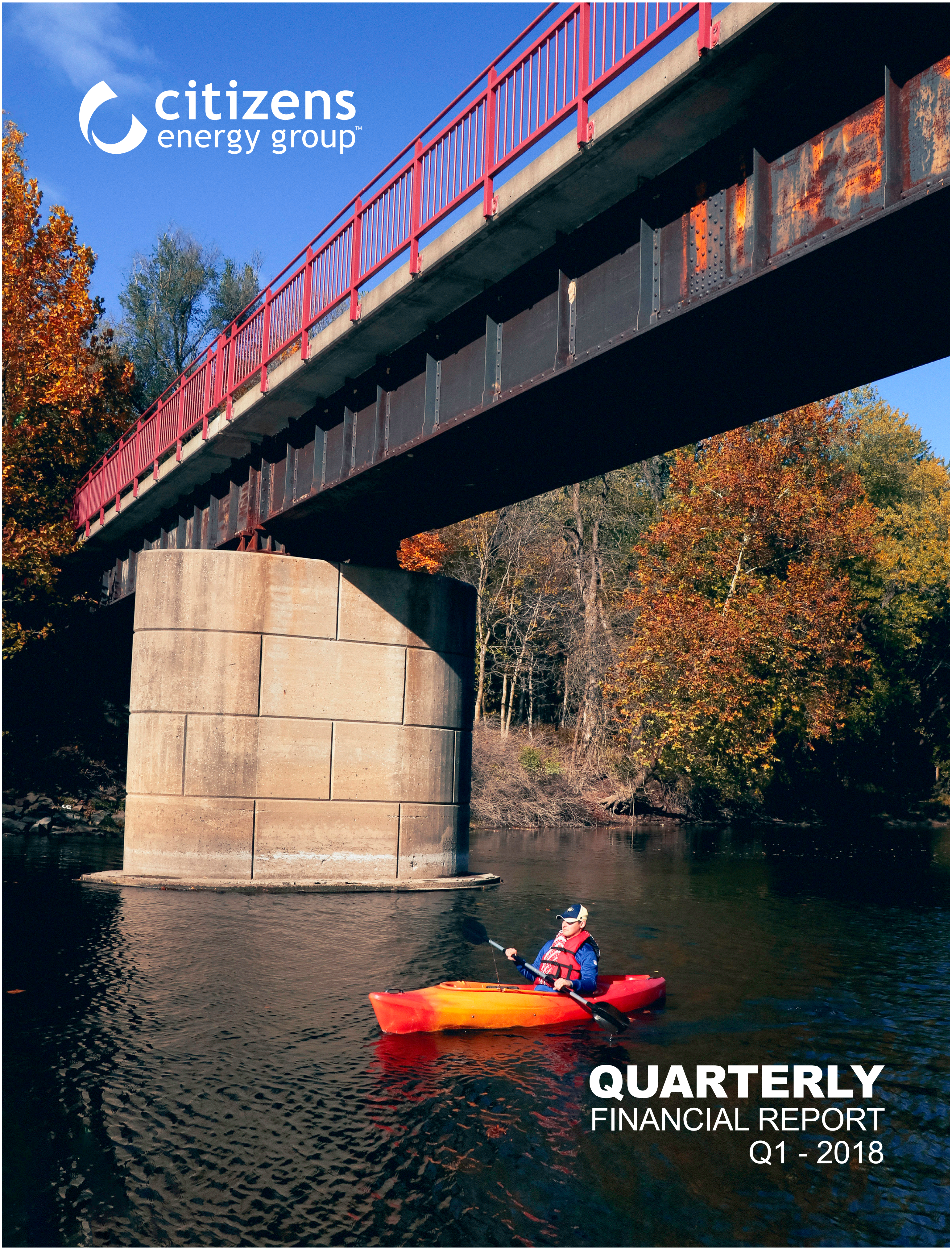


citizens energy group™

# QUARTERLY
FINANCIAL REPORT
Q1 - 2018

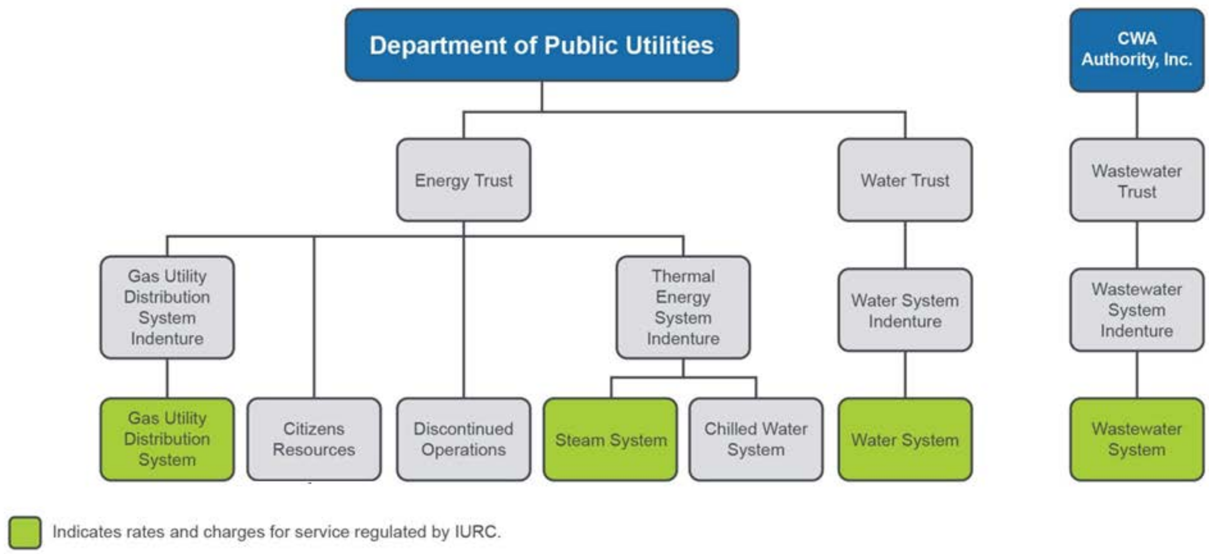
## MANAGEMENT DISCUSSION AND ANALYSIS

### Forward-looking Statements

Certain matters discussed in this report, except historical information, include forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates, are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this Management Discussion and Analysis would prove to be accurate. We do not undertake to update or revise any forward-looking statement as a result of future events, new information, or otherwise.

### Organization Structure

The chart below provides a diagram of the organization structure of Citizens Energy Group and CWA Authority, Inc. (CWA). The organization structure is further described and explained below the chart.




Citizens Energy Group (Citizens) is the trade name in which the Department of Public Utilities of the City of Indianapolis, Indiana (the Department) acting by and through its Board of Directors (the Board) for Utilities functions. The Department was formed in 1929 pursuant to a state statute (now IC 8-1-11.1, the Act) adopted by the Indiana legislature to provide the governance structure for the City of Indianapolis to act as a successor trustee of a public charitable trust (the Energy Trust) providing natural gas utility services in the City of Indianapolis and to own and operate other utility systems serving areas within and outside the City of Indianapolis. The Department is the governmental entity that owns the Energy Trust and Water Trust assets described below. Each trust is not an entity, but rather defines the nature in which the assets are held by the Department and the obligation imposed upon the Department to manage and operate those assets in accordance with the trust purposes which include the obligations to operate the facilities in public trust for the benefit of the inhabitants of Marion County, free from the influences of partisan political control or private interests. To preserve freedom from partisan political control, the Act creates the Board of Trustees (the Trustees) as a self-perpetuating body entrusted with the power to appoint the members of the Board annually. This two-board structure provides for oversight of the Board by the Trustees. Further, the Act intentionally insulates the Department from political control by isolating the two boards from the Mayor of Indianapolis or the City's legislative bodies.

The Gas Utility Distribution System, the Thermal Energy System, Citizens Resources and certain other properties are subject to the Energy Trust. The Water System is subject to a separate public charitable trust (the Water Trust) that operates in substantially the same manner as the Energy Trust.

The Wastewater System is owned by CWA, a separate nonprofit corporation, which through an interlocal agreement entered into by and among Citizens, the City of Indianapolis, and the Sanitary District of the City (the "District"), acting by and through its Board of Public Works, pursuant to Indiana Code 36-1-7, has the power to exercise all rights and powers of Citizens, the City, and the District in connection with the provision of wastewater utility services, excluding in the case of the City and the District, taxing power and taxing authority. CWA's board of directors comprises the same individuals who serve on the Board. The Wastewater System is managed by employees of Citizens under an operating agreement between Citizens and CWA. CWA is subject to a separate public charitable trust (the Wastewater Trust) that operates in substantially the same manner as the Energy Trust and the Water Trust.

Separate indentures exist to issue debt obligations for the Gas Utility Distribution System, the Thermal Energy System, the Water System, and the Wastewater System. Each indenture captures only the revenues from the respective System, pays the operating expenses of that System and then debt service on revenue bonds of that System. This structure is designed to achieve the desired separation of each System from other Systems or business segments owned or operated by Citizens and CWA. Each indenture permits Citizens or CWA, as applicable, authority to use residual revenues for other purposes permitted by the language of the respective indenture. Citizens' water indenture and CWA's wastewater indentures, however, permit only the use of the excess revenues for the water and wastewater systems, respectively.

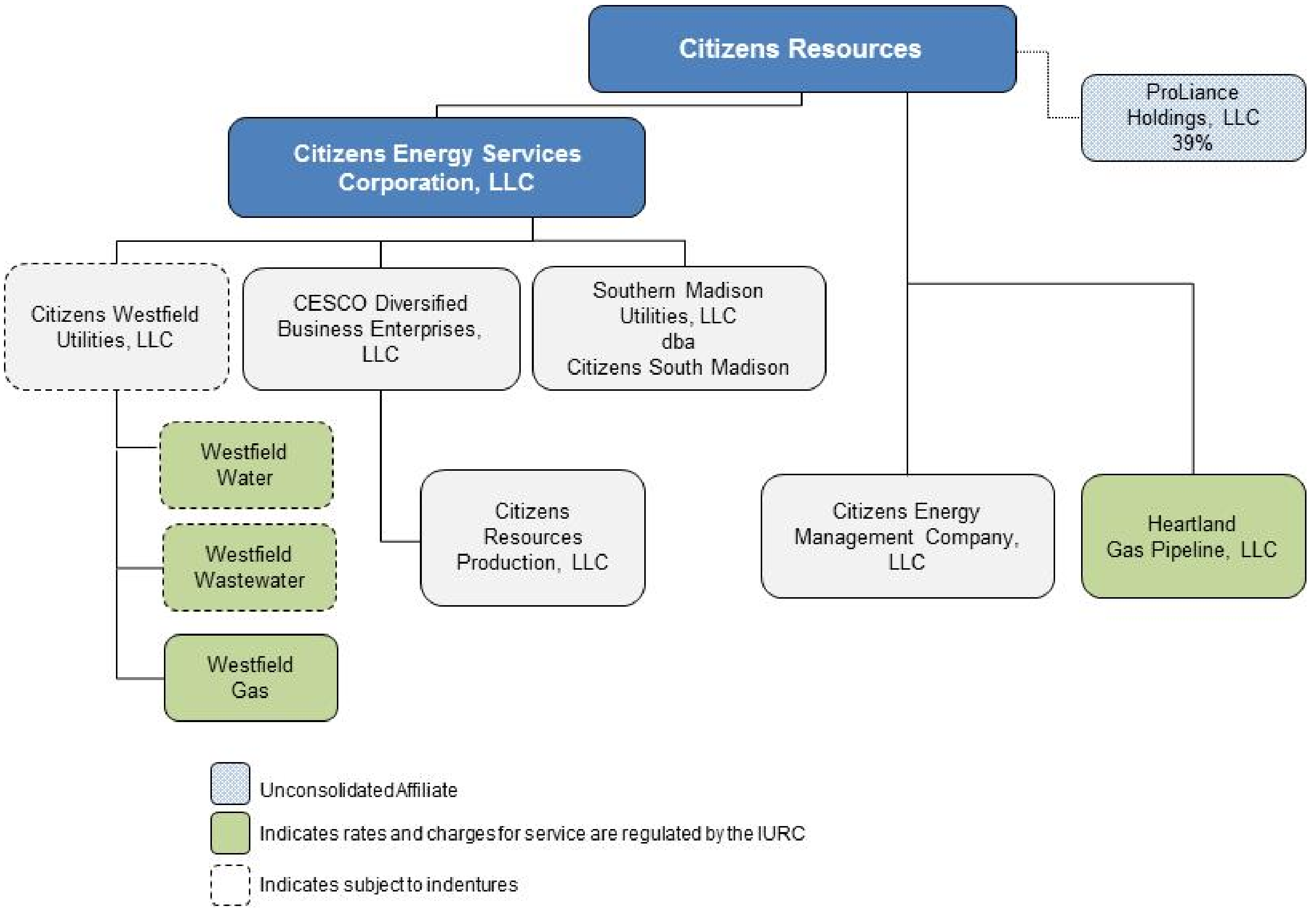
In addition as described above, each trust (i.e., the Energy Trust, the Water Trust, and the Wastewater Trust) exists separately from the other trusts. Thus, there are three separate public charitable trusts, each with a governmental entity serving as the trustee (the Energy Trust and the Water Trust assets being owned by the Department and the Wastewater Trust assets being owned by CWA). These separate trusts are designed to insulate one trust from liability for obligations of another trust, based on basic trust principles that two separate trusts do not become jointly liable solely because the same entity is the trustee of both.

The result of the foregoing is that Citizens and CWA have five distinct cash flow sources in which debt is isolated: (1) the Gas Utility Distribution System and the Gas Utility System; [1] (2) the Thermal Energy System; (3) the Water System; (4) the Wastewater System; (collectively, the four Systems) and (5) Citizens Resources. The cash flow for the four Systems is governed by the respective indentures for each System, which restricts the use of income and revenues of a respective System to the payment of operating expenses and debt service of the respective System before allowing any other use of funds by the System. The fifth source, Citizens Resources is a separate corporation whose stock is owned by the Department in its capacity as trustee of the Energy Trust. The preservation of the corporate organization form of Citizens Resources and its ability to operate for-profit businesses in furtherance of the Energy Trust purposes was specifically authorized by the Act. The assets, liabilities and operations of Citizens Resources are by design isolated within the separate corporate structure of Citizens Resources, as a subsidiary corporation of Citizens, and each of the direct and indirect subsidiaries of Citizens Resources is a limited liability company or corporation designed to limit the liability of the immediate parent to its investment in the subsidiary.[2] Those structures do not insulate the parent from liability for an express assumed contractual liability or guaranty or for the parent's own acts or omissions. In addition to the separate trusts for the Water System and the Wastewater System, those structures along with certain provisions of the Operating Agreements of such subsidiaries of Citizens Resources are the primary protection of Citizens' cash flow from any financial losses in Citizens Resources or its subsidiaries and affiliates.[3] Profits of Citizens Resources may roll up to Citizens through dividends declared by the board of Citizens Resources, but Citizens' exposure to liabilities of Citizens Resources should be limited by its corporate structure (and by that of its subsidiaries) and thus not imposed as a burden on the cash flows available in any System. See below for a diagram of Citizens Resources' organizational structure.

[1] The 1986 Gas Utility System (GUS) bonds are debt of the Gas Utility Distribution System (GUDS). Debt service on the GUS bonds is included in the revenue requirements for determining the rates and charges of the GUDS by the IURC. The bonds issued under the GUS Indenture are senior to the bonds issued under the GUDS Indenture. Security provided under the GUS Indenture includes the net revenues after payment of operating expenses of the GUDS and Discontinued Operations as well as any dividends paid by Citizens Resources. However, as explained below the corporate structure of Citizens Resources should limit the GUS exposure to liabilities of Citizens Resources and its subsidiaries.

[2] Under public policy reflected in state law governing corporations and limited liability companies ("LLCs"), the parent stockholder of a subsidiary corporation or the parent member of a subsidiary LLC is given substantial protection against liability for the acts or debts of the subsidiary, subject to the established inherent limitations of these structures under such applicable state law.

[3] Since Citizens includes the results of operations of Citizens Resources and its subsidiaries and affiliates in its combined financial statements, an accounting loss within Citizens Resources will be reflected in Citizens' combined financial statements. This accounting result, though, does not create the basis upon which the liabilities of Citizens Resources or its subsidiaries or affiliates can be imposed upon Citizens or the cash flows held under any Indentures.




In December 2017, Citizens Resources purchased the remaining 50% ownership share of Heartland Gas Pipeline, LLC which was previously reported as an unconsolidated affiliate (see Note 2D of the condensed combined financial statements).

## FINANCIAL RESULTS

### Segment Results

The tables below summarize the financial results for each segment (in millions) for the three months ended December 31, 2017 and 2016. Because of the seasonal nature of the various business units, results of operations for the period ended December 31, 2017 are not necessarily indicative of the results of operations to be expected for the full fiscal year. For a more detailed understanding of these results, see Note 5 to the condensed combined financial statements.

### SHARED SERVICES

| | Three Months Ended Dec 31 | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Shared Services Expenses | $ 24.8 | $ 25.6 | $ (0.8) |

### Three Months Ended December 31, 2017 as Compared with 2016

Shared services is comprised of various administrative and operational departments that provide support services to each of Citizens and CWA business segments, certain affiliates and the combined enterprise as a whole, and allocates the associated cost of the services to the appropriate segment. Management reviews the allocation methodology for shared services on a regular basis and refines the methodology as necessary.

Shared services expenses decreased $0.8 million due primarily to lower labor, pension, and post-employment benefit costs, partially offset by higher healthcare costs. These costs have been allocated to the appropriate business units and are reflected in the explanations that follow.

**GAS**

| | Three Months Ended Dec 31 | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Operating revenues | $ 81.7 | $ 74.5 | $ 7.2 |
| Cost of goods sold | 38.1 | 32.5 | 5.6 |
| Margin | 43.6 | 42.0 | 1.6 |
| Other operating expenses | 24.2 | 38.5 | (14.3) |
| Operating income | 19.4 | 3.5 | 15.9 |
| Other income (expense), net | 0.1 | - | 0.1 |
| Interest charges | 3.1 | 3.6 | (0.5) |
| Segment income (loss) | $ 16.4 | $ (0.1) | $ 16.5 |
| Volume sales, million Dth: | | | |
| Retail | 9.9 | 8.8 | 1.1 |
| Transportation | 5.6 | 4.9 | 0.7 |
| Special contracts | 5.0 | 5.3 | (0.3) |
| Cost of gas sold, per Dth | $ 3.86 | $ 3.69 | $ 0.17 |
| Heating degree days | 1,944 | 1,740 | 204 |

**Three Months Ended December 31, 2017 as Compared with 2016**

*Margin* – Gas margin was $1.6 million higher than prior period, largely driven by higher retail sales due to colder weather.

*Other operating expenses* – The decrease of $14.3 million is primarily driven by the prior period $14.2 million loss recognized on the sale of LNG North plant assets (see Note 10 of the condensed combined financial statements).

*Interest charges* – The decrease of $0.5 million was primarily driven by lower outstanding debt as a result of principal payments and lower interest expense resulting from refunding of the Series 2008B bonds in March 2017 (see Note 3 to the condensed combined financial statements).

**STEAM**

| | Three Months Ended Dec 31 | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Operating revenues | $ 19.2 | $ 16.5 | $ 2.7 |
| Cost of goods sold | 10.0 | 8.2 | 1.8 |
| Margin | 9.2 | 8.3 | 0.9 |
| Other operating expenses | 6.3 | 6.3 | - |
| Operating income | 2.9 | 2.0 | 0.9 |
| Other income (expense), net | - | - | - |
| Interest charges | 0.8 | 1.0 | (0.2) |
| Segment income | $ 2.1 | $ 1.0 | $ 1.1 |
| Volume sales, million therms | 15.3 | 14.4 | 0.9 |
| Heating degree days | 1,944 | 1,740 | 204 |

**Three Months Ended December 31, 2017 as Compared with 2016**

*Margin* – Margin was $0.9 million higher which is largely attributed to increased volume sold due to colder weather compared with the prior year.

**CHILLED WATER**

| | Three Months Ended Dec 31 | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Operating revenues | $ 6.3 | $ 6.3 | $ - |
| Cost of goods sold | 2.2 | 1.9 | 0.3 |
| Margin | 4.1 | 4.4 | (0.3) |
| Other operating expenses | 4.1 | 4.0 | 0.1 |
| Operating income | - | 0.4 | (0.4) |
| Other income (expense), net | - | - | - |
| Interest charges | 0.3 | 2.9 | (2.6) |
| Segment loss | $ (0.3) | $ (2.5) | $ 2.2 |
| | | | |
| Volume sales, million ton hours | 20.6 | 21.2 | (0.6) |
| Cooling degree days | 47 | 50 | (3) |

**Three Months Ended December 31, 2017 as Compared with 2016**

*Margin* – Chilled Water margin decreased $0.3 million due to slightly lower volume and increased electricity costs.

*Interest charges* – $2.6 million lower principally due to the loss recorded in the prior period on extinguishment of the Series 2008 Bonds resulting from the refunding of that Series in November 2016 (see Note 3 to the condensed combined financial statements).

**WATER**

| | Three Months Ended Dec 31 | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Operating revenues | $ 48.5 | $ 48.0 | $ 0.5 |
| Other operating expenses | 32.0 | 32.0 | - |
| Operating income | 16.5 | 16.0 | 0.5 |
| Other income (expense), net | 1.0 | 0.6 | 0.4 |
| Interest charges | 11.8 | 12.5 | (0.7) |
| Segment income | $ 5.7 | $ 4.1 | $ 1.6 |
| | | | |
| Volume sales, billion gallons | 8.9 | 8.9 | - |

**Three Months Ended December 31, 2017 as Compared with 2016**

*Operating revenues* – The increase of $0.5 million is primarily attributable to minor variations in consumption patterns and associated rate tiers.

*Interest charges* – The $0.7 million decrease was primarily due to lower interest expense resulting from refunding of various Series 2011 bonds in November 2016 (see Note 3 to the condensed combined financial statements).

**WASTEWATER**

| | Three Months Ended Dec 31 | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Operating revenues | $ 70.5 | $ 63.2 | $ 7.3 |
| Other operating expenses | 43.0 | 42.6 | 0.4 |
| Operating income | 27.5 | 20.6 | 6.9 |
| Other income (expense), net | 0.5 | (0.2) | 0.7 |
| Interest charges | 16.7 | 15.6 | 1.1 |
| Segment income | $ 11.3 | $ 4.8 | $ 6.5 |
| Treatment volume sales, billion gallons | 7.3 | 8.2 | (0.9) |
| Strength surcharge, million pounds | 9.9 | 8.8 | 1.1 |

**Three Months Ended December 31, 2017 as Compared with 2016**

*Operating revenues* – Increased revenues of $7.3 million are primarily due to accrual of a system integrity adjustment of $5.7 million and the implementation of a step 2 rate increase which became effective August 1, 2017 (see Note 8 – Wastewater, to the condensed combined financial statements).

*Operating expenses* – The $0.4 million increase was primarily due to higher depreciation and payments in lieu of taxes (PILOT). These increases were offset by lower expenses due to the in-sourcing of wastewater treatment operations effective January 1, 2017 (see Note 9C to the condensed combined financial statements).

*Other income (expenses), net* – The $0.7 million increase was primarily attributable to additional interest income.

*Interest charges* – The $1.1 million increase was driven by additional borrowings of long-term debt to support capital projects and lower capitalized interest.

**RESOURCES**

| | Three Months Ended Dec 31 | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Operating revenues | $ 9.3 | $ 17.2 | $ (7.9) |
| Cost of goods sold | 0.6 | 8.1 | (7.5) |
| Margin | 8.7 | 9.1 | (0.4) |
| Other operating expenses | 5.8 | 2.8 | 3.0 |
| Operating income | 2.9 | 6.3 | (3.4) |
| Other income (expense), net | 0.1 | 0.1 | - |
| Equity in (losses) earnings of affiliates | (1.9) | 0.1 | (2.0) |
| Interest charges | 0.7 | 0.5 | 0.2 |
| Segment income | $ 0.4 | $ 6.0 | $ (5.6) |

**Three Months Ended December 31, 2017 as Compared with 2016**

*Margin* – Resources margin was $0.4 million lower than prior year due to the sale of LNG Indy in December 2016 (see Note 10 to the condensed combined financial statements), offset by stormwater management revenues (see Note 9C to the condensed combined financial statements), increased margin from the Westfield Utilities, and additional margin from Heartland Group Pipeline which is now consolidated in Resources financial results (see Note 2D to the condensed combined financial statements).

*Operating expenses* – $3.0 million higher due to the $4.5 million gain on the sale of LNG Indy recognized in the prior year (see Note 10 to the condensed combined financial statements) plus expenses related to stormwater management in the current year (see Note 9C to the condensed combined financial statements). These increases are somewhat offset by the prior year's operating expenses of LNG Indy which were incurred before the sale

*Equity in (losses) earnings of affiliates* – $1.9 million loss driven by an impairment charge recognized on an affiliate joint venture investment (see Note 2D to the condensed combined financial statements).

**OTHER**

| | Three Months Ended Dec 31 | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Operating revenues | $ - | $ - | $ - |
| Operating expenses | - | - | - |
| Operating income | - | - | - |
| Other income (expense), net | (0.1) | (0.1) | - |
| Interest charges | - | - | - |
| Loss from discontinued operations | (0.8) | (0.9) | 0.1 |
| Segment loss | $ (0.9) | $ (1.0) | $ 0.1 |

In the table above, Other includes advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments. The former Manufacturing business segment has been reported as Discontinued Operations and is also included in Other.

## LIQUIDITY AND CAPITAL RESOURCES

### Debt and Liquidity

Please see Notes 3 and 4 to the condensed combined financial statements for information regarding the changes to Citizens' and CWA's outstanding debt obligations and liquidity facilities, respectively.

### Capital Spending

For the three months ended December 31, 2017, capital expenditures, on an accrual basis, decreased by $7.9 million to $57.1 million from $65.0 million during the same period last year. This decrease is summarized in the table below (in millions). Certain accrued expenditures, including all capitalized interest, have been included in Other for segment presentation of Capitalized Expenditures, while the capitalized interest amounts on the segmented statements of financial position are reflected as Property, Plant, and Equipment in their respective segments.

| | Gas | Steam | Chilled Water | Water | Wastewater | Resources | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **Q1 2018** | **$ 6.3** | **$ 1.7** | **$ 0.2** | **$ 10.8** | **$ 31.4** | **$ 1.2** | **$ 5.5** | **$ 57.1** |
| Q1 2017 | 3.6 | 0.9 | 0.2 | 11.3 | 41.2 | 2.3 | 5.5 | 65.0 |
| | $ 2.7 | $ 0.8 | $ - | $ (0.5) | $ (9.8) | $ (1.1) | $ - | $ (7.9) |

Citizens' and CWA's projected capital spending requirement of $293.9 million for 2018 is summarized as follows (in millions):

| | Gas | Steam | Chilled Water | Water | Wastewater | Resources | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **2018 Projection** | **$ 23.3** | **$ 4.8** | **$ 3.2** | **$ 49.0** | **$ 176.0** | **$ 13.5** | **$ 24.1** | **$ 293.9** |

Gas continues to invest in mains and services to maintain its commitment to modernization of its underground gas distribution system. Gas had cash and cash equivalents of $63.0 million at December 31, 2017. Gas expects to meet its capital spending requirements in 2018 through cash flows from operations and the temporary seasonal use of its credit lines (see Note 4 to the condensed combined financial statements).

Citizens Thermal's Steam business segment continues to invest in distribution assets and production equipment. Chilled Water capital spending plans similarly include investments in distribution assets and production equipment. At December 31, 2017, cash and cash equivalents of Steam and Chilled Water amounted to $8.7 million and $20.4 million, respectively. Steam expects to meet its capital spending requirements in 2018 through cash flows from operations and temporary seasonal use of its credit line (see Note 4 to the condensed combined financial statements) while Chilled Water expects to meet its 2018 capital spending requirements through cash flows from operations.

The Water business segment has a capital improvement plan to address system reliability, maintain compliance with regulations, and implement various distribution system and treatment plant improvements. Water had cash and cash equivalents of $44.2 million at December 31, 2017, including $1.0 million in the construction fund. Water expects to meet its capital spending requirements in 2018 through a combination of cash flows from operations, drawing from the balance in the construction fund, and use of its line of credit (see Note 4 to the condensed combined financial statements). See Note 8 – Water, to the condensed combined financial statements, for a discussion of the Order received on April 20, 2016 in the Water rate case.

The Wastewater business segment has a capital improvement plan to meet guidelines of the Combined Sewer Overflow Long-Term Control Plan and the overall needs of the Wastewater System. See Note 9 to the condensed combined financial statements for additional information regarding the Combined Sewer Overflow Long-Term Control Plan. The capital improvement plan also includes other improvements to and expansion of the Wastewater System. Wastewater had cash and cash equivalents of $26.5 million at December 31, 2017. Wastewater expects to meet its capital spending requirements in 2018 through a combination of cash flows from operations, as well as from balances remaining from issuance of the Series 2016C State Revolving Fund (SRF) bonds ($8.5 million) and the Series 2017A SRF bonds ($117.6 million) (both recorded in bond restricted funds), and its line of credit (see Note 4 to the condensed combined financial statements). See Note 8 – Wastewater, to the condensed combined financial statements, for a discussion of the Order received on July 18, 2016 in the Wastewater rate case.

Resources' capital spending projection for 2018 includes activities at Citizens Resources Production, Citizens South Madison, Westfield Gas, Westfield Water, and Westfield Wastewater. Resources expects to meet its capital spending requirements in 2018 through a combination of cash flows from operations and its lines of credit. See Note 4 to the condensed combined financial statements for additional information on the Westfield Gas, Westfield Water, and Westfield Wastewater lines of credit.

**Derivatives and Hedging**

Citizens has entered into certain derivative and economic hedging transactions in 2017 and 2016. These transactions are used by Citizens Gas to hedge natural gas prices. Through a combination of fixed-price purchases, caps, collars and storage, Citizens Gas hedges approximately 80 percent of its anticipated system supply gas purchases (see Note 7 to the condensed combined financial statements).

Concurrent with the issuance of Citizens Westfield Utilities, LLC (CWU), Westfield Water, and Westfield Wastewater revenue bonds in March 2014, the entities entered into fixed rate pay interest rate swap agreements with PNC Bank, National Association as the counterparty to effectively fix the interest rates through October 1, 2018. See Note 7 to the condensed combined financial statements for additional information about the interest rate swaps.

## Citizens Energy Group and Subsidiary and CWA Authority Inc.

## Condensed Combined Statements of Financial Position (Unaudited)

(In Thousands)

| | At December 31, 2017 | At September 30, 2017 |
|---|---|---|
| **ASSETS** | | |
| Property, plant, and equipment | | |
| Plant in service | $ 6,404,888 | $ 6,009,852 |
| Accumulated depreciation | 3,275,093 | 3,244,452 |
| | 3,129,795 | 2,765,400 |
| Construction work in progress | 389,527 | 717,867 |
| Total property, plant, and equipment | 3,519,322 | 3,483,267 |
| Intangible assets, net | 64,375 | 65,301 |
| Investments | | |
| Bond restricted funds | 377,185 | 446,937 |
| Investment in affiliates | 4,425 | 16,402 |
| Other | 21,780 | 24,616 |
| Total investments | 403,390 | 487,955 |
| Current assets | | |
| Cash and cash equivalents | 236,465 | 299,632 |
| Accounts receivable, less allowance for doubtful accounts of $2,982 and $2,411, respectively | 91,908 | 70,500 |
| Accrued utility revenue | 37,269 | 23,401 |
| Natural gas in storage | 35,684 | 42,825 |
| Materials and supplies | 10,950 | 10,705 |
| Other current assets | 5,351 | 6,727 |
| Current assets directly related to discontinued operations | 1,361 | 504 |
| Total current assets | 418,988 | 454,294 |
| Deferred charges and other non-current assets | | |
| Deferred charges | 49,781 | 47,554 |
| Non-current assets directly related to discontinued operations | 5 | - |
| Total deferred charges and other non-current assets | 49,786 | 47,554 |
| **TOTAL ASSETS** | **$ 4,455,861** | **$ 4,538,371** |
| **CAPITALIZATION AND LIABILITIES** | | |
| Capitalization and non-current liabilities | | |
| Retained earnings | $ 362,177 | $ 327,635 |
| Accumulated other comprehensive loss | (117,405) | (118,465) |
| Long-term debt (excluding current maturities) | 3,333,401 | 3,383,224 |
| Retirement benefits | 169,352 | 172,923 |
| Contributions in aid of construction | 208,160 | 203,770 |
| Other long-term liabilities | 30,370 | 36,971 |
| Non-current liabilities directly related to discontinued operations | 68,867 | 71,635 |
| Total capitalization and non-current liabilities | 4,054,922 | 4,077,693 |
| Current liabilities | | |
| Current maturities of long-term debt | 98,064 | 99,885 |
| Short-term borrowings | 77,700 | 51,200 |
| Accounts payable and accrued expenses | 143,602 | 220,472 |
| Accrued taxes | 48,779 | 55,433 |
| Customer deposits and advance payments | 22,654 | 21,602 |
| Other current liabilities | 8,904 | 8,833 |
| Current liabilities directly related to discontinued operations | 1,236 | 3,253 |
| Total current liabilities | 400,939 | 460,678 |
| Commitments and contingencies (see note 9) | | |
| **TOTAL CAPITALIZATION AND LIABILITIES** | **$ 4,455,861** | **$ 4,538,371** |

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

## Citizens Energy Group and Subsidiary and CWA Authority, Inc.

## Condensed Combined Statements of Operations (Unaudited)

(In Thousands)

| | Three Months Ended December 31, 2017 | 2016 |
|---|---|---|
| Operating revenues | $ 232,622 | $ 217,595 |
| Operating expenses | | |
| Cost of goods sold | 48,605 | 43,102 |
| Operations and maintenance | 62,702 | 65,910 |
| Depreciation and amortization | 39,174 | 37,716 |
| Loss on divestiture | - | 9,708 |
| Taxes | 12,986 | 12,428 |
| Total operating expenses | 163,467 | 168,864 |
| Operating income | 69,155 | 48,731 |
| Other income (expense), net | | |
| Interest income | 1,178 | 733 |
| Other | 452 | (440) |
| Total other income (expense), net | 1,630 | 293 |
| Income before equity in (losses) earnings of affiliates and interest charges | 70,785 | 49,024 |
| Equity in (losses) earnings of affiliates | (1,946) | 90 |
| Interest charges | | |
| Interest on long-term debt | 39,407 | 39,410 |
| Other interest, including net premium amortization | (5,909) | (3,384) |
| Total interest charges | 33,498 | 36,026 |
| Income from continuing operations | 35,341 | 13,088 |
| Loss from discontinued operations | (799) | (895) |
| Net income | $ 34,542 | $ 12,193 |

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

**Citizens Energy Group and Subsidiary and CWA Authority, Inc.**

**Condensed Combined Statements of Comprehensive Income (Unaudited)**
(In Thousands)

| | Three Months Ended December 31, 2017 | 2016 |
|---|---|---|
| Net Income | $ 34,542 | $ 12,193 |
| Retirement benefit liability changes: | | |
| Amortization of prior service credit | (479) | (180) |
| Amortization of loss | 1,927 | 2,922 |
| Total retirement benefit liability changes | 1,448 | 2,742 |
| Unrealized loss on available-for-sale investments | (388) | (42) |
| Total other comprehensive income | 1,060 | 2,700 |
| Total Comprehensive Income | $ 35,602 | $ 14,893 |

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

## Citizens Energy Group and Subsidiary and CWA Authority, Inc.

## Condensed Combined Statements of Cash Flows (Unaudited)

(In Thousands)

| | Three Months Ended December 31, 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 34,542 | $ 12,193 |
| Depreciation and amortization | 37,121 | 37,229 |
| Loss on divestiture or sale/impairment of assets | - | 9,708 |
| Loss on extinguishment of debt | - | 2,332 |
| Equity in losses (earnings) of affiliates, net of distributions | 2,571 | (90) |
| Allowance for doubtful accounts | 1,472 | 1,682 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and accrued utility revenue | (36,409) | (33,250) |
| Natural gas in storage | 7,141 | 6,534 |
| Accounts payable and accrued expenses | (28,556) | (13,601) |
| Retirement benefits | (2,124) | (24) |
| Other operating activities | (7,455) | (11,594) |
| Change in net liabilities of discontinued operations | 816 | (976) |
| Net cash provided by operating activities | 9,119 | 10,143 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Construction expenditures | (112,167) | (92,091) |
| Purchase of investment securities | (61,557) | (55,621) |
| Sale and maturity of investment securities | 131,416 | 92,449 |
| Divestiture proceeds, net of expenses | - | 48,933 |
| Acquisition of business, net of cash acquired | (3,364) | - |
| Other investing activities | 2,616 | (396) |
| Net cash used in investing activities | (43,056) | (6,726) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from bank line of credit | 20,000 | 2,000 |
| Repayment of bank line of credit | - | (84,100) |
| Principal payments of long-term debt and bond refunding | (51,495) | (380,375) |
| Proceeds from bond refunding | - | 320,426 |
| Bond issuance costs | (32) | (1,470) |
| Contributions in aid of construction | 2,437 | 2,353 |
| Other financing activities | (140) | (82) |
| Net cash used in financing activities | (29,230) | (141,248) |
| Net change in cash and cash equivalents | (63,167) | (137,831) |
| Cash and cash equivalents at beginning of fiscal year | 299,632 | 436,242 |
| Cash and cash equivalents at end of fiscal period | $ 236,465 | $ 298,411 |
| Supplemental Cash Flows Information - Interest paid | $ 52,134 | $ 46,163 |
| Non-cash Investing and Operating Activities | | |
| Construction work-in-progress accrued at period end | $ 33,282 | $ 25,307 |

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

## Citizens Energy Group and Subsidiary and CWA Authority, Inc.

## Condensed Combined Statements of Equity (Unaudited)

(In Thousands)

| | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|
| **Balance at September 30, 2017** | **$ 327,635** | **$ (118,465)** | **$ 209,170** |
| Comprehensive income | | | |
| Net income | 34,542 | - | 34,542 |
| Unrealized loss on available-for-sale investments | - | (388) | (388) |
| Retirement benefit liability changes | - | 1,448 | 1,448 |
| Total comprehensive income | 34,542 | 1,060 | 35,602 |
| Customer benefit distributions | | - | - |
| **Balance at December 31, 2017** | **$ 362,177** | **$ (117,405)** | **$ 244,772** |

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

# NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS (UNAUDITED)

*Citizens Energy Group and Subsidiary and CWA Authority, Inc.*

## 1. NATURE OF OPERATIONS AND PRESENTATION

### A. Nature of Operations

Operations of Citizens Energy Group and Subsidiary (Citizens) include activities in five business segments: Gas, Steam, Chilled Water, Water, and Resources. Steam and Chilled Water comprise the Thermal Energy System (Citizens Thermal or Thermal). Operations of CWA Authority, Inc. (CWA) include activities for the Wastewater business segment. Resources includes an affiliate joint venture interest as well as several wholly owned subsidiaries, the most significant of which is Citizens Energy Services Corporation, LLC (CESCO) which serves as a holding company for several subsidiaries, including Citizens Westfield Utilities, LLC (CWU) and CESCO Diversified Business Enterprises, LLC. The rates and charges for gas, steam, water and wastewater services are regulated by the Indiana Utility Regulatory Commission (IURC).

CWU serves as a holding company for the gas, water, and wastewater utilities for the Westfield service area, which includes Westfield Gas, LLC (Westfield Gas), Citizens Water of Westfield, LLC (Westfield Water), and Citizens Wastewater of Westfield, LLC (Westfield Wastewater), all of which operate as regulated investor-owned utilities.

CESCO Diversified Business Enterprises, LLC serves as a holding company for Citizens Resources Production, LLC, which operates as an oil producer.

### B. Basis of Presentation

The accompanying condensed combined interim financial statements are unaudited and should be read in conjunction with the combined annual financial statements, and the notes thereto, included in the Citizens Energy Group Management Discussion and Financial Report for the year ended September 30, 2017. Because of the seasonal nature of the various business segments, the results of operations for the period ended December 31, 2017 are not necessarily indicative of the results of operations to be expected for the full fiscal year.

The accompanying financial statements reflect the combined operations of commonly controlled entities, including Citizens, CWA, and certain non-profit instrumentalities. The accounting records conform to the accounting standards prescribed by the Federal Energy Regulatory Commission, National Association of Regulatory Utility Commissioners and accounting principles generally accepted in the United States of America (GAAP). The effects of all intercompany transactions have been eliminated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Fair Value Measurements

Financial Accounting Standards Board (FASB) guidance requires additional disclosures about Citizen's and CWA's financial assets and liabilities that are measured at fair value. Assets and liabilities recorded at fair value in the Condensed Combined Statements of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in FASB guidance and explained in the following paragraphs, are directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are financial derivatives, investments and equity securities listed in active markets. The fair values of the bond restricted funds, Grantor Trust investments, and commodity contracts have been determined using quoted prices in an active market.

Level 2—Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. Fair value assets and liabilities that are generally included in this category are derivatives with fair values based on inputs from actively quoted markets. The fair value of the interest rate swap is determined by calculating the net present value of the forecasted cash flow difference between the fixed and variable rates of the swap.

Level 3—Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the financial assets and liabilities measured at fair value on a recurring basis, based on the hierarchy, as of December 31, 2017 and September 30, 2017 (in thousands):

| | **December 31, 2017 Fair Value Measurements Using** | | |
|---|---|---|---|
| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets: | | | |
| Cash equivalents | **$ 25,475** | **$ -** | **$ -** |
| Bond restricted funds | **364,173** | **-** | **-** |
| Grantor Trust investments | **15,218** | **-** | **-** |
| Derivative assets | **201** | **-** | **-** |
| Total financial assets measured at fair value | **$ 405,067** | **$ -** | **$ -** |
| Financial Liabilities: | | | |
| Derivative liabilities | **$ -** | **$ 22** | **$ -** |

| | September 30, 2017 Fair Value Measurements Using | | |
|---|---|---|---|
| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets: | | | |
| Cash equivalents | $ 31,863 | $ - | $ - |
| Bond restricted funds | 433,924 | - | - |
| Grantor Trust investments | 15,046 | - | - |
| Derivative assets | 203 | - | - |
| Total financial assets measured at fair value | $ 481,036 | $ - | $ - |
| Financial Liabilities: | | | |
| Derivative liabilities | $ - | $ 162 | $ - |

Under the terms of various trust indentures, Citizens and CWA are required to maintain bond restricted funds. These bond restricted funds are invested in short-term securities, commercial paper, a guaranteed investment contract, and cash equivalents. Due to the nature of these investments, cost approximates fair market value of $377.2 and $446.9 million at December 31, 2017 and September 30, 2017, respectively. Included in bond restricted funds at December 31, 2017 and September 30, 2017 are approximately $8.5 and $9.6 million, respectively, of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2016C, and $117.6 and $149.0 million, respectively, of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2017A which are held by the Indiana Finance Authority (IFA) until certain conditions for disbursement are met. Such funds are invested in money market funds together with additional amounts committed to other participants in the IFA's Wastewater Revolving Loan Program due to the rapid disbursement of such proceeds by the IFA to such participants. In accordance with fair value disclosure guidance, $13.0 million of investments in a guaranteed investment contract are excluded in determining the fair value of bond restricted funds pursuant to ASC 825-10-50-8c at December 31, 2017 and September 30, 2017. Gross deposits to the bond restricted fund investments during the first three months of fiscal years 2017 and 2016 were $60.9 million and $55.2 million, respectively.

The Grantor Trust investments are a variety of debt and equity mutual funds invested per the investment policy of the Grantor Trust.

Gains/losses and fees associated with the commodity based derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. There were no transfers between levels during the quarter.

Management has estimated the fair value of the outstanding debt securities based on the coupons of the outstanding bonds and the current market yields. These are Level 2 fair value measurements. Management established the corresponding price to the call date as well as the price to maturity. The fair value was determined based on the lower of these two prices. Using this method, the estimated fair value of the debt is $3.6 billion at December 31, 2017 and September 30, 2017, versus carrying value of $3.4 billion and $3.5 billion at December 31, 2017 and September 30, 2017, respectively. In the case of Resources debt, the carrying value approximates fair value.

**B. Comprehensive Income (Loss)**

Comprehensive income (loss) is primarily a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period. This information is reported in the Condensed Combined Statements of Comprehensive Income. Citizens' components of accumulated other comprehensive income (loss) (AOCI) include the impact of pension and other post-employment benefits and mark to market valuation adjustments for available for sale investments.

The following table presents changes in accumulated other comprehensive income (loss) by component for the three months ended December 31, 2017 (in thousands):

| | Pension Plan | Other Postemployment Benefits | Other | Total |
|---|---|---|---|---|
| Accumulated other comprehensive (loss) income at September 30, 2017 | (112,865) | (5,821) | 221 | (118,465) |
| Other comprehensive loss before reclassifications | | | | - |
| Amounts reclassified from accumulated other comprehensive income (loss) | 1,650 | (202) | (388) | 1,060 |
| Net current-period other comprehensive loss | 1,650 | (202) | (388) | 1,060 |
| Accumulated other comprehensive loss at December 31, 2017 | $ (111,215) | $ (6,023) | $ (167) | $ (117,405) |

**C. New Accounting Guidance**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, providing guidance regarding the principles and standards for revenue recognition. The standard creates a framework for recognizing revenue to improve comparability of revenue recognition practices across entities and industries. In August 2015, the FASB issued ASU 2015-14. The amendments in this update defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. The standard permits the use of either a retrospective or cumulative effect transition method. The Company has not yet selected a transition method. The Company has established an implementation team and is in the process of evaluating potential changes to its business processes, systems, and internal controls to support recognition and disclosure under the new standard. The majority of the Company's revenues result from providing utility services to its customers. For such tariff-based revenues the Company does not anticipate the new standard will materially impact the amount and timing of such revenues. Based on its initial evaluation of ASU 2014-09, the Company currently does not expect ASU 2014-09 to have a material impact on its combined financial statements in the periods after adoption. The Company will complete its assessment of the expected impact of adoption, including selecting a transition method for adoption, in 2018, and continue to evaluate ASU 2014-09 through the date of adoption. The Company plans to adopt ASU 2014-09 effective October 1, 2018.

In February 2016, the FASB issued ASU 2016-02, which will replace existing accounting guidance for leases. The new standard requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. ASU 2016-02 also requires qualitative and specific quantitative disclosures to supplement amounts recorded in the financial statements. This ASU is effective for reporting periods beginning after December 15, 2018. The Company is presently evaluating the impact of adopting this guidance and at this time adoption of these changes is not expected to have a material impact to the Company's combined financial statements.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, Compensation-Retirement Benefits (Topic 715), which revises how employers sponsoring defined benefit pension and other post-employment plans present the net periodic benefit cost in their income statement. Specifically, the ASU requires entities to report the service cost component in the same line item as other compensation costs and report the other components of net periodic benefit costs separately and outside a subtotal of operating income. In addition, only the service cost component will be eligible for asset capitalization. The ASU is effective for annual reporting periods beginning after December 15, 2017. The Company has evaluated the impact of adopting this guidance and at this time adoption of these changes is not expected to have a material impact to the Company's combined financial statements.

**D. Investment in Unconsolidated Affiliates**

Unconsolidated affiliates at September 30, 2017 include ProLiance Holdings, LLC (ProLiance), a jointly-owned affiliate of Resources (39%) and Vectren Energy Marketing & Services, Inc., (61%); and Heartland Gas Pipeline, LLC (HGP), an affiliation of equal ownership between Resources and ProLiance. Both investments were accounted for under the equity method. In December 2017, Resources purchased ProLiance's 50% ownership share of HGP for a price representing 50% of the net book value of HGP, resulting in Resources owning 100% of HGP. Accordingly, the financial results of HGP are consolidated in the Resources segment beginning December 1, 2017. The transaction was accounted for as a business acquisition. Fair value of the net assets acquired approximated their book value; therefore there was no excess purchase price allocated to goodwill or other intangible assets acquired. To facilitate the purchase of HGP, Gas advanced Resources approximately $15.4 million in cash during December 2017 as HGP's assets will ultimately be used exclusively by Gas in its operations. Resources also recognized a $1.9 million impairment of its remaining affiliate in December 2017.

## 3. LONG-TERM DEBT

Long-term debt consisted of the following (due dates are presented on a calendar-year basis):

(In Thousands)

| | **December 31, 2017** | | | September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Long-term debt excl. current maturities | Current maturities | Unamortized (Discount), Premium, and (Issuance Costs) | Long-term debt excl. current maturities | Current maturities | Unamortized (Discount), Premium, and (Issuance Costs) |
| **Gas** | | | | | | |
| Gas Utility System Series 1986B, Revenue Refunding Bonds, 3.50% to 4.00%, due 2018 | **$ -** | **$ 11,065** | **$ (125)** | $ - | $ 11,065 | $ (200) |
| Gas Utility Distribution System Series 2008C, 2nd Lien Revenue Refunding Bonds, 5.00% to 5.25%, due 2018 to 2021 | **42,035** | **3,330** | **959** | 42,035 | 3,330 | 1,063 |
| Gas Utility Distribution System Series 2009A, 2nd Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2018 | **-** | **11,665** | **46** | - | 11,665 | 74 |
| Gas Utility Distribution System Series 2010A, 2nd Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2024 | **59,975** | **-** | **1,530** | 59,975 | - | 1,590 |
| Gas Utility Distribution System Series 2013A, 2nd Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030 | **54,465** | **-** | **1,299** | 54,465 | - | 1,320 |
| Gas Utility Distribution System Series 2017A, 2nd Lien Revenue Refunding Bonds 5.00%, due 2025 to 2027 | **49,825** | **-** | **8,580** | 49,825 | - | 8,800 |
| Subtotal Gas Long-Term Debt | **206,300** | **26,060** | **12,289** | 206,300 | 26,060 | 12,647 |
| **Thermal** | | | | | | |
| Thermal Energy System Series 2010A, First Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2018 to 2029 | **1,040** | **490** | **9** | 1,530 | 470 | 10 |
| Thermal Energy System Series 2010B, First Lien Revenue Refunding Bonds, 5.00%, due 2017 to 2021 | **22,700** | **7,950** | **1,323** | 30,650 | 7,615 | 1,475 |
| Thermal Energy System Series 2013A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2018 to 2033 | **7,075** | **330** | **67** | 7,405 | 320 | 70 |

(In Thousands)

| | **December 31, 2017** | | | September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | **Long-term debt excl. current maturities** | **Current maturities** | **Unamortized (Discount), Premium, and (Issuance Costs)** | Long-term debt excl. current maturities | Current maturities | Unamortized (Discount), Premium, and (Issuance Costs) |
| Thermal Energy System<br>Series 2014A,<br>First Lien Revenue Refunding Bonds,<br>2.00% to 5.00%, due 2018 to 2034 | **30,795** | **1,255** | **2,975** | 32,050 | 1,205 | 3,042 |
| Thermal Energy System<br>Series 2016A,<br>First Lien Revenue Refunding Bonds,<br>5.00%, due 2021 to 2029 | **50,410** | **-** | **8,402** | 50,410 | - | 8,717 |
| Subtotal Thermal Long-Term Debt | **112,020** | **10,025** | **12,776** | 122,045 | 9,610 | 13,314 |
| **Water** | | | | | | |
| Water Utility<br>Series 2011C (ILPIBB 2006A)*,<br>First Lien Net Revenue Bonds,<br>5.50%, due 2018 to 2022 | **44,555** | **10,055** | **(50)** | 44,555 | 10,055 | (52) |
| Water Utility<br>Series 2011D (ILPIBB 2007D)*,<br>First Lien Net Revenue Bonds,<br>5.25%, due 2022 to 2025 | **70,410** | **-** | **(65)** | 70,410 | - | (66) |
| Water Utility<br>Series 2011F (ILPIBB 2009A)*,<br>First Lien Net Revenue Bonds,<br>4.00% to 5.75%, due 2018 to 2038 | **415,545** | **5,615** | **(388)** | 415,545 | 5,615 | (397) |
| Water Utility<br>Series 2011G (ILPIBB 2011E)*,<br>First Lien Net Revenue Bonds,<br>3.25% to 5.125%, due 2018 to 2041 | **51,520** | **1,225** | **(49)** | 51,520 | 1,225 | (50) |
| Water Utility<br>Series 2014A,<br>First Lien Net Revenue Bonds,<br>3.00% to 5.00%, due 2018 to 2044 | **25,230** | **510** | **1,523** | 25,740 | 490 | 1,535 |
| Water Utility<br>Series 2014B,<br>2nd Lien Revenue Refunding Bonds,<br>2.95%, due 2022 | **43,595** | **-** | **(199)** | 43,595 | - | (209) |
| Water Utility<br>Series 2016A,<br>First Lien Revenue Bonds,<br>3.00% to 5.00%, due 2018 to 2046 | **66,785** | **1,140** | **12,640** | 67,925 | 1,090 | 12,764 |
| Water Utility<br>Series 2016B,<br>First Lien Revenue Refunding Bonds,<br>4.00% to 5.00%, due 2018 to 2038 | **216,895** | **3,000** | **36,171** | 219,895 | - | 36,769 |
| Subtotal Water Long-Term Debt | **934,535** | **21,545** | **49,583** | 939,185 | 18,475 | 50,294 |

(In Thousands)

| | December 31, 2017 | | | September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Long-term debt excl. current maturities | Current maturities | Unamortized (Discount), Premium, and (Issuance Costs) | Long-term debt excl. current maturities | Current maturities | Unamortized (Discount), Premium, and (Issuance Costs) |
| **Wastewater** | | | | | | |
| CWA Wastewater Utility Series 2011A, First Lien Revenue Bonds, 2.50% to 5.25%, due 2018 to 2041 | **600,760** | **13,610** | **28,251** | 614,370 | 12,965 | 28,589 |
| CWA Wastewater Utility Series 2011B, Second Lien Revenue Bonds, 5.00% to 5.25%, due 2018 to 2041 | **243,020** | **5,500** | **4,395** | 248,520 | 5,235 | 4,461 |
| CWA Wastewater Utility Series 2012A, First Lien Revenue Bonds, 2.75% to 5.00%, due 2018 to 2042 | **174,510** | **3,835** | **15,276** | 178,345 | 3,650 | 15,514 |
| CWA Wastewater Utility Series 2014A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2018 to 2044 | **221,460** | **4,135** | **19,591** | 225,595 | 3,935 | 19,835 |
| CWA Wastewater Utility Series 2015A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2018 to 2045 | **151,055** | **2,685** | **21,481** | 153,740 | 2,555 | 21,724 |
| CWA Wastewater Utility Series 2016A, First Lien Revenue Bonds 2.00% to 5.00%,due 2018 to 2046 | **187,310** | **3,010** | **37,845** | 190,320 | 2,950 | 38,224 |
| CWA Wastewater Utility Series 2016B, 2nd Lien Revenue Refunding Bonds, 3.00% to 5.00%,due 2018 to 2046 | **41,940** | **815** | **2,383** | 42,755 | 790 | 2,429 |
| CWA Wastewater Series 2016C, First Lien Revenue Bonds (SRF), 2.00%, due 2018 to 2036 | **11,575** | **530** | **(92)** | 11,575 | 530 | (94) |
| CWA Wastewater Series 2017A, First Lien Revenue Bonds (SRF), 3.53%, due 2018 to 2047 | **160,182** | **3,344** | **(78)** | 160,182 | 3,344 | (157) |
| Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds, see table below | **-** | **-** | **-** | - | 7,483 | - |
| Subtotal Wastewater Long-Term Debt | **1,791,812** | **37,464** | **129,052** | 1,825,402 | 43,437 | 130,525 |
| **Resources** | | | | | | |
| Citizens Westfield Utilities Series 2014A, Revenue Bonds, 74% of 3-month LIBOR +2.20% with a swap to effectively fix 80% of bonds at 3.56% (see note 7), due 2018 to 2019 | **59,878** | **2,303** | **(356)** | 60,454 | 2,303 | (430) |

| | (In Thousands) | | | | | |
|---|---|---|---|---|---|---|
| | **December 31, 2017** | | | September 30, 2017 | | |
| | Long-term debt excl. current maturities | Current maturities | Unamortized (Discount), Premium, and (Issuance Costs) | Long-term debt excl. current maturities | Current maturities | Unamortized (Discount), Premium, and (Issuance Costs) |
| Citizens Westfield Water Series 2014A, Revenue Bonds, 74% of 1-month LIBOR + 1.60% with a swap to effectively fix the rate at 2.89% (see note 7), due 2019 | **8,365** | **-** | **(44)** | 8,365 | - | (52) |
| Citizens Westfield Wastewater Series 2014A, Revenue Bonds, 74% of 1-month LIBOR + 1.60% with a swap to effectively fix the rate at 2.89% (see note 7), due 2019 | **15,270** | **-** | **(79)** | 15,270 | - | (95) |
| Heartland Gas Pipeline** Bank loan 1-month LIBOR + 1.75% with a swap to effectively fix the rate at 3.23% (see note 7), due 2018 to 2019 | **2,000** | **667** | **-** | - | - | - |
| Subtotal Resources Long-Term Debt | **85,513** | **2,970** | **(479)** | 84,089 | 2,303 | (577) |
| Total Long-Term Debt | **$3,130,180** | **$ 98,064** | **$ 203,221** | $3,177,022 | $ 99,885 | $ 206,202 |

* Indianapolis Local Public Improvement Bond Bank (ILPIBB)
** Heartland Gas Pipeline was an unconsolidated affiliate at September 30, 2017 (See Note 2D).

Principal maturities of long-term debt for the next five fiscal years and thereafter are as follows (in thousands):

| | |
|---|---|
| 2018 | $ 49,057 |
| 2019 | 166,146 |
| 2020 | 92,671 |
| 2021 | 98,170 |
| 2022 | 103,008 |
| Thereafter | 2,719,192 |
| Total principal maturities | $ 3,228,244 |

**Recent Debt Transaction Activity**

On November 17, 2016, Citizens Water issued $219.9 million of First Lien Water Utility Revenue Refunding Bonds, Series 2016B, due 2018 to 2038. This series was issued at a premium of $39.8 million, with coupons ranging from 4.0% to 5.0%. The proceeds of this series were used to refund the Water Utility bonds Series 2011B and Series 2011E in entirety and a portion of the Series 2011C and Series 2011F bonds, with an aggregate principal of $248.9 million.

On November 22, 2016, Citizens Thermal issued $50.4 million of First Lien Thermal Energy System Revenue Refunding Bonds, Series 2016A, due 2021 to 2029. This series was issued at a premium of $10.1 million, with 5.0% coupons. The proceeds of this series were used to refund the Thermal Energy System bonds Series 2008 in entirety and a portion of the Series 2010A bonds with an aggregate principal of $56.2 million.

On March 29, 2017, Citizens Gas issued $49.8 million of Gas Utility Distribution System Second Lien Revenue Refunding Bonds, Series 2017A, due 2025 to 2027. This series was issued at a premium of $9.6 million, with 5.0% coupons. The proceeds of this series were used to refund the Gas Utility Distribution System bonds Series 2008B in entirety with an aggregate principal of $55.9 million.

On July 21, 2017, Citizens Wastewater issued $163.5 million of First Lien State Revolving Fund Bonds, Series 2017A. The Series 2017A bonds were issued at par and have principal maturities between 2018 and 2047. The bonds were issued to fund specified consent decree capital projects for the Wastewater system (see Note 9A).

**Other Long-Term Debt Obligations**

CWA has agreed to make payments to the City in order to satisfy the annual debt service payments on the outstanding principal amount of the General Obligation Sanitary District Bonds listed below. The bonds were paid in full in December 2017. Principal amounts outstanding at December 31, 2017 and September 30, 2017 are as follows (in thousands):

| | December 31, 2017 | September 30, 2017 |
|---|---|---|
| Wastewater General Obligation Bonds Series 2007 C, 5.00%, due 2018 | $ - | $ 6,285 |
| Wastewater General Obligation Bonds Series 2013A, 5.25%, due 2018 | - | 1,198 |
| Total Wastewater General Obligation Bond Debt | $ - | $ 7,483 |

## 4. SHORT-TERM AND OTHER BORROWINGS

Gas

Gas had $50.0 million in commercial paper outstanding at December 31, 2017 and September 30, 2017. The commercial paper has a maximum maturity of 270 days. It last remarketed in December 2017 and will remarket again in March 2018. Commercial paper is backed by a three year letter of credit issued by J.P. Morgan Chase which matures on July 16, 2018. Gas has two three year working capital lines of credit amounting to $50.0 million. The $25.0 million line of credit agreement with BMO Harris Bank NA has a maturity date of August 3, 2019 with an interest rate of LIBOR plus 1.25 percent. The $25.0 million line of credit with J.P. Morgan Chase has a maturity date of August 10, 2018 with an interest rate of LIBOR plus 1.25 percent. At December 31, 2017 and September 30, 2017, Gas had no amount outstanding under either line of credit.

Thermal

On June 21, 2017, the Thermal Energy System closed on the third supplemental credit agreement with JP Morgan Chase extending a $20.0 million line of credit to a June 21, 2019 maturity date. Proceeds can be used for both operating expenses and capital expenditures. The commitment fee on the line is 0.30 percent and the applicable interest rate is LIBOR plus 1.25 percent. At December 31, 2017 and September 30, 2017, no amounts were outstanding.

Water

On November 2, 2017 Water closed on a reduction of the capital expenditure line of credit from $100.0 million to $50.0 million and extended the maturity date from December 9, 2017 to November 2, 2020. The line of credit is provided by PNC. Interest rates are based on the Standard & Poor’s and Fitch ratings of the 2014B Second Lien Water Utility Net Revenue Bonds; at the time of close, the line has an interest rate of 68.50 percent of LIBOR plus 0.70 percent with a commitment fee of 0.15 percent. At December 31, 2017 and September 30, 2017, no amounts were outstanding.

In April 2017, Citizens amended the $30.0 million working capital line of credit with BMO Harris Bank NA to mature in April 2018; it has an interest rate of LIBOR plus 0.92 percent. There were no draws on the facility during 2017 or 2016.

Wastewater

On September 28, 2017 CWA closed on a reduction of the capital expenditure line of credit from $145.0 million to $100.0 million and extended the maturity date from September 30, 2017 to September 30, 2020. The line of credit is with a syndicate of JP Morgan Chase and Wells Fargo, each with equal participation and with JP Morgan Chase acting as Administrative Agent, at an interest rate of 72 percent of LIBOR plus 0.84 percent and a commitment fee of 0.22 percent. At December 31, 2017 and September 30, 2017, $20.0 million and $0.0 million, respectively, were outstanding on the line of credit.

Resources

Westfield Gas, Westfield Water, and Westfield Wastewater have established lines of credit with terms and conditions as outlined in the table below.

| Entity | Credit Capacity | Maturity Date | Interest Rate | Commitment Fee | Amount Outstanding at (in millions) December 31, 2017 | Amount Outstanding at (in millions) September 30, 2017 |
|---|---|---|---|---|---|---|
| Westfield Gas | $4.0 million | March 29, 2018 | LIBOR + 2.15% | 0.150% | $ 1.2 | $ 1.2 |
| Westfield Water | $10.3 million | March 21, 2019 | LIBOR + 2.40% | 0.175% | 3.5 | 3.5 |
| Westfield Wastewater | $11.0 million | March 21, 2019 | LIBOR + 2.40% | 0.175% | 3.0 | 3.0 |

Outstanding borrowings with maturities of twelve months or less from the balance sheet date are presented as current liabilities in the Condensed Combined Statements of Financial Position in the line item labeled, “Short-term borrowings”. Outstanding borrowings with maturities greater than twelve months from the balance sheet date are classified as non-current liabilities in the Condensed Combined Statements of Financial Position in the line item labeled, “Other long-term liabilities”.

## 5. FINANCIAL SEGMENT INFORMATION

Operations of Citizens include activities in five reportable segments: Gas, Steam, Chilled Water, Water, and Resources. In addition to these business segments, Other is utilized to capture non-revenue generating segment costs (see discussion below). Operations of CWA include activities for the Wastewater business segment. The Chief Executive Officer is the chief operating decision maker for Citizens and CWA.

Gas activities include purchasing natural gas, operating underground natural gas storage facilities in Indiana, and distributing natural gas to residential, commercial, and industrial customers located in Marion County, Indiana.

Steam activities include the production, purchase, and distribution of steam for use in industrial processes and heating buildings in the downtown Indianapolis area.

Chilled Water activities include the production and distribution of chilled water for use in cooling buildings in the central downtown area.

Water activities include the treatment and distribution of drinking water to residential, commercial, and industrial customers located in and around Marion County, Indiana.

Wastewater activities include wastewater collection and treatment services for residential, commercial, and industrial customers located in and around Marion County, Indiana.

Resources conducts for-profit business activities in order to ultimately provide enhanced benefits to Citizens’ beneficiaries. Resources includes affiliate joint venture investments of $4.4 million and $16.4 million at December 31, 2017 and September 30, 2017, respectively. Resources also includes several wholly-owned subsidiaries under CESCO, which serves as a holding company for several LLC subsidiaries. CESCO subsidiaries include: Citizens Westfield Utilities, which is the holding company for the three utilities serving Westfield (Westfield Gas, Westfield Water, and Westfield Wastewater); CESCO Diversified Business Enterprises, which is the holding company for Citizens Resources Production LLC, an oil producer; and Citizens South Madison (CSM), a small unregulated water utility. Lastly, Resources provides stormwater management services to the City of Indianapolis through Citizens Energy Management Company, LLC. As of December 2017, Resources also owns Heartland Gas Pipeline, LLC, which provides gas transportation and storage services to Gas.

In the table below, Other includes certain non-profit instrumentalities, as well as advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments. Other also includes shared services comprised of various administrative and operational departments that provide support services to each of Citizens and CWA business segments, certain affiliates and the combined enterprise as a whole, and allocates the associated cost of the services to the appropriate segment. Management reviews the allocation methodology for shared services on a regular basis and refines the methodology as necessary. The former Manufacturing business segment has been reported as Discontinued Operations and is also included in Other. To the extent certain business segments purchase services from one another, these amounts have been eliminated on the face of the condensed combined financial statements. Such transactions are reported gross for segment presentation, with eliminating entries reported as Eliminations.

Operating revenues and operating expenses are set forth in the Condensed Combined Statements of Operations. Operating income represents operating revenues less operating expenses directly attributable to the segments and an allocation of certain operating expenses benefiting each.

Segment statements of financial position at December 31, 2017 and September 30, 2017, statements of operations for the three months ended December 31, 2017 and 2016, and statements of cash flows for the three months ended December 31, 2017 and 2016 are summarized as follows:

## Segment Footnote - Condensed Combined Statement of Financial Position

***Citizens Energy Group and Subsidiary and CWA Authority, Inc.***
***(In Thousands)***
***At December 31, 2017***

| | Gas | Steam | Chilled Water | Water | Waste-Water | Resources | Other | Elimin-ations | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Property, plant, and equipment | $287,006 | $ 73,968 | $ 62,688 | $1,083,895 | $1,796,823 | $191,735 | $ 23,207 | $ - | **$3,519,322** |
| Intangibles | - | 16,907 | 47,468 | - | - | - | - | - | **64,375** |
| Investments | 23,524 | 6,133 | 1,693 | 91,038 | 271,769 | 9,174 | 59 | - | **403,390** |
| Cash and cash equivalents | 63,042 | 8,731 | 20,442 | 44,234 | 26,462 | 61,332 | 12,222 | - | **236,465** |
| Other current assets | 113,831 | 15,102 | 3,936 | 35,107 | 42,985 | 6,426 | (6,109) | (28,755) | **182,523** |
| Deferred charges and other non-current assets | 25,059 | 2,940 | 17 | 18,071 | 16,469 | 1,724 | 1,408 | (15,902) | **49,786** |
| Total assets | $512,462 | $123,781 | $136,244 | $1,272,345 | $2,154,508 | $270,391 | $ 30,787 | $(44,657) | **$4,455,861** |
| **Capitalization and Liabilities** | | | | | | | | | |
| Retained earnings and AOCI | $104,434 | $ 14,601 | $ 82,674 | $ 55,274 | $ 21,261 | $ 96,326 | $(129,798) | $ - | **$ 244,772** |
| Long-term debt | 218,589 | 81,550 | 43,246 | 984,118 | 1,920,864 | 85,034 | - | - | **3,333,401** |
| Retirement benefit and Other long-term liabilities | 48,444 | 8,991 | 2,463 | 154,784 | 72,252 | 56,947 | 148,770 | (15,902) | **476,749** |
| Current mat. of long-term debt | 26,060 | 5,526 | 4,499 | 21,545 | 37,464 | 2,970 | - | - | **98,064** |
| Short-term borrowings | 50,000 | - | - | - | 20,000 | 7,700 | - | - | **77,700** |
| Current liabilities | 64,935 | 13,113 | 3,362 | 56,624 | 82,667 | 21,414 | 11,815 | (28,755) | **225,175** |
| Total capitalization and liabilities | $512,462 | $123,781 | $136,244 | $1,272,345 | $2,154,508 | $270,391 | $ 30,787 | $(44,657) | **$4,455,861** |

## Segment Footnote - Condensed Combined Statement of Financial Position

***Citizens Energy Group and Subsidiary and CWA Authority, Inc.***
***(In Thousands)***
***At September 30, 2017***

| | Gas | Steam | Chilled Water | Water | Waste-Water | Resources | Other | Elimin-ations | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Property, plant, and equipment | $285,682 | $ 73,236 | $ 63,288 | $1,080,594 | $1,779,073 | $176,843 | $ 24,551 | $ - | **$3,483,267** |
| Intangibles | - | 17,153 | 48,148 | - | - | - | - | - | **65,301** |
| Investments | 18,609 | 11,127 | 5,515 | 82,046 | 346,440 | 24,092 | 126 | - | **487,955** |
| Cash and cash equivalents | 96,379 | 11,450 | 40,448 | 53,196 | 54,263 | 27,595 | 16,301 | - | **299,632** |
| Other current assets | 71,929 | 10,404 | 6,323 | 37,703 | 42,757 | 5,730 | (6,509) | (13,675) | **154,662** |
| Deferred charges and other non-current assets | 19,488 | 3,213 | 56 | 18,803 | 11,152 | 1,856 | 2,525 | (9,539) | **47,554** |
| Total assets | $492,087 | $126,583 | $163,778 | $1,272,342 | $2,233,685 | $236,116 | $ 36,994 | $(23,214) | **$4,538,371** |
| **Capitalization and Liabilities** | | | | | | | | | |
| Retained earnings and AOCI | $ 87,431 | $ 12,426 | $103,684 | $ 50,082 | $ 9,954 | $ 77,948 | $(132,355) | $ - | **$ 209,170** |
| Long-term debt | 218,947 | 87,369 | 47,990 | 989,479 | 1,955,927 | 83,512 | - | - | **3,383,224** |
| Retirement benefit and Other long-term liabilities | 50,394 | 8,819 | 2,483 | 152,308 | 69,858 | 64,355 | 146,621 | (9,539) | **485,299** |
| Current mat. of long-term debt | 26,060 | 5,301 | 4,309 | 18,475 | 43,437 | 2,303 | - | - | **99,885** |
| Short-term borrowings | 50,000 | - | - | - | - | 1,200 | - | - | **51,200** |
| Current liabilities | 59,255 | 12,668 | 5,312 | 61,998 | 154,509 | 6,798 | 22,728 | (13,675) | **309,593** |
| Total capitalization and liabilities | $492,087 | $126,583 | $163,778 | $1,272,342 | $2,233,685 | $236,116 | $ 36,994 | $(23,214) | **$4,538,371** |

## Segment Footnote - Condensed Combined Statement of Operations

***Citizens Energy Group and Subsidiary and CWA Authority, Inc.***
***(In Thousands)***
***For the Three Months Ended December 31, 2017***

| | Gas | Steam | Chilled Water | Water | Waste-water | Resources | Other | Elimin-ations | Total |
|---|---|---|---|---|---|---|---|---|---|
| Operating revenues | | | | | | | | | |
| Customer revenues | $ 81,154 | $ 17,887 | $ 6,252 | $ 48,245 | $ 70,207 | $ 8,877 | $ - | $ - | **$ 232,622** |
| Intercompany revenues | 541 | 1,284 | - | 217 | 245 | 465 | - | (2,752) | **-** |
| Gross operating revenues | 81,695 | 19,171 | 6,252 | 48,462 | 70,452 | 9,342 | - | (2,752) | **232,622** |
| Operating expenses: | | | | | | | | | |
| Cost of goods sold | 38,075 | 10,040 | 2,192 | - | - | 576 | - | (2,278) | **48,605** |
| Operations and maintenance | 15,838 | 4,610 | 2,063 | 17,966 | 18,797 | 3,957 | (76) | (453) | **62,702** |
| Depreciation and amortization | 5,955 | 1,292 | 1,550 | 10,543 | 18,473 | 1,361 | - | - | **39,174** |
| Loss (gain) on divestiture | - | - | - | - | - | - | - | - | **-** |
| Taxes | 2,383 | 378 | 454 | 3,493 | 5,700 | 484 | 94 | - | **12,986** |
| Total operating expenses | 62,251 | 16,320 | 6,259 | 32,002 | 42,970 | 6,378 | 18 | (2,731) | **163,467** |
| Operating income (loss) | 19,444 | 2,851 | (7) | 16,460 | 27,482 | 2,964 | (18) | (21) | **69,155** |
| Other income (expense), net: | | | | | | | | | |
| Interest income | 43 | 16 | 19 | 485 | 541 | 67 | 27 | (20) | **1,178** |
| Other | - | - | - | 508 | 2 | 40 | (98) | - | **452** |
| Total other income (expense), net | 43 | 16 | 19 | 993 | 543 | 107 | (71) | (20) | **1,630** |
| Income (loss) before equity in losses of affiliates and interest charges | 19,487 | 2,867 | 12 | 17,453 | 28,025 | 3,071 | (89) | (41) | **70,785** |
| Equity in losses of affiliates | - | - | - | - | - | (1,946) | - | - | **(1,946)** |
| Interest charges: | | | | | | | | | |
| Interest on long-term debt | 2,896 | 971 | 535 | 12,257 | 22,165 | 583 | 20 | (20) | **39,407** |
| Other interest, including net (premium) discount amortization | 225 | (170) | (245) | (456) | (5,433) | 164 | 6 | - | **(5,909)** |
| Total interest charges | 3,121 | 801 | 290 | 11,801 | 16,732 | 747 | 26 | (20) | **33,498** |
| Income (loss) from continuing operations | 16,366 | 2,066 | (278) | 5,652 | 11,293 | 378 | (115) | (21) | **35,341** |
| Loss from discontinued operations | - | - | - | - | - | - | (820) | 21 | **(799)** |
| Net income (loss) | $ 16,366 | $ 2,066 | $ (278) | $ 5,652 | $ 11,293 | $ 378 | $ (935) | $ - | **$ 34,542** |

## Segment Footnote - Condensed Combined Statement of Operations

***Citizens Energy Group and Subsidiary and CWA Authority, Inc.***
***(In Thousands)***
***For the Three Months Ended December 31, 2016***

| | Gas | Steam | Chilled Water | Water | Waste-water | Resources | Other | Elimin-ations | Total |
|---|---|---|---|---|---|---|---|---|---|
| Operating revenues | | | | | | | | | |
| Customer revenues | $ 73,470 | $ 16,145 | $ 6,345 | $ 47,940 | $ 63,087 | $ 10,608 | $ - | $ - | **$ 217,595** |
| Intercompany revenues | 1,024 | 326 | - | 33 | 152 | 6,556 | - | (8,091) | **-** |
| Gross operating revenues | 74,494 | 16,471 | 6,345 | 47,973 | 63,239 | 17,164 | - | (8,091) | **217,595** |
| Operating expenses: | | | | | | | | | |
| Cost of goods sold | 32,548 | 8,229 | 1,912 | - | - | 8,087 | - | (7,674) | **43,102** |
| Operations and maintenance | 15,651 | 4,731 | 2,107 | 18,054 | 21,049 | 4,803 | (73) | (412) | **65,910** |
| Depreciation and amortization | 6,202 | 1,227 | 1,509 | 10,386 | 16,619 | 1,773 | - | - | **37,716** |
| Loss (gain) on divestiture | 14,220 | - | - | - | - | (4,512) | - | - | **9,708** |
| Taxes | 2,409 | 364 | 466 | 3,563 | 4,935 | 608 | 83 | - | **12,428** |
| Total operating expenses | 71,030 | 14,551 | 5,994 | 32,003 | 42,603 | 10,759 | 10 | (8,086) | **168,864** |
| Operating income (loss) | 3,464 | 1,920 | 351 | 15,970 | 20,636 | 6,405 | (10) | (5) | **48,731** |
| Other income (expense), net: | | | | | | | | | |
| Interest income | 9 | 8 | 3 | 608 | 26 | 80 | 20 | (21) | **733** |
| Other | - | 7 | - | 24 | (253) | (101) | (117) | - | **(440)** |
| Total other income (expense), net | 9 | 15 | 3 | 632 | (227) | (21) | (97) | (21) | **293** |
| Income (loss) before equity in earnings of affiliates and interest charges | 3,473 | 1,935 | 354 | 16,602 | 20,409 | 6,384 | (107) | (26) | **49,024** |
| Equity in earnings of affiliates | - | - | - | - | - | 90 | - | - | **90** |
| Interest charges: | | | | | | | | | |
| Interest on long-term debt | 3,178 | 1,059 | 612 | 12,825 | 21,374 | 362 | 20 | (20) | **39,410** |
| Other interest including net premium (discount) amortization | 391 | (103) | 2,290 | (369) | (5,734) | 134 | 7 | - | **(3,384)** |
| Total interest charges | 3,569 | 956 | 2,902 | 12,456 | 15,640 | 496 | 27 | (20) | **36,026** |
| Income (loss) from continuing operations | (96) | 979 | (2,548) | 4,146 | 4,769 | 5,978 | (134) | (6) | **13,088** |
| Loss from discontinued operations | - | - | - | - | - | - | (901) | 6 | **(895)** |
| Net income (loss) | $ (96) | $ 979 | $ (2,548) | $ 4,146 | $ 4,769 | $ 5,978 | $ (1,035) | $ - | **$ 12,193** |

## Segment Footnote - Condensed Combined Statement of Cash Flows

***Citizens Energy Group and Subsidiary and CWA Authority, Inc.***
***(In Thousands)***
***For the Three Months Ended December 31, 2017***

| | Gas | Steam | Chilled Water | Water | Waste-Water | Resources | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Net cash (used in) provided by operating activities | $ (4,688) | $ (192) | $ 1,469 | $ 16,603 | $ (2,685) | $ 2,998 | $ (4,386) | **$ 9,119** |
| Investing Activities: | | | | | | | | |
| Construction expenditures | (8,174) | (2,220) | (231) | (15,342) | (81,999) | (1,684) | (2,517) | **(112,167)** |
| Purchase of investment securities | (6,588) | (2,369) | (1,664) | (18,774) | (32,162) | - | - | **(61,557)** |
| Sale and maturity of investment securities | 1,672 | 7,363 | 5,486 | 9,955 | 106,940 | - | - | **131,416** |
| Acquisition of business, net of cash acquired | - | - | - | - | - | (3,364) | - | **(3,364)** |
| Other investing activities | (15,419) | - | (20,757) | (561) | - | 36,529 | 2,824 | **2,616** |
| Net cash (used in) provided by investing activities | (28,509) | 2,774 | (17,166) | (24,722) | (7,221) | 31,481 | 307 | **(43,056)** |
| Financing Activities: | | | | | | | | |
| Proceeds from bank line of credit | - | - | - | - | 20,000 | - | - | **20,000** |
| Principal payments of long-term debt and bond refunding | - | (5,301) | (4,309) | (1,580) | (39,563) | (742) | - | **(51,495)** |
| Bond issuance costs | - | - | - | - | (32) | - | - | **(32)** |
| Contributions in aid of construction | - | - | - | 737 | 1,700 | - | - | **2,437** |
| Other financing activities | (140) | - | - | - | - | - | - | **(140)** |
| Net cash used in financing activities | (140) | (5,301) | (4,309) | (843) | (17,895) | (742) | - | **(29,230)** |
| Net change in cash and cash equivalents | (33,337) | (2,719) | (20,006) | (8,962) | (27,801) | 33,737 | (4,079) | **(63,167)** |
| Cash and cash equivalents at beginning of period | 96,379 | 11,450 | 40,448 | 53,196 | 54,263 | 27,595 | 16,301 | **299,632** |
| Cash and cash equivalents at end of period | $ 63,042 | $ 8,731 | $ 20,442 | $ 44,234 | $ 26,462 | $ 61,332 | $ 12,222 | **$ 236,465** |

## Segment Footnote - Condensed Combined Statement of Cash Flows

***Citizens Energy Group and Subsidiary and CWA Authority, Inc.***
***(In Thousands)***
***For The Three Months Ended December 31, 2016***

| | Gas | Steam | Chilled Water | Water | Waste-Water | Resources | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Net cash (used in) provided by operating activities | $ (5,538) | $ (4,009) | $ 4,183 | $ 16,971 | $ (733) | $ 1,403 | $ (2,134) | **$ 10,143** |
| Investing Activities: | | | | | | | | |
| Construction expenditures | (5,073) | (2,356) | (419) | (13,162) | (66,467) | (3,654) | (960) | **(92,091)** |
| Purchase of investment securities | (6,663) | (2,593) | (2,021) | (15,613) | (28,731) | - | - | **(55,621)** |
| Sale and maturity of investment securities | 1,942 | 8,297 | 5,895 | 11,820 | 64,495 | - | - | **92,449** |
| Divestiture proceeds, net of expenses | 12,242 | - | - | - | - | 36,691 | - | **48,933** |
| Other investing activities | 6,635 | - | - | 733 | - | (7,764) | - | **(396)** |
| Net cash provided by (used in) investing activities | 9,083 | 3,348 | 3,455 | (16,222) | (30,703) | 25,273 | (960) | **(6,726)** |
| Financing Activities: | | | | | | | | |
| Proceeds from bank line of credit | - | - | - | - | - | 2,000 | - | **2,000** |
| Repayment of bank line of credit | - | - | - | (3,100) | (80,000) | (1,000) | - | **(84,100)** |
| Principal payments of long-term debt and bond refunding | - | (35,468) | (34,769) | (263,406) | (34,531) | (12,201) | - | **(380,375)** |
| Proceeds from bond refunding | - | 30,223 | 30,531 | 259,672 | - | - | - | **320,426** |
| Bond issuance costs | - | (196) | (200) | (828) | (246) | - | - | **(1,470)** |
| Contributions in aid of construction | - | - | - | 521 | 1,920 | (88) | - | **2,353** |
| Other financing activities | (82) | - | - | - | - | - | - | **(82)** |
| Net cash used in financing activities | (82) | (5,441) | (4,438) | (7,141) | (112,857) | (11,289) | - | **(141,248)** |
| Net change in cash and cash equivalents | 3,463 | (6,102) | 3,200 | (6,392) | (144,293) | 15,387 | (3,094) | **(137,831)** |
| Cash and cash equivalents at beginning of period | 90,056 | 11,858 | 34,649 | 22,405 | 247,062 | 9,884 | 20,328 | **436,242** |
| Cash and cash equivalents at end of period | $ 93,519 | $ 5,756 | $ 37,849 | $ 16,013 | $ 102,769 | $ 25,271 | $ 17,234 | **$ 298,411** |

During fiscal 2017, the Board of Directors declared that an $18 million contribution would be made to Resources for the purpose of contributing it to CWU, using available funds from Chilled Water. Payment was made in full in November 2017 and is reflected in the financial statements included herein.

## 6. MANUFACTURING DISCONTINUATION OF PRODUCTION AND RELATED ASSET RETIREMENT OBLIGATIONS

The Manufacturing segment, d/b/a Indianapolis Coke, ceased operations on July 13, 2007. Prior to the cessation of operations, Manufacturing (reported as Discontinued Operations) produced manufactured gas, coke, and various chemical by-products for industrial use. Indianapolis Coke had been in operation since 1909 and once produced all of the gas used for heating and other purposes in Marion County. With the introduction of natural gas transported to Indianapolis via interstate pipelines in the 1950's, the percentage of manufactured gas in the gas distribution system gradually declined and reached zero when the Manufacturing segment ceased operation in 2007.

Estimated costs relating to the closure, including liquidation of inventories, plant demolition, and environmental remediation are reflected in the accompanying condensed combined financial statements in accordance with FASB guidance related to asset retirement obligations (ASC 410-20) and exit or disposal cost obligations (ASC 420). Citizens enrolled this facility in the Indiana Department of Environmental Management Voluntary Remediation Program to address historical environmental impacts associated with these operations. Demolition costs concluded in 2017, and costs of remediation will continue for several years. As the full nature and extent of the environmental impacts can be difficult to determine with certainty, Citizens, in conjunction with internal and external environmental consultants, has estimated and accrued costs associated with environmental remediation of this site based on currently available information. Estimates of these costs are included in the condensed combined financial statements as part of the asset retirement obligation. The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) at December 31, 2017 and September 30, 2017, are as follows (in thousands):

| | **December 31, 2017** | September 30, 2017 |
|---|---|---|
| Current assets | **$ 1,337** | $ 504 |
| Deferred charges and other non-current assets | **5** | - |
| Total assets | **$ 1,342** | $ 504 |
| | | |
| Retained earnings and AOCI | **$ (98,265)** | $ (97,535) |
| Retirement benefit and other long-term liabilities | **68,867** | 71,635 |
| Intercompany liability | **29,528** | 23,151 |
| Current liabilities | **1,212** | 3,253 |
| Total capitalization and liabilities | **$ 1,342** | $ 504 |

For the three months ended December 31, 2017 and 2016, Discontinued Operations operating expenses were $0.8 million and $0.9 million, respectively. Approximately $9.5 million of cash was advanced by Gas to Discontinued Operations during fiscal year 2017, and an additional $6.3 million during the three months ended December 31, 2017, to settle a portion of the liabilities enumerated in the table below. Additional cash funding from Gas to settle liabilities may be provided to Discontinued Operations in future years.

Activity for the three months ended December 31, 2017 for the asset retirement obligation liability is as follows (in thousands):

| | |
|---|---|
| Asset retirement obligation at September 30, 2017 | $ 66,195 |
| Accretion expense | 623 |
| Remediation liabilities settled | (3,136) |
| Asset retirement obligation at December 31, 2017 | $ 63,682 |

## 7. DERIVATIVES AND HEDGING

Commodity Contracts

Citizens' Hedging Transaction Cost Policy sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. Citizens' objectives for using derivatives are to decrease the volatility associated with fluctuating natural gas prices. Citizens enters into natural gas options purchased and sold on the New York Mercantile Exchange. These instruments, in conjunction with physical gas supply contracts, are designated to cover estimated gas customer requirements. Such energy contracts, to the extent they are not considered "normal" as defined by FASB guidance, are recognized at fair value as derivative assets or liabilities on the

Condensed Combined Statements of Financial Position. Gains/losses and fees associated with these derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. Accordingly, the offset to the change in fair value of these derivatives is recorded as a regulatory asset or liability.

Interest Rate Swaps

Concurrent with the CWU revenue bonds issued in March 2014, CWU entered into a fixed rate pay interest rate swap agreement with PNC Bank, National Association as the counterparty through October 1, 2018. The notional value of the swap was $49.7 million and $50.2 million at December 31, 2017 and September 30, 2017, respectively, representing 80 percent of the bond issuance. Under the terms of the swap agreement, CWU pays a quarterly fixed rate of approximately 1.36 percent of the notional amount to the swap provider and receives a quarterly variable rate payment equal to 74 percent of the average three month LIBOR rate for each quarterly period. The variable rate received from the counterparty approximates the variable rate paid to the bondholders on the CWU bonds. The market value of the interest rate swap derivative for CWU was less than $0.1 million and $0.1 million at December 31, 2017 and September 30, 2017, respectively.

Concurrent with the Westfield Water and Westfield Wastewater revenue bonds issued in March 2014, the utilities entered into fixed rate pay interest rate swap agreements with PNC Bank, National Association as the counterparty through October 1, 2018. The notional values of the Westfield Water and Westfield Wastewater swaps were $8.4 million and $15.3 million, respectively, at December 31, 2017 and September 30. 2017. Under the terms of the swap agreement Westfield Water and Westfield Wastewater pay a monthly fixed rate of approximately 1.29 percent of the notional amount to the swap provider and receive a monthly variable rate payment equal to 74 percent of the average one month LIBOR rate for each period. The variable rate received from the counterparty approximates the variable rate paid to the bondholders on the Westfield Water and Westfield Wastewater bonds. The market value of the interest rate swap derivatives for Westfield Water and Westfield Wastewater was less than $0.1 million at both December 31, 2017 and September 30, 2017.

Heartland Gas Pipeline (HGP) executed an interest rate swap in November 2014. The notional amount of the swap was $2.7 million as of December 31, 2017. The swap will terminate on November 20, 2019. The swap has a fixed rate of 1.6% payable by HGP and a variable rate of one-month LIBOR payable by PNC Bank. The one month LIBOR rate was 1.568% as of December 31, 2017. The market value of the interest rate swap derivative is less than $0.1 million at December 31, 2017.

The impact of commodity contracts and interest rate swaps was not material to the condensed combined financial statements in any of the periods presented.

## 8. RATE AND REGULATORY MATTERS

Gas

The gas utility's most recent general rate case order was issued by the IURC in September 2011.

In an order issued in April 2013, the IURC approved a continuation through calendar year 2015 of Gas' decoupling mechanism, which generally supported Gas's ability to recover its non-gas costs as authorized in its most recent general rate case order despite changes in customer usage. Under the April 2013 order, if Gas wished to extend the decoupling mechanism beyond December 30, 2015, it was required to file a base rate case by that date. On January 4, 2016, Citizens filed a notice with the IURC stating it did not intend to file a Gas base rate case on or before December 30, 2015, and would immediately begin winding down the decoupling mechanism and related energy efficiency programs. On July 31, 2017, Citizens filed its final reconciliation report regarding the winding down of the decoupling mechanism and related energy efficiency programs, indicating all items have been completely phased out.

Citizens Thermal Steam

The steam utility's most recent general rate case order was issued by the IURC in November 2016, superseding the order that was effective May 2014.

The Citizens Thermal steam utility entered into an agreement with the Citizens gas utility pursuant to which the steam utility would receive gas transportation service at a negotiated rate under a rate schedule in the gas utility's tariff which allows such arrangements, subject to the approval of the IURC. On March 16, 2017, the gas utility filed a petition with the IURC requesting approval of the agreement. On May 31, 2017, the OUCC filed testimony stating the agreement is in the public interest and recommending its approval by the IURC. On August 23, 2017, the IURC issued an order denying the gas utility's petition based on its finding that additional evidence was needed to support the request for approval of the agreement. Citizens expects to file a new petition with additional evidentiary support for the agreement before the end of the second quarter of fiscal year 2018. If the IURC approves the agreement, the steam utility anticipates gas transportation cost savings exceeding $1 million annually. Gas transportation costs are recovered through the steam utility's fuel cost adjustment charge, which is adjusted quarterly, so the reduced gas transportation costs would not affect the steam utility's base rates and charges.

Water

The water utility's most recent general rate case order was issued by the IURC in April 2016, superseding the order that was effective March 2014.

Wastewater

The wastewater utility's most recent general rate case order was issued by the IURC in July 2016, superseding the order that was effective May 2014.

In September 2015, CWA filed a petition with the IURC requesting, among other things, a two-step increase in base rate revenues. On March 8, 2016, the parties filed a settlement agreement with the IURC reflecting a two-step increase of $47.8 million for the first step and of $13.5 million for the second step. On July 18, 2016, the IURC issued an Order (the 2016 Wastewater Order) authorizing a step 1 rate increase amounting to $47.7 million of additional revenue or 21.5% and a step 2 rate increase amounting to $13.5 million of additional revenue or 5.0%. Recovery of debt service on all outstanding debt of the Wastewater System plus the CWA bonds expected to be issued in 2016 (the Series 2016 A, B and C bonds, respectively) was included in the step 1 increase and debt service on the CWA bonds expected to be issued in fiscal year 2017 (the Series 2017A bonds) was included in the step 2 increase in the 2016 Wastewater Order. The step 1 rate increase was implemented effective July 20, 2016 and was reduced by $2.7 million effective November 4, 2016, since the actual debt service on the CWA bonds issued in 2016 was $2.7 million less than the amount assumed in the 2016 Wastewater Order. The step 2 increase was implemented effective August 1, 2017 and was reduced by $1.7 million effective September 1, 2017, since the actual debt service on the Series 2017A bonds was $1.7 million less than the amount assumed in the 2016 Wastewater Order.

On September 28, 2017, CWA filed a petition with the IURC requesting approval to implement a "System Integrity Adjustment" charge, which is a charge authorized under a law enacted in 2016 by the Indiana General Assembly designed to facilitate an eligible utility's recovery of revenues sufficient to plan for and invest in necessary infrastructure based on the revenue requirement authorized in the utility's most recent rate case. CWA proposed adjustments to its non-industrial rates designed to recover a System Integrity Adjustment of $6.1 million, based on a comparison of authorized revenues from CWA's most recent rate case and actual revenues for the 12 months ending July 31, 2017. CWA recorded the $6.1 million System Integrity Adjustment in operating revenue along with a corresponding regulatory asset representing the amount to be recovered from its non-industrial customers. On December 28, 2017, the IURC issued an order finding that CWA's proposed System Integrity Adjustment was properly calculated and approving it for implementation. The new rates implementing the System Integrity Adjustment became effective January 1, 2018. Pursuant to obtaining an approved System Integrity Adjustment, CWA is obligated to file for a change in its adjustment amount every twelve months for four annual periods or until the IURC issues an order in a general rate case proceeding, whichever comes first. CWA must file a petition for a change in its adjustment amount no later than October 29, 2018, and has recorded a System Integrity Adjustment related to the next eligible period (ending July 31, 2018) in the December 31, 2018 condensed combined financial statements.

Resources - Westfield Gas

Westfield Gas's most recent general rate case order was issued by the IURC in April 2017, superseding the order that was effective in 2010.

Westfield Gas filed a base rate case petition on December 30, 2015. On June 17, 2016, Westfield Gas filed its case in chief testimony in support of a proposed increase to total revenues as well as approval to extend its energy efficiency program portfolio and to continue its decoupling mechanism. On December 22, 2016, Westfield Gas and the OUCC filed a Stipulation and Settlement Agreement, which included a rate increase and an extension to Westfield Gas's energy efficiency program portfolio and decoupling mechanism. On April 26, 2017, the IURC approved the Stipulation and Settlement Agreement without any material modifications. The IURC Order authorizes Westfield Gas to implement new rates and charges to effect an increase to operating revenues of $0.1 million or 2.85%. The Order also approves a continuation of Westfield Gas's energy efficiency program portfolio and decoupling mechanism through December 31, 2019.

Resources - Westfield Water

Westfield Water's most recent rate order was issued by the IURC in November 2013, and authorized rate increases of 5%, 3%, and 2% effective January 1, 2014, 2015, and 2016, respectively.

Resources – Westfield Wastewater

Westfield Wastewater's most recent general rate case order was issued by the IURC in May 2017, superseding the order that was effective March 2014.

On August 12, 2016, Westfield Wastewater filed with the IURC a base rate case petition and case in chief testimony in support thereof seeking approval of an increase to total revenues. On May 31, 2017, the IURC issued an order approving a settlement agreement entered into by Westfield Wastewater and the OUCC and authorizing Westfield Wastewater to implement revised rates and charges designed to increase operating revenues by approximately $895 thousand or 9.2%.

Revised rates and charges for wastewater utility service in compliance with the settlement agreement and order were implemented effective June 1, 2017.

On August 1, 2017, Westfield Wastewater filed a petition requesting approval to implement a system development charge (“SDC”). Westfield Wastewater proposed the SDC would initially be established as $1,000 per equivalent dwelling unit (“EDU”) and increase to $2,000 six months after it is approved. The SDC would be assessed to developers or others constructing new buildings that are connected to the wastewater collection system and provide the utility additional capital to reduce the amount of debt issued to fund needed improvements. Funds generated by the SDC would be accounted for as contributions in aid of construction and be deducted from the rate base Westfield Wastewater is authorized to earn a return on in future rate cases. On November 20, 2017, the IURC conducted a hearing. On November 28, 2017, Westfield Wastewater and the OUCC submitted an agreed proposed order recommending implementation of the SDC as proposed in the petition. On December 28, 2017, the IURC issued an order substantially based on the agreed proposed order, authorizing the implementation of an initial SDC of $1,000 per EDU and an increased SDC of $2,000 per EDU to be effective on July 1, 2018.

Joint Depreciation Case

On January 12, 2018, Citizens filed a depreciation case requesting approval to implement a decrease in depreciation accrual rates when compared to current depreciation rates for Gas, Citizens Thermal Steam, Water, Wastewater, and the Westfield utilities owned by Resources. A procedural schedule has not yet been established.

## 9. COMMITMENTS AND CONTINGENCIES

### A. Environmental Commitments and Contingencies

Citizens and CWA are subject to various environmental laws and regulations and believe they are in compliance with existing federal, state and local statutes, ordinances, rules and regulations governing environmental matters. Citizens and CWA have no way of estimating the enactment or promulgation of future environmental laws and regulations. See Note 6 for additional information regarding demolition and environmental remediation of the former Indianapolis Coke Manufacturing facility.

Langsdale Environmental Remediation

Citizens operated a gas manufacturing plant (the Langsdale Facility) at Citizens’ Langsdale property from 1931 until 1952. Available records indicate the plant was out of service from 1931 until 1943, at which time the U.S. Department of Defense ordered that the plant be recommissioned to support domestic production associated with World War II. Over the course of its operation, the Langsdale Facility produced manufactured gas, which was distributed to gas customers through the gas utility distribution system. The Langsdale Facility also produced metallurgical coke and other by-products. Citizens enrolled this facility in the Indiana Department of Environmental Management (IDEM) Voluntary Remediation Program (VRP) in 2005 to address historical environmental impacts associated with these operations.

Upon completion of a remediation work plan (RWP) in the fourth quarter of fiscal 2016, Citizens recorded a $9.4 million liability for estimated remediation and restoration costs at the Langsdale Facility. These costs are expected to be incurred over a ten year period. Citizens filed the RWP with IDEM in November 2016. The obligation is included in “Other current liabilities” and “Other long-term liabilities” in the Condensed Combined Statements of Financial Position and represents management’s best estimate of the costs for remediation and restoration of the site. The accrued liability related to Langsdale environmental remediation was $8.2 million and $8.4 million at December 31, 2017 and September 30, 2017, respectively. Due to a number of uncertainties, including uncertainty of timing, the scope of remediation, future technology, regulatory changes, and other factors, the ultimate remediation costs may exceed the amounts estimated.

Potential National Priorities List Site, Indianapolis

In April 2016, the United States Environmental Protection Agency (EPA) proposed that an area near downtown Indianapolis be added to the National Priorities List (NPL) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly known as “Superfund,” due to the presence of certain chlorinated solvents in groundwater. The area is expected to include two well fields operated by Water. In addition, Gas owns property within the evaluation area. In June 2017, the EPA acknowledged its agreement with the Indiana Department of Environmental Management (IDEM) to defer final listing of the proposed site to the NPL whereby IDEM will oversee response actions at the site. It is probable that the company will incur costs related to IDEM’s response actions. While those amounts are not reasonably estimable at this time due to the early stages of this process, management does not anticipate they will have a material effect on its financial position, operations, equity, or cash flows at this time.

Water System

The Water System is currently in compliance with the requirements of the Clean Water Act, the Safe Drinking Water Act, the Disinfectants and Disinfection Byproducts Rule, the Enhanced Surface Water Treatment Rule, the Radon Rule and other applicable laws, except to the extent that such non-compliance would not have a material adverse effect on the Water System.

Wastewater System

The Wastewater System is subject to wastewater collection and treatment requirements under both federal and state law. Those requirements are contained in a National Pollutant Discharge Elimination System (NPDES) permit. Both United States Environmental Protection Agency and Indiana Department of Environmental Management have jurisdiction over the Wastewater System. As authorized by the Clean Water Act, the NPDES permit program controls water pollution by regulating point sources that discharge pollutants into water of the United States.

Combined Sewer Overflow Long-Term Control Plan Consent Decree

As was the common engineering practice during the late 1800's through the early 1900's, the older portion of the Wastewater System was designed to carry both stormwater and sanitary waste (also referred to as a "combined sewer system"). In times of wet weather, the capacity of the combined portion of the System can be overloaded. Combined Sewer Overflow (CSO) outfalls that discharge to Indianapolis' waterways were constructed as relief points to prevent combined stormwater and sewage from backing up into homes, businesses and streets. The EPA requires communities to implement specific minimum controls and to develop and implement long-term control plans (LTCPs) to reduce CSOs by capturing or eliminating these overflows. The City, EPA, and the U.S. District Court entered into a Consent Decree in 2006 that established a LTCP to address the System's overloaded combined sewer system. The plan established a twenty year schedule for the required Wastewater System improvements.

Upon acquisition of the Wastewater System in August 2011, CWA Authority (the Authority) assumed the City's obligations under the order of the United States District Court for the Southern District of Indiana (the Court) dated December 19, 2006, among the EPA, IDEM, and the City, as amended (the Consent Decree). The Authority has a capital improvement plan to meet guidelines of the Consent Decree and the overall needs of the Wastewater System. The improvements related to the Consent Decree and LTCP have been planned and scheduled through 2025. The DigIndy program, the most significant element of the Consent Decree, is the largest sewer infrastructure project in Indianapolis history. The Deep Rock Tunnel Connector (DRTC) is the first segment of a 250 feet deep, 28-mile underground tunnel system designed to store 250 million gallons of combined sewage during a rain event to prevent overflows from entering area rivers and streams. The stored flows will be pumped to the Southport Advanced Wastewater Treatment Plant which was expanded as a part of this Consent Decree. The Belmont plant was also expanded as part of the Consent Decree and this work has been completed. During fiscal year 2014, mining of the 7.9 mile Deep Rock Tunnel Connector was completed. As part of the DRTC project, approximately 1.7 miles of additional deep tunnel were mined for the Eagle Creek tunnel extension in fiscal year 2015. Currently the White River and Lower Pogues Run tunnels are under construction with mining beginning in September 2016. During fiscal year 2017, approximately 1.9 miles were mined for the White River and Lower Pogues Tunnels. On December 29, 2017, the first 10 miles of the DigIndy Tunnel system were opened and available for use. The Authority estimates the projected cost of the Consent Decree, including capital and operation and maintenance costs, is approximately $2.0 billion in 2016 dollars. Shea-Kiewit Joint Venture has a contract with Citizens to complete the remaining eighteen miles of tunnel and drop shafts.

**B. Legal Contingencies**

Citizens and CWA are party to litigation in the normal course of business in which the payments for damages may be substantial but cannot be determined. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that these matters ultimately will be resolved in a manner which will not materially adversely affect the financial position, operations, equity or cash flows of Citizens and CWA.

**C. Commitments**

Suez North America Management Contract

In connection with the Wastewater System acquisition, CWA entered into an Assignment and Assumption Agreement with the City whereby CWA assumed all of the rights and obligations of the City under the Management Agreement between the City and United Water Services Indiana LLC (now known as Suez North America, "Suez"), pursuant to which Suez managed the Wastewater System and the stormwater system for the City of Indianapolis. The contract expired on January 1, 2017. As a result, Citizens began operating and maintaining the wastewater system on that date.

Stormwater Management Agreement

Also in connection with the Wastewater System acquisition, the City retained ownership of its stormwater system; however, the stormwater system was managed and operated under the Management Agreement between the City and Suez, which agreement CWA assumed at the closing of that transaction. CWA and the City entered into a Stormwater Management Agreement and Plan of Cooperation whereby CWA managed and operated the stormwater system through Suez. In connection with the decision not to renew or extend the current agreement with Suez (as noted above), Citizens reached a separate agreement with the City to perform certain stormwater management functions for the City of Indianapolis through December 31, 2017. Financial activity related to stormwater management is recorded in the Citizens Energy Management Company entity in the Resources segment. In November 2017, Citizens and the City of Indianapolis reached an agreement whereby Citizens will continue to provide stormwater management functions for the

City through December 31, 2022. Annual service fees to be received under this agreement will be $6.2 million for calendar year 2018 with fees increasing under the contract at a rate of 3% per annum.

Inventory Retainer and Transportation Agreement
In 2017, Gas reached an agreement with a third party to retain a designated amount of inventory at the third party's location which may be called upon by Gas for the purpose of meeting severe season peaking needs, balancing needs, or other purposes as set forth in the terms and conditions of the agreement. In exchange for the services rendered, Gas will pay an annual retainage fee to the third party of $4.45 million for a period of ten years. As part of the agreement Gas is guaranteed to receive a minimum of $1.5 million annual revenue from transportation of gas to the third party.

## 10. SALE OF SUBSIDIARY AND LNG ASSETS

On November 16, 2016, the Resources Board of Directors approved in principle the sale of the ownership units of LNG Indy. In conjunction with that sale, the Citizens Board of Directors approved the sale of the LNG North Facility owned by Gas. On December 28, 2016, the divestiture was completed. Pursuant to the divestiture:

- Gas is obligated to complete certain capital projects currently in progress for the LNG North facility, up to a maximum amount of $1.9 million. Such costs have been accrued and are reflected in the Condensed Combined Statements of Financial Position under "Other current liabilities".
- Gas received net proceeds of $12.2 million as payment for the plant assets of Gas' LNG North Facility including the capital projects currently in progress.
- Gas recognized a net loss on the sale of plant assets of approximately $14.2 million, recorded in "Loss on divestiture" in the Condensed Combined Statements of Operations.
- Resources received net proceeds of $24.8 million, net of cash paid for third-party indebtedness, transaction expenses, estimated working capital, and escrow.
- Resources issued a $4.0 million non-amortizing, non-interest bearing seller's note with a maturity of five years. The note has been recorded in "Other deferred charges" in the Condensed Combined Statements of Financial Position.
- Resources recognized an initial gain on the sale of approximately $4.5 million, recorded in "Loss on divestiture" on the Condensed Combined Statements of Operations. During 2017, Resources made a $0.9 million payment in full satisfaction of a post-closing working capital adjustment to finalize the transaction and received payment of $0.4 million related to reimbursement of certain pre-acquisition expenses. Accordingly, for the twelve months ended September 30, 2017, Resources recognized a net gain on the sale of $3.9 million.

## 11. SUBSEQUENT EVENTS

Management has considered the impact of subsequent events through February 21, 2018, the date at which these condensed combined financial statements were issued.