Gol Intelligent Airlines Inc.
Form 6-K
March 23, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of March, 2009

(Commission File No. 001-32221) ,

GOL LINHAS AÉREAS INTELIGENTES S.A.
(Exact name of registrant as specified in its charter)

GOL INTELLIGENT AIRLINES INC.
(Translation of Registrant's name into English)

R. Tamoios, 246
Jd. Aeroporto
04630-000 São Paulo, São Paulo
Federative Republic of Brazil
(Address of Regristrant's principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No ___X___

If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b):

Consolidated Financial Statements

GOL Linhas Aéreas Inteligentes S.A.

Year ended December 31, 2008

GOL LINHAS AÉREAS INTELIGENTES S.A.

Consolidated financial statements

December 31, 2008 and 2007
(In thousands of Brazilian reais)

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Report of independent registered public accounting firm on internal control

The Board of Directors and Shareholders
Gol Linhas Aéreas Inteligentes S.A.

We have audited Gol Linhas Aéreas Inteligentes S.A. s internal control over financial Reporting as of December 31,2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Comission (the COSO criteria). Gol Linhas Aéreas Inteligentes management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Gol Linhas Aéreas Inteligentes S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Gol Linhas Aéreas Inteligentes S.A. as of December 31, 2008 and 2007, and related consolidated statements of income, changes in equity, and cash flows for the years then ended and our report dated March 19, 2009 expressed an unqualified opinion thereon.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Maria Helena Pettersson
Partner

São Paulo, Brazil,
March 19, 2009

Report of independent registered public accounting firm

The Board of Directors and Shareholders
Gol Linhas Aéreas Inteligentes S.A.

We have audited the accompanying consolidated balance sheets of Gol Linhas Aéreas Inteligentes S.A. as of December 31, 2008 and 2007 and the related consolidated statements of income, changes in equity and cash flows for the years then ended. 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 the standards of the Public Company Accounting Oversight Board (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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gol Linhas Aéreas Inteligentes S.A. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards, issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Gol Linhas Aéreas Inteligentes S.A. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 19, 2009 expressed an unqualified opinion thereon.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-1

Maria Helena Pettersson
Partner

São Paulo, Brazil
March 19, 2009

GOL LINHAS AÉREAS INTELIGENTES S.A.

Consolidated income statements
Years ended December 31, 2008 and 2007
(In thousands of Brazilian reais, except per share amounts)

	Note	2008	2007
Operating revenues			
Passenger		**5,890,104**	4,566,691
Cargo and other		**516,089**	374,293
Total operating revenues		**6,406,193**	4,940,984
Operating expenses			
Salaries	4	**(983,783)**	(799,344)
Aircraft fuel		**(2,630,834)**	(1,898,840)
Aircraft rent		**(645,089)**	(525,785)
Aircraft insurance		**(42,813)**	(44,646)
Sales and marketing		**(588,735)**	(367,866)
Landing fees		**(338,370)**	(273,655)
Aircraft and traffic servicing		**(422,177)**	(348,732)
Maintenance materials and repairs		**(388,030)**	(339,281)
Depreciation and amortization		**(125,127)**	(62,548)
Other operating expenses		**(329,883)**	(277,844)
Total operating expenses		**(6,494,841)**	(4,938,541)
Operating profit (loss)		**(88,648)**	2,443
Finance costs and other income (expense)			
Finance costs			
Interest expense		**(269,278)**	(182,618)
Capitalized interest		**28,871**	38,879
Total finance costs		**(240,407)**	(143,739)
Exchange gain (loss)		**(757,526)**	165,230
Interest and investment income		**78,349**	293,333
Other income (expense), net		**(185,118)**	(123,806)
Total finance costs and other income (expense)		**(1,104,702)**	191,018
Profit (loss) before income taxes		**(1,193,350)**	193,461
Income taxes (expense) benefit	5	**(193,626)**	78,800
Profit (loss) for the year from continuing operations attributable to equity holders of the parent		**(1,386,976)**	272,261

Earnings (loss) per share:			
Basic	15	**(6.89)**	1.37
Diluted	15	**(6.89)**	1.37

GOL LINHAS AÉREAS INTELIGENTES S.A.

Consolidated balance sheets
December 31, 2008 and 2007
(In thousands of Brazilian reais)

	Note	2008	2007
Assets			
Non-current assets			
Property, plant and equipment, net	6	**2,998,756**	2,191,028
Intangible assets	7	**1,197,861**	1,197,441
Other non-current assets			
Deposits	2	**507,428**	448,807
Deferred income taxes	5	**495,544**	485,980
Restricted cash	12	**6,589**	6,041
Other non-current assets	2	**105,526**	87,694
Total other non-current assets		**1,115,087**	1,028,522
Total non-current assets		**5,311,704**	4,416,991
Current assets			
Other current assets	2	**49,439**	144,484
Prepaid expenses	2	**120,100**	131,231
Deposits	2	**237,914**	192,357
Recoverable income taxes		**110,767**	45,569
Inventories of parts and supplies	9	**200,514**	209,926
Trade and other receivables	10	**344,927**	916,133
Restricted cash	12	**176,697**	-
Financial assets	19	**245,585**	820,343
Cash and cash equivalents	11	**169,330**	573,121
Total current assets		**1,655,273**	3,033,164
Total assets		**6,966,977**	7,450,155

GOL LINHAS AÉREAS INTELIGENTES S.A.

Consolidated balance sheets
December 31, 2008 and 2007
(In thousands of Brazilian reais)

	Note	2008	2007
Liabilities and shareholders' equity			
Shareholders' equity			
Issued share capital	13	**1,248,649**	1,248,649
Capital reserves	13	**89,556**	89,556
Treasury shares	13	**(41,180)**	-
Retained earnings (deficit)	13	**(273,877)**	1,153,412
Total shareholders' equity		**1,023,148**	2,491,617
Non-current liabilities			
Long-term debt	19	**2,438,881**	1,714,716
Smiles deferred revenue	2	**262,626**	233,618
Deferred income taxes	5	**323,345**	339,348
Provisions	16	**157,310**	117,062
Other non-current liabilities		**160,069**	63,135
Total non-current liabilities		**3,342,231**	2,467,879
Current liabilities			
Short-term debt	19	**967,452**	891,543
Accounts payable		**283,719**	326,364
Salaries, wages and benefits		**146,805**	163,437
Current income taxes payable		**39,605**	68,013
Sales tax and landing fees		**97,210**	84,319
Advance ticket sales	22	**572,573**	472,860
Provisions	16	**165,287**	175,976
Smiles deferred revenue	2	**90,043**	147,348
Other current liabilities		**238,904**	160,799
Total current liabilities		**2,601,598**	2,490,659
Total liabilities and shareholders' equity		**6,966,977**	7,450,155

See accompanying notes.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Consolidated statement of changes in equity
Years ended December 31, 2008 and 2007
(In thousands of Brazilian reais, except per share amounts)

		Issued Shares		**Treasury Shares**				
	Notes	**Shares**	**Amount**	**Shares**	**Amount**	**Capital Reserves**	**Retained Earnings (Deficit)**	**Total**
Balance at January 1, 2007		196,206,466	887,625	-	-	89,556	1,188,142	2,165,323
Comprehensive income:								
Profit for the year		-	-	-	-	-	272,261	272,261
Net loss on available for sale		-	-	-	-	-	(6,726)	(6,726)
Derivative instruments, net of taxes		-	-	-	-	-	(2,395)	(2,395)
Total Comprehensive income		-	-	-	-	-	263,140	263,140
Common shares issued		11,569	432	-	-	-	-	432
Shares issued to acquire VRG	3	6,082,220	360,592	-	-	-	-	360,592
Share-based payment	14	-	-	-	-	-	4,905	4,905
Dividends payable and interest on shareholders' equity		-	-	-	-	-	(302,775)	(302,775)
Balance at December 31, 2007		**202,300,255**	**1,248,649**	**-**	**-**	**89,556**	**1,153,412**	**2,491,617**
Comprehensive income:								
Loss for the year		**-**	**-**	**-**	**-**	**-**	**(1,386,976)**	**(1,386,976)**
Net gain on available for sale		**-**	**-**	**-**	**-**	**-**	**4,001**	**4,001**
		-	**-**	**-**	**-**	**-**	**(13,418)**	**(13,418)**

Derivative instruments, net of taxes								
Total Comprehensive loss		**-**	**-**	**-**	**-**	**-**	**(1,396,393)**	**(1,396,393)**
Common shares issued		**336**	**-**	**-**	**-**	**-**	**-**	**-**
Share-based payment	14	**-**	**-**	**-**	**-**	**-**	**5,362**	**5,362**
Treasury shares	13	**-**	**-**	**(1,574,200)**	**(41,180)**	**-**	**-**	**(41,180)**
Dividends payable	13	**-**	**-**	**-**	**-**	**-**	**(36,258)**	**(36,258)**
Balance at December 31, 2008		**202,300,591**	**1,248,649**	**(1,574,200)**	**(41,180)**	**89,556**	**(273,877)**	**1,023,148**

See accompanying notes.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Consolidated statements of cash flows
Years ended December 31, 2008 and 2007
(In thousands of Brazilian reais)

	2008	2007
Cash flows from operating activities:		
Net profit (loss)	**(1,386,976)**	272,261
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:		
Depreciation and amortization	**125,127**	62,548
Income taxes	**(119,173)**	(196,421)
Share-based payments	**5,362**	4,905
Changes in fair value of derivative financial instruments	**(9,417)**	(9,121)
Net foreign exchange fluctuations	**757,526**	(165,230)
Changes in operating assets and liabilities:		
Provisions	**29,559**	101,209
Trade and other receivables	**571,206**	(232,674)
Changes in inventories	**9,412**	(129,319)
Deposits	**(104,178)**	(163,836)
Prepaid expenses	**11,131**	(45,683)
Other assets	**77,213**	1,389
Advance ticket sales	**99,713**	98,800
Smiles deferred revenues	**(28,297)**	5,469
Accounts payable	**(42,645)**	(22,055)
Other liabilities	**171,297**	2,735
Net cash provided by (used in) operating activities	**166,860**	(415,023)
Cash flows from investing activities:		
Acquisition of VRG, net of cash acquired	**-**	(201,509)
Purchase of property, plant and equipment, net	**(732,683)**	(848,942)
Proceeds from sale of property, plant and equipment, net	**90,879**	1,774
Purchase of intangible assets	**(10,828)**	(22,395)
Net investments in restricted cash	**(177,245)**	168,120
Net investments in financial assets	**574,758**	566,931
Net cash used in investing activities	**(255,119)**	(336,021)
Cash flows from financing activities:		
Net proceeds from / repayment of debt	**(238,094)**	919,827
Dividends paid	**(36,258)**	(302,775)
Addition of treasury shares	**(41,180)**	-
Paid subscribed capital	**-**	432
Net cash provided by (used in) financing activities	**(315,532)**	617,484
Net increase (decrease) in cash and cash equivalents	**(403,791)**	(133,560)

Cash and cash equivalents at beginning of the period	**573,121**	706,681
Cash and cash equivalents at end of the period	**169,330**	573,121
Supplemental disclosure of cash flow information:		
Interest paid	**205,497**	162,715
Income tax paid	**57,338**	105,291
Non-cash investing activities :		
Accrued capitalized interest	**33,955**	18,721
Shares issued as consideration for the acquisition of VRG	**-**	360,592
Finance leases	**817,677**	557,359

See accompanying notes.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements
(In thousands of Brazilian Reais)

1. Corporate information

Gol Linhas Aéreas Inteligentes S.A. (Company or GLAI) is a joint stock company (sociedade por ações) constituted in accordance with Brazilian bylaws. The objective of the Company is to exercise corporate control of VRG Linhas Aéreas S.A. (VRG), to exploit (i) regular and non-regular air transportation services of passengers, cargo and mail bags, nationally or internationally, according to the concessions granted by the competent authorities; (ii) complementary activities of chartering air transportation of passengers, cargo and mail bags.

The Company s shares are traded on the New York Stock Exchange (NYSE) and on the São Paulo Stock Exchange (BOVESPA). The Company has entered into an Agreement for Adoption of Level 2 Differentiated Corporate Governance Practices with the São Paulo Stock Exchange BOVESPA, integrating indices of Shares with Differentiated Corporate Governance IGC and Shares with Differentiated Tag Along ITAG, created to differ companies committed to adopting differentiated corporate governance practices.

The Company s financial statements for the year ended December 31, 2008 were authorized for issue by the Board of Directors on March 19, 2009. The registered office is located at Rua Tamoios, 246, Jd. Aeroporto, São Paulo, Brazil.

2. Summary of significant accounting policies

a) <u>Statement of compliance and basis of presentation</u>

The consolidated financial statements were prepared on a historical cost basis except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets that are measured at fair value. The carrying value of recognized assets and liabilities that are accounted for as cash flow and fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

a) Statement of compliance and basis of presentation (Continued)

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, using Brazilian reais as the functional and reporting currency. The accounting principles adopted under IFRS differ in certain aspects from accounting principles generally accepted in Brazil (BR GAAP), which the Company uses to prepare its statutory financial statements.

The Company adopted International Financial Reporting Standards (IFRS) for the first time in its consolidated financial statements for the year ended December 31, 2008, which includes comparative financial statements for the year ended December 31, 2007. IFRS 1, First-time adoption of International Reporting Standards , requires that an entity develop accounting policies based on the standards and related interpretations effective at the reporting date of its first annual IFRS consolidated financial statements (i.e. December 31, 2007). IFRS 1 also requires that those policies be applied as of the date of transition to IFRS (i.e. January 1, 2007) and throughout all periods presented in the first IFRS financial statements.

The Note "Transition from Brazilian accounting principles to IFRS , details the principal effects of the transition to IFRS on the Company s balance sheet as of January 1, 2007 and the principal differences with the Brazilian Corporate Law (Law No. 6,404/76) related to the year ended December 31, 2007.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries: VRG Linhas Aéreas S.A, and GAC Inc., Gol Finance and SKY Finance, which are domiciled in the Cayman Islands.

Results include those of VRG since April 9, 2007, the date the Company assumed control of the operations of VRG. All significant intercompany balances have been eliminated.

c) Cash and cash equivalents

Cash in excess of that necessary for operating requirements is invested in short-term, highly liquid, income-producing investments. Investments with original maturities of three months or less are classified as cash and cash equivalents, which primarily consist of certificates of deposit, money market funds, and investment grade commercial paper issued by major financial institutions.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

d) Restricted cash

Restricted cash represents pledge deposits with the purpose to guarantee some of Company s hedge operations and long-term financings (BNDES and BDMG) and earns interests.

e) Financial assets

The Company s financial assets consist of traditional fixed maturity securities, which are readily convertible into cash and are primarily highly liquid in nature. Management determines the appropriate classification of these securities at the time of purchase and reevaluates such designation as of each balance sheet date. As defined by IAS 39, Financial Instruments: Recognition and Measurement , the Company s investments are classified as available-for-sale financial assets. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale and not classified as held-to-maturity or loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized as equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss. Held-to-maturity securities are measured at amortized cost through the income statement.

f) Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given their short term nature. An allowance for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable.

g) Inventories

Inventories, including aircraft expendables, are valued at the lower of cost, determined by the weighted average cost method, and net realizable value. The cost of inventory is charged to expense when consumed.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

h) Lease accounting

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term. Differences between aircraft rentals paid and rentals recognized as expense in the income statement are recorded as prepaid assets or accrued rent in the balance sheet.

The assets held under a finance lease are valued at the lower of the following two amounts: the present value of the minimum lease payments under the lease arrangement or the leased asset s fair value determined at inception of the lease. Lease payments are allocated between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement. The corresponding obligation to the lessor is accounted for as long-term debt. These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Profit or loss related to sale and operating leaseback transactions, is accounted for as follows:

- They are recognized immediately when it is clear that the transaction is established at fair value;
- If the sale price is below fair value, any profit or loss is recognized immediately. However, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the asset s expected useful life;
- If the sale price is above fair value, the excess is deferred and amortized over the asset s expected useful life, with the amortization recorded as a reduction of rent expense.

i) Prepaid expenses and other assets

Prepaid expenses and other assets primarily consist of prepayments for aircraft rentals under operating lease agreements, security deposits required under aircraft lease agreements and amounts receivable from insurance claims.

2. Summary of significant accounting policies (Continued)

j) Revenue recognition

Passenger revenue is recognized either when transportation is provided or when the ticket expires unused. Tickets sold but not yet used are recorded as advance ticket sales. Advance ticket sales represents deferred revenue for tickets sold for future travel dates and estimated refunds and exchanges of tickets sold for past travel dates. A small percentage of tickets (or partial tickets) expire unused. The Company estimates the amount of future refunds and exchanges, net of forfeitures, for all unused tickets once the flight date has passed. These estimates are based on historical data and experience. Estimated future refunds and exchanges included in the air traffic liability account are compared with actual refund and exchange activities every month to monitor the reasonableness of the estimated refunds and exchanges.

Revenue from cargo shipments is recognized when transportation is provided. Other revenue includes charter services, ticket change fees and other incidental services, and is recognized when the service is performed. The Company s revenues are net of certain taxes, including state value-added and other state and federal taxes that are collected from customers and transferred to the appropriate government entities. Such taxes in the year ended December 31, 2008 and December 31, 2007 were R$262,388 and R$191,164, respectively.

k) Mileage program

Since the acquisition of VRG (see Note 3), the Company operates a frequent flyer program, Smiles (Mileage Program) that provides travel and other awards to members based on accumulated mileage credits. The obligations assumed under the Mileage Program were valued at the acquisition date at estimated fair value that represents the estimated price the Company would pay to a third party to assume the obligation for miles expected to be redeemed under the Mileage Program. Outstanding miles earned by flying VRG or distributed by its non-airline partners (such as banks, credit card issuers and e-commerce companies) were revalued using a weighted-average per-mile equivalent ticket value, taking into account such factors as differing classes of service and domestic and international ticket itineraries, which can be reflected in awards chosen by Mileage Program members. The probability of air miles being converted into award tickets is estimated using a statistical method.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

k) Mileage program (Continued)

The sale of passenger tickets by the Company includes air transportation and mileage credits. The Company s sales of miles to business partners include marketing and mileage credits. The Company uses the deferred revenue model to account for its obligation for miles to be redeemed based upon the equivalent ticket value of similar fares. The Company accounts for all miles earned and sold as separate deliverables. The Company defers the portion of the sales proceeds that represents the estimated fair value of the award and recognizes that amount in cargo and other revenue when the award is provided. The excess of sale proceeds over the fair value of the award (which is mileage program marketing revenue) is recognized in cargo and other revenue, as applicable.

For accounts that are inactive for a period of 36 consecutive months, it is the Company s policy to cancel all miles contained in those accounts at the end of the 36 month period of inactivity. The value associated with mileage credits that are estimated to be cancelled based upon inactivity is recognized as passenger revenue in proportion to actual mileage award redemptions over the period in which the expired miles occurred.

On 28 June 2007, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 13 Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008 with early adoption permitted), which deals with accounting for customer loyalty award credits. The Company adopted IFRIC 13 on April 9, 2007 (see Note 3). The adoption of this interpretation had no impact on the Company s consolidated financial statements.

l) Property, plant and equipment

Property, plant and equipment, including rotable parts, are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Each component of property, plant and equipment that has a cost that is significant in relation to the overall cost of the item is depreciated separately. Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotable spares purchased separately, are carried as fixed assets and generally depreciated in line with the fleet to which they relate. Pre-delivery deposits refer to prepayments made based on the agreements entered into with Boeing Company for the purchase of Boeing 737-800 Next Generation aircraft.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

l) Property, plant and equipment (Continued)

The estimated useful lives for property and equipment are as follows:

	Estimated Useful Life
Leasehold improvements to flight equipment	Lower of lease term or useful life
Flight equipment	20 years
Rotables	20 years
Maintenance and engineering equipment.	10 years
Major overhaul expenditures	1 to 4 years
Communication and meteorological equipment	10 years
Computer hardware and software	5 years

Under IAS 16 Property, Plant and Equipment , major engine overhauls including replacement spares and labor costs, are treated as a separate asset component with the cost capitalized and depreciated over the period to the next major overhaul. All other replacement spares and costs relating to maintenance of fleet assets are charged to the income statement on consumption or as incurred. Interest costs incurred and identified exchange differences on borrowings that fund progress payments on assets under construction, including pre-delivery deposits to acquire new aircraft, are capitalized and included as part of the cost of the assets through the earlier of the date of completion or aircraft delivery.

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment.

m) Intangible assets

i) Goodwill

Goodwill is tested for impairment annually by comparing the carrying amount to the recoverable amount at the cash-generating unit level. Considerable judgment is necessary to evaluate the impact of operating and macroeconomic changes to estimate future cash flows and to measure the recoverable amount. Assumptions in the Company s impairment evaluations are consistent with internal projections and operating plans.

2. Summary of significant accounting policies (Continued)

m) Intangible assets (Continued)

ii) Airport operating rights

Airport operating rights were acquired as part of the acquisition of VRG and were capitalized at fair value at that date and are not amortized. Those rights are considered to be indefinite due to several factors and considerations, including requirements for necessary permits to operate within Brazil and limited slot availability in the most important airports in terms of traffic volume. The carrying value of those rights is reviewed for impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that carrying values may not be recoverable. No impairment has been recorded to date.

iii) Tradenames

VRG tradenames were acquired as part of the VRG acquisition and were capitalized at fair value at that date. The tradenames are considered to have an indefinite useful life (and are not amortized) due to several factors and considerations, including the brand awareness and market position, customer recognition and loyalty and the continued use of the VARIG tradenames. The carrying value of the tradenames is reviewed for impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that carrying values may not be recoverable. No impairment has been recorded to date.

iv) Software

Costs related to the purchase or development of computer software that is separable from an item of related hardware is capitalized separately and amortized over a period not exceeding five years on a straight-line basis.

The carrying value of these intangibles is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

n) Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset is impaired using discounted cash flow analyses, which considers the creditworthiness of the issuer of the security, as further described in Note 18.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

o) Deposits

The Company s aircraft lease agreements specifically provide that the Company is responsible for maintenance of the leased aircraft. Under certain existing lease agreements, maintenance deposits are paid to aircraft and engine lessors that are to be applied to future maintenance events. These deposits are calculated based on a performance measure, such as flight hours or cycles, and are available for reimbursement to us upon the completion of the maintenance of the leased aircraft. If there are sufficient funds on deposit to reimburse for maintenance costs, such funds are returned to the Company. The maintenance deposits paid under lease agreements transfer neither the obligation to maintain the aircraft nor the cost risk associated with the maintenance activities to the aircraft lessor.

In addition, the Company maintains the right to select any third-party maintenance provider or to perform such services in-house. Therefore, these amounts are recorded as a deposit on the balance sheet and maintenance cost is recognized when the underlying maintenance is performed, in accordance with the Company s maintenance accounting policy. Certain lease agreements provide that excess deposits are not refundable to us. Such excess could occur if the amounts ultimately expended for the maintenance events were less than the amounts on deposit. Any excess amounts held by the lessor or retained by the lessor upon the expiration of the lease, which are not expected to be significant, would be recognized as additional aircraft rental expense at the time it is no longer probable that such amounts will be used for the maintenance for which they were deposited.

In determining whether it is probable that maintenance deposits will be used to fund the cost of maintenance events, the Company conducts the following analysis at the inception of the lease, on an annual and quarterly basis and whenever events or changes in circumstances indicate that amounts may not be recoverable, to evaluate potential impairment of this balance:

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

o) Deposits (Continued)

1) At the time of delivery of each aircraft under lease, the Company evaluates the aircraft s condition, including the airframe, the engines, the auxiliary power unit and the landing gear.

2) The Company projects future usage of the aircraft during the term of the lease based on its business and fleet plan.

3) The Company estimates the cost of performing all required maintenance during the lease term. These estimates are based on the extensive experience of the Company s management and industry available data, including historical fleet operating statistic reports published by the Company s engine manufacturers.

At the inception of the leases, initial estimates of the maintenance costs are equal to or in excess of the amounts required to be deposited. This demonstrates it is probable the amounts will be utilized for the maintenance for which they are to be deposited and the likelihood of an impairment of the balance is remote. Additionally, the Company has reached agreements with certain lessors to replace the deposits with letters of credit and amend the lease terms to enable us to utilize the deposited funds to settle other amounts owed under the lease. Upon this amendment of the lease the Company reevaluates the appropriateness of the lease accounting and reclassifies the affected deposits as Other Deposits. Many of new aircraft leases do not require maintenance deposits.

Based on the foregoing analysis, management believes that the amounts reflected on the consolidated balance sheet as Aircraft and Engine Maintenance Deposits are probable of recovery. There has been no impairment of Company s maintenance deposits.

p) Foreign currency transactions

Transactions in foreign currencies are translated into the Company s functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are subsequently translated at the exchange rate at the balance sheet date. Any differences resulting from the currency translation are recognized in the income statement.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

q) Derivative financial instruments and hedge accounting

The Company accounts for financial derivative instruments in accordance with IAS 39. In executing the risk management program, management uses a variety of financial instruments, including petroleum call options, petroleum collar structures, petroleum fixed-price swap agreements, and foreign currency forward contracts. The Company does not hold or issue derivative financial instruments for trading purposes.

As there is not a futures market for jet fuel in Brazil, the Company uses international crude oil derivatives to hedge its exposure to increases in fuel price. Historically, there has been a high correlation between international crude oil prices and Brazilian jet fuel prices, making crude oil derivatives effective at offsetting jet fuel prices to provide some short-term protection against a sharp increase in average fuel prices.

The Company also uses derivative financial instruments such as forward currency contracts and interest swaps to hedge its foreign market risks and interest rate risks respectively. Derivative financial instruments are remeasured at fair value at each reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Since the majority of the Company s financial derivative instruments for fuel are not traded on a market exchange, the Company estimates their fair values. The fair value of fuel derivative instruments, depending on the type of instrument, is determined by the use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets. Also, since there is not a reliable forward market for jet fuel, the Company must estimate the future prices of jet fuel in order to measure the effectiveness of the hedging instruments in offsetting changes to those prices, as required by IAS 39.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

q) Derivative financial instruments and hedge accounting (Continued)

The Company designates certain of its derivative financial instruments for hedge accounting. These instruments are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument s effectiveness in offsetting the exposure to changes in the hedged item s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in profit or loss.

Amounts classified in equity are transferred to profit or loss when the hedged transaction affects profit or loss. If the hedged item is the cost of a non-financial asset or non-financial liability, the amounts classified in equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires, is terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the firm commitment occurs.

2. Summary of significant accounting policies (Continued)

q) Derivative financial instruments and hedge accounting (Continued)

Cash flow hedges (Continued)

The Company s outstanding derivative contracts are all designated as cash flow hedges for accounting purposes. While outstanding, these contracts are recorded at fair value on the balance sheet with the effective portion of the change in their fair value being recorded in equity. All changes in fair value that are considered to be effective, as defined, are recorded in equity until the underlying exchange exposure is realized and fuel is consumed. Changes in fair value that are not considered to be effective are recorded in other income (expense), net in the statement of income. The Company measures the effectiveness of the hedging instruments in offsetting changes to the hedged item, as required by IAS 39. See Note 18 for further information on IAS 39 and derivative financial instruments.

Current versus non-current classification

Derivative instruments that are not designated for hedge accounting treatment are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

r) Share-based payments

The Company measures the fair value of equity-settled transactions with employees at the grant date using an appropriate valuation model. The resulting amount, as adjusted for forfeitures is charged to income over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management s best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognized in the income statement with a corresponding entry in equity.

2. Summary of significant accounting policies (Continued)

s) Provisions

For certain operating leases, the Company is contractually obligated to return aircraft in a defined condition. The Company accrues for restitution costs related to aircraft held under operating leases at the time the asset does not meet the return condition criteria throughout the duration of the lease.

Other provisions are recorded for probable losses and are reviewed based on the development of lawsuits and the background of losses on labor and civil claims, based on the best current estimate.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

t) Segment information

The Company has one business segment: the provision of air transportation services within South America, where it operates domestic and international flights.

u) Income taxes

a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

2. Summary of significant accounting policies (Continued)

u) Income taxes (Continued)

b) Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2. Summary of significant accounting policies (Continued)

v) Key accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i) Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and indefinite-lived intangible assets are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The value in use is determined using discounted cash flow assumptions established by management. These calculations require the use of estimates (Note 8).

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

ii) Impairment of available-for-sale financial assets

The Company classifies certain financial assets as available-for-sale and recognizes movements in their fair value in shareholders equity. When the fair value declines, Management evaluates the decline in value to determine whether it is an impairment that should be recognized in the income statement. See Note 19.

iii) Passenger revenue recognition

Passenger revenue is recognized when the transportation is provided. Unused tickets and mileage credits under the Mileage Program are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

2. Summary of significant accounting policies (Continued)

v) Key accounting estimates and judgments (Continued)

iv) Income taxes

The Company believes that the tax positions taken are reasonable. However, various taxing authorities may challenge the positions taken resulting in additional liabilities for taxes and interest that may become payable in future years as a result of audits by tax authorities. The tax positions involve considerable judgment on the part of management and tax positions are reviewed and adjusted to account for changes in circumstances, such as lapsing of applicable statutes of limitations, conclusions of tax audits, additional exposures based on identification of new issues or court decisions affecting a particular tax issue. Actual results could differ from estimates.

x) Prospective accounting changes, new standards and interpretations not yet adopted

The following new accounting standards or amendments to accounting standards, which are not yet effective and have not been adopted in these consolidated financial statements, will be adopted in future consolidated financial statements, if applicable.

- Amendment to IFRS 2 - Share-based payments: vesting conditions and cancellations (effective January 1, 2009). This amendment clarifies the accounting treatment of cancellations and vesting conditions. The introduction of this amendment will not impact the Company s financial statements.

- IFRS 3 (Revised) - Business Combinations (effective July 1, 2009). This standard deals with how an acquirer recognizes measures and discloses in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The objective is to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The impact on the Company will be dependent on the nature of any future acquisition.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

2. Summary of significant accounting policies (Continued)

x) Prospective accounting changes, new standards and interpretations not yet adopted (Continued)

- Amendment to IAS 1 - Presentation of Financial Statements, a revised presentation (effective January 1, 2009). This amendment sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. IAS 1 will impact the presentation of the financial statements of the Company. However, this impact is not expected to be significant.

- Amendment to IAS 27 - Consolidated and Separate Financial Statements (effective July 1, 2009). The objective of this amendment is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate and consolidated financial statements. The introduction of this amendment will impact the Company s reporting although this impact is not expected to be significant.

- On May 22, 2008 the IASB published the Improvements to International Financial Reporting Standards 2008, which contains 24 amendments to IFRS that result in accounting changes for presentation, recognition or measurement purposes and 11 terminologies or editorial amendments that will have only minimal or no effects on accounting. All amendments are effective January 1, 2009, except for the amendment to IFRS 5, Non-current assets held for sale and discontinued operations - plans to sell a controlling interest in a subsidiary, (effective July 1, 2009). None of these amendments are expected to have a significant impact on Company s financial statements.

In addition, the Company does not expect the following new accounting standards or amendments will impact the Company s financial reporting:

- IFRS 8 - Operating Segments was issued in November 2006 replacing IAS 14, Segmental Reporting (effective January 1, 2009).

- IFRIC 15 - Agreements for the Construction of Real Estate (effective January 1, 2009.

- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation (effective January 1, 2009).

- Amendment to IAS 32 and IAS 1 - Puttable Financial Instruments and Obligations arising on Liquidation (effective January 1, 2009).

3. Business combination

On April 9, 2007, the Company acquired 100% of the voting shares of VRG. The total purchase price was R$562,101 (US$291,838) of which R$194,087 (US$100,762) was paid in cash, net of cash acquired and R$360,592 (US$187,223) was paid in non-voting preferred shares. In addition, R$7,422 (US$3,853) was paid in acquisition costs. The value of Company s preferred shares issued as consideration to the shareholders of VRG (6,082,220 in number) was determined based on the closing market price (R$59.61) at the date control was obtained. The purchase contract includes provisions for a post-closing purchase price adjustment based on an audit of specific assets and liabilities. Disputed items involved in the arbitration process pursuant to this contract provision could result in a reduction of the purchase price of up to R$153,000. The results of VRG s operations have been consolidated since the acquisition date.

Under the purchase method of accounting, the total purchase price was allocated to the identifiable assets acquired and liabilities assumed based on their fair values as of the date of acquisition.

From the date of acquisition, VRG Linhas Aéreas has contributed R$47,013 to the profit for the year ended December 31, 2007 from continuing operations of the Company. If the combination had taken place at the beginning of the year, the net profit for 2007 would have been R$230,269 and revenue would have been R$4,967,261.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

3. Business combination (Continued)

The following table summarizes the final allocation of the fair value of assets acquired and liabilities assumed:

Assets acquired	
Accounts receivable	24,153
Inventories	5,442
Deferred income tax assets	323,370
Fixed assets	11,740
Intangible assets	623,951
Other assets	101,206
Total assets acquired	1,089,862
Liabilities assumed	
Accounts payable	(220,862)
Air traffic liability	(38,792)
Smiles deferred revenue	(375,497)
Debentures	(87,876)
Deferred income taxes	(210,154)
Other liabilities	(136,882)
Total liabilities assumed	(1,070,063)
Net assets acquired	19,799
Purchase price, net of cash acquired	562,101
Goodwill	542,302

Goodwill represents the excess of the purchase price of the acquired business over the fair value of the net assets acquired and is tax-deductible in the amount of R$375,462. Intangible assets with indefinite lives consist of the fair value allocated to airport operating rights and tradenames, valued at R$560,842 and R$63,109, respectively.

GOL LINHAS AÉREAS INTELIGENTES S.A.

Notes to consolidated financial statements (Continued)
(In thousands of Brazilian reais)

4. Employee costs and numbers

a) Staff costs

The average number of persons employed during the period was as follows:

Number	2008	2007
Brazil	**15,421**	15,123
Rest of world	**490**	599
	15,911	15,722

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	104.1	91.7		
Other operating	76.1	77.8	162.9	157.7
Depreciation & amortization	48.7	47.8	97.1	96.4
Taxes other than income taxes	12.2	11.6	29.7	27.5
Total operating expenses	241.6	216.0	601.7	542.2
OPERATING INCOME	51.2	49.8	156.6	155.7
Other income - net	3.0	0.7	4.8	2.9
Interest expense	15.7	18.0	33.6	35.7
INCOME BEFORE INCOME TAXES	38.5	32.5	127.8	122.9
Income taxes	14.3	12.4	48.5	46.8
NET INCOME	$ 24.2	$ 20.1	$ 79.3	$ 76.1

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

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – In millions)

	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 79.3	$ 76.1
Adjustments to reconcile net income to cash from operating activities:		
Depreciation & amortization	97.1	96.4
Deferred income taxes & investment tax credits	16.5	21.9
Expense portion of pension & postretirement periodic benefit cost	2.7	2.5
Provision for uncollectible accounts	3.9	3.9
Other non-cash expense - net	2.9	4.7
Changes in working capital accounts:		
Accounts receivable & accrued unbilled revenue	56.1	90.7
Inventories	22.3	3.2
Recoverable/refundable fuel & natural gas costs	6.7	2.8
Prepayments & other current assets	6.7	29.6
Accounts payable, including to Vectren companies & affiliated companies	(88.0)	(67.2)
Accrued liabilities	(6.4)	(2.8)
Changes in noncurrent assets	(0.6)	0.2
Changes in noncurrent liabilities	(2.1)	(13.0)
Net cash provided by operating activities	197.1	249.0
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Long-term debt - net of issuance costs	122.3	99.5
Additional capital contribution	3.0	3.5
Requirements for:		
Dividends to parent	(52.6)	(50.5)
Retirement of long-term debt	(175.7)	—
Other financing activities	—	—
Net change in short-term borrowings	7.3	(181.3)
Net cash used in financing activities	(95.7)	(128.8)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from other investing activities	0.1	2.2
Requirements for:		
Capital expenditures, excluding AFUDC equity	(110.9)	(124.1)
Other investments	—	(0.2)
Net cash used in investing activities	(110.8)	(122.1)
Net change in cash & cash equivalents	(9.4)	(1.9)
Cash & cash equivalents at beginning of period	13.3	6.0
Cash & cash equivalents at end of period	$ 3.9	$ 4.1

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

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VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Nature of Operations

Vectren Utility Holdings, Inc. (the Company or Utility Holdings), an Indiana corporation, was formed on March 31, 2000 to serve as the intermediate holding company for Vectren Corporation's (Vectren) three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren North), Southern Indiana Gas and Electric Company (SIGECO or Vectren South), and Vectren Energy Delivery of Ohio, Inc. (VEDO). Utility Holdings also has other assets that provide information technology and other services to the three utilities. Vectren, an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana and was organized on June 10, 1999. Both Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005 (Energy Act).

Indiana Gas provides energy delivery services to approximately 573,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to approximately 142,000 electric customers and approximately 110,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation assets to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. VEDO provides energy delivery services to approximately 313,000 natural gas customers located near Dayton in west central Ohio.

2. Basis of Presentation

The interim condensed consolidated financial statements included in this report have been prepared by the Company, without audit, as provided in the rules and regulations of the Securities and Exchange Commission and include a review of subsequent events through the date the financial statements were issued. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted as provided in such rules and regulations. The information in this report reflects all adjustments which are, in the opinion of management, necessary to fairly state the interim periods presented, inclusive of adjustments that are normal and recurring in nature. These condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013, on Form 10-K. Because of the seasonal nature of the Company's utility operations, the results shown on a quarterly basis are not necessarily indicative of annual results.

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 statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

3. Subsidiary Guarantor and Consolidating Information

The Company's three operating utility companies, SIGECO, Indiana Gas, and VEDO are guarantors of Utility Holdings' $350 million in short-term credit facilities, of which approximately $124 million is outstanding at June 30, 2013, and Utility Holdings' has unsecured senior notes with a par value of $825 million outstanding at June 30, 2013. The guarantees are full and unconditional and joint and several, and Utility Holdings has no direct subsidiaries other than the subsidiary guarantors. However, Utility Holdings does have operations other than those of the subsidiary guarantors. Pursuant to Item 3-10 of Regulation S-X, disclosure of the results of operations and balance sheets of the subsidiary guarantors, which are 100 percent owned, separate from the parent company's operations is required. Following are consolidating financial statements including information on the combined operations of the subsidiary guarantors separate from the other operations of the parent company. Pursuant to a tax sharing agreement, consolidating tax effects, which are calculated on a separate return basis, are reflected at the parent level.

Condensed Consolidating Balance Sheet as of June 30, 2013 (in millions):

ASSETS	Subsidiary Guarantors	Parent Company	Eliminations & Reclassifications	Consolidated
Current Assets				
Cash & cash equivalents	$ 3.5	$ 0.4	$ —	$ 3.9
Accounts receivable - less reserves	72.9	—	—	72.9
Intercompany receivables	1.7	192.5	(194.2)	—
Receivables due from other Vectren companies	—	6.9	—	6.9
Accrued unbilled revenues	35.7	—	—	35.7
Inventories	91.8	(0.1)	—	91.7
Recoverable fuel & natural gas costs	18.6	—	—	18.6
Prepayments & other current assets	41.5	76.4	(72.1)	45.8
Total current assets	265.7	276.1	(266.3)	275.5
Utility Plant				
Original cost	5,265.0	—	—	5,265.0
Less: accumulated depreciation & amortization	2,104.4	—	—	2,104.4
Net utility plant	3,160.6	—	—	3,160.6
Investments in consolidated subsidiaries	—	1,364.7	(1,364.7)	—
Notes receivable from consolidated subsidiaries	—	572.1	(572.1)	—
Investments in unconsolidated affiliates	0.2	—	—	0.2
Other investments	28.9	4.6	—	33.5
Nonutility property - net	2.4	139.7	—	142.1
Goodwill - net	205.0	—	—	205.0
Regulatory assets	104.5	22.4	—	126.9
Other assets	35.3	1.3	(7.2)	29.4
TOTAL ASSETS	$ 3,802.6	$ 2,380.9	$ (2,210.3)	$ 3,973.2

LIABILITIES & SHAREHOLDER'S EQUITY	Subsidiary Guarantors	Parent Company	Eliminations & Reclassifications	Consolidated
Current Liabilities				
Accounts payable	$ 62.7	$ 4.4	$ —	$ 67.1
Intercompany payables	10.6	—	(10.6)	—
Payables to other Vectren companies	25.6	2.0	—	27.6
Accrued liabilities	132.4	12.8	(23.0)	122.2
Short-term borrowings	—	124.0	—	124.0
Intercompany short-term borrowings	183.6	—	(183.6)	—
Current maturities of long-term debt	—	100.0	—	100.0
Total current liabilities	414.9	243.2	(217.2)	440.9
Long-Term Debt				
Long-term debt - net of current maturities	382.3	724.6	(49.1)	1,057.8
Long-term debt due to VUHI	572.1	—	(572.1)	—
Total long-term debt - net	954.4	724.6	(621.2)	1,057.8
Deferred Income Taxes & Other Liabilities				
Deferred income taxes	610.9	(10.5)	—	600.4
Regulatory liabilities	374.7	1.7	—	376.4
Deferred credits & other liabilities	83.0	2.2	(7.2)	78.0
Total deferred credits & other liabilities	1,068.6	(6.6)	(7.2)	1,054.8
Common Shareholder's Equity				

Common stock (no par value)	797.8	784.6	(797.8)	784.6
Retained earnings	566.9	635.1	(566.9)	635.1
Total common shareholder's equity	1,364.7	1,419.7	(1,364.7)	1,419.7
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	$ 3,802.6	$ 2,380.9	$ (2,210.3)	$ 3,973.2

Condensed Consolidating Balance Sheet as of December 31, 2012 (in millions):

ASSETS	Subsidiary Guarantors	Parent Company	Eliminations & Reclassifications	Consolidated
Current Assets				
Cash & cash equivalents	$ 12.5	$ 0.8	$ —	$ 13.3
Accounts receivable - less reserves	81.8	—	—	81.8
Intercompany receivables	—	145.1	(145.1)	—
Accrued unbilled revenues	93.6	—	—	93.6
Inventories	114.0	—	—	114.0
Recoverable fuel & natural gas costs	25.3	—	—	25.3
Prepayments & other current assets	52.0	5.8	(5.5)	52.3
Total current assets	379.2	151.7	(150.6)	380.3
Utility Plant				
Original cost	5,176.6	0.2	—	5,176.8
Less: accumulated depreciation & amortization	2,057.2	—	—	2,057.2
Net utility plant	3,119.4	0.2	—	3,119.6
Investments in consolidated subsidiaries	—	1,329.2	(1,329.2)	—
Notes receivable from consolidated subsidiaries	—	679.7	(679.7)	—
Investments in unconsolidated affiliates	0.2	—	—	0.2
Other investments	27.8	4.8	—	32.6
Nonutility property - net	2.6	144.3	—	146.9
Goodwill - net	205.0	—	—	205.0
Regulatory assets	104.1	22.4	—	126.5
Other assets	40.4	1.7	(6.4)	35.7
TOTAL ASSETS	$ 3,878.7	$ 2,334.0	$ (2,165.9)	$ 4,046.8

LIABILITIES & SHAREHOLDER'S EQUITY	Subsidiary Guarantors	Parent Company	Eliminations & Reclassifications	Consolidated
Current Liabilities				
Accounts payable	$ 114.8	$ 6.2	$ —	$ 121.0
Accounts payable to affiliated companies	29.7	—	—	29.7
Intercompany payables	10.6	—	(10.6)	—
Payables to other Vectren companies	25.1	—	—	25.1
Accrued liabilities	131.3	13.5	(5.5)	139.3
Short-term borrowings	—	116.7	—	116.7
Intercompany short-term borrowings	134.5	—	(134.5)	—
Current maturities of long-term debt	5.0	100.0	—	105.0
Total current liabilities	451.0	236.4	(150.6)	536.8
Long-Term Debt				
Long-term debt - net of current maturities	382.3	721.1	—	1,103.4
Long-term debt due to VUHI	679.7	—	(679.7)	—
Total long-term debt - net	1,062.0	721.1	(679.7)	1,103.4
Deferred Income Taxes & Other Liabilities				
Deferred income taxes	595.4	(16.9)	—	578.5
Regulatory liabilities	362.2	2.0	—	364.2
Deferred credits & other liabilities	78.9	1.4	(6.4)	73.9
Total deferred credits & other liabilities	1,036.5	(13.5)	(6.4)	1,016.6
Common Shareholder's Equity				

Common stock (no par value)	787.8	781.6	(787.8)	781.6
Retained earnings	541.4	608.4	(541.4)	608.4
Total common shareholder's equity	1,329.2	1,390.0	(1,329.2)	1,390.0
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	$ 3,878.7	$ 2,334.0	$ (2,165.9)	$ 4,046.8

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Condensed Consolidating Statement of Income for the three months ended June 30, 2013 (in millions):

	Subsidiary Guarantors	Parent Company	Eliminations & Reclassifications	Consolidated
OPERATING REVENUES				
Gas utility	$ 138.0	$ —	$ —	$ 138.0
Electric utility	154.7	—	—	154.7
Other	—	9.5	(9.4)	0.1
Total operating revenues	292.7	9.5	(9.4)	292.8
OPERATING EXPENSES				
Cost of gas sold	50.7	—	—	50.7
Cost of fuel & purchased power	53.9	—	—	53.9
Other operating	85.2	—	(9.1)	76.1
Depreciation & amortization	43.3	5.3	0.1	48.7
Taxes other than income taxes	11.8	0.4	—	12.2
Total operating expenses	244.9	5.7	(9.0)	241.6
OPERATING INCOME	47.8	3.8	(0.4)	51.2
Other income - net	1.8	9.1	(7.9)	3.0
Interest expense	13.8	10.2	(8.3)	15.7
INCOME BEFORE INCOME TAXES	35.8	2.7	—	38.5
Income taxes	14.0	0.3	—	14.3
Equity in earnings of consolidated companies, net of tax	—	21.8	(21.8)	—
NET INCOME	$ 21.8	$ 24.2	$ (21.8)	$ 24.2

Condensed Consolidating Statement of Income for the three months ended June 30, 2012 (in millions):

	Subsidiary Guarantors	Parent Company	Eliminations & Reclassifications	Consolidated
OPERATING REVENUES				
Gas utility	$ 116.0	$ —	$ —	$ 116.0
Electric utility	149.3	—	—	149.3
Other	—	10.0	(9.5)	0.5
Total operating revenues	265.3	10.0	(9.5)	265.8
OPERATING EXPENSES				
Cost of gas sold	31.8	—	—	31.8
Cost of fuel & purchased power	47.0	—	—	47.0
Other operating	86.3	0.5	(9.0)	77.8
Depreciation & amortization	42.1	5.6	0.1	47.8
Taxes other than income taxes	11.2	0.3	0.1	11.6
Total operating expenses	218.4	6.4	(8.8)	216.0
OPERATING INCOME	46.9	3.6	(0.7)	49.8
Other income - net	0.2	9.9	(9.4)	0.7
Interest expense	16.4	11.7	(10.1)	18.0
INCOME BEFORE INCOME TAXES	30.7	1.8	—	32.5
Income taxes	12.2	0.2	—	12.4

Equity in earnings of consolidated companies, net of tax		—		18.5		(18.5)		—
NET INCOME	$	18.5	$	20.1	$	(18.5)	$	20.1

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Condensed Consolidating Statement of Income for the six months ended June 30, 2013 (in millions):

	Subsidiary Guarantors	Parent Company	Eliminations & Reclassifications	Consolidated
OPERATING REVENUES				
Gas utility	453.9	—	—	453.9
Electric utility	304.2	—	—	304.2
Other	—	19.0	(18.8)	0.2
Total operating revenues	758.1	19.0	(18.8)	758.3
OPERATING EXPENSES				
Cost of gas sold	207.9	—	—	207.9
Cost of fuel & purchased power	104.1	—	—	104.1
Other operating	181.2	—	(18.3)	162.9
Depreciation & amortization	86.4	10.5	0.2	97.1
Taxes other than income taxes	28.9	0.8	—	29.7
Total operating expenses	608.5	11.3	(18.1)	601.7
OPERATING INCOME	149.6	7.7	(0.7)	156.6
Other income - net	3.7	18.8	(17.7)	4.8
Interest expense	30.0	22.0	(18.4)	33.6
INCOME BEFORE INCOME TAXES	123.3	4.5	—	127.8
Income taxes	48.8	(0.3)	—	48.5
Equity in earnings of consolidated companies, net of tax	—	74.5	(74.5)	—
NET INCOME	74.5	79.3	(74.5)	79.3

Condensed Consolidating Statement of Income for the six months ended June 30, 2012 (in millions):

	Subsidiary Guarantors	Parent Company	Eliminations & Reclassifications	Consolidated
OPERATING REVENUES				
Gas utility	408.3	—	—	408.3
Electric utility	288.7	—	—	288.7
Other	—	19.9	(19.0)	0.9
Total operating revenues	697.0	19.9	(19.0)	697.9
OPERATING EXPENSES				
Cost of gas sold	168.9	—	—	168.9
Cost of fuel & purchased power	91.7	—	—	91.7
Other operating	175.9	0.5	(18.7)	157.7
Depreciation & amortization	83.8	12.4	0.2	96.4
Taxes other than income taxes	26.7	0.7	0.1	27.5
Total operating expenses	547.0	13.6	(18.4)	542.2
OPERATING INCOME	150.0	6.3	(0.6)	155.7
Other income - net	2.2	20.5	(19.8)	2.9
Interest expense	32.9	23.2	(20.4)	35.7
INCOME BEFORE INCOME TAXES	119.3	3.6	—	122.9
Income taxes	47.7	(0.9)	—	46.8
Equity in earnings of consolidated companies, net of tax	—	71.6	(71.6)	—

NET INCOME	71.6	76.1	(71.6)	76.1

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Condensed Consolidating Statement of Cash Flows for the six months ended June 30, 2013 (in millions):

	Subsidiary Guarantors	Parent Company	Eliminations	Consolidated
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 199.1	$ (2.0)	$ —	$ 197.1
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from				
Long-term debt - net of issuance costs	60.0	124.4	(62.1)	122.3
Additional capital contribution from parent	10.0	3.0	(10.0)	3.0
Requirements for:				
Dividends to parent	(49.0)	(52.6)	49.0	(52.6)
Retirement of long term debt	(174.8)	(121.6)	120.7	(175.7)
Net change in intercompany short-term borrowings	49.0	—	(49.0)	—
Net change in short-term borrowings	—	7.3	—	7.3
Net cash used in financing activities	(104.8)	(39.5)	48.6	(95.7)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from				
Consolidated subsidiary distributions	—	49.0	(49.0)	—
Other investing activities	—	0.1	—	0.1
Requirements for:				
Capital expenditures, excluding AFUDC equity	(103.3)	(7.6)	—	(110.9)
Consolidated subsidiary investments	—	(10.0)	10.0	—
Net change in long-term intercompany notes receivable	—	58.6	(58.6)	—
Net change in short-term intercompany notes receivable	—	(49.0)	49.0	—
Net cash used in investing activities	(103.3)	41.1	(48.6)	(110.8)
Net change in cash & cash equivalents	(9.0)	(0.4)	—	(9.4)
Cash & cash equivalents at beginning of period	12.5	0.8	—	13.3
Cash & cash equivalents at end of period	$ 3.5	$ 0.4	$ —	$ 3.9

Condensed Consolidating Statement of Cash Flows for the six months ended June 30, 2012 (in millions):

	Subsidiary Guarantors	Parent Company	Eliminations	Consolidated
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 233.3	$ 15.7	$ —	$ 249.0
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Additional capital contribution to parent	3.5	3.5	(3.5)	3.5

Long-term debt, net of issuance costs	—	99.5	—	99.5
Requirements for dividends to parent	(47.2)	(50.5)	47.2	(50.5)
Net change in intercompany short-term borrowings	(52.9)	17.7	35.2	—
Net change in short-term borrowings	—	(181.3)	—	(181.3)
Net cash used in financing activities	(96.6)	(111.1)	78.9	(128.8)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from:				
Consolidated subsidiary distributions	—	47.2	(47.2)	—
Other investing activities	—	2.2	—	2.2
Requirements for:				
Capital expenditures, excluding AFUDC equity	(121.4)	(2.7)	—	(124.1)
Consolidated subsidiary investments	—	(3.5)	3.5	—
Other investing activities	(0.2)	—	—	(0.2)
Net change in short-term intercompany notes receivable	(17.7)	52.9	(35.2)	—
Net cash used in investing activities	(139.3)	96.1	(78.9)	(122.1)
Net change in cash & cash equivalents	(2.6)	0.7	—	(1.9)
Cash & cash equivalents at beginning of period	5.3	0.7	—	6.0
Cash & cash equivalents at end of period	$ 2.7	$ 1.4	$ —	$ 4.1

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4. Excise and Utility Receipts Taxes

Excise taxes and a portion of utility receipts taxes are included in rates charged to customers. Accordingly, the Company records these taxes received as a component of operating revenues, which totaled $5.4 million and $5.0 million in the three months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013 and 2012, these taxes totaled $16.1 million and $14.3 million, respectively. Expense associated with excise and utility receipts taxes are recorded as a component of Taxes other than income taxes.

5. Supplemental Cash Flow Information

As of June 30, 2013 and December 31, 2012, the Company has accruals related to utility and nonutility plant purchases totaling approximately $9.2 million and $7.1 million, respectively.

6. Transactions with Other Vectren Companies and Affiliates

Vectren Fuels, Inc. (Vectren Fuels)
Vectren Fuels, a wholly owned subsidiary of Vectren, owns coal mines from which SIGECO purchases coal used for electric generation. The price of coal that is charged by Vectren Fuels to SIGECO is priced consistent with contracts reviewed by the OUCC and on file with the IURC. Amounts purchased for the three months ended June 30, 2013 and 2012 totaled $31.7 million and $33.3 million, respectively, and for the six months ended June 30, 2013 and 2012 totaled $51.6 million and $58.2 million, respectively. Amounts owed to Vectren Fuels at June 30, 2013 and December 31, 2012 are included in Payables to other Vectren companies in the Condensed Consolidated Balance Sheets.

Miller Pipeline, LLC (Miller)
Miller, a wholly owned subsidiary of Vectren, performs natural gas and water distribution, transmission, and construction repair and rehabilitation primarily in the Midwest and the repair and rehabilitation of gas, water, and wastewater facilities nationwide. Miller’s customers include Utility Holdings’ utilities. Fees incurred by Utility Holdings and its subsidiaries totaled $12.8 million and $11.5 million for the three months ended June 30, 2013 and 2012, respectively, and for the six months ended June 30, 2013 and 2012 totaled $23.2 million and $19.6 million, respectively. Amounts owed to Miller at June 30, 2013 and December 31, 2012 are included in Payables to other Vectren companies in the Condensed Consolidated Balance Sheets.

Minnesota Limited, LLC (Minnesota Limited)
Minnesota Limited, a wholly owned subsidiary of Vectren, provides transmission pipeline construction and maintenance; pump station, compressor station, terminal and refinery construction; and hydrostatic testing to customers generally in the northern Midwest region. Minnesota Limited's customers include Utility Holdings' utilities. Fees incurred by Utility Holdings and its subsidiaries were insignificant for the three months and six months ended June 30, 2013 and 2012.

ProLiance Holdings, LLC (ProLiance)
Vectren has an investment in ProLiance, a nonutility affiliate of Vectren and Citizens Energy Group (Citizens). On June 18, 2013, ProLiance exited the natural gas marketing business through the disposition of certain of the net assets of its energy marketing business, ProLiance Energy, LLC (ProLiance Energy). ProLiance Energy provided services to a broad range of municipalities, utilities, industrial operations, schools, and healthcare institutions located throughout the Midwest and Southeast United States. ProLiance Energy’s customers included, among others, Vectren’s Indiana utilities as well as Citizens’ utilities.

Purchases from ProLiance for resale and for injections into storage for the three months ended June 30, 2013 and 2012 totaled $92.9 million and $50.2 million, respectively and for the six months ended June 30, 2013 and 2012 totaled $200.5 million and $129.7 million, respectively. The Company did not have any amounts owed to ProLiance for those purchases at June 30, 2013 and amounts owed to ProLiance at December 31, 2012 were $29.7 million and are included in Accounts payable to affiliated companies in the Condensed Consolidated Balance Sheets.

Support Services & Purchases
Vectren provides corporate and general and administrative services to the Company and allocates costs to the Company. These costs have been allocated using various allocators, including number of employees, number of customers and/or the level of payroll, revenue contribution and capital expenditures. Allocations are at cost. For each of the three months ended June 30, 2013 and 2012, Utility Holdings received corporate allocations totaling $11.4 million. For the six months ending June 30, 2013 and 2012, Utility Holdings received corporate allocations totaling $26.3 million and $23.9 million, respectively.

The Company does not have share-based compensation plans and pension and other postretirement plans separate from Vectren and allocated costs include participation in Vectren's plans. The allocation methodology for retirement costs is consistent with FASB guidance related to "multiemployer" benefit accounting.

7. Financing Activities

SIGECO 2013 Debt Refund and Reissuance
During the second quarter of 2013, approximately $111 million of SIGECO's tax-exempt long-term debt was redeemed at par plus accrued interest. Approximately $62 million of tax-exempt long-term debt was reissued on April 26, 2013 at interest rates that are fixed to maturity, receiving proceeds, net of issuance costs, of approximately $60 million. The terms are $22.2 million at 4.00 percent per annum due in 2038, and $39.6 million at 4.05 percent per annum due in 2043. The remaining approximately $49 million of the called debt is held by Utility Holdings and planned for remarketing in the third quarter of 2013, and is treated as extinguished in the consolidated financial statements as of June 30, 2013.

Utility Holdings Debt Transactions
On April 1, 2013, the Company executed an early redemption at par of $121.6 million 6.25 percent senior unsecured notes due in 2039. This debt was refinanced on June 5, 2013, with proceeds from a private placement note purchase agreement entered into on December 20, 2012 with a delayed draw feature. It provides for the following tranches of notes: (i) $45 million 3.20 percent senior guaranteed notes, due June 5, 2028 and (ii) $80 million 4.25 percent senior guaranteed notes, due June 5, 2043. The notes are unconditionally guaranteed by Indiana Gas Company, Inc., Southern Indiana Gas and Electric Company and Vectren Energy Delivery of Ohio, Inc.

On July 25, 2013, VUHI announced that it priced $150 million 10-year senior unsecured notes. The notes were sold to various institutional investors through the private placement market and included a delayed draw feature. VUHI will issue $150 million of 3.72 percent senior notes due December 5, 2023. The proceeds received from the issuance of the senior notes will be used to refinance $100 million of existing 5.25 percent senior notes that mature August 1, 2013, for capital expenditures, and for general corporate purposes. Subject to the satisfaction of customary conditions precedent, the notes will be funded on or about December 5, 2013, as a result of the delayed draw feature. As of June 30, 2013 the $100 million was classified as Current maturities of long-term debt.

8. Commitments & Contingencies

The Company is party to various legal proceedings, audits, and reviews by taxing authorities and other government agencies arising in the normal course of business. In the opinion of management, there are no legal proceedings or other regulatory reviews or audits pending against the Company that are likely to have a material adverse effect on its financial position, results of operations or cash flows.

9. Rate & Regulatory Matters

Regulatory Treatment of Investments in Natural Gas Infrastructure Replacement
The Company monitors and maintains its natural gas distribution system to ensure that natural gas is delivered in a safe and efficient manner. The Company's natural gas utilities are currently engaged in replacement programs in both Indiana and Ohio, the primary purpose of which is preventive maintenance and continual renewal and operational improvement. Laws in both Indiana and Ohio were passed that expand the ability of utilities to recover certain costs of federally mandated projects and other infrastructure improvement projects, outside of a base rate proceeding. Utilization of these recovery mechanisms is discussed below.

Ohio Recovery and Deferral Mechanisms
The PUCO order approving the Company's 2009 base rate case in the Ohio service territory authorized a distribution replacement rider (DRR). The DRR's primary purpose is recovery of investments in utility plant and related operating expenses associated with replacing bare steel and cast iron pipelines and certain other infrastructure. This rider is updated annually for qualifying capital expenditures and allows for a return to be earned on those capital expenditures based on the rate of return approved in the 2009 base rate case. In addition, deferral of depreciation and the ability to accrue debt-related post in service carrying costs is also allowed until the related capital expenditures are recovered through the DRR. The order also established a prospective bill impact evaluation on the annual deferrals, limiting the deferrals at a level which would equal a change over the prior year rate of $1.00 per residential and general service customer per month. To date, the Company has made capital investments under this rider totaling $94 million. Regulatory assets associated with post in service carrying costs and depreciation deferrals were $7.9 million and $6.5 million at June 30, 2013 and December 31, 2012, respectively. The DRR's initial five year term expires in early 2014. The Company filed in July 2013 a notice that it will request to extend the term of the DRR.

In June 2011, Ohio House Bill 95 was signed into law. Outside of a base rate proceeding, this legislation permits a natural gas company to apply for recovery of much of its capital expenditure program. The legislation also allows for the deferral of costs, such as depreciation, property taxes, and debt-related post in service carrying costs. On December 31, 2012, the PUCO issued an order approving the Company's initial application using this law, reflecting its $23.5 million capital expenditure program covering the fifteen month period ending December 31, 2012. Such capital expenditures include infrastructure expansion and improvements not covered by the DRR as well as expenditures necessary to comply with PUCO rules, regulations, orders, and system expansion to some new customers. The order also established a prospective bill impact evaluation on the cumulative deferrals, limiting the total deferrals at a level which would equal $1.50 per residential and general service customer per month. The Company will file annually for the accounting treatment described above for its annual capital expenditure program. Included in the notice filed in July 2013, the Company indicated an application will be filed in the near term seeking authority to expand the DRR to include recovery of other infrastructure investments to improve the reliability of its system.

Indiana Recovery and Deferral Mechanisms
The Company's Indiana natural gas utilities received orders in 2008 and 2007 associated with the most recent base rate cases. These orders authorized the deferral of financial impacts associated with bare steel and cast iron replacement activities. The orders provide for the deferral of depreciation and post in service carrying costs on qualifying projects totaling $20 million annually at Vectren North and $3 million annually at Vectren South. The debt-related post in service carrying costs are recognized in the Condensed Consolidated Statements of Income currently. Such deferral is limited by individual qualifying project to three years after being placed into service at Vectren South and four years after being placed into service at Vectren North.

In April 2011, Senate Bill 251 was signed into Indiana law. The law provides a framework to recover 80 percent of federally mandated costs through a periodic rate adjustment mechanism outside of a general rate case. Such costs include a return on the federally mandated capital investment, along with recovery of depreciation and other operating costs associated with these mandates. The remaining 20 percent of those costs are to be deferred for future recovery in the utility's next general rate case.

In April 2013, Senate Bill 560 was signed into law. This legislation supplements Senate Bill 251 described above, which addressed federally-mandated investment, provides for cost recovery outside of a base rate proceeding for projects that either improve electric and gas system reliability and safety or are economic development projects that provide rural areas with access to gas service. Provisions of the legislation require that, among other things, requests for recovery include a seven year project plan. Once the plan is approved by the IURC, 80 percent of such costs are eligible for recovery using a periodic rate adjustment mechanism. Recoverable costs include a return on and of the investment, as well as property taxes and operating expenses. The remaining 20 percent of project costs are to be deferred for future recovery in the Company's next general rate case. The adjustment mechanism is capped at an annual increase in retail revenues of no more than two percent.

Pipeline Safety Law
On January 3, 2012, the Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011 (Pipeline Safety Law) was signed into law. The Pipeline Safety Law, which reauthorizes federal pipeline safety programs through fiscal year 2015, provides for enhanced safety, reliability, and environmental protection in the transportation of energy products by pipeline. The law increases federal enforcement authority; grants the federal government expanded authority over pipeline safety; provides for new safety regulations and standards; and authorizes or requires the completion of several pipeline safety-related studies. The DOT is required to promulgate a number of new regulatory requirements over the next two years. Those regulations may eventually lead to further regulatory or statutory requirements.

The Company continues to study the impact of the Pipeline Safety Law and potential new regulations associated with its implementation. At this time, compliance costs and other effects associated with the increased pipeline safety regulations remain uncertain. However, the law is expected to result in further investment in pipeline inspections, and where necessary, additional investments in pipeline infrastructure; and therefore, result in both increased levels of operating expenses and capital expenditures associated with the Company's natural gas distribution businesses. Operating expenses associated with expanded compliance requirements may grow by approximately $9 million annually, with $6 million attributable to the Indiana operations.

Vectren North Pipeline Safety Investigation
On April 11, 2012, the IURC's pipeline safety division filed a complaint against Vectren North alleging several violations of safety regulations pertaining to damage that occurred at a residence in Vectren North's service territory during a pipeline replacement project. The Company negotiated a settlement with the IURC's pipeline safety division, agreeing to a fine and several modifications to the Company's operating policies. The amount of the fine was not material to the Company's financial results. The IURC approved the settlement but modified certain terms of the settlement and added a requirement that Company employees conduct inspections of pipeline excavations. The Company sought and was granted a request for rehearing on the sole issue related to the requirement to use Company employees to inspect excavations. The Company seeks further clarity on the scope of the requirement and the ability to also use contractors to perform certain inspections. The Company submitted testimony in the case in April 2013. A hearing will be conducted in November 2013.

10. Environmental Matters

Indiana Senate Bill 251 is also applicable to federal environmental mandates impacting Vectren South's electric operations. The Company is currently evaluating the impact Senate Bill 251 may have on its operations, including applicability of the stricter regulations the EPA is currently considering involving air quality, fly ash disposal, cooling tower intake facilities, waste water discharges, and greenhouse gases. These issues are further discussed below.

Air Quality
Clean Air Interstate Rule / Cross-State Air Pollution Rule
In July 2011, the EPA finalized the Cross-State Air Pollution Rule (CSAPR). CSAPR was the EPA's response to the US Court of Appeals for the District of Columbia's (the Court) remand of the Clean Air Interstate Rule (CAIR). CAIR was originally established in 2005 as an allowance cap and trade program that required reductions from coal-burning power plants for NOx emissions beginning January 1, 2009 and SO2 emissions beginning January 1, 2010, with a

second phase of reductions in 2015. In an effort to address the Court's finding that CAIR did not adequately ensure attainment of pollutants in certain downwind states due to unlimited trading of SO2 and NOx allowances, CSAPR reduced the ability of facilities to meet emission reduction targets through allowance trading. Like CAIR, CSAPR set individual state caps for SO2 and NOx emissions. However, unlike CAIR in which states allocated allowances to generating units through state implementation plans, CSAPR allowances were allocated to individual units directly through the federal rule. CSAPR reductions were to be achieved with initial step reductions beginning January 1, 2012, and final compliance to be achieved in 2014. Multiple administrative and judicial

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challenges were filed. On December 30, 2011, the Court granted a stay of CSAPR and left CAIR in place pending its review. On August 21, 2012, the Court vacated CSAPR and directed the EPA to continue to administer CAIR. In October 2012, the EPA filed its request for a hearing before the full federal appeals court that struck down the CSAPR. EPA's request for rehearing was denied by the Court on January 24, 2013. In March 2013, the EPA filed a petition for review with the US Supreme Court, and in June 2013 the Supreme Court agreed to review the lower court decision. A decision by the Supreme Court is expected in 2014. The Company remains in full compliance with CAIR (see additional information below "Conclusions Regarding Air Regulations").

Mercury and Air Toxics (MATS) Rule

On December 21, 2011, the EPA finalized the Utility MATS Rule. The MATS Rule sets emission limits for hazardous air pollutants for existing and new coal-fired power plants and identifies the following broad categories of hazardous air pollutants: mercury, non-mercury hazardous air pollutants (primarily arsenic, chromium, cobalt, and selenium), and acid gases (hydrogen cyanide, hydrogen chloride, and hydrogen fluoride). The rule imposes mercury emission limits for two sub-categories of coal, and proposed surrogate limits for non-mercury and acid gas hazardous air pollutants. The EPA did not grant blanket compliance extensions, but asserted that states have broad authority to grant one year extensions for individual electric generating units where potential reliability impacts have been demonstrated. Reductions are to be achieved within three years of publication of the final rule in the Federal register (April 2015). Initiatives to suspend CSAPR's implementation by the Congress also apply to the implementation of the MATS rule. Multiple judicial challenges were filed and briefing is proceeding. The EPA agreed to reconsider MATS requirements for new construction. Such requirements are more stringent than those for existing plants. Utilities planning new coal-fired generation had argued standards outlined in the MATS could not be attained even using the best available control technology. The EPA issued its revised emission limits for new construction in March 2013.

Conclusions Regarding Air Regulations

To comply with Indiana's implementation plan of the Clean Air Act, and other federal air quality standards, the Company obtained authority from the IURC to invest in clean coal technology. Using this authorization, the Company invested approximately $411 million starting in 2001 with the last equipment being placed into service on January 1, 2010. The pollution control equipment included Selective Catalytic Reduction (SCR) systems, fabric filters, and an SO2 scrubber at its generating facility that is jointly owned with Alcoa Generating Corporation (AGC), a subsidiary of ALCOA (the Company's portion is 150 MW). SCR technology is the most effective method of reducing NOx emissions where high removal efficiencies are required and fabric filters control particulate matter emissions. The unamortized portion of the $411 million clean coal technology investment was included in rate base for purposes of determining SIGECO's new electric base rates approved in the latest base rate order obtained April 27, 2011. SIGECO's coal fired generating fleet is 100 percent scrubbed for SO2 and 90 percent controlled for NOx.

Utilization of the Company's NOx and SO2 allowances can be impacted as regulations are revised and implemented. Most of these allowances were granted to the Company at zero cost; therefore, any reduction in carrying value that could result from future changes in regulations would be immaterial.

The Company received a notice of violation (NOV) from the EPA in November 2011 pertaining to its A.B. Brown power plant. The NOV asserts that when the power plant was equipped with SCRs the correct permits were not obtained or the best available control technology to control incidental sulfuric acid mist was not installed. Based on the Company's understanding of the New Source Review reform in effect when the equipment was installed, it is the Company's position that its SCR project was exempted from such requirements.

The Company continues to review the sufficiency of its existing pollution control equipment in relation to the requirements described in the MATS Rule, the 2015 requirement imposed by CAIR, and the NOV discussed above. Due to the correlation amongst the various requirements set forth, it is possible some operational modifications to the control equipment will be required. Additional capital investments, operating expenses, and possibly the purchase of emission allowances may be required and could be significant depending on the required method of compliance with the requirements. The Company has not yet quantified what the additional costs may be associated with these efforts. However, as the compliance is required by government regulation, the Company believes that such additional costs, if incurred, should be recoverable under Senate Bill 251 referenced above.

Information Request
SIGECO and AGC own a 300 MW Unit 4 at the Warrick Power Plant as tenants in common. AGC and SIGECO also share equally in the cost of operation and output of the unit. In January 2013, AGC received an information request from the EPA under Section 114 of the Clean Air Act for historical operational information on the Warrick Power Plant. In April 2013, ALCOA filed a timely response to the information request.

Water
Section 316(b) of the Clean Water Act requires that generating facilities use the "best technology available" to minimize adverse environmental impacts in a body of water. More specifically, Section 316(b) is concerned with impingement and entrainment of aquatic species in once-through cooling water intake structures used at electric generating facilities. In April 2009, the U.S. Supreme Court affirmed that the EPA could, but was not required to, consider costs and benefits in making the evaluation as to the best technology available for existing generating facilities. The regulation was remanded back to the EPA for further consideration. In March 2011, the EPA released its proposed Section 316(b) regulations. The EPA did not mandate the retrofitting of cooling towers in the proposed regulation, but if finalized, the regulation will leave it to the state to determine whether cooling towers should be required on a case by case basis. A final rule is expected in 2013. Depending on the final rule and on the Company's facts and circumstances, capital investments could approximate $40 million if new infrastructure, such as new cooling water towers, is required. Costs for compliance with these final regulations should qualify as federally mandated regulatory requirements and be recovered under Indiana Senate Bill 251 referenced above.

Under the Clean Water Act, EPA sets technology-based guidelines for water discharges from new and existing facilities. EPA is currently in the process of revising the existing steam electric effluent limitation guidelines that set the technology-based water discharge limits for the electric power industry. EPA is focusing its rulemaking on wastewater generated primarily by pollution control equipment necessitated by the comprehensive air regulations. The EPA released proposed rules on April 19, 2013 and the Company is reviewing the proposal. At this time, it is not possible to estimate what potential costs may be required to meet these new water discharge limits, however costs for compliance with these regulations should qualify as federally mandated regulatory requirements and be recovered under Senate Bill 251 referenced above.

Coal Ash Waste Disposal & Ash Ponds
In June 2010, the EPA issued proposed regulations affecting the management and disposal of coal combustion products, such as ash generated by the Company's coal-fired power plants. The proposed rules more stringently regulate these byproducts and would likely increase the cost of operating or expanding existing ash ponds and the development of new ash ponds. The alternatives include regulating coal combustion by-products that are not being beneficially reused as hazardous waste. The EPA did not offer a preferred alternative, but took public comment on multiple alternative regulations. Rules have not been finalized given oversight hearings, congressional interest, and other factors.

At this time, the majority of the Company's ash is being beneficially reused. However, the alternatives proposed would require modification to, or closure of, existing ash ponds. The Company estimates capital expenditures to comply could be as much as $30 million, and such expenditures could exceed $100 million if the most stringent of the alternatives is selected. Annual compliance costs could increase slightly or be impacted by as much as $5 million. Costs for compliance with these regulations should qualify as federally mandated regulatory requirements and be recovered under Senate Bill 251 referenced above.

Climate Change
In April 2007, the US Supreme Court determined that greenhouse gases (GHG's) meet the definition of "air pollutant" under the Clean Air Act and ordered the EPA to determine whether GHG emissions from motor vehicles cause or contribute to air pollution that may reasonably be anticipated to endanger public health or welfare. In April 2009, the

EPA published its proposed endangerment finding for public comment. The proposed endangerment finding concludes that carbon emissions from mobile sources pose an endangerment to public health and the environment. The endangerment finding was finalized in December 2009, and is the first step toward the EPA regulating carbon emissions through the existing Clean Air Act in the absence of specific carbon legislation from Congress.

The EPA has promulgated two GHG regulations that apply to the Company's generating facilities. In 2009, the EPA finalized a mandatory GHG emissions registry which requires the reporting of emissions. The EPA has also finalized a revision to the Prevention of Significant Deterioration (PSD) and Title V permitting rules which would require facilities that emit 75,000 tons or

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more of GHG's a year to obtain a PSD permit for new construction or a significant modification of an existing facility. The EPA's PSD and Title V permitting rules for GHG's were upheld by the US Court of Appeals for the District of Columbia. In 2012, the EPA proposed New Source Performance Standards (NSPS) for GHG's for new electric generating facilities under Clean Air Act Section 111(b). In July 2013, the President announced a Climate Action Plan, which calls on the EPA to re-propose and finalize the new source rule expeditiously, and by June 2014 propose, and by June 2015 finalize, NSPS standards for GHG's for existing electric generating units which would apply to Vectren's power plants. States must have their implementation plans to the EPA no later than June 2016. The President's Climate Action Plan did not provide any detail as to actual emission targets or compliance requirements. The Company anticipates that these initial standards will focus on power plant efficiency and other coal fleet carbon intensity reduction measures. The Company believes that such additional costs, if necessary, should be recoverable under Indiana Senate Bill 251 referenced above.

Numerous competing federal legislative proposals have also been introduced in recent years that involve carbon, energy efficiency, and renewable energy. Comprehensive energy legislation at the federal level continues to be debated, but there has been little progress to date. The progression of regional initiatives throughout the United States has also slowed.

Impact of Legislative Actions & Other Initiatives is Unknown
If regulations are enacted by the EPA or other agencies or if legislation requiring reductions in CO2 and other GHG's or legislation mandating a renewable energy portfolio standard is adopted, such regulation could substantially affect both the costs and operating characteristics of the Company's fossil fuel generating plants and natural gas distribution businesses. At this time and in the absence of final legislation or rulemaking, compliance costs and other effects associated with reductions in GHG emissions or obtaining renewable energy sources remain uncertain. The Company has gathered preliminary estimates of the costs to control GHG emissions. A preliminary investigation demonstrated costs to comply would be significant, first with regard to operating expenses and later for capital expenditures as technology becomes available to control GHG emissions. However, these compliance cost estimates are based on highly uncertain assumptions, including allowance prices if a cap and trade approach were employed, and energy efficiency targets. Costs to purchase allowances that cap GHG emissions or expenditures made to control emissions should be considered a cost of providing electricity, and as such, the Company believes such costs and expenditures should be recoverable from customers through Senate Bill 251.

Senate Bill 251 also established a voluntary clean energy portfolio standard that provides incentives to electricity suppliers participating in the program. The goal of the program is that by 2025, at least 10 percent of the total electricity obtained by the supplier to meet the energy needs of Indiana retail customers will be provided by clean energy sources, as defined. In advance of a federal portfolio standard and Senate Bill 251, SIGECO received regulatory approval to purchase a 3 MW landfill gas generation facility from a related entity. The facility was purchased in 2009 and is directly connected to the Company's distribution system. In 2008 and 2009, the Company executed long term purchase power commitments for a total of 80 MW of wind energy. The Company currently has approximately 5 percent of its electricity being provided by clean energy sources due to the long-term wind contracts and landfill gas investment.

Manufactured Gas Plants
In the past, the Company operated facilities to manufacture natural gas. Given the availability of natural gas transported by pipelines, these facilities have not been operated for many years. Under current environmental laws and regulations, those that owned or operated these facilities may now be required to take remedial action if certain contaminants are found above the regulatory thresholds.

In the Indiana Gas service territory, the existence, location, and certain general characteristics of 26 gas manufacturing and storage sites have been identified for which the Company may have some remedial responsibility. A remedial investigation/feasibility study (RI/FS) was completed at one of the sites under an agreed order between Indiana Gas and the IDEM, and a Record of Decision was issued by the IDEM in January 2000. The remaining sites have been submitted to the IDEM's Voluntary Remediation Program (VRP). The Company has identified its involvement in five manufactured gas plant sites in SIGECO's service territory, all of which are currently enrolled in the IDEM's VRP. The Company is currently conducting some level of remedial activities, including groundwater monitoring at certain sites.

The Company 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, the Company has recorded cumulative costs that it has incurred or reasonably expects to incur totaling approximately $42.4 million ($23.2 million at Indiana Gas and $19.2 million at SIGECO). The estimated accrued costs are limited to the Company's share of the remediation efforts and are therefore net of exposures of other potentially responsible parties (PRP).

With respect to insurance coverage, Indiana Gas has received approximately $20.8 million from all known insurance carriers under insurance policies in effect when these plants were in operation. Likewise, SIGECO has settlement agreements with all known insurance carriers and has received to date approximately $14.2 million of the expected $15.7 million in insurance recoveries.

The costs the Company expects to incur are estimated by management using assumptions based on actual costs incurred, the timing of expected future payments, and inflation factors, among others. While the Company's utilities have recorded all costs which they presently expect to incur in connection with activities at these sites, it is possible that future events may require remedial activities which are not presently foreseen and those costs may not be subject to PRP or insurance recovery. As of June 30, 2013 and December 31, 2012, approximately $5.1 million and $4.6 million, respectively, of accrued, but not yet spent, costs are included in Other Liabilities related to the Indiana Gas and SIGECO sites.

11. Fair Value Measurements

The carrying values and estimated fair values using primarily Level 2 assumptions of the Company's other financial instruments follow:

	June 30, 2013		December 31, 2012	
(In millions)	Carrying Amount	Est. Fair Value	Carrying Amount	Est. Fair Value
Long-term debt	$ 1,157.8	$ 1,259.1	$ 1,208.4	$ 1,372.6
Short-term borrowings	124.0	124.0	116.7	116.7
Cash & cash equivalents	3.9	3.9	13.3	13.3

For the balance sheet dates presented in these financial statements, the Company had no material assets or liabilities marked to fair value.

Certain methods and assumptions must be used to estimate the fair value of financial instruments. The fair value of the Company'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 the Company for instruments with similar characteristics. Because of the maturity dates and variable interest rates of short-term borrowings and cash & cash equivalents, those carrying amounts approximate fair value. Because of the inherent difficulty of estimating interest rate and other market risks, the methods used to estimate fair value may not always be indicative of actual realizable value, and different methodologies could produce different fair value estimates at the reporting date.

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. Accordingly, any reacquisition of this debt would not be expected to have a material effect on the Company's results of operations.

12. Impact of Recently Issued Accounting Principles

Offsetting Assets and Liabilities

In January 2013, the FASB issued new accounting guidance on disclosures of offsetting assets and liabilities. This guidance amends prior requirements to add clarification to the scope of the offsetting disclosures. The amendment clarifies that the scope applies to derivative instruments accounted for in accordance with reporting topics on derivatives and hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with US GAAP or subject to an enforceable master netting arrangement or similar agreement. This guidance is effective for fiscal years beginning on or after January 1, 2013 and interim periods within annual periods. The Company adopted this guidance as of January 1, 2013. The adoption of this guidance did not have a material impact on the Company's financial statements.

Accumulated Other Comprehensive Income (AOCI)
In February 2013, the FASB issued new accounting guidance on the reporting of reclassifications from AOCI. The guidance requires an entity to report the effect of significant reclassification from AOCI on the respective line items in net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference to other disclosures required that provide additional details about these amounts. The new guidance is effective for fiscal years, and interim periods within annual periods, beginning after December 15, 2012. As this guidance provides only disclosure requirements, the adoption of this standard did not impact the company's results of operations, cash flows or financial position.

Unrecognized Tax Benefit Presentation
In July 2013, the FASB issued new accounting guidance on presenting an unrecognized tax benefit when net operating loss carryforwards exist. The new standard was issued in an effort to eliminate diversity in practice resulting from a lack of guidance on this topic in the current US GAAP. The update provides that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except under certain circumstances outlined in the update. The amendments in the update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The adoption of this guidance will have no material impact on the Company's financial statements.

13. Segment Reporting

The Company's operations consist of regulated operations and other operations that provide information technology and other support services to those regulated operations. The Company segregates its regulated operations between Gas Utility Services and Electric Utility Services. Gas Utility Services provides natural gas distribution and transportation services to nearly two-thirds of Indiana and to west central Ohio. Electric Utility Services provides electric distribution services to southwestern Indiana, and includes the Company's power generating and wholesale power operations. Regulated operations supply natural gas and/or electricity to over one million customers. In total, the Company is comprised of three operating segments: Gas Utility Services, Electric Utility Services, and Other operations. Net income is the measure of profitability used by management for all operations.

Information related to the Company's business segments is summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2013	2012	2013	2012
Revenues				
Gas Utility Services	$ 138.0	$ 116.0	$ 453.9	$ 408.3
Electric Utility Services	154.7	149.3	304.2	288.7
Other Operations	142.0	10.0	151.5	19.9
Eliminations	(141.9)	(9.5)	(151.3)	(19.0)
Total revenues	$ 292.8	$ 265.8	$ 758.3	$ 697.9
Profitability Measure - Net Income (Loss)				
Gas Utility Services	$ 2.9	$ 1.3	$ 41.0	$ 38.8
Electric Utility Services	18.9	17.2	33.5	32.8
Other Operations	2.4	1.6	4.8	4.5
Total net income	$ 24.2	$ 20.1	$ 79.3	$ 76.1

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Description of the Business

Vectren Utility Holdings, Inc. (the Company or Utility Holdings), an Indiana corporation, was formed on March 31, 2000 to serve as the intermediate holding company for Vectren Corporation's (Vectren) three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren North), Southern Indiana Gas and Electric Company (SIGECO or Vectren South), and Vectren Energy Delivery of Ohio, Inc. (VEDO). Utility Holdings also earns a return on shared assets that provide information technology and other services to the three utilities. Vectren, an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana and was organized on June 10, 1999. Both Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005 (Energy Act).

Indiana Gas provides energy delivery services to approximately 573,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to approximately 142,000 electric customers and approximately 110,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation assets to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. VEDO provides energy delivery services to approximately 313,000 natural gas customers located near Dayton in west central Ohio. The Company segregates its regulatory utility operations between a Gas Utility Services operating segment and an Electric Utility Services operating segment.

Executive Summary of Consolidated Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto as well as the Company's 2012 annual report filed on Form 10-K.

In the second quarter of 2013, Utility Holding's earnings were $24.2 million compared to $20.1 million in 2012. In the six months ended June 30, 2013, Utility Holdings' earned $79.3 million, compared to $76.1 million in 2012. The improved results in 2013 are primarily related to increased gas utility margins from small and large customers, return on electric transmission investment, and lower interest expense.

Gas Utility Services
During the second quarter of 2013, Gas Utility Services earnings were $2.9 million compared to earnings of $1.3 million in the second quarter of 2012. In the six months ended June 30, 2013, Gas Utility Services earned $41.0 million, compared to earnings of $38.8 million in 2012. Results in 2013 have been impacted by small customer growth and increased large customer margin. Results also continue to be favorably impacted by returns earned on increased investment in bare steel and cast iron pipe replacements, particularly in Ohio, and by lower interest expense.

Electric Utility Services
During the second quarter of 2013, Electric Utility Services earnings were $18.9 million, compared to $17.2 million in the second quarter of 2012. Electric Utility Services earned $33.5 million year to date in 2013, compared to earnings of $32.8 million for the six months ended June 30, 2012. The timing of power supply operating expenses favorably impacted second quarter results, and year to date operating expenses are relatively flat. In both the second quarter and year to date periods, results were favorable impacted by lower interest expense and increased return on transmission investment. These favorable impacts were somewhat offset by lower electric small customer margin resulting from conservation initiatives, net of lost margin recovery.

Other Utility Operations

In the second quarter of 2013, earnings from Other Utility operations were $2.4 million compared to $1.6 million in 2012. In the six months ended June 30, 2013, earnings from these operations were $4.8 million compared to $4.5 million in 2012.

Operating Trends

Margin

Throughout this discussion, the terms Gas Utility margin and Electric Utility margin are used. Gas Utility margin is calculated as Gas utility revenues less the Cost of gas sold. Electric Utility margin is calculated as Electric utility revenues less Cost of fuel & purchased power. The Company believes Gas Utility and Electric Utility margins are better indicators of relative contribution than revenues since gas prices and fuel and purchased power costs can be volatile and are generally collected on a dollar-for-dollar basis from customers. Following is a discussion and analysis of margin generated from regulated utility operations.

In addition, the Company separately shows Regulatory expense recovery mechanisms within Gas utility margin and Electric utility margin. These amounts represent dollar-for-dollar recovery of operating expenses. The Company utilizes these approved regulatory mechanisms to recover variations in operating expenses from the amounts reflected in base rates and are generally expenses that are subject to volatility. For example, demand side management and conservation expenses for both the gas and electric utilities; MISO administrative expenses for the Company's electric operations; uncollectible expense associated with the Company's Ohio gas customers; and recoveries of state mandated revenue taxes in both Indiana and Ohio are included in these amounts. Following is a discussion and analysis of margin generated from regulated utility operations.

Gas Utility Margin (Gas utility revenues less Cost of gas sold)
Gas utility margin and throughput by customer type follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
(In millions)	2013		2012		2013		2012	
Gas utility revenues	$	138.0	$	116.0	$	453.9	$	408.3
Cost of gas sold		50.7		31.8		207.9		168.9
Total gas utility margin	$	87.3	$	84.2	$	246.0	$	239.4
Margin attributed to:								
Residential & commercial customers	$	66.5	$	64.9	$	187.0	$	182.7
Industrial customers		12.5		12.1		29.8		27.9
Other		2.4		2.0		5.4		5.4
Regulatory expense recovery mechanisms		5.9		5.2		23.8		23.4
Total gas utility margin	$	87.3	$	84.2	$	246.0	$	239.4
Sold & transported volumes in MMDth attributed to:								
Residential & commercial customers	$	12.0	$	10.2	$	67.1	$	51.0
Industrial customers		25.1		24.3		56.1		52.1
Total sold & transported volumes	$	37.1	$	34.5	$	123.2	$	103.1

Gas Utility margins were $87.3 million and $246.0 million for the three and six months ended June 30, 2013, and compared to 2012 increased $3.1 million quarter over quarter and $6.6 million year to date. Excluding the impact of regulatory expense recovery mechanisms, small customer margins increased $1.6 million quarter over quarter and $4.3 million year to date, compared to the prior year. With rate designs that substantially limit the impact of weather on margin, heating degree days that were 103 percent of normal in Ohio and 101 percent of normal in Indiana during the six months ended June 30, 2013, compared to 82 percent of normal in Ohio and 70 percent of normal in Indiana during 2012, had only a small favorable impact to small customer margin of approximately $0.7 million. Growth in residential and commercial customers favorably impacted small customer margins by approximately $0.8 million for the quarter and $1.9 million for the year to date. In addition, margin related to investments in infrastructure in Ohio increased margin $0.8 million and $1.7 million in the quarter and year to date periods, respectively, compared to prior year. Large customer margins increased $0.4 million and $1.9 million in the quarter and year to date periods, respectively, compared to the prior year, on increasing volumes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2013	2012	2013	2012
Electric utility revenues	$ 154.7	$ 149.3	$ 304.2	$ 288.7
Cost of fuel & purchased power	53.9	47.0	104.1	91.7
Total electric utility margin	$ 100.8	$ 102.3	$ 200.1	$ 197.0
Margin attributed to:				
Residential & commercial customers	$ 60.5	$ 65.4	$ 121.2	$ 123.1
Industrial customers	27.8	28.0	53.9	54.6
Other customers	0.9	(0.3)	1.7	0.5
Regulatory expense recovery mechanisms	2.0	1.3	4.5	2.0
Subtotal: retail	$ 91.2	$ 94.4	$ 181.3	$ 180.2
Wholesale power & transmission system margin	9.6	7.9	18.8	16.8
Total electric utility margin	$ 100.8	$ 102.3	$ 200.1	$ 197.0
Electric volumes sold in GWh attributed to:				
Residential & commercial customers	631.2	693.3	1,302.5	1,324.4
Industrial customers	698.0	713.4	1,357.3	1,395.1
Other customers	4.8	4.8	10.6	10.7
Total retail volumes sold	1,334.0	1,411.5	2,670.4	2,730.2

Retail

Electric retail utility margins were $91.2 million and $181.3 million for the three and six months ended June 30, 2013, and compared to 2012 decreased by $3.2 million in the quarter and increased $1.1 million year to date. Excluding the impact of regulatory expense recovery mechanisms, small customer margins decreased by $4.9 million for the quarter and $1.9 million year to date compared to 2012. Electric results are not protected by weather mechanisms. Cooling degree days in the second quarter of 2013 were 107 percent of normal compared to 146 percent of normal in the second quarter of 2012, resulting in a $2.7 million decrease in small customer margin. For the year to date period, electric results were positively impacted by weather, resulting in a year to date increase of $1.2 million in small customer margins over the prior year. In addition, $2.3 million of the decline in small customer margin for the quarter and $3.1 million for the year to date were the result of conservation beyond approved lost margin recovery mechanisms. Large customer margins for the second quarter of 2013 declined $0.2 million from the prior year, and for 2013 year to date were down $0.7 million from 2012 on decreasing volumes. Other margin was higher in both the quarter and year to date periods due to refunds during 2012 resulting from statutory net operating income limits. Margin from regulatory expense recovery mechanisms increased $0.7 million for the second quarter and $2.5 million year to date from 2012, driven by increased operating expenses associated with the electric state-mandated conservation programs. This is offset by a corresponding increase in operating expenses when compared to 2012.

Margin from Wholesale Electric Activities

The Company earns a return on electric transmission projects constructed by the Company in its service territory that meet the criteria of MISO's regional transmission expansion plans and also markets and sells its generating and transmission capacity to optimize the return on its owned assets. Substantially all off-system sales are generated in the MISO Day Ahead and Real Time markets when sales into the MISO in a given hour are greater than amounts purchased for native load. Further detail of MISO off-system margin and transmission system margin follows:

Three Months Ended	Six Months Ended

	June 30,		June 30,	
(In millions)	2013	2012	2013	2012
Transmission system sales	$ 7.9	$ 7.2	$ 14.5	$ 13.1
Off-system sales	1.7	0.7	4.3	3.7
Total wholesale margin	$ 9.6	$ 7.9	$ 18.8	$ 16.8

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Transmission system margin associated with qualifying projects, including the reconciliation of recovery mechanisms, and other transmission system operations, totaled $14.5 million and $13.1 million during the six months ended June 30, 2013 and 2012, respectively. During the 2013 second quarter, transmission system margin was $7.9 million compared to $7.2 million for the same period in 2012. Increases are primarily due to increased investment in qualifying projects. As of June 30, 2013, the Company had invested $157 million in qualifying projects. These projects include an interstate 345 Kv transmission line that connects Vectren's A.B. Brown Generating Station to a generating station in Indiana owned by Duke Energy to the north and to a generating station in Kentucky owned by Big Rivers Electric Corporation to the south; a substation; and another transmission line. Once placed into service, these projects earn a FERC approved equity rate of return of 12.38 percent on the net plant balance, and operating expenses are also recovered. The 345 Kv project is the largest of these qualifying projects, with a cost of $107 million that earned the FERC approved equity rate of return, including while under construction. The last segment of that project was placed into service in December 2012.

For the six months ended June 30, 2013, margin from off-system sales was $4.3 million, compared to $3.7 million for the six months ended June 30, 2012. In the second quarter of 2013, margin from off system sales was $1.7 million compared to $0.7 million in 2012. The base rate changes implemented in May 2011 require that wholesale margin from off-system sales earned above or below $7.5 million per year be shared equally with customers. Results for the periods presented reflect the impact of that sharing.

Operating Expenses

Other Operating

During the second quarter of 2013, other operating expenses decreased $1.7 million, partially related to the timing of power supply operating costs. For the six months ended June 30, 2013, other operating expenses were $162.9 million, an increase of $5.2 million, compared to 2012. Excluding pass through costs, other operating expenses increased $4.2 million year to date, compared to the same period in 2012, primarily associated with increased expense related to company stock price driven performance based compensation. For the full year 2013, the Company expects to be on track to meet its annual goal of generally flat operating expenses, driven largely by continued focus on performance management initiatives.

Depreciation & Amortization

In the second quarter of 2013, depreciation and amortization expense was $48.7 million, compared to $47.8 million in 2012. For the six months ended June 30, 2013, depreciation and amortization expense was $97.1 million, which represents an increase of $0.7 million compared to 2012. Both the year to date and quarter periods reflect increased plant placed into service.

Taxes Other Than Income Taxes

Taxes other than income taxes were $12.2 million for the second quarter of 2013, an increase of $0.6 million, compared to 2012. Year to date, taxes other than income taxes were $29.7 million compared to $27.5 million for the year to date period in 2012. The year to date increase of $2.2 million is primarily due to higher revenue taxes associated with higher gas costs. These expenses are offset dollar-for-dollar with lower gas utility and electric utility revenues.

Rate & Regulatory Matters

Regulatory Treatment of Investments in Natural Gas Infrastructure Replacement

The Company monitors and maintains its natural gas distribution system to ensure that natural gas is delivered in a safe and efficient manner. The Company's natural gas utilities are currently engaged in replacement programs in both

Indiana and Ohio, the primary purpose of which is preventive maintenance and continual renewal and operational improvement. Laws in both Indiana and Ohio were passed that expand the ability of utilities to recover certain costs of federally mandated projects and other infrastructure improvement projects, outside of a base rate proceeding. Utilization of these recovery mechanisms is discussed below.

Ohio Recovery and Deferral Mechanisms

The PUCO order approving the Company's 2009 base rate case in the Ohio service territory authorized a distribution replacement rider (DRR). The DRR's primary purpose is recovery of investments in utility plant and related operating expenses associated with replacing bare steel and cast iron pipelines and certain other infrastructure. This rider is updated annually for qualifying capital expenditures and allows for a return to be earned on those capital expenditures based on the rate of return approved in the 2009 base rate case. In addition, deferral of depreciation and the ability to accrue debt-related post in service carrying costs is also allowed until the related capital expenditures are recovered through the DRR. The order also established a prospective bill impact evaluation on the annual deferrals, limiting the deferrals at a level which would equal a change over the prior year rate of $1.00 per residential and general service customer per month. To date, the Company has made capital investments under this rider totaling $94 million. Regulatory assets associated with post in service carrying costs and depreciation deferrals were $7.9 million and $6.5 million at June 30, 2013 and December 31, 2012, respectively. The DRR's initial five year term expires in early 2014. The Company filed in July 2013 a notice that it will request to extend the term of the DRR.

In June 2011, Ohio House Bill 95 was signed into law. Outside of a base rate proceeding, this legislation permits a natural gas company to apply for recovery of much of its capital expenditure program. The legislation also allows for the deferral of costs, such as depreciation, property taxes, and debt-related post in service carrying costs. On December 12, 2012, the PUCO issued an order approving the Company's initial application using this law, reflecting its $23.5 million capital expenditure program covering the fifteen month period ending December 31, 2012. Such capital expenditures include infrastructure expansion and improvements not covered by the DRR as well as expenditures necessary to comply with PUCO rules, regulations, orders, and system expansion to some new customers. The order also established a prospective bill impact evaluation on the cumulative deferrals, limiting the total deferrals at a level which would equal $1.50 per residential and general service customer per month. The Company will file annually for the accounting treatment described above for its annual capital expenditure program. Included in the notice filed in July 2013, the Company indicated an application will be filed in the near term seeking authority to expand the DRR to include recovery of other infrastructure investments to improve the reliability of its system.

Indiana Recovery and Deferral Mechanisms

The Company's Indiana natural gas utilities received orders in 2008 and 2007 associated with the most recent base rate cases. These orders authorized the deferral of financial impacts associated with bare steel and cast iron replacement activities. The orders provide for the deferral of depreciation and post in service carrying costs on qualifying projects totaling $20 million annually at Vectren North and $3 million annually at Vectren South. The debt-related post in service carrying costs are recognized in the Condensed Consolidated Statements of Income currently. Such deferral is limited by individual qualifying project to three years after being placed into service at Vectren South and four years after being placed into service at Vectren North.

In April 2011, Senate Bill 251 was signed into Indiana law. The law provides a framework to recover 80 percent of federally mandated costs through a periodic rate adjustment mechanism outside of a general rate case. Such costs include a return on the federally mandated capital investment, along with recovery of depreciation and other operating costs associated with these mandates. The remaining 20 percent of those costs are to be deferred for future recovery in the utility's next general rate case.

In April 2013, Senate Bill 560 was signed into law. This legislation supplements Senate Bill 251 described above, which addressed federally-mandated investment, provides for cost recovery outside of a base rate proceeding for projects that either improve electric and gas system reliability and safety or are economic development projects that provide rural areas with access to gas service. Provisions of the legislation require that, among other things, requests for recovery include a seven year project plan. Once the plan is approved by the IURC, 80 percent of such costs are eligible for recovery using a periodic rate adjustment mechanism. Recoverable costs include a return on and of the investment, as well as property taxes and operating expenses. The remaining 20 percent of project costs are to be deferred for future recovery in the Company's next general rate case. The adjustment mechanism is capped at an annual increase in retail revenues of no more than two percent.

Pipeline Safety Law
On January 3, 2012, the Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011 (Pipeline Safety Law) was signed into law. The Pipeline Safety Law, which reauthorizes federal pipeline safety programs through fiscal year 2015, provides for enhanced safety, reliability, and environmental protection in the transportation of energy products by pipeline. The law increases federal enforcement authority; grants the federal government expanded authority over pipeline safety; provides for new safety regulations and standards; and authorizes or requires the completion of several pipeline safety-related studies. The DOT is required to promulgate a number of new regulatory requirements over the next two years. Those regulations may eventually lead to further regulatory or statutory requirements.

The Company continues to study the impact of the Pipeline Safety Law and potential new regulations associated with its implementation. At this time, compliance costs and other effects associated with the increased pipeline safety regulations remain uncertain. However, the law is expected to result in further investment in pipeline inspections, and where necessary, additional investments in pipeline infrastructure; and therefore, result in both increased levels of operating expenses and capital expenditures associated with the Company's natural gas distribution businesses. Operating expenses associated with expanded compliance requirements may grow by approximately $9 million annually, with $6 million attributable to the Indiana

Request for Recovery Under Regulatory Mechanisms
The Company plans to utilize the mechanisms described above to recover certain costs of federally mandated projects and other capital investment projects outside of base rate proceedings. The Company has filed a notice indicating an application will be filed in the near term seeking authority to extend the term of the DRR and expand the DRR to include for recovery of other infrastructure investments to improve the reliability of its system. The Company also expects to seek authority to recover appropriate costs using the mechanisms allowed under Senate Bill 251 and Senate Bill 560 in the latter half of 2013. Capital investments, associated with the Pipeline Safety Law, are expected to be significant and the Company expects to seek recovery in Indiana under Senate Bill 251 and Senate Bill 560, as applicable, and under Ohio House Bill 95, or other currently authorized recovery mechanisms, as soon as practical following the finalization of regulations and the completion of a compliance plan.

Vectren North Pipeline Safety Investigation

On April 11, 2012, the IURC's pipeline safety division filed a complaint against Vectren North alleging several violations of safety regulations pertaining to damage that occurred at a residence in Vectren North's service territory during a pipeline replacement project. The Company negotiated a settlement with the IURC's pipeline safety division, agreeing to a fine and several modifications to the Company's operating policies. The amount of the fine was not material to the Company's financial results. The IURC approved the settlement but modified certain terms of the settlement and added a requirement that Company employees conduct inspections of pipeline excavations. The Company sought and was granted a request for rehearing on the sole issue related to the requirement to use Company employees to inspect excavations. The Company seeks further clarity on the scope of the requirement and the ability to also use contractors to perform certain inspections. The Company submitted testimony in the case in April 2013. A hearing will be conducted in November 2013.

Environmental Matters

Indiana Senate Bill 251 is also applicable to federal environmental mandates impacting Vectren South's electric operations. The Company is currently evaluating the impact Senate Bill 251 may have on its operations, including applicability of the stricter regulations the EPA is currently considering involving air quality, fly ash disposal, cooling tower intake facilities, waste water discharges, and greenhouse gases. These issues are further discussed below.

Air Quality

Clean Air Interstate Rule / Cross-State Air Pollution Rule

In July 2011, the EPA finalized the Cross-State Air Pollution Rule (CSAPR). CSAPR was the EPA's response to the US Court of Appeals for the District of Columbia's (the Court) remand of the Clean Air Interstate Rule (CAIR). CAIR was originally established in 2005 as an allowance cap and trade program that required reductions from coal-burning power plants for NOx emissions beginning January 1, 2009 and SO2 emissions beginning January 1, 2010, with a second phase of reductions in 2015. In an effort to address the Court's finding that CAIR did not adequately ensure attainment of pollutants in certain downwind states due to unlimited trading of SO2 and NOx allowances, CSAPR reduced the ability of facilities to meet emission reduction targets through allowance trading. Like CAIR, CSAPR set individual state caps for SO2 and NOx emissions. However, unlike CAIR in which states allocated allowances to generating units through state implementation plans, CSAPR allowances were allocated to individual units directly through the federal rule. CSAPR reductions were to be achieved with initial step reductions beginning January 1, 2012, and final compliance to be achieved in 2014. Multiple administrative and judicial challenges were filed. On December 30, 2011, the Court granted a stay of CSAPR and left CAIR in place pending its review. On August 21, 2012, the Court vacated CSAPR and directed the EPA to continue to administer CAIR. In October 2012, the EPA filed its request for a hearing before the full federal appeals court that struck down the CSAPR. EPA's request for rehearing was denied by the Court on January 24, 2013. In March 2013, the EPA filed a petition for review with the US Supreme Court, and in June 2013 the Supreme Court agreed to review the lower court decision. A decision by the Supreme Court is expected in 2014. The Company remains in full compliance with CAIR (see additional information below "Conclusions Regarding Air Regulations").

Mercury and Air Toxics (MATS) Rule
On December 21, 2011, the EPA finalized the Utility MATS Rule. The MATS Rule sets emission limits for hazardous air pollutants for existing and new coal-fired power plants and identifies the following broad categories of hazardous air pollutants: mercury, non-mercury hazardous air pollutants (primarily arsenic, chromium, cobalt, and selenium), and acid gases (hydrogen cyanide, hydrogen chloride, and hydrogen fluoride). The rule imposes mercury emission limits for two sub-categories of coal, and proposed surrogate limits for non-mercury and acid gas hazardous air pollutants. The EPA did not grant blanket compliance extensions, but asserted that states have broad authority to grant one year extensions for individual electric generating units where potential reliability impacts have been demonstrated. Reductions are to be achieved within three years of publication of the final rule in the Federal register (April 2015). Initiatives to suspend CSAPR's implementation by the Congress also apply to the implementation of the MATS rule. Multiple judicial challenges were filed and briefing is proceeding. The EPA agreed to reconsider MATS requirements for new construction. Such requirements are more stringent than those for existing plants. Utilities planning new coal-fired generation had argued standards outlined in the MATS could not be attained even using the best available control technology. The EPA issued its revised emission limits for new construction in March 2013.

Conclusions Regarding Air Regulations
To comply with Indiana's implementation plan of the Clean Air Act, and other federal air quality standards, the Company obtained authority from the IURC to invest in clean coal technology. Using this authorization, the Company invested approximately $411 million starting in 2001 with the last equipment being placed into service on January 1, 2010. The pollution control equipment included Selective Catalytic Reduction (SCR) systems, fabric filters, and an SO2 scrubber at its generating facility that is jointly owned with Alcoa Generating Corporation (AGC), a subsidiary of ALCOA (the Company's portion is 150 MW). SCR technology is the most effective method of reducing NOx emissions where high removal efficiencies are required and fabric filters control particulate matter emissions. The unamortized portion of the $411 million clean coal technology investment was included in rate base for purposes of determining SIGECO's new electric base rates approved in the latest base rate order obtained April 27, 2011. SIGECO's coal fired generating fleet is 100 percent scrubbed for SO2 and 90 percent controlled for NOx.

Utilization of the Company's NOx and SO2 allowances can be impacted as regulations are revised and implemented. Most of these allowances were granted to the Company at zero cost; therefore, any reduction in carrying value that could result from future changes in regulations would be immaterial.

The Company received a notice of violation (NOV) from the EPA in November 2011 pertaining to its A.B. Brown power plant. The NOV asserts that when the power plant was equipped with SCRs the correct permits were not obtained or the best available control technology to control incidental sulfuric acid mist was not installed. Based on the Company's understanding of the New Source Review reform in effect when the equipment was installed, it is the

Company's position that its SCR project was exempted from such requirements.

The Company continues to review the sufficiency of its existing pollution control equipment in relation to the requirements described in the MATS Rule, the 2015 requirement imposed by CAIR, and the NOV discussed above. Due to the correlation amongst the various requirements set forth, it is possible some operational modifications to the control equipment will be required. Additional capital investments, operating expenses, and possibly the purchase of emission allowances may be

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required and could be significant depending on the required method of compliance with the requirements. The Company has not yet quantified what the additional costs may be associated with these efforts. However, as the compliance is required by government regulation, the Company believes that such additional costs, if incurred, should be recoverable under Senate Bill 251 referenced above.

Information Request
SIGECO and AGC own a 300 MW Unit 4 at the Warrick Power Plant as tenants in common. AGC and SIGECO also share equally in the cost of operation and output of the unit. In January 2013, AGC received an information request from the EPA under Section 114 of the Clean Air Act for historical operational information on the Warrick Power Plant. In April 2013, ALCOA filed a timely response to the information request.

Water

Section 316(b) of the Clean Water Act requires that generating facilities use the “best technology available” to minimize adverse environmental impacts in a body of water. More specifically, Section 316(b) is concerned with impingement and entrainment of aquatic species in once-through cooling water intake structures used at electric generating facilities. In April 2009, the U.S. Supreme Court affirmed that the EPA could, but was not required to, consider costs and benefits in making the evaluation as to the best technology available for existing generating facilities. The regulation was remanded back to the EPA for further consideration. In March 2011, the EPA released its proposed Section 316(b) regulations. The EPA did not mandate the retrofitting of cooling towers in the proposed regulation, but if finalized, the regulation will leave it to the state to determine whether cooling towers should be required on a case by case basis. A final rule is expected in 2013. Depending on the final rule and on the Company's facts and circumstances, capital investments could approximate $40 million if new infrastructure, such as new cooling water towers, is required. Costs for compliance with these final regulations should qualify as federally mandated regulatory requirements and be recovered under Indiana Senate Bill 251 referenced above.

Under the Clean Water Act, EPA sets technology-based guidelines for water discharges from new and existing facilities. EPA is currently in the process of revising the existing steam electric effluent limitation guidelines that set the technology-based water discharge limits for the electric power industry. EPA is focusing its rulemaking on wastewater generated primarily by pollution control equipment necessitated by the comprehensive air regulations. The EPA released proposed rules on April 19, 2013 and the Company is reviewing the proposal. At this time, it is not possible to estimate what potential costs may be required to meet these new water discharge limits, however costs for compliance with these regulations should qualify as federally mandated regulatory requirements and be recovered under Senate Bill 251 referenced above.

Coal Ash Waste Disposal & Ash Ponds

In June 2010, the EPA issued proposed regulations affecting the management and disposal of coal combustion products, such as ash generated by the Company's coal-fired power plants. The proposed rules more stringently regulate these byproducts and would likely increase the cost of operating or expanding existing ash ponds and the development of new ash ponds. The alternatives include regulating coal combustion by-products that are not being beneficially reused as hazardous waste. The EPA did not offer a preferred alternative, but took public comment on multiple alternative regulations. Rules have not been finalized given oversight hearings, congressional interest, and other factors.

At this time, the majority of the Company's ash is being beneficially reused. However, the alternatives proposed would require modification to, or closure of, existing ash ponds. The Company estimates capital expenditures to comply could be as much as $30 million, and such expenditures could exceed $100 million if the most stringent of the alternatives is selected. Annual compliance costs could increase slightly or be impacted by as much as $5 million. Costs for compliance with these regulations should qualify as federally mandated regulatory requirements and be recovered under Senate Bill 251 referenced above.

Climate Change

In April 2007, the US Supreme Court determined that greenhouse gases (GHG's) meet the definition of "air pollutant" under the Clean Air Act and ordered the EPA to determine whether GHG emissions from motor vehicles cause or contribute to air pollution that may reasonably be anticipated to endanger public health or welfare. In April 2009, the EPA published its proposed endangerment finding for public comment. The proposed endangerment finding concludes that carbon emissions from mobile sources pose an endangerment to public health and the environment. The endangerment finding was finalized in December 2009, and is the first step toward the EPA regulating carbon emissions through the existing Clean Air Act in the absence of specific carbon legislation from Congress.

The EPA has promulgated two GHG regulations that apply to the Company's generating facilities. In 2009, the EPA finalized a mandatory GHG emissions registry which requires the reporting of emissions. The EPA has also finalized a revision to the Prevention of Significant Deterioration (PSD) and Title V permitting rules which would require facilities that emit 75,000 tons or more of GHG's a year to obtain a PSD permit for new construction or a significant modification of an existing facility. The EPA's PSD and Title V permitting rules for GHG's were upheld by the US Court of Appeals for the District of Columbia. In 2012, the EPA proposed New Source Performance Standards (NSPS) for GHG's for new electric generating facilities under Clean Air Act Section 111(b). In July 2013, the President announced a Climate Action Plan, which calls on the EPA to re-propose and finalize the new source rule expeditiously, and by June 2014 propose, and by June 2015 finalize, NSPS standards for GHG's for existing electric generating units which would apply to Vectren's power plants. States must have their implementation plans to the EPA no later than June 2016. The President's Climate Action Plan did not provide any detail as to actual emission targets or compliance requirements. The Company anticipates that these initial standards will focus on power plant efficiency and other coal fleet carbon intensity reduction measures. The Company believes that such additional costs, if necessary, should be recoverable under Indiana Senate Bill 251 referenced above.

Numerous competing federal legislative proposals have also been introduced in recent years that involve carbon, energy efficiency, and renewable energy. Comprehensive energy legislation at the federal level continues to be debated, but there has been little progress to date. The progression of regional initiatives throughout the United States has also slowed.

Impact of Legislative Actions & Other Initiatives is Unknown
If regulations are enacted by the EPA or other agencies or if legislation requiring reductions in CO2 and other GHG's or legislation mandating a renewable energy portfolio standard is adopted, such regulation could substantially affect both the costs and operating characteristics of the Company's fossil fuel generating plants and natural gas distribution businesses. At this time and in the absence of final legislation or rulemaking, compliance costs and other effects associated with reductions in GHG emissions or obtaining renewable energy sources remain uncertain. The Company has gathered preliminary estimates of the costs to control GHG emissions. A preliminary investigation demonstrated costs to comply would be significant, first with regard to operating expenses and later for capital expenditures as technology becomes available to control GHG emissions. However, these compliance cost estimates are based on highly uncertain assumptions, including allowance prices if a cap and trade approach were employed, and energy efficiency targets. Costs to purchase allowances that cap GHG emissions or expenditures made to control emissions should be considered a cost of providing electricity, and as such, the Company believes such costs and expenditures should be recoverable from customers through Senate Bill 251.

Senate Bill 251 also established a voluntary clean energy portfolio standard that provides incentives to electricity suppliers participating in the program. The goal of the program is that by 2025, at least 10 percent of the total electricity obtained by the supplier to meet the energy needs of Indiana retail customers will be provided by clean energy sources, as defined. In advance of a federal portfolio standard and Senate Bill 251, SIGECO received regulatory approval to purchase a 3 MW landfill gas generation facility from a related entity. The facility was purchased in 2009 and is directly connected to the Company's distribution system. In 2008 and 2009, the Company executed long term purchase power commitments for a total of 80 MW of wind energy. The Company currently has approximately 5 percent of its electricity being provided by clean energy sources due to the long-term wind contracts and landfill gas investment.

Manufactured Gas Plants

In the past, the Company operated facilities to manufacture natural gas. Given the availability of natural gas transported by pipelines, these facilities have not been operated for many years. Under current environmental laws and regulations, those that owned or operated these facilities may now be required to take remedial action if certain contaminants are found above the regulatory thresholds.

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In the Indiana Gas service territory, the existence, location, and certain general characteristics of 26 gas manufacturing and storage sites have been identified for which the Company may have some remedial responsibility. A remedial investigation/feasibility study (RI/FS) was completed at one of the sites under an agreed order between Indiana Gas and the IDEM, and a Record of Decision was issued by the IDEM in January 2000. The remaining sites have been submitted to the IDEM's Voluntary Remediation Program (VRP). The Company has identified its involvement in five manufactured gas plant sites in SIGECO's service territory, all of which are currently enrolled in the IDEM's VRP. The Company is currently conducting some level of remedial activities, including groundwater monitoring at certain sites.

The Company 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, the Company has recorded cumulative costs that it has incurred or reasonably expects to incur totaling approximately $42.4 million ($23.2 million at Indiana Gas and $19.2 million at SIGECO). The estimated accrued costs are limited to the Company's share of the remediation efforts and are therefore net of exposures of other potentially responsible parties (PRP).

With respect to insurance coverage, Indiana Gas has received approximately $20.8 million from all known insurance carriers under insurance policies in effect when these plants were in operation. Likewise, SIGECO has settlement agreements with all known insurance carriers and has received to date approximately $14.2 million of the expected $15.7 million in insurance recoveries.

The costs the Company expects to incur are estimated by management using assumptions based on actual costs incurred, the timing of expected future payments, and inflation factors, among others. While the Company's utilities have recorded all costs which they presently expect to incur in connection with activities at these sites, it is possible that future events may require remedial activities which are not presently foreseen and those costs may not be subject to PRP or insurance recovery. As of June 30, 2013 and December 31, 2012, approximately $5.1 million and $4.6 million, respectively, of accrued, but not yet spent, costs are included in Other Liabilities related to the Indiana Gas and SIGECO sites.

Impact of Recently Issued Accounting Guidance

Offsetting Assets and Liabilities

In January 2013, the FASB issued new accounting guidance on disclosures of offsetting assets and liabilities. This guidance amends prior requirements to add clarification to the scope of the offsetting disclosures. The amendment clarifies that the scope applies to derivative instruments accounted for in accordance with reporting topics on derivatives and hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with US GAAP or subject to an enforceable master netting arrangement or similar agreement. This guidance is effective for fiscal years beginning on or after January 1, 2013 and interim periods within annual periods. The Company adopted this guidance as of January 1, 2013. The adoption of this guidance did not have a material impact on the Company's financial statements.

Accumulated Other Comprehensive Income (AOCI)

In February 2013, the FASB issued new accounting guidance on the reporting of reclassifications from AOCI. The guidance requires an entity to report the effect of significant reclassification from AOCI on the respective line items in net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference to other disclosures required that provide additional details about these amounts. The new guidance is effective for fiscal years, and interim periods within annual periods, beginning after December 15, 2012. As this guidance provides only disclosure requirements, the adoption of this standard did not impact the Company's results of operations, cash flows, or financial position.

Unrecognized Tax Benefit Presentation

In July 2013, the FASB issued new accounting guidance on presenting an unrecognized tax benefit when net operating loss carryforwards exist. The new standard was issued in an effort to eliminate diversity in practice resulting from a lack of guidance on this topic in the current US GAAP. The update provides that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except under certain circumstances outlined in the update. The amendments in the update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The adoption of this guidance will have no material impact on the Company's financial statements.

Financial Condition

Utility Holdings funds the short-term and long-term financing needs of its utility subsidiary operations. Vectren does not guarantee Utility Holdings' debt. Utility Holdings' outstanding long-term and short-term borrowing arrangements are jointly and severally guaranteed by Indiana Gas, SIGECO, and VEDO. The guarantees are full and unconditional and joint and several, and Utility Holdings has no direct subsidiaries other than the subsidiary guarantors. Information about the subsidiary guarantors as a group is included in Note 3 to the consolidated financial statements. Utility Holdings' long-term debt, inclusive of current maturities, with a par value of $825 million and short-term obligations totaling $124 million were outstanding at June 30, 2013. Additionally, prior to Utility Holdings' formation, Indiana Gas and SIGECO funded their operations separately, and therefore, have long-term debt outstanding funded solely by their operations. SIGECO will also occasionally issue tax exempt debt to fund qualifying pollution control capital expenditures. Total Indiana Gas and SIGECO long-term debt, including current maturities, outstanding at June 30, 2013, approximates $382 million, inclusive of the $49 million on SIGECO's tax exempt long-term debt currently being held by Utility Holdings that is planned for remarketing in the third quarter of 2013. Utility Holdings' operations have historically been the primary funding source for Vectren's common stock dividends.

The credit ratings of the senior unsecured debt of Utility Holdings and Indiana Gas, at June 30, 2013, are A-/A3 as rated by Standard and Poor's Ratings Services (Standard and Poor's) and Moody's Investors Service (Moody's), respectively. The credit ratings on SIGECO's secured debt are A/A1. Utility Holdings' commercial paper has a credit rating of A-2/P-2. The current outlook of both Moody's and Standard and Poor's is stable. Standard and Poor's affirmed its rating of the Company on July 19, 2013. A security rating is not a recommendation to buy, sell, or hold securities. The rating is subject to revision or withdrawal at any time, and each rating should be evaluated independently of any other rating. Standard and Poor's and Moody's lowest level investment grade rating is BBB- and Baa3, respectively.

The Company's consolidated equity capitalization objective is 45-60 percent of long-term capitalization. This objective may have varied, and will vary, depending on particular business opportunities, capital spending requirements, execution of long-term financing plans, and seasonal factors that affect the Company's operations. The Company's equity component was 55 percent of long-term capitalization at June 30, 2013 and 53 percent at December 31, 2012. Long-term capitalization includes long-term debt, including current maturities and debt subject to tender, as well as common shareholder's equity.

Both long-term and short-term borrowing arrangements contain customary default provisions; restrictions on liens, sale-leaseback transactions, mergers or consolidations, and sales of assets; and restrictions on leverage, among other restrictions. Multiple debt agreements contain a covenant that the ratio of consolidated total debt to consolidated total capitalization will not exceed 65 percent. As of June 30, 2013, the Company was in compliance with all debt covenants.

Available Liquidity in Current Credit Conditions

The Company's A-/A3 investment grade credit ratings have allowed it to access the capital markets as needed, and the Company believes it will have the ability to continue to do so. Given the Company's intent to maintain a balanced long-term capitalization ratio, it anticipates funding future capital expenditures and dividends principally through internally generated funds, which have recently been enhanced by bonus depreciation legislation, and refinancing maturing or callable debt using the capital markets. However, the resources required for capital investment remain uncertain for a variety of factors including pending legislative and regulatory initiatives involving gas pipeline infrastructure replacement; and expanded EPA regulations for air, water, and fly ash. These regulations may result in the need to raise additional capital in the coming years. The timing and amount of such investments depends on a variety of factors, including available liquidity.

Specifically for 2013, the Company has accessed and will continue to assess the capital markets to refinance debt maturities or debt that is callable. During the second quarter of 2013, approximately $111.0 million of SIGECO's tax-exempt long-term debt was redeemed at par plus accrued interest. Approximately $62 million of tax-exempt long-term debt was reissued on April 26, 2013 at interest rates that are fixed to maturity, receiving proceeds, net of issuance costs, of approximately $60 million. The terms are $22.2 million at 4.00 percent per annum due in 2038, and $39.6 million at 4.05 percent per annum due in 2043. The remaining approximately $49 million of the called debt is held by Utility Holdings and planned for remarketing in the third quarter of 2013, and is treated as extinguished in the consolidated financial statements as of June 30, 2013.

On April 1, 2013, the Company executed an early redemption at par of $121.6 million 6.25 percent senior unsecured notes due in 2039. This debt was refinanced on June 5, 2013, with proceeds from a private placement note purchase agreement entered into on December 20, 2012, with a delayed draw feature. It provides for the following tranches of notes: (i) $45 million 3.2 percent senior guaranteed notes, due June 5, 2028 and (ii) $80 million 4.25 percent senior guaranteed notes, due June 5, 2043. The notes are unconditionally guaranteed by Indiana Gas Company, Inc., Southern Indiana Gas and Electric Company and Vectren Energy Delivery of Ohio, Inc.

On July 25, 2013, VUHI announced that it priced $150 million 10-year senior unsecured notes. The notes were sold to various institutional investors through the private placement market and included a delayed draw feature. VUHI will issue $150 million of 3.72 percent senior notes due December 5, 2023. The proceeds received from the issuance of the senior notes will be used to refinance $100 million of existing 5.25 percent senior notes that mature August 1, 2013, for capital expenditures, and for general corporate purposes. Subject to the satisfaction of customary conditions precedent, the notes will be funded on or about December 5, 2013, as a result of the delayed draw feature. As of June 30, 2013 the $100 million was classified as Current maturities of long-term debt.

Consolidated Short-Term Borrowing Arrangements

At June 30, 2013, the Company has $350 million of short-term borrowing capacity. As reduced by borrowings currently outstanding, approximately $226 million was available at June 30, 2013. This short-term borrowing facility is available through September 2016. This facility is used to supplement working capital needs and also to fund capital investments and debt redemptions until financed on a long-term basis.

The Company has historically funded the short-term borrowing needs of Utility Holdings' operations through the commercial paper market and expects to use the Utility Holdings short-term borrowing facility in instances where the commercial paper market is not efficient. Following is certain information regarding these short-term borrowing arrangements.

Following is certain information regarding these short-term borrowing arrangements.

(In millions)	2013	2012
Six Months Ended June 30		
Balance Outstanding	$124.0	$61.5
Weighted Average Interest Rate	0.34%	0.46%
Six Months Ended June 30 Average		
Balance Outstanding	$105.0	$72.4
Weighted Average Interest Rate	0.36%	0.49%
Maximum Month End Balance Outstanding	$174.8	$214.2

(In millions)	2013	2012
Quarterly Average - June 30		
Balance Outstanding	$146.4	$31.5

Weighted Average Interest Rate	0.35%	0.46%
Maximum Month End Balance Outstanding	$174.8	$214.2

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Potential Uses of Liquidity

Planned Capital Expenditures
Utility capital expenditures are estimated at $172 million for the remainder of 2013.

Pension Funding Obligations
Vectren's management currently estimates contributing approximately $10 million to qualified pension plans in 2013. A portion of this funding will be from Utility Holdings and occurs through a routine cash settlement process with its parent.

Other Letters of Credit
As of June 30, 2013, Utility Holdings has letters of credit outstanding in support of two SIGECO tax exempt adjustable rate first mortgage bonds totaling $41.7 million. In the unlikely event the letters of credit were called, the Company could settle with the financial institutions supporting these letters of credit with general assets or by drawing from its credit facility that expires in September 2016. Due to the long-term nature of the credit agreement, such debt is classified as long-term at June 30, 2013.

Comparison of Historical Sources & Uses of Liquidity

Operating Cash Flow
The Company's primary source of liquidity to fund working capital requirements has been cash generated from operations, which totaled $197.1 million and $249.0 million during the six months ended June 30, 2013 and 2012, respectively. The decrease is primarily due to lower cash flows from working capital of $58.9 million.

Financing Cash Flow
Net cash flow required for financing activities was $95.7 million and $128.8 million during the six months ended June 30, 2013 and 2012, respectively. The decrease in cash required for financing activities reflects the recent debt refinancing activity and greater reliance on short-term borrowings, until long-term debt is issued later in the year. Financing activity in both periods presented reflects the payment of dividends.

Investing Cash Flow
Cash flow required for investing activities was $110.8 million and $122.1 million during the six months ended June 30, 2013 and 2012, respectively. The decreased cash required for investing activities during the current year period reflects the timing of capital expenditures year over year.

Forward-Looking Information

A “safe harbor” for forward-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 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”, “likely”, and 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 the Company’s actual results to differ materially from those contemplated in any forward-looking statements include, 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 transportation and storage 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.
- Catastrophic events such as fires, earthquakes, explosions, floods, ice storms, tornadoes, terrorist acts, cyber attacks or other similar occurrences could adversely affect Vectren’s facilities, operations, financial condition and results of operations.
- Increased competition in the energy industry, including the 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, regulatory or 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 electric and natural gas transmission and distribution, natural gas gathering and processing, electric power supply; and similar entities with regulatory oversight.
- Economic conditions including the effects of inflation rates, commodity prices, and monetary fluctuations.
- Economic conditions surrounding the current economic uncertainty, including increased potential for lower levels of economic activity; uncertainty regarding energy prices and the capital and commodity markets; volatile changes in the demand for natural gas and electricity; impacts on both gas and electric large customers; lower residential and commercial customer counts; and higher operating expenses.
- Volatile natural gas and coal commodity prices and the potential impact on customer consumption, uncollectible accounts expense, unaccounted for gas and interest expense.
- 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.
- Direct or indirect effects on the Company’s business, financial condition, liquidity and results of operations resulting from changes in credit ratings, changes in interest rates, and/or changes in market perceptions of the utility industry and other energy-related industries.
- Employee or contractor workforce factors including changes in key executives, collective bargaining agreements with union employees, aging workforce issues, work stoppages, or pandemic illness.
- Risks associated with material business transactions such as mergers, acquisitions and divestitures, including, without limitation, legal and regulatory delays; the related time and costs of implementing such transactions; integrating operations as part of these transactions; and possible failures to achieve expected gains, revenue growth

and/or expense savings from such transactions.

- Costs, fines, penalties and other effects of legal and administrative proceedings, settlements, investigations, claims, including, but not limited to, such matters involving compliance with state and federal laws and interpretations of these laws.

- Changes in or additions to federal, state or local legislative requirements, such as changes in or additions to tax laws or rates, pipeline safety regulations, environmental laws, including laws governing greenhouse gases, mandates of sources of renewable energy, and other regulations.
- The performance of projects undertaken by Vectren's nonutility businesses and the success of efforts to realize value from, invest in and develop new opportunities, including but not limited to, Vectren's infrastructure services, energy services, coal mining, and remaining energy marketing businesses and/or assets.

The Company undertakes 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.

ITEM 3. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various business risks associated with commodity prices, interest rates, and counter-party credit. These financial exposures are monitored and managed by the Company as an integral part of its overall risk management program. The Company's risk management program includes, among other things, the use of derivatives. The Company may also execute derivative contracts in the normal course of operations while buying and selling commodities to be used in operations and optimizing its generation assets.

The Company has in place a risk management committee that consists of senior management as well as financial and operational management. The committee is actively involved in identifying risks as well as reviewing and authorizing risk mitigation strategies.

These risks are not significantly different from the information set forth in Item 7A Quantitative and Qualitative Disclosures About Market Risk included in the Vectren Utility Holdings, Inc. 2012 Form 10-K and is therefore not presented herein.

ITEM 4. CONTROLS & PROCEDURES

Changes in Internal Controls over Financial Reporting

During the quarter ended June 30, 2013, there have been no changes to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of June 30, 2013, the Company conducted an evaluation under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness and the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of June 30, 2013, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is:

1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and
2) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is party to various legal proceedings and audits and reviews by taxing authorities and other government agencies arising in the normal course of business. In the opinion of management, there are no legal proceedings or other regulatory reviews or audits pending against the Company that are likely to have a material adverse effect on its financial position, results of operations, or cash flows. See the notes to the consolidated financial statements regarding commitments and contingencies, environmental matters, rate and regulatory matters. The condensed consolidated financial statements are included in Part 1 Item 1.

ITEM 1A. RISK FACTORS

Investors should consider carefully factors that may impact the Company's operating results and financial condition, causing them to be materially adversely affected. The Company's risk factors have not materially changed from the information set forth in Item 1A Risk Factors included in the Vectren Utility Holdings 2012 Form 10-K and are therefore not presented herein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

Exhibits and Certifications

12 Ratio of Earnings to Fixed Charges

31.1 Certification Pursuant To Section 302 of The Sarbanes-Oxley Act Of 2002- Chief Executive Officer

31.2 Certification Pursuant To Section 302 of The Sarbanes-Oxley Act Of 2002- Chief Financial Officer

32 Certification Pursuant To Section 906 of The Sarbanes-Oxley Act Of 2002

101 Interactive Data File.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Labels Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VECTREN UTILITY HOLDINGS, INC.
Registrant

August 12, 2013	/s/ M. Susan Hardwick M. Susan Hardwick Senior Vice President, Finance and Assistant Treasurer (Principal Accounting Officer)