should have numerous opportunities for improvement. New, higher, market priced coal contracts and additional production from the new Oaktown mines and from the reconfiguration at Prosperity mine will boost results at Fuels. ProLiance is positioned to optimize arbitrage opportunities created by price differences across its storage assets and various pipelines. The *American Recovery and Reinvestment Act* should provide for the investment of billions of dollars in utility infrastructure, energy efficiency and renewable energy projects that will benefit Miller and ESG.

Given the uncertainty of the economic downturn, we have initiated aggressive cost-cutting measures to manage our operating and maintenance expenses. Access to future capital markets is unclear, and for now, we have reduced the number of planned capital projects. However, we have recently been successful in attracting capital to meet a growing need for infrastructure investments and we continue to strategize about restoring some projects that are needed and may benefit from stimulus measures.

2008 marked the 49th consecutive year annual dividends paid have increased, and in December, the dividend rate was increased 3.1 percent. For many utility shareholders, reliable dividends, such as Vectren's, provide a much needed source of income to pay everyday bills. Regrettably, the current 15 percent dividend tax rate is set to expire at the end of 2010. Defend My Dividend is a national grassroots campaign that gives utility investors a powerful and unified voice in an effort to make the current dividend tax rate permanent. We encourage you to visit www.defendmydividend.com to let your local and state representatives know how important lower dividend taxes are to you.

Indiana shareholders should also take time to join the Indiana Utility Shareholder Association. This newly-founded organization focuses on state and national issues that impact utility shareholder value and can be found on the Internet at www.iusaonline.org.

Before closing, we would like to give our personal thanks and gratitude to Dick Shymanski who will retire from the Board of Directors when his term expires this May. His vision and leadership have served shareholders well in guiding Vectren's success for the last 20 years, and we wish him the very best in his retirement. Additionally, the Board has nominated for election Carl Chapman, Vectren's president and chief operating officer, whose 24 years of service with the company will continue to be a valuable asset.

These difficult economic times will test our management team like never before. We feel confident in the ability of our team of executive leaders to effectively balance the needs of all our stakeholders while pursuing improved financial performance. In both living smart and working smart, we can help customers efficiently manage energy costs and ensure Vectren meets the challenges that lay ahead.

Niel C. Ellerbrook

Niel C. Ellerbrook
Chairman and Chief Executive Officer

Carl L. Chapman

Carl L. Chapman
President and Chief Operating Officer

February 19, 2009

Natural Gas Purchasing Activity in Ohio
As a result of a June 2005 PUCO order, the Company established an annual bidding process for VEDO's gas supply and portfolio administration services. From November 1, 2005 through September 30, 2008, the Company used a third party provider for these services. Prior to October 31, 2005, ProLiance also supplied natural gas to Utility Holdings' Ohio operations.

On April 30, 2008, the PUCO issued an Order adopting a stipulation involving the Company, the OCC and other interveners. The order involved the first two stages of a three stage plan to exit the merchant function in the Company's Ohio service territory.

Stage one of the plan was implemented on October 1, 2008 and continues through March 31, 2010. As part of stage one, wholesale suppliers that were winning bidders in a PUCO approved auction provide the gas commodity to VEDO for resale to its customers at auction-determined standard pricing. This standard pricing is comprised of the monthly NYMEX settlement price plus a fixed adder. On October 1, 2008, the Company transferred its natural gas inventory at book value to the winning bidders, receiving proceeds of approximately $107 million, and now purchases natural gas from those suppliers, which include Vectren Source, a wholly owned subsidiary of Vectren, essentially on demand. This method of purchasing gas eliminates the need for monthly gas cost recovery (GCR) filings and prospective PUCO GCR audits.

In the second stage of this process, the Company will no longer sell natural gas directly to customers; rather state-certified Competitive Retail Natural Gas Suppliers, which are successful bidders in a second regulatory-approved auction, will sell the gas commodity to specific customers at auction-determined standard pricing, and the Company will transport that gas supply to the customers. In the third stage, which was not part of the April 2008 order, it is contemplated that all of the Company's Ohio customers will choose their commodity supplier from state-certified Competitive Retail Natural Gas Suppliers in a competitive market.

The PUCO has also provided for an Exit Transition Cost rider for the first two stages of the transition, which allows the Company to recover costs associated with the transition, and it is anticipated this rider will remain effective for the entire transition. Since the cost of gas is currently passed through to customers through a PUCO approved recovery mechanism, the impact of exiting the merchant function should not have a material impact on Company earnings or financial condition.

Total Natural Gas Purchased Volumes
In 2008, Utility Holdings purchased 109,059 MDth volumes of gas at an average cost of $9.61 per Dth, of which approximately 71 percent was purchased from ProLiance, 2 percent was purchased from Vectren Source, as discussed above, and 27 percent was purchased from third party providers. The average cost of gas per Dth purchased for the previous five years was $9.61 in 2008, $8.14 in 2007, $8.64 in 2006, $9.05 in 2005, and $6.92 in 2004.

Electric Utility Services

At December 31, 2008, the Company supplied electric service to approximately 141,300 Indiana customers, including approximately 122,800 residential, 18,400 commercial, and 100 industrial and other customers. Average electric utility customers served were approximately 141,100 in 2008; 140,800 in 2007; and 139,700 in 2006.

The principal industries served include polycarbonate resin (Lexan®) and plastic products, aluminum smelting and recycling, aluminum sheet products, automotive assembly, steel finishing, appliance manufacturing, pharmaceutical and nutritional products, automotive glass, gasoline and oil products, ethanol and coal mining.

Revenues

For the year ended December 31, 2008, retail electricity sales totaled 5,323.4 GWh, resulting in revenues of approximately $457.3 million. Residential customers accounted for 37 percent of 2008 revenues; commercial 28 percent; industrial 33 percent, and municipal and other 2 percent. In addition, in 2008 the Company sold 1,512.9 GWh through wholesale activities in 2008 principally to the MISO. Wholesale revenues, including transmission sales, totaled $66.9 million in 2008.

structures of its subsidiaries. If the rating agencies downgrade the Company's credit ratings, particularly below investment grade, or initiate negative outlooks thereon, or withdraw Vectren's ratings or, in each case, the ratings of its subsidiaries, it may significantly limit Vectren's access to the debt capital markets and the commercial paper market, and the Company's borrowing costs would increase. In addition, Vectren would likely be required to pay a higher interest rate in future financings, and its potential pool of investors and funding sources would likely decrease. Finally, there is no assurance that the Company will have access to the equity capital markets to obtain financing when necessary or desirable.

Vectren operates in an increasingly competitive industry, which may affect its future earnings.

The utility industry has been undergoing structural change for several years, resulting in increasing competitive pressure faced by electric and gas utility companies. Increased competition may create greater risks to the stability of Vectren's earnings generally and may in the future reduce its earnings from retail electric and gas sales. Currently, several states, including Ohio, have passed legislation that allows customers to choose their electricity supplier in a competitive market. Indiana has not enacted such legislation. Ohio regulation also provides for choice of commodity providers for all gas customers. In 2003, the Company implemented this choice for its gas customers in Ohio and is currently in the first of the three stage process to exit the merchant function in its Ohio service territory. The state of Indiana has not adopted any regulation requiring gas choice in the Company's Indiana service territories; however, the Company operates under approved tariffs permitting certain industrial and commercial large volume customers to choose their commodity supplier. Vectren cannot provide any assurance that increased competition or other changes in legislation, regulation or policies will not have a material adverse effect on its business, financial condition or results of operations.

A significant portion of Vectren's gas and electric utility sales are space heating and cooling. Accordingly, its operating results may fluctuate with variability of weather.

Vectren's gas and electric utility sales are sensitive to variations in weather conditions. The Company forecasts utility sales on the basis of normal weather. Since Vectren does not have a weather-normalization mechanism for its electric operations, significant variations from normal weather could have a material impact on its earnings. However, the impact of weather on the gas operations in the Company's Indiana territories has been significantly mitigated through the implementation in 2005 of a normal temperature adjustment mechanism. Additionally, the implementation of a straight fixed variable rate design over a two year period per a January 2009 PUCO order will significantly mitigate weather risk related to Ohio residential gas sales.

Risks related to the regulation of Vectren's utility businesses, including environmental regulation, could affect the rates the Company charges its customers, its costs and its profitability.

Vectren's businesses are subject to regulation by federal, state and local regulatory authorities and are exposed to public policy decisions that may negatively impact the Company's earnings. In particular, Vectren is subject to regulation by the FERC, the NERC (North American Electric Reliability Corporation), the IURC and the PUCO. These authorities regulate many aspects of its transmission and distribution operations, including construction and maintenance of facilities, operations, and safety, and its gas marketing operations involving title passage, reliability standards, and future adequacy. In addition, these regulatory agencies approve its utility-related debt and equity issuances, regulate the rates that Vectren's utilities can charge customers, the rate of return that Vectren's utilities are authorized to earn, and its ability to timely recover gas and fuel costs. Further, there are consumer advocates and other parties which may intervene in regulatory proceedings and affect regulatory outcomes. The Company's ability to obtain rate increases to maintain its current authorized rate of return depends upon regulatory discretion, and there can be no assurance that Vectren will be able to obtain rate increases or rate supplements or earn its current authorized rate of return. As gas costs remain above historical levels and are more volatile, any future disallowance might be material to the Company's operations or financial condition.

Vectren's operations and properties are subject to extensive environmental regulation pursuant to a variety of federal, state and municipal laws and regulations. These environmental regulations impose, among other things, restrictions, liabilities and obligations in connection with storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances in the environment. Such emissions from electric generating facilities include particulate matter, sulfur dioxide (SO_2), nitrogen oxide (NOx), and mercury, among others.

Gas Utility margins increased $31.2 million in 2007 compared to 2006. Residential and commercial customer usage, including lost margin recovery, increased margin $13.3 million year over year. For all of 2007, Ohio weather was 6 percent warmer than normal, but approximately 6 percent colder than the prior year and resulted in an estimated increase in margin of approximately $2.0 million compared to 2006. Margin increases associated with the Vectren South base rate increase, effective August 1, 2007, were $3.3 million. Recovery of gas storage carrying costs in Ohio was $2.3 million. Lastly, operating costs, including revenue and usage taxes, directly recovered in margin increased gas margin $10.3 million year over year. During 2007, the Company resolved all remaining issues related to a 2005 disallowance by the PUCO of gas costs incurred by the Ohio utility operations, resulting in an additional charge of $1.1 million.

Electric Utility Margin (Electric Utility revenues less Cost of fuel and purchased power)
Electric Utility margin and volumes sold by customer type follows:

	Year Ended December 31,		
(In millions)	2008	2007	2006
Electric utility revenues	$ 524.2	$ 487.9	$ 422.2
Cost of fuel & purchased power	182.9	174.8	151.5
Total electric utility margin	**$ 341.3**	**$ 313.1**	**$ 270.7**
Margin attributed to:			
Residential & commercial customers	$ 218.6	$ 198.6	$ 162.9
Industrial customers	82.9	78.3	70.2
Municipals & other customers	7.3	15.3	24.0
Subtotal: Retail	**$ 308.8**	**$ 292.2**	**$ 257.1**
Wholesale margin	$ 32.5	$ 20.9	$ 13.6
Electric volumes sold in GWh attributed to:			
Residential & commercial customers	2,850.5	3,042.9	2,789.7
Industrial customers	2,409.1	2,538.5	2,570.4
Municipals & other	63.8	635.1	644.4
Total retail & firm wholesale volumes sold	**5,323.4**	**6,216.5**	**6,004.5**

Retail
Electric retail utility margin was $308.8 million for the year ended December 31, 2008, an increase of approximately $16.6 million compared to 2007. The base rate increase that went into effect on August 15, 2007, produced incremental margin of $27.0 million year over year when netted with municipal contracts that were allowed to expire. Management estimates the year over year decreases in usage by residential and commercial customers due to weather, which was very warm the prior summer, to be $7.5 million. Other usage declines due in part to a weakening economy and conservation measures were the primary reason for the remaining decrease.

In 2007, electric retail utility margins increased $35.1 million when compared to 2006. Management estimates the year over year increases in usage by residential and commercial customers due to weather to be $11.8 million. The base rate increase that went into effect on August 15, 2007, produced incremental margin of $17.9 million. During 2007, cooling degree days were 33 percent above normal compared to 5 percent below normal in 2006. Recovery of pollution control investments and expenses increased margin $5.5 million year over year.

Margin from Wholesale Activities
Periodically, generation capacity is in excess of native load. The Company markets and sells this unutilized generating and transmission capacity to optimize the return on its owned assets. A majority of the margin generated from these activities is associated with wholesale off-system sales, and substantially all off-system sales occur into the MISO Day Ahead and Real Time markets.