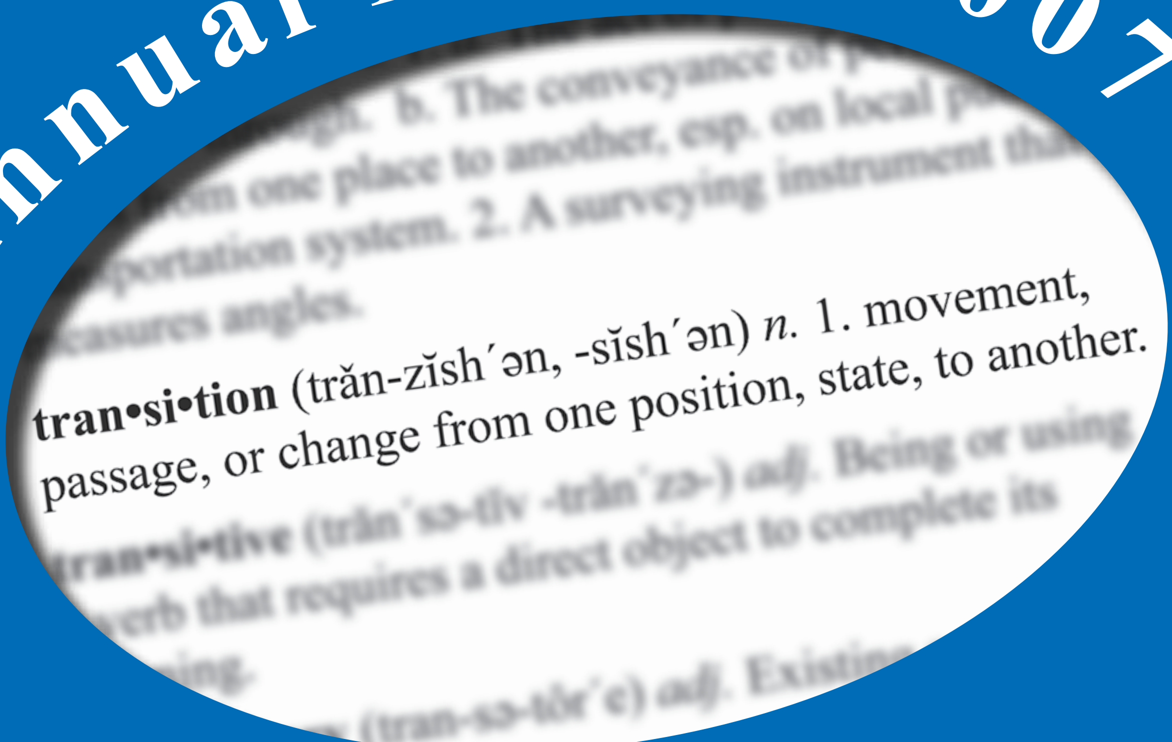
Annual Report 2007



see also: Citizens Gas & COKE UTILITY

Citizens Gas & COKE UTILITY

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Trust Profile

Citizens Gas & Coke Utility (Citizens, the Company, the Trust or the Utility) operates as a Public Charitable Trust engaged in a variety of businesses including:

- **Citizens Gas** - a local distribution company (LDC) transporting natural gas to nearly 266,000 customers in and around Indianapolis.
- **Citizens Thermal Energy (CTE)** – a district steam heating and chilled water cooling provider serving businesses and industrial facilities across the Downtown Indianapolis area.
- **Citizens Oil** – a producer of oil in Greene County Indiana
- **Citizens By-Products** - a wholly-owned subsidiary engaging and investing in various energy-related businesses.

The former Manufacturing Division has been reclassified as Discontinued Operations, due to the cessation of production in July, 2007. The Trust has been a Total Quality company since 1986, pursuing ways to meet and exceed customer expectations through assessment tools provided by the Malcolm Baldrige National Quality Program. Efforts to hold down costs have enabled the Trust to keep rates well below industry averages while offering value-added services.

2007 Highlights (In Thousands)	**2007**	2006*
Operating Revenues	**$ 522,492**	$ 505,220
Operating Expenses	**493,275**	488,944
Operating Income	**29,217**	16,276
Other Income (Expense), Net	**2,972**	(962)
Equity in Earnings of Affiliates	**32,762**	30,074
Interest Charges	**(27,241)**	(27,440)
Net Income from Continuing Operations	**37,710**	17,948
Loss from Discontinued Operations	**(66,290)**	(17,597)
Net Income (loss)	**$ (28,580)**	$ 351

Key Operating Statistics	**2007**	2006*
Gas Delivered (MDth) – Marion County	**48,600**	47,498
Impact of Weather Compared to Normal	**-8.31%**	-9.45%
Impact of Weather Compared to Prior Year	**1.26%**	-0.48%
Gas Customers (Average)	**265,655**	265,839
Gas Capital Expenditures (in Millions)	**$ 28.4**	$ 22.6
Avg. Residential Gas Customer Bill (% below 13 City Avg)	**-15.0%**	-19.5%
Steam Customers (Average)	**301**	306
Steam Sold (MDth)	**72,607**	71,984
Steam Capital Expenditures (in Millions)	**$ 9.3**	$ 8.4
Chilled Water Customers (Average)	**49**	43
Chilled Water Sold (Mton Hours)	**168,977**	157,427
Chilled Water Capital Expenditures (in Millions)	**$ 4.5**	$ 2.4
Oil Sold (Barrels)	**102,252**	100,595
Oil Revenue per Barrel	**$ 50**	$ 50
Oil Capital Expenditures (in Millions)	**$ 0.4**	$ 0.5
CBP and Other Capital Expenditures (in Millions)	**$ 1.1**	$ 2.2

* The Company restated its 2007 and 2006 consolidated financial statements as discussed in Note 2 and reclassified its 2006 consolidated financial statements as discussed in Note 11.

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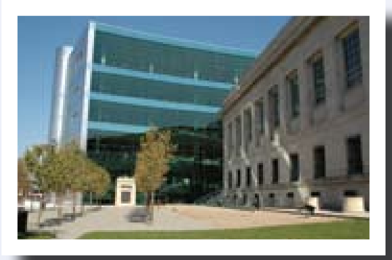

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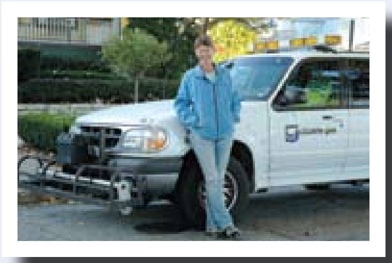

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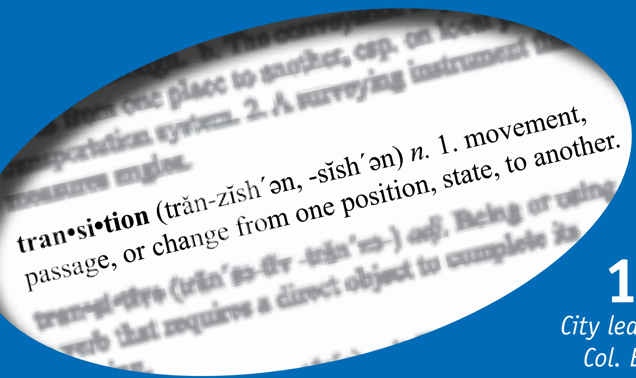

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1887 — City leaders including Col. Eli Lilly form Consumers Gas Trust, the forerunner of Citizens Gas

1908 — Citizens Gas builds a coke manufacturing plant to replace depleted local natural gas deposits.

1940s — Citizens Gas increases coke production as demand for steel surges during World War II.

Dear Fellow Citizens:

During its 120-year history, Citizens Gas has displayed a proven track record for making smooth transitions amidst tumultuous events. Today, Citizens Gas again faces another transitional time with the closure of Indianapolis Coke, implementation of a new gas rate structure stressing conservation, and ongoing growth in its chilled water and facilities management businesses.

Farewell to Indianapolis Coke

Saying farewell to Indianapolis Coke and its dedicated work force this past summer was certainly very difficult for everyone at the Utility. Facing a declining U.S. market and foreign competitors who pay low wages without having to meet stringent environmental standards, Indianapolis Coke concluded operations in July after nearly 99 years in business.

Working with state and federal agencies, we were able to provide substantial job training and relocation assistance to our employees. I am pleased to report that many of the more than 250 employees at the plant have found other jobs, including about 50 in other positions at the Utility.

Now our focus turns to refurbishing the plant site. We are determined to find uses for the property that will again make it an asset to the community.

Conserve and Save

As we close Indianapolis Coke, we open a new chapter in the history of our Gas Division with a new gas rate structure stressing conservation. In the past, utilities collected revenue based on gas sales volumes. Our new rate structure encourages conservation by decoupling gas sales volumes from revenue collection. The new rate structure also is funding a new Energy Efficiency Program, which is allowing expansion of our low-income weatherization programs, while offering online tools and incentives to help all customers conserve energy and save money.

Our Gas Division also is making investments that are delivering substantial savings to customers. This past summer, we joined with the Indiana Bond Bank and two other utilities to form the Indiana Municipal Gas Purchasing Authority (IMPGA). Through IMPGA, the Utility made an advance purchase of more than $300 million of gas at a discount that will provide more than $24 million in savings to customers over the next 15 years.

Our investment in Heartland Gas Pipeline, a 25-mile intrastate pipeline near Linton, Indiana, is delivering big savings as well. Since we joined with business partner ProLiance Energy to open Heartland in November 2006,

1950s

Citizens Gas rapidly expands its pipeline system as home construction skyrockets with the post-war baby boom.

1970s

Citizens Gas manages to secure sufficient gas supplies as excessive government regulation leads to gas supply shortages.

1990s

Citizens Gas expands community redevelopment partnerships with projects like the River's Edge neighborhood.

2000s

Citizens Gas creates new programs to help customers in need as the wholesale price of natural gas rises quickly.

the pipeline has saved Citizens Gas customers more than $3 million.

Our energy conservation and cost containment efforts are among the primary reasons Citizens Gas continues to enjoy high levels of customer satisfaction. In fact, in 2007 Citizens Gas was among the top rated utilities in the Midwest for the fifth straight year in a customer satisfaction survey conducted by J.D. Power & Associates.

Leveraging Growth

Like our Gas Division, Citizens Thermal Energy continues to establish strong levels of customer satisfaction and loyalty. What's most impressive is that we have achieved these high levels of customer satisfaction while experiencing record growth.

Citizens Thermal recently completed a $7 million expansion to support the developing life sciences corridor located downtown and now is focused on additional expansion to accommodate Lucas Oil Stadium and associated developments.

Citizens Thermal also is supporting the changing needs of existing customers, such as the expanding Central Library and the Indiana State House, which have recently been added to our growing chilled water system.

Leveraging its facilities management expertise, Citizens Thermal is forming partnerships that are providing benefits to the Trust and the community. For example, we are working with partner BHMM Energy Services to complete a $30 million project to provide utility services to the new Midfield Terminal at Indianapolis International Airport.

Community Investment

As Citizens works to maximize customer satisfaction, we are mindful that as a locally-based organization we have a responsibility to play a leadership role in efforts to make our community a better place to live. A cornerstone of our Community Investment Program is our support of residential and commercial redevelopment projects, such as Martindale on the Monon and Fountain Square Corners. We believe these investments are good for both the renewed vitality of our community as well as the long-term health of the Utility.

With an eye on the future, Citizens remains committed to supporting programs that promote quality education from pre-school through college. This year about 60 of our employees are tutoring students at IPS School 14 as part of the ReadUp program, which is targeted at helping fourth-graders make the transition from the early to middle grades. At the high school level we are an active supporter of the city's emerging Charter Schools, which are helping at risk young people make successful transitions to careers or college. We also support quality higher education through scholarships and partnerships involving local colleges and universities.

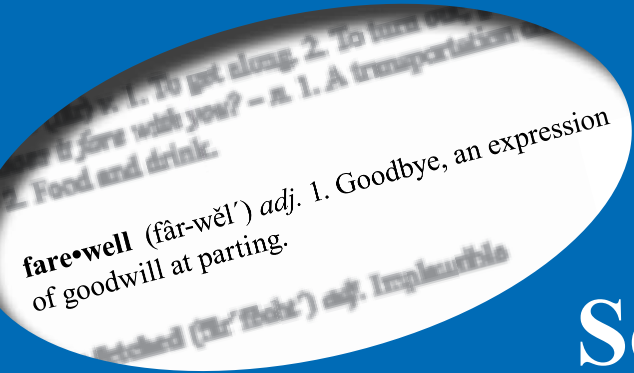
Whether it be sponsoring events like the Earth Day Indiana Festival or helping fund one of the study areas at the new IUPUI Campus Center, Citizens Gas knows our investments are important to improving the quality of life in our community.

More Transitions Ahead

Always mindful of our history, Citizens Gas expects to be prepared for the waves of change that continue sweeping across America. We know conservation, protecting the environment and community redevelopment are not passing fads, but rather opportunities to improve customer satisfaction and quality of life. We also know that the Public Charitable Trust structure established 12 decades ago will serve our community well, whatever transitions we face.

Sincerely,

Carey Lykins
President & CEO
Citizens Gas & Coke Utility



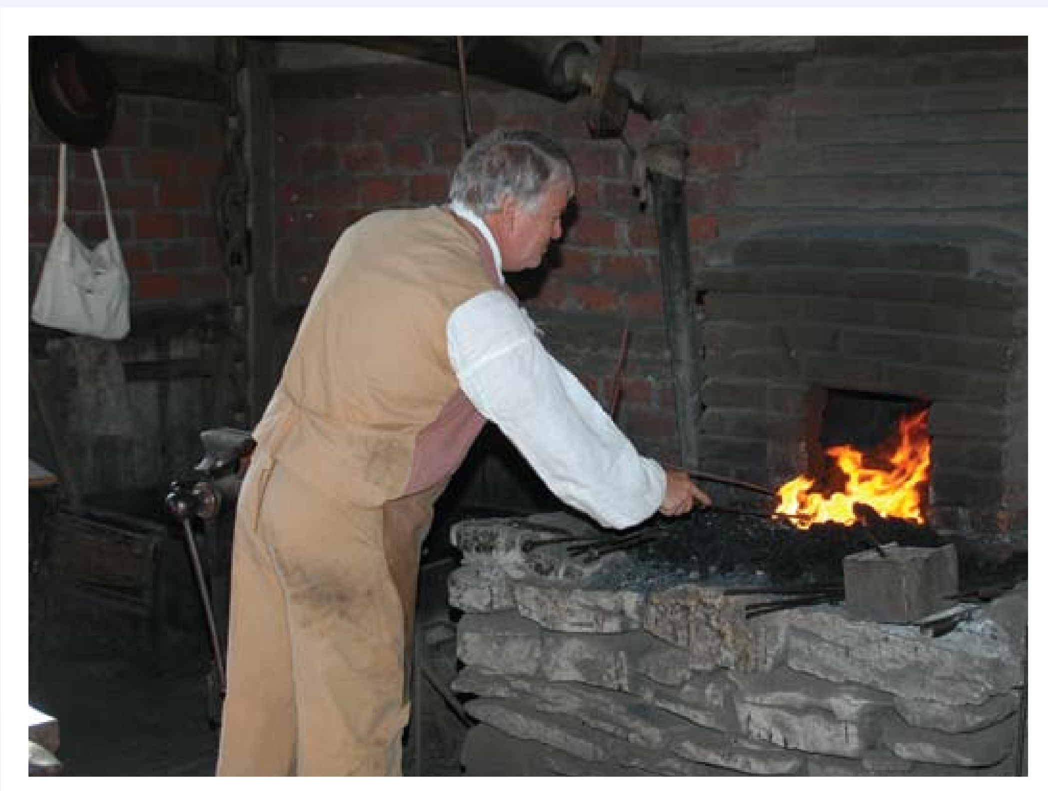
So Long Old Friend

When Indianapolis Coke opened in November 1908, it revived the fortunes of the then 20-year-old Citizens Gas Company. The manufactured gas produced at the sprawling plant on Prospect Street replaced area natural gas deposits that became depleted.

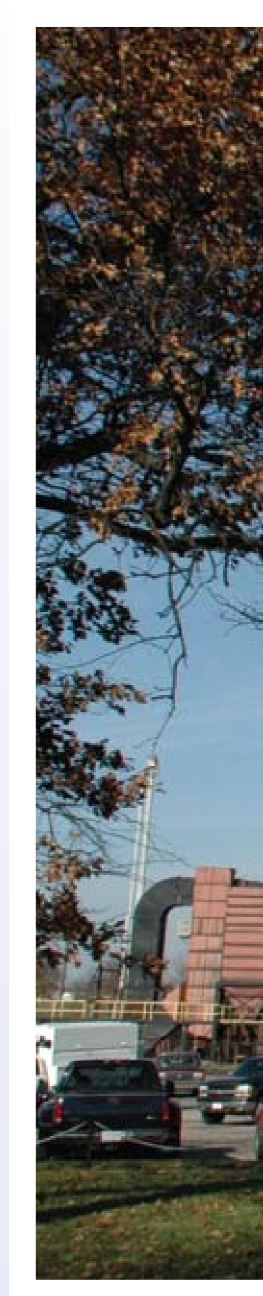
Over the next 98 years, the plant would produce millions of tons of coke, most of which was used to make steel – a product that became the backbone of the American economy. Indianapolis Coke helped make the first Model T cars that rolled off Ford's assembly line in Detroit. Our coke helped make airplanes, ships and tanks that defended our nation during World Wars I and II. It helped make steel that was used to build landmark structures throughout Indianapolis.

Faced with a declining market and low-cost foreign competitors, Indianapolis Coke ceased operations in July 2007. The utility is now focused on refurbishing the plant site and working with the community to determine its future use.

Even after closure, Indianapolis Coke is continuing its tradition of giving back to the community. The plant recently donated about 10 tons of metallurgical coal to the Conner Prairie Living History Museum. The museum is using the coal in its blacksmith demonstration exhibits.



Nathan Allen, blacksmith at Conner Prairie, fires a forge at the museum with metallurgical coal donated by Indianapolis Coke.



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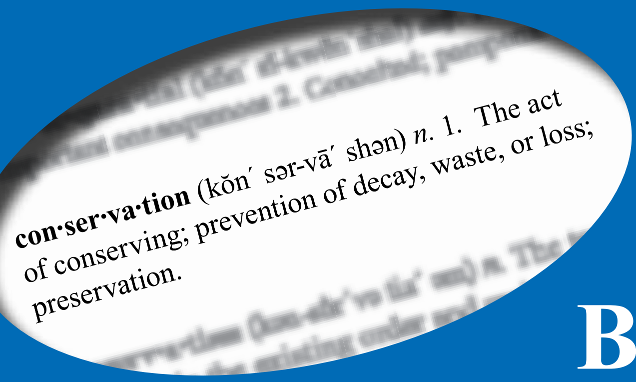
The Indianapolis Coke Plant now sits idle awaiting demolition.



Business of Conservation

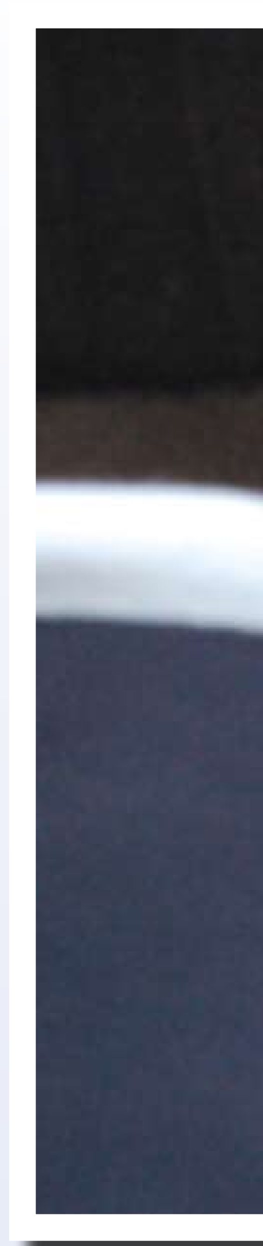
For homeowner Lillie Ford, the word conservation is now synonymous with Citizens Gas. Mrs. Ford appreciates that Citizens Gas partnered with local electric provider Indianapolis Power & Light and the Indiana Housing and Community Development Authority to create a new home weatherization program that will lower her heating bills about 40 percent this winter.

Thanks to this partnership, Mrs. Ford's home now has adequate insulation, a better functioning furnace, and a new air conditioner. The extra money in Mrs. Ford's budget will certainly help out given that she recently began a new job after being laid off in early 2006.

Weatherization programs are just part of Citizens' energy conservation efforts. The Utility's new rate structure also will fund new incentives and tools designed to help all customers conserve energy and save money.

Citizens Gas has a new web address – www.CitizensEnergySavers.com – for its primary energy management tools. Among these are the Citizens Home Energy Advisor, an online energy audit tool that provides specific energy and cost-saving suggestions for a customer's particular home.

Right to Left: Carey Lykins, President & CEO of Citizens Gas, Sherry Seiwert, Executive Director of Indiana Housing and Community Development Authority, homeowner Lillie Ford and Sue Weaver, Vice President of Customer Services with Indianapolis Power & Light, celebrate Weatherize Indiana Day at Lillie Ford's home on the northeast side of Indianapolis.



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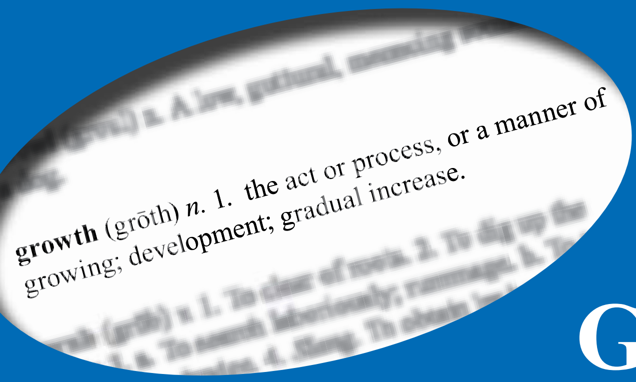
This infrared scanner shows where heat is escaping from Lillie Ford's home. Weatherization renovations will help ensure Lillie's home completes the transition from energy waster to energy efficient.



Growing Loyalty

When officials at Indianapolis' Central Library began planning the very modern addition that now embraces the historic limestone structure on St. Clair Street, service from Citizens Thermal Energy quickly came to mind.

Since 1934, library officials and patrons have enjoyed the comfort and reliability of steam heat provided by the Citizens Thermal system. Now library patrons will be able to enjoy a comfortable environment year round thanks to both steam and chilled water service from Citizens Thermal.

Whether they are new structures like the soon to be completed Campus Center at IUPUI, or historic landmarks like the State Capitol, Citizens Thermal is continually expanding its system to meet customer demand for clean, efficient energy. With unmatched levels of customer loyalty, Citizens Thermal is proving growth and customer satisfaction can coexist.

For existing as well as new facilities, the decision to utilize Citizens Thermal usually involves assessing long-range operating costs, energy personnel costs, space for energy facilities, and aesthetics. In the end, many customers are opting for Citizens Thermal so they can focus on their particular organization's mission rather than trying to be in the energy business.

The new Central Library addition embraces the historic library on St. Clair Street.

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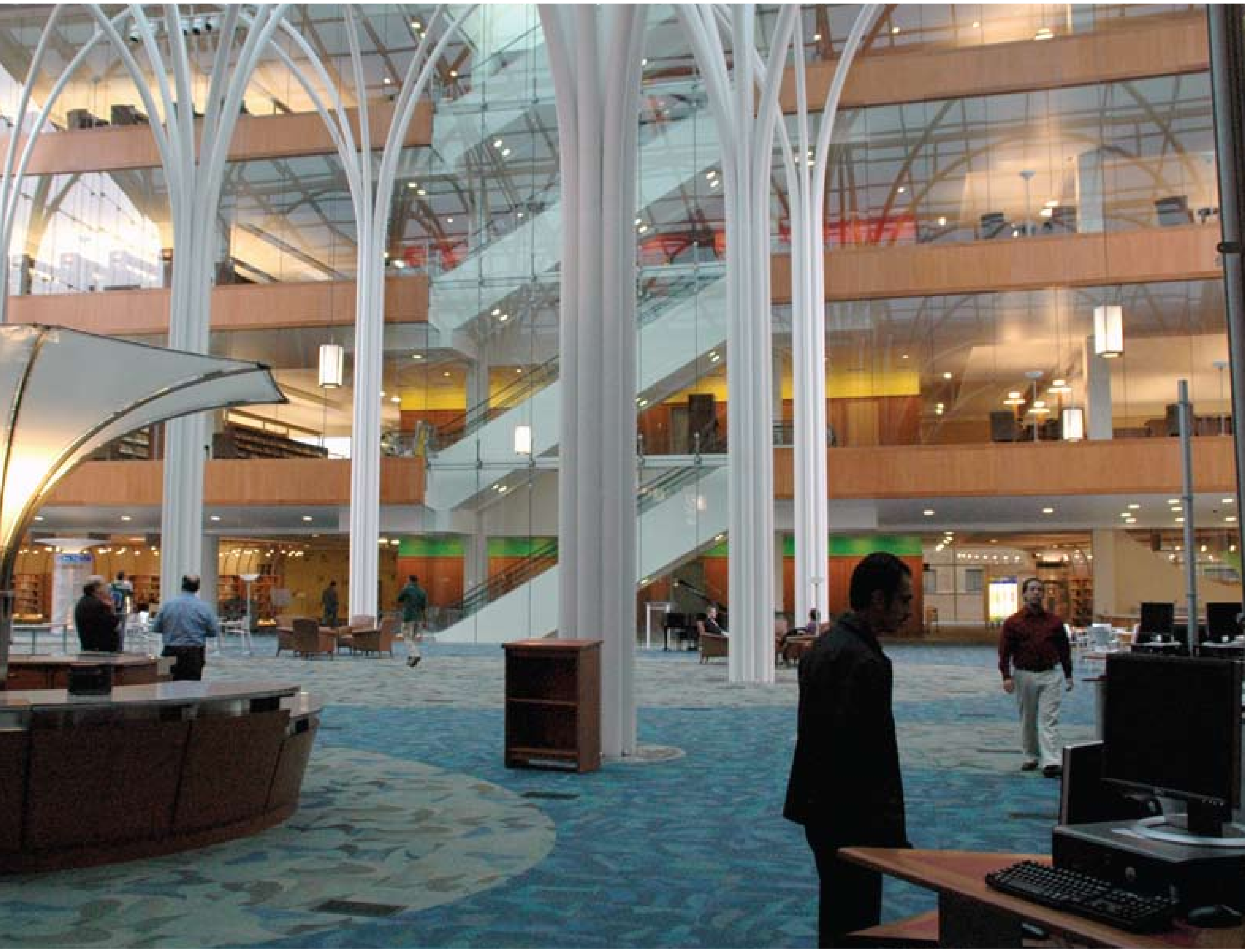
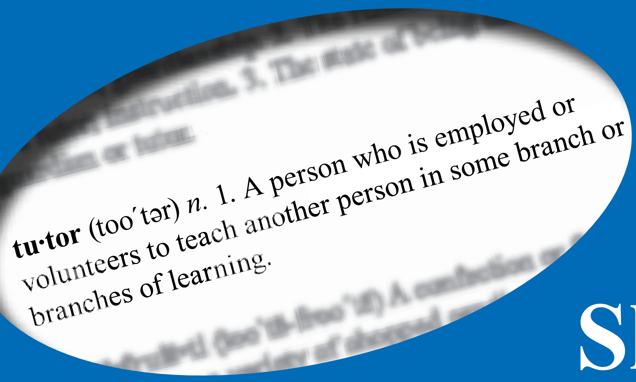


An expansive atrium joins the historic library to the new building.



Shaping Young Lives

As Donna Curry tutors fourth-graders at Indianapolis Public School 14 as part of the ReadUp program, she knows improved reading skills will be vital for the children's transition from the early to middle grades. Donna knows that children who cannot read well by the fifth grade will likely fall further and further behind their classmates.

This year, about 60 Citizens employees are tutoring children at School 14, a school located just east of downtown with a high concentration of students from low-income families. Citizens Gas also is helping fund the salary of the school's Community Development Coordinator, a position vital to the school's efforts to involve parents in their children's education.

In addition to helping the children make a smooth transition to the middle grades, ReadUp is helping Donna make a significant transition in her life. "I was studying to be a teacher 29 years ago when I joined the gas company. But I quickly liked my new job at the gas company and never got back to my plans to be a teacher. Now that I'm looking forward to retirement, I plan to keep volunteering and to start a new career as a teacher's aide," said Donna, a Leak Survey Coordinator for the Utility.

Citizens' support of the ReadUp program is part of the Utility's ongoing Community Investment Program designed to improve the quality of life in our community. We know that supporting quality education from pre-school through college helps provide the foundation upon which a great community is built.

Donna Curry, who retires in 2008 from her position as Leak Survey Coordinator for Citizens Gas, is charting a new career as volunteer tutor and eventually a teacher's aide.

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Donna Curry, right, tutors fourth grader Javontae Ealy at Indianapolis Public School 14 on the city's near east side.

Management Discussion and Analysis

Forward-looking Statements

Certain matters discussed in this report, except historical information, include forward-looking statements. Although the Trust believes such statements are based on reasonable assumptions, no assurance can be given that every objective will be achieved.

John R. Brehm
Senior Vice President and
Chief Financial Officer

Financial Highlights:

Results of Operations

The operations of the Trust include activities in five business segments: Gas, Steam, Chilled Water, Oil and Citizens By-Products (CBP). While each of these business segments offers distinctive products and services to its customers and markets, all are dedicated to customer service excellence in the energy and energy service industries. Furthermore, each of these business segments contributes to the overall financial performance of the Trust and provides an element of risk mitigation due to the diversification of risk related to economic and seasonal market cycles. The former Manufacturing business segment has been reclassified to Discontinued Operations in 2007 as a result of cessation of production at the plant in July, 2007. This followed a lengthy but unsuccessful effort to find a buyer for the facility. The 2006 financial statements have been reclassified accordingly.

The Trust reported consolidated net loss of $(28.6) million in 2007 as compared to net income of $0.4 million in the prior year. Net income in 2007 was $29.0 million lower than net income in 2006 is summarized as follows:

	($ In Millions)		
	2007	2006*	Change
Operating Revenues:			
Utility	**$482.1**	$468.1	$ 14.0
Non-Utility	**40.3**	37.1	3.2
Total Operating Revenues	**522.4**	505.2	17.2
Operating Expenses:			
Cost of Goods Sold:			
Utility	**338.4**	347.9	(9.5)
Non-Utility	**11.7**	10.6	1.1
Total Cost of Goods Sold	**350.1**	358.5	(8.4)
Other Operating Expenses	**143.1**	130.4	12.7
Total Operating Expenses	**493.2**	488.9	4.3
Total Operating Income	**29.2**	16.3	12.9
Other Income (Expense), Net	**2.9**	(1.0)	3.9
CBP Equity in Earnings of Affiliates	**32.8**	30.1	2.7
Interest Charges	**(27.2)**	(27.4)	0.2
Net Income from Continuing Operations	**37.7**	18.0	19.7
Loss from Discontinued Operations	**(66.3)**	(17.6)	(48.7)
Net Income (Loss)	**$(28.6)**	$ 0.4	$(29.0)

For a more detailed understanding of these summarized results, see the following discussion and Note 10 of the consolidated financial statements.

** The Company restated its 2006 consolidated financial statements as discussed in Note 2 and reclassified its 2006 consolidated financial statements as discussed in Note 11.*

Utility Operating Revenues

Utility operating revenues increased $14.0 million to $482.1 million in 2007, from $468.1 million in 2006 due to the following:

Gas Division - increase of $5.5 million.

Gas Division operating revenues increased in 2007 to $419.3 million, from $413.7 million in 2006, on volume sales of 48.6 million dekatherms in 2007, versus 47.5 million dekatherms in 2006. Gas volumes sold were higher in 2007 due to 1.3% colder weather than in the prior year. Total revenue increased primarily due to having received a $14.7 million base rate increase that went into effect in October, 2006 and the implementation of the normal temperature adjustment mechanism (NTA) in April, 2007. The NTA allows the division to mitigate the impact of weather on margin recovered from gas sales. These impacts were reduced somewhat by lower gas cost recovery revenues in 2007 versus 2006. Gas costs per Dth of gas sold decreased by 7.1% from 2006 to 2007.

Steam Division – increase of $8.3 million.

Total operating revenues for the Steam Division increased to $58.0 million in 2007 versus $49.7 million in 2006. Although steam sales were higher (total therms sold increased to 72.6 million in 2007 versus 72.0 million in 2006), total revenue increased primarily due to increased fuel pass-through costs. This was largely due to the substitution of natural gas for coke oven gas, as supplies of coke oven gas in 2007 were significantly reduced from the prior year due to the wind-down and ultimate cessation of production at the Manufacturing facility.

CBP; Westfield Gas – increase of $0.2 million.

Total operating revenues for Westfield Gas increased to $4.8 million in 2007 versus $4.6 million in 2006. This increase is primarily related to increased sales due to colder weather than in the prior year and is also partially attributed to additional customer growth as Westfield Gas had 2,617 customers at September 30, 2007 versus 2,405 at September 30, 2006. Total dekatherms of gas sold in 2007 were 434.2 thousand versus 378.1 thousand in 2006.

Non-Utility Operating Revenues

Non-utility operating revenues increased $3.2 million to $40.3 million in 2007, from $37.1 million in 2006 due to the following:

Chilled Water Division – increase of $2.9 million.

Total operating revenues for the Chilled Water Division increased to $32.0 million in 2007 versus $29.1 million in 2006. This increase is due to increased ton hour sales as a result of additional load growth. Total ton hours sold increased to 169.0 million in 2007 versus 157.4 million in 2006.

Oil Division – increase of $0.1 million.

Total operating revenues in the Oil Division increased in 2007 to $5.1 million from $5.0 million in 2007 as revenue per barrel of oil sold averaged $50 per barrel in both years. The revenue increase was driven by higher production as total barrels of oil sold increased to 102,252 in 2007 versus 100,595 in 2006.

CBP; Citizens Mechanical Services (CMS) – increase of $0.2 million.

Total operating revenues for CMS increased to $3.2 million in 2007 versus $3.0 million in 2006. This increase of $0.2 million was primarily impacted by higher contracting revenues in 2007 versus 2006.

Utility Cost Of Goods Sold

Utility cost of goods sold decreased $9.5 million to $338.4 million in 2007, from $347.9 million in 2006 due to the following:

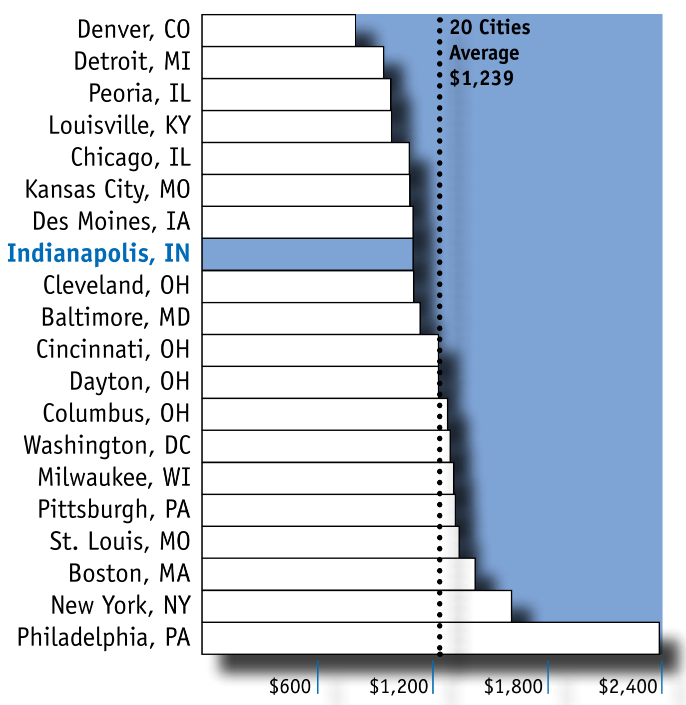
Gas Division - decrease of $15.5 million.

This decrease was primarily driven by lower wholesale gas prices and related storage costs, offset somewhat by higher sales. Total gas costs declined 4.9 percent from $315.3 million in 2006 to $299.8 million in 2007 as the weighted average cost of gas purchased during 2007 fell 11.4 percent from

Citizens Gas Rate Comparison of 20 Snowbelt Cities

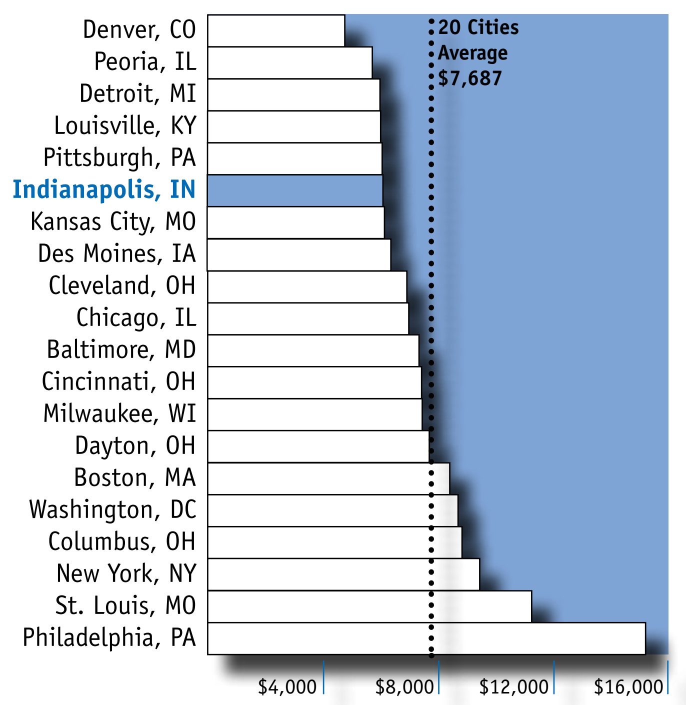
Residential Gas Rates

Based On 917 Therms Annually



Commercial Industrial Gas Rates

Based On 6,100 Therms Annually



$8.45 per dekatherm in 2006 to $7.49 per dekatherm in 2007. Pricing for natural gas is driven by market factors.

Steam Division – increase of $6.0 million.

Total cost of goods sold for the Steam Division increased $6.0 million to $35.0 million in 2007 versus $29.0 million in 2006. This increase was due primarily to increased fuel costs as a result of the substitution of natural gas for coke oven gas in the fuel mix. Coke oven gas availability was significantly reduced in 2007 from the prior year due to the wind down and cessation of production of the Manufacturing Division in July 2007.

CBP; Westfield Gas – no increase.

In 2007, total cost of goods sold for Westfield Gas was unchanged from 2006 at $3.6 million. Westfield Gas had higher sales due to weather and customer growth, offset by lower average commodity prices.

Non-Utility Cost Of Goods Sold

Non-utility cost of goods sold increased $1.1 million to $11.7 million in 2007, from $10.6 million in 2006 due to the following:

Chilled Water Division – increase of $0.9 million.

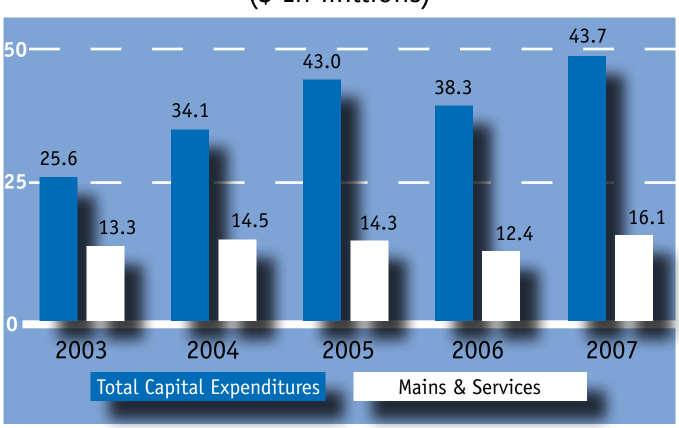
Total cost of goods sold for the Chilled Water Division increased to $10.5 million in 2007 versus $9.6 million in 2006. This increase was primarily due to higher sales due to load growth.

CBP; Citizens Mechanical Services (CMS) – increase of $0.2 million.

Total cost of goods sold for CMS increased to $1.2 million in 2007 versus $1.0 million in 2006. This increase of $0.2 million is largely attributed to increased contracting costs.

Capital Expenditures 2003-2007

($ In millions)



Other Operating Expenses

Other operating expenses increased $12.7 million to $143.1 million in 2007, from $130.4 million in 2006 due to the following:

Other Operations and Maintenance (O&M) – increase of $8.1 million.

Other O&M by business segment for 2007 versus 2006 is as follows (in thousands):

	2007	2006	$ Change
Gas	**$39,529**	$34,954	$4,575
Steam	**12,199**	10,579	1,620
Chilled Water	**3,652**	3,151	501
Oil	**1,031**	833	198
CBP	**3,256**	2,048	1,208
Total Other O&M	**$59,667**	$51,565	$8,102

Increases in Gas were primarily due to increases in costs to refill LNG storage tanks ($1.1 million), compliance costs associated with pipeline integrity regulations ($0.8 million), and increases in labor, inventory, repairs and maintenance costs ($2.3 million). Increases in Steam were due to increased labor costs due to substituting coal for coke oven gas in the fuel mix and general increased maintenance expenses ($1.6 million).

General and Administrative (G&A) – increase of $1.2 million.

G&A by business segment for 2007 versus 2006 is as follows (in thousands):

	2007	2006	$ Change
Gas	**$34,920**	$34,368	$552
Steam	**5,918**	5,308	610
Chilled Water	**2,173**	2,275	(102)
Oil	**93**	135	(42)
CBP	**914**	698	216
Total G&A	**$44,018**	$42,784	$1,234

Increases include insurance, labor and benefits. Offsetting decreases include incentive plan expenses.

Depreciation and Amortization – increase of $1.9 million.

The net increase in depreciation and amortization of $1.9 million or 8.0% in 2007 versus 2006 due to planned capital additions by business segment is as follows
(in thousands):

	2007	2006	$ Change
Gas	**$19,516**	$18,460	$1,056
Steam	**2,221**	1,689	532
Chilled Water	**1,808**	1,622	186
Oil	**475**	461	14
CBP	**790**	732	58
Total Depreciation & Amortization	**$24,810**	$22,964	$1,846

Taxes – increase of $1.5 million.

Taxes by business segment for 2007 versus 2006 is as follows (in thousands):

	2007	2006	$ Change
Gas	**$11,298**	$10,558	$740
Steam	**1,245**	1,068	177
Chilled Water	**1,572**	1,140	432
Oil	**91**	103	(12)
CBP	**428**	289	139
Total Taxes	**$14,634**	$13,158	$1,476

Other Income (Expense), Net

Other Income (Expense), Net – increase of $3.9 million.

Interest income increased $1.0 million or 27.7 percent in 2007 versus 2006 due to both increased cash balances and higher interest rates. Interest income was $4.8 million in 2007 compared with $3.8 million in 2006. Other net expense decreased from $(4.8) million in 2006 to $(1.9) million in 2007. This was primarily driven by differences in mark-to-market adjustments on derivatives ($1.6 million) and lower community investment and brand advertising expenses ($0.9 million).

Equity In Earnings Of Affiliates

Equity in Earnings of Affiliates was $32.8 million in 2007 versus $30.1 million in 2006, an increase of $2.7 million and 9 percent. This was due primarily to improved earnings of ProLiance Energy LLC (ProLiance), the gas marketing affiliate of CBP.

Interest Charges

Interest charges decreased $0.2 million to $27.2 million in 2007 from $27.4 million in 2006 primarily due to lower short term debt offset by higher interest rates.

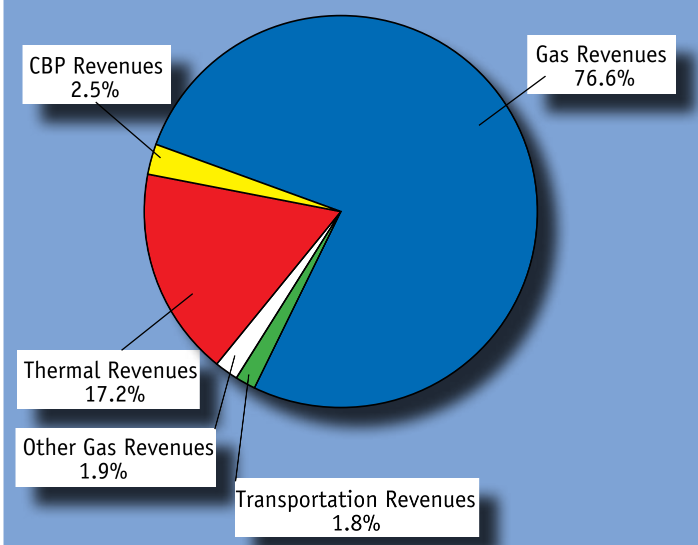
Discontinued Operations

Loss from Discontinued Operations (Manufacturing Division) – increase of $48.7 million.

The Manufacturing Division ceased production on July 13, 2007, due to long standing economic hardships and financial losses in recent years. As a result, the net losses for fiscal years

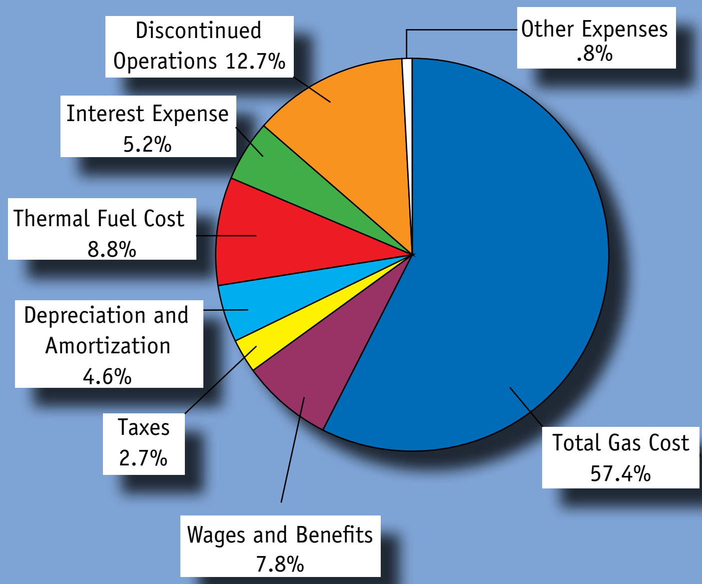
Source of 2007 Revenue Dollars

2007 Revenues = $ 523 million



Distribution of 2007 Revenue Dollars

2007 Distributions = $ 523 million



2006 and 2007 were reclassified to Discontinued Operations. Losses were substantially higher in 2007 primarily due to a $35.8 million plant impairment write-off (exclusive of salvage value) in March of 2007. Additional significant variances include fair market write-downs of raw materials and stores inventories ($6.5 million) and $1.4 million in employee termination benefits. Since July 13, all revenue and expenses incurred at the plant have been related to plant decommissioning and demolition preparation costs and liquidation of salable products. The Company expects to conduct demolition and environmental remediation activities at the plant site for several years. See Note 11 for additional information on the discontinuation of the Manufacturing Division.

Liquidity And Capital Resources

The Trust utilizes long-term debt, short-term debt and internally generated funds to meet capital investment and working capital needs. In 2007, capital expenditures increased to $43.7 million from $38.3 million in 2006. This increase of $5.4 million is summarized as follows (in millions):

	2007	2006	Change
Gas	**$28.4**	$22.6	$ 5.8
Steam	**9.3**	8.4	0.9
Chilled Water	**4.5**	2.4	2.1
Oil	**0.4**	0.5	(0.1)
CBP and Other	**1.1**	2.2	(1.1)
Discontinued Operations	**–**	2.2	(2.2)
Total Capital Expenditures	**$43.7**	$38.3	$ 5.4

The Gas Operations Division continued to invest heavily in mains and services to maintain its commitment to modernization of its underground gas distribution system. In addition to the investment in the Gas Operations Division, the Trust continued to invest in growth and environmental compliance at Citizens Thermal Energy (CTE), computing systems impacting all divisions, and CBP continued to grow its investment in various projects such as Heartland Pipeline.

The Trust has approximately $472.8 million of long-term debt outstanding, net of current maturities and unamortized bond discount, which has been issued primarily to fund capital investment needs of the Gas Utility Distribution System (GUDS) and the acquisition of CTE. In addition to the long-term debt, the Trust has $50 million in commercial paper outstanding, which was used to fund capital investment for the Gas Division. The seasonal nature of the Gas Operations Division creates short-term working capital needs to fund gas inventory purchases and accounts receivable during the heating season. The Trust has a $50 million working capital line of credit available to fund such needs. As of September 30, 2007, all $50 million of the line of credit remained available.

The Trust has certain trust indentures associated with the Gas Utility System (GUS) and Gas Utility Distribution System (GUDS) that specify in the event that debt service requirements cannot be met, the Trust shall take any appropriate action under the law and within its power, to generate income and revenues of the GUS and GUDS in the amounts required to satisfy the requirements for later fiscal years. These actions include, but are not limited to, the filing of a proceeding seeking additional revenues or other relief before the IURC. At September 30, 2007, the Trust was in compliance with all debt covenants.

Regulatory Developments

On October 19, 2006, the IURC approved an annual $14.7 million gas base rate increase. On November 8, 2006, the gas utility filed a request for rehearing and partial reconsideration of certain aspects of the IURC's October 19, 2006 rate order. On November 17, 2006, the Utility filed a notice of appeal with the Indiana Court of Appeals preserving its ability to appeal certain aspects of the IURC's final order in that case. Subsequently, a settlement agreement between the Utility, the Indiana Office of the Utility Consumer Counselor, and the Industrial Intervener group was reached. The IURC approved that settlement agreement on August 29, 2007, which, among other things, authorized the Utility to implement a decoupling mechanism that will ensure the Utility's gross margin more closely tracks the Utility's authorized margin requirement approved by the IURC. As a result of the IURC's approval of the settlement agreement, the petitions for rehearing and appeal of the rate case order were dismissed.

On February 28, 2007, the IURC approved a normal temperature adjustment (NTA) mechanism that weather normalizes the usage of certain gas customers during the months of October through April. The NTA was implemented with April 2007 bills. Together, the NTA and the decoupling mechanism provide the decoupled rate design needed to provide for the long term needs of the gas distribution system and its customers.

On December 29, 2006, Citizens Thermal Energy (CTE) filed a petition with the IURC requesting approval of a new schedule of rates and charges to increase its steam utility operating revenues. Subsequently, a settlement agreement between the Utility, the Indiana Office of the Utility Consumer Counselor, and the Industrial Intervener group was reached. The IURC approved that settlement agreement, which, among other things, authorized new rates reflecting an annual $6.5 million phase 1 increase in operating revenues, an annual $3.1 million phase 2 increase effective December 1, 2008, to recover increased costs that will be incurred under a new steam purchase agreement effective on that date and transition from an annual to a quarterly adjustment to its fuel cost recovery mechanism. As a result of the settlement agreement, the Steam division recognized previously deferred emissions credit revenue of $2.6 million. This in turn resulted in the recognition of $1.2 million in expense to reflect the amount to be returned to customers under the settlement agreement.

Derivatives And Hedging

The Trust has entered into certain derivative and hedging transactions in 2007 and 2006, respectively. These transactions, accounted for using Financial Accounting Standards Board Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), include the following:

* The Gas Operations Division uses derivative transactions to hedge rising natural gas prices. Through a combination of fixed-price purchases, caps, collars and storage, the Gas Operations Division hedges approximately 80 percent of its anticipated gas load (See Note 12 of the consolidated financial statements for further details).
* The Trust hedges variable interest rate exposure through the use of fixed-pay interest rate swaps (see Note 5 of the consolidated financial statements for further details).

Additionally, the Trust entered into weather hedges during 2007 and 2006, which are not subject to SFAS 133. These transactions are entered into in order to hedge the risk of warmer-than-normal temperatures during the heating season. The weather hedge provides for a payment to the Trust if a certain number of heating degree days is not achieved during the heating season (see Note 12 of the consolidated financial statements for further details). The Trust recorded weather hedge income of $2.5 million and $2.3 million respectively during fiscal years 2007 and 2006.

Consolidated Statement of Operations

Citizens Gas & Coke Utility and Subsidiary, Indianapolis, Indiana
(In Thousands)

		Fiscal Year Ended September 30,	
		2007	2006 (Restated)
Operating Revenues:	Utility operating revenues	**$ 482,125**	$ 468,093
	Non-utility operating revenues	**40,367**	37,127
	Total operating revenues	**522,492**	505,220
Operating Expenses:	Cost of Goods Sold:		
	Utility cost of goods sold	**338,481**	347,844
	Non-utility cost of goods sold	**11,665**	10,629
	Total cost of goods sold	**350,146**	358,473
	Other operations and maintenance	**59,667**	51,565
	General and administrative	**44,018**	42,784
	Depreciation and amortization	**24,810**	22,964
	Taxes	**14,634**	13,158
	Total operating expenses	**493,275**	488,944
Total Operating Income		**29,217**	16,276
Other Income (Expense)-Net:	Interest income	**4,865**	3,811
	Other	**(1,893)**	(4,773)
	Total other income (expense)	**2,972**	(962)
Income Before Equity in Earnings of Affiliates and Interest Charges		**32,189**	15,314
Equity in Earnings of Affiliates		**32,762**	30,074
Interest Charges:	Interest on long-term debt	**(22,064)**	(22,067)
	Other interest including discount amortization	**(5,177)**	(5,373)
	Total interest charges	**(27,241)**	(27,440)
Income from Continuing Operations		**37,710**	17,948
Loss from Discontinued Operations		**(66,290)**	(17,597)
Net Income (Loss)		**$ (28,580)**	$ 351

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

Consolidated Statement of Financial Position

Citizens Gas & Coke Utility and Subsidiary, Indianapolis, Indiana
(In Thousands)

	Assets	At September 30, 2007	2006 (Restated)
Property, Plant and Equipment:	Utility plant, at original cost	**$ 689,039**	$ 661,831
	Accumulated depreciation	**361,481**	343,026
		327,558	318,805
	Non-utility plant, at original cost	**43,562**	43,497
	Accumulated depreciation	**11,514**	10,978
		32,048	32,519
	Construction work in progress	**31,558**	20,464
		391,164	371,788
Intangible:	Thermal customer contracts, net	**122,590**	123,214
	Pension asset	**-**	1,833
		122,590	125,047
Investments:	Bond retirement funds	**10,235**	10,086
	Investment in affiliates	**106,024**	76,854
	Other	**5,154**	4,978
		121,413	91,918
Current Assets:	Cash and cash equivalents	**21,922**	81,511
	Short-term investments	**84,494**	9,195
	Accounts receivable, less allowance for doubtful accounts of $1,251 and $1,337, respectively	**31,770**	23,011
	Accrued utility revenue	**5,328**	4,415
	Natural gas in storage	**95,644**	111,445
	Materials and supplies	**7,345**	6,475
	Recoverable gas and fuel costs	**-**	4,170
	Prepayments and deposits	**2,950**	3,192
	Current assets held for sale and discontinued operations	**14,979**	37,709
		264,432	281,123
Deferred Charges and Other Non-Current Assets:	Bond issuance cost, net	**24,416**	26,780
	Prepaid retirement benefit costs	**788**	10,421
	Other deferred charges	**8,257**	5,779
	Non-current assets held for sale and discontinued operations	**(140)**	34,291
		33,321	77,271
	Total Assets	**$ 932,920**	$ 947,147
	Capitalization and Liabilities		
Capitalization:	Retained earnings	**$ 244,140**	$ 276,720
	Accumulated other comprehensive income/(loss)	**(27,335)**	(12,176)
	Long-term debt (excluding current maturities)	**472,808**	486,686
	Other long-term liabilities	**13,518**	15,341
	Non-current liabilities directly related to assets held for sale and discontinued operations	**24,224**	11,070
		727,355	777,641
Current Liabilities:	Current maturities of long-term debt	**14,306**	13,350
	Short-term borrowings	**50,000**	50,000
	Accounts payable and accrued expenses	**99,059**	71,067
	Accrued taxes	**9,905**	8,733
	Customer deposits and advance payments	**12,526**	12,647
	Customer benefits	**2,860**	760
	Refundable gas and fuel costs	**8,818**	-
	Other	**406**	1,095
	Current liabilities directly related to assets held for sale and discontinued operations	**7,685**	11,854
		205,565	169,506
	Total Capitalization and Liabilities	**$ 932,920**	$ 947,147

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

Consolidated Statement of Cash Flows

Citizens Gas & Coke Utility and Subsidiary, Indianapolis, Indiana
(In Thousands)

	Fiscal Year Ended September 30, 2007 (Restated)	2006 (Restated)
Operating Activities:		
Net income (loss)	**$ (28,580)**	$ 351
Depreciation and amortization	**28,076**	25,820
Loss on impairment/plant write-down (discontinued operations)	**35,820**	-
Amortization of bond discount	**874**	838
Equity in earnings of affiliates, net of distributions	**(18,587)**	(7,213)
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	**(9,758)**	8,097
Allowance for doubtful accounts	**86**	63
Natural gas in storage	**15,801**	11,085
Recoverable/refundable gas costs	**15,671**	(1,820)
Prepayments and deposits	**242**	(356)
Other current assets	**(869)**	(708)
Accounts payable and accrued expenses	**29,032**	(15,335)
Other liabilities	**(1,723)**	3,803
Net change in deferred charges	**(17,511)**	16,949
Other operating activities	**(688)**	1,540
Net cash provided by operating activities of discontinued operations	**30,326**	149
Net cash provided by operating activities	**78,212**	43,263
Investing Activities:		
Construction expenditures	**(43,703)**	(36,086)
Purchase of investment securities	**(324,593)**	(76,909)
Sale and maturity of investment securities	**249,144**	143,971
Cash contributions to affiliates	**-**	(2,596)
Other investing activities	**(3,421)**	(5,249)
Net cash used in investing activities of discontinued operations	**-**	(2,214)
Net cash provided (used) by investing activities	**(122,573)**	20,917
Financing Activities:		
Proceeds from bank line of credit	**25,000**	25,000
Repayment of bank line of credit	**(25,000)**	(25,000)
Principal payments of long-term debt	**(13,328)**	(12,628)
Customer benefits arising from nonregulated operations distributable to gas customers	**(1,900)**	(1,251)
Net cash used by financing activities	**(15,228)**	(13,879)
Net change in cash and cash equivalents	**(59,589)**	50,301
Cash and cash equivalents at beginning of fiscal year	**81,511**	31,210
Cash and cash equivalents at end of fiscal year	**$ 21,922**	$ 81,511

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

Consolidated Statement of Equity

Citizens Gas & Coke Utility and Subsidiary, Indianapolis, Indiana
(In Thousands)

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
September 30, 2005, as restated	$ 277,657	$ (33,691)	$ 243,966
Comprehensive income (loss):			
Net income, as restated	351		351
Unrealized gains (losses), net, on derivative instruments, as restated		(6,509)	
Comprehensive income of unconsolidated investment		10,350	
Minimum pension liability		17,674	21,515
Total comprehensive income			21,866
Customer benefit distributions	(1,288)		(1,288)
September 30, 2006, as restated	$ 276,720	$ (12,176)	$ 264,544
Comprehensive income (loss):			
Net income (loss)	$ (28,580)		$ (28,580)
Unrealized gains (losses), net, on derivative instruments		$ 37	
Comprehensive income of unconsolidated investment		9,903	
Miscellaneous prior period adjustments		(82)	9,858
Total comprehensive income			(18,722)
SFAS 158 retirement benefit liability adjustments		(25,017)	(25,017)
Customer benefit distributions	(4,000)		(4,000)
September 30, 2007	$ 244,140	$ (27,335)	$ 216,805

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

Notes To Consolidated Financial Statements

City of Indianapolis Department of Public Utilities d/b/a/ Citizens Gas & Coke Utility

1. Summary of Significant Accounting Policies

A. NATURE OF OPERATIONS:

Citizens Gas & Coke Utility (the Trust) is the trade name under which the City of Indianapolis, by and through the Board of Directors for Utilities of the Department of Public Utilities, as successor trustee of a Public Charitable Trust, provides energy services to customers in and around Marion County, Indiana. The consolidated financial statements include five operating segments: Gas, Steam, Chilled Water, Oil and Citizens By-Products (CBP). The former Manufacturing business segment is now classified as Discontinued Operations. The Trust's rates and charges for gas and steam service are regulated by the Indiana Utility Regulatory Commission (IURC). The accounting records conform to the accounting standards prescribed by the Federal Energy Regulatory Commission (FERC) and generally accepted accounting principles in the United States of America. Intercompany transactions have been eliminated in consolidation.

B. PROPERTY, PLANT AND EQUIPMENT, DEPRECIATION AND MAINTENANCE:

Construction costs include costs directly incurred plus overhead allocation relating to payroll, administrative, and general costs. Depreciation on gas, steam and chilled water plant is computed on a straight-line basis over the estimated remaining useful lives of the various classes of depreciable plant in service. Depreciation on oil plant is computed on a straight-line basis over the projected productive lives of the oil wells. Maintenance and repairs of property units are charged to expense as incurred. The Trust utilizes the group method of depreciation. Accordingly, the original cost of depreciable property and equipment retired or replaced and the cost of removal, less salvage, are charged to accumulated depreciation.

Depreciation expense as a percentage of original depreciable cost is as follows:

	2007	2006
Gas	**3.2%**	3.1%
Steam	**5.6%**	4.9%
Chilled Water	**4.0%**	4.0%
Oil	**20.5%**	20.3%

Allowance for Funds Used During Construction (AFUDC) represents the cost of borrowed funds used for construction purposes and is charged to major construction projects during the construction period with a corresponding credit to "Other Interest Charges". The total amount of AFUDC capitalized by the Trust was $0.2 million each in 2007 and 2006.

C. REVENUE RECOGNITION:

Gas Division customer billings are rendered on a cycle basis on each working day throughout the month. The estimated revenue for gas delivered since the last customer billing dates to month-end is accrued. Meter readings are taken as of month-end for a large majority of Steam and Chilled Water Division customers, with billings rendered as of month-end for all such customers.

D. INVENTORY:

Material and supplies inventory is maintained for all divisions at average cost, which approximates actual cost.

E. TAXES:

The Trust is subject to payroll, property, utility receipts, and other miscellaneous taxes, but as a Public Charitable Trust, is not subject to federal or state income taxes.

F. RECOVERABLE (REFUNDABLE) GAS AND FUEL COSTS:

The difference between actual gas costs and the amounts of gas costs recovered by the Gas Division through rates is deferred and recovered (or refunded) through gas cost adjustments (GCA) permitted by the IURC. The Trust is authorized to change its GCA factors each month as a result of changes in market prices. The difference between actual fuel costs and the amounts of fuel costs recovered by the Steam Division through rates is deferred and recovered (or refunded) through the fuel adjustment cost (FAC) permitted by the IURC. The FAC was filed annually with the IURC in both 2007 and 2006.

G. BOND ISSUANCE COSTS:

Bond premiums and discounts, debt issuance costs, and retirement gains and losses are amortized over the lives of the respective issues through the effective interest method.

H. CASH AND CASH EQUIVALENTS:

For purposes of the Consolidated Statements of Financial Position and Cash Flows, the Trust considers investments purchased with a maturity of three months or less to be cash equivalents. The fair value approximates carrying value for these financial instruments.

I. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	(In Thousands) 2007	2006
Cash paid during the year for:		
Interest	**$24,873**	$ 24,769
Taxes based on income and receipts	**$ 6,918**	$ 6,276
Non-cash investing activities were as follows:		
Comprehensive gain on ProLiance	**$ 9,903**	$ 16,564
Unrealized losses on derivatives, net	**(2,816)**	(22,748)
Total non-cash investing activities	**$ 7,087**	$ (6,184)

J. USE OF ESTIMATES:

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

K. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amount reported in the Statement of Financial Position for current assets and current liabilities approximates the fair value. Management has estimated the fair value of long term debt using discounted cash flow analysis, based on the Trust's current expected borrowing rates for similar borrowing arrangements (see Note 5).

L. ASSET IMPAIRMENT:

Long-lived assets and certain intangible assets held and used by the Trust are annually reviewed for impairment, using the expected present value technique, or whenever events or changes in circumstances indicate that the carrying amount of these assets, on a separate entity basis, may not be recoverable. If the sum of the future cash flows expected to result from the use of these assets and their eventual disposition is less than the carrying amount of these assets, an impairment loss is recognized. Measurement of an impairment loss is based on the discounted cash flow values related to these assets. In March, 2007, the process for sale of Indianapolis Coke (Manufacturing Division) concluded unsuccessfully. With the failure to secure a buyer, prior and current year nominal cash losses, and operating losses expected to continue indefinitely, the Board of Directors voted on April 11, 2007, to cease operations as soon as reasonably practical. Consequently, an impairment charge to income, through depreciation expense of $35.8 million was recorded. Manufacturing (now classified as Discontinued Operations) plant assets at September 30, 2007 are $3.9 million, representing the estimated remaining salvage value of the plant.

M. INTANGIBLE ASSETS:

Certain customer contracts valued at $111.0 million at September 30, 2007 and 2006, are considered to have indefinite useful lives. No impairment was identified for these assets based upon annual evaluations performed. The value of other customer contracts are amortized on a straight-line basis over their respective lives. The gross value of these customer contracts was $18.7 million at September 30, 2007 and 2006. Accumulated amortization for these customer contracts was $7.1 million and $6.5 million at September 30, 2007 and 2006, respectively. Amortization expense of such assets was $0.6 million in 2007 and 2006.

N. REGULATORY ASSETS AND LIABILITIES:

Financial Accounting Standards Board Statement No. 71, *Accounting for Certain Types of Regulation* (SFAS 71), applies to regulated entities, for which rates are designed to recover the costs of providing service. In accordance with this statement, certain items that would normally be reflected in the Statement of Operations are deferred on the Statement of Financial Position. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process. The balance of these deferred costs was a net regulatory liability of $6.0 million at September 30, 2007 and a net regulatory asset of $10.0 million at September 30, 2006. The Trust continuously monitors changes in market and regulatory conditions and considers the effects of any changes in assessing the continual applicability of SFAS 71.

Regulatory assets (liabilities) were comprised of the following at September 30, 2007 and 2006 (in millions):

	2007	2006
Deferred Regulatory Proceeding Costs	**$ 1.7**	$ 2.2
Deferred SFAS 106 Costs	**3.2**	3.6
Deferred Fuel Tracking Adjustments	**(8.9)**	1.1
Price Volatility Mitigation Program	**(0.1)**	3.1
Decoupled Sales Component	**(0.1)**	-
Regulatory Credit for Remediation	**(1.8)**	-
Total Regulatory Assets (Liabilities)	**$ (6.0)**	$ 10.0

O. SOFTWARE DEVELOPED FOR INTERNAL USE:

Internal and external costs incurred during the preliminary project stage associated with the development of internal use software are expensed as incurred. External direct costs of materials and services, internal direct payroll and payroll-related costs, and interest costs for the use of funds incurred during the application development stage associated with developing or obtaining internal use software are capitalized. Internal and external training and maintenance costs incurred during the post-implementation stage associated with the development of internal use software are expensed as incurred.

P. 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 Consolidated Statement of Equity. The Trust's components of accumulated other comprehensive income (loss) include SFAS 158 impact on pension and other post-retirement benefits, unrealized gains (losses) on an interest rate swap, gains (losses) on other derivative instruments and its share of ProLiance Energy, LLC (ProLiance) other comprehensive income. The Trust records its portion of ProLiance's other comprehensive income as increases or decreases to the investment account with a corresponding adjustment to other comprehensive income.

Q. CUSTOMER BENEFIT DISTRIBUTION:

The Trust's Customer Benefit Distribution policy establishes a mechanism that allows for the distribution to gas customers of certain prior period earnings from non-regulated businesses. The Board of Directors for the Trust determines to what extent funds, if any, from non-regulated businesses are to be distributed. The Board strives to employ its capital to achieve, in its judgment, an appropriate balance between short-term benefits (e.g., lower gas bills, community investment, etc.) and long-term benefits (e.g., invest to create economic benefits for the future). In November 2006, a total amount of $2.0 million was authorized and approved for distribution. The funding approved in November 2006 was a result of fiscal year 2006 operations and was distributed in calendar year 2007. In addition, in September 2007, an additional total amount of $2.0 million was authorized and approved for distribution. The funding approved in September 2007 was a result of fiscal year 2007 operations and will be distributable in calendar year 2008.

R. RECLASSIFICATIONS:

Certain reclassifications have been made in the financial statements and notes to the financial statements of the prior year to conform to the current year presentation. These reclassifications have no effect on previously reported revenues, expenses, net income or equity. The former Manufacturing business segment is now classified as Discontinued Operations (see Note 11).

2. Restatement

The 2007 and 2006 consolidated statement of cash flows have been restated to correct for the misclassification of distributions received from investments in unconsolidated affiliates as investing cash flows. Such amounts have been reclassified as operating cash flows and are presented net of equity earnings in affiliates in accompanying restated statement of cash flows. The table below shows the effects of the restatement on 2007 and 2006 net cash provided by operating activities and net cash provided by (used in) investing activities:

	(In Thousands)		
	2007 As Previously Reported	Adjustment	2007 As Restated
Net cash provided by operating activities	$ 64,037	$ 14,175	$ 78,212
Net cash used in investing activities	(108,398)	(14,175)	(122,573)
	2006 As Previously Reported	Adjustment	2006 As Restated
Net cash provided by operating activities	$ 20,402	$ 22,861	$ 43,263
Net cash provided by investing activities	43,778	(22,861)	20,917

These accompanying consolidated financial statements also include the impact of a restatement of the 2006 financial statements. An accounting error was identified related to an interest rate swap derivative, resulting in an overstatement of non-operating other income and a corresponding overstatement of the deferred loss in accumulated other comprehensive income. The effect of the restatement on the financial results is to decrease reported net income for 2006 by $3.5 million, impacting only the Gas Division. This restatement had no impact on revenues, total equity or compliance with debt covenants. The beginning balance for 2006 retained earnings (ending balance for 2005 retained earnings) was also reduced by $3.2 million (with a corresponding offset to other comprehensive income) to reflect the impact of the error on prior earnings. The table below shows the affected balances before and after restatement:

	(In Thousands)		
	2006 As Previously Reported	Adjustment	2006 As Restated
Other, net	$ (1,282)	$ (3,491)	$ (4,773)
Net income	3,842	(3,491)	351
Unrealized gains (losses), net on derivative	(10,000)	3,491	(6,509)
Beginning retained earnings	280,828	(3,171)	277,657
Ending retained earnings	283,382	(6,662)	276,720
Beginning accumulated other comprehensive loss	(36,862)	3,171	(33,691)
Ending accumulated other comprehensive loss	(18,838)	6,662	(12,176)
Net cash provided by investing activities	40,287	3,491	43,778

3. Investments In Securities

Under the terms of various trust indentures, the Trust is required to maintain bond retirement funds. These bond retirement funds are invested in short-term cash-equivalent securities. Due to the nature of these investments, cost is equal to market value of $10.2 million at September 30, 2007 and $10.1 million at September 30, 2006. Gross proceeds on the bond retirement funds investments that matured during 2007 and 2006 were $29.4 million and $27.3 million, respectively. There were no realized gains or losses associated with the sales. In addition, the Trust invested in debt securities, with call dates of less than one year, of $6.1 million and $9.2 million at September 30, 2007 and 2006, respectively.

4. Investment In Unconsolidated Affiliates

ProLiance, an affiliation of equal ownership between CBP, the Trust's wholly-owned subsidiary, and IGC Energy, Inc., an indirect subsidiary of Vectren, Inc., was formed in March 1996. Effective June 1, 2002, Vectren and the Trust agreed to split profits 61 percent and 39 percent, respectively. The Trust purchased $284.8 million and $319.4 million of gas from ProLiance in 2007 and 2006, respectively. In addition, the Trust received $66,000 in 2007 and $42,000 in 2006 from ProLiance as reimbursement for various general and administrative expenses. At September 30, 2007 and 2006, the Trust owed ProLiance $20.2 million and $18.8 million, respectively, for gas purchased. ProLiance is accounted for under the equity method.

Remittance Processing Services, LLC (RPS), an affiliation of equal ownership between CBP and IPALCO Enterprises, Inc. (IPALCO) was formed in August 1996 and began providing services in February 1997. RPS provides payment processing services for the Trust, IPALCO, and others. The Trust paid $265,000 and $275,000 to RPS for services in 2007 and 2006, respectively. The Trust received $25,000 and $45,000 for reimbursement of payroll, employee benefit, and various general and administrative expenses paid on behalf of RPS in 2007 and 2006, respectively. RPS is accounted for under the equity method.

Heartland Gas Pipeline, LLC (Heartland) is an affiliation of equal ownership between CBP and ProLiance. The Trust assessed its accounting for Heartland using Financial Interpretation No. 46-R, *Consolidation of Variable Interest Entities* (FIN 46R), and has determined that for fiscal year 2007 and 2006 the entity should not be consolidated. Heartland is accounted for under the equity method for fiscal year 2007 and 2006.

CBP has a minority interest in BHMM Energy Services, LLC (BHMM Energy Services), an entity created to provide energy facilities management services. In January 2006, BHMM Energy Services entered into a contract with the Indianapolis Airport Authority (IAA) to operate the Central Energy Center (CEC) at the Indianapolis Airport and to provide hot and chilled water and other incidental services to the Indianapolis Maintenance Center (IMC). CBP contributed $0.4 million in March of 2006 to BHMM Energy Services and BHMM Energy Services took over operations of the CEC on April 1, 2006. BHMM Energy Services is accounted for under the equity method.

Summarized financial information of unconsolidated affiliates is presented below (in millions).

	2007			2006		
	ProLiance	**Other**	**Total**	ProLiance	Other	Total
Condensed Statement of Operation						
Sales	**$2,294**	**$ 9**	**$ 2,303**	$ 3,073	$ 4	$3,077
Gross profit	**108**	**8**	**116**	131	3	134
Net income	**83**	**1**	**84**	77	-	77
Condensed Statement of Financial Position						
Current assets	**$ 490**	**$ 2**	**$ 492**	$ 477	$ 2	$ 479
Non-current assets	**43**	**46**	**89**	38	30	68
	$ 533	**$ 48**	**$ 581**	$ 515	$32	$ 547
Current liabilities	**$ 265**	**$ 2**	**$ 267**	$ 316	$11	$ 327
Non-current liabilities	**4**	**33**	**37**	7	10	17
Equity	**264**	**13**	**277**	192	11	203
	$ 533	**$ 48**	**$ 581**	$ 515	$32	$ 547

5. Long-term Debt

Long-term debt consisted of the following at September 30:

	(In Thousands)	
	2007	2006
Gas Utility		
System Revenue Refunding Bonds		
Series 1986 B, 3.50 percent to 4.00 percent, due 2013 to 2018..........	**$ 60,560**	$ 60,560

Gas Utility Distribution System Revenue Refunding Bonds Series 1998 A, 5.00 percent, to 5.75 percent, due to 2024	**106,075**	112,995
Series 2001 Second Lien Multi-Mode Revenue Bonds, due to 2021	**102,375**	102,375
Series 2003 A, Second Lien Multi-Mode Revenue Bonds, due 2025 to 2029	**68,615**	70,380
Thermal Energy System Revenue Bonds Series 2001 A, 3.80 percent to 5.50 percent, due 2004 (October) to 2021	**101,910**	106,520
Series 2001 B, Multi-Mode Revenue Bonds, due 2021 to 2025	**48,775**	48,775
Citizens By-Products Term Loan, 5.26% percent, due 2010	**4,972**	5,004
Net Unamortized Bond Discount	**(6,168)**	(6,573)
Current Maturities	**(14,306)**	(13,350)
Total Long-Term Debt	**$ 472,808**	$ 486,686

The Gas Utility System (GUS) revenue refunding bonds were issued pursuant to a trust indenture dated as of July 1, 1986. These bonds are secured by and payable from the income and revenues of the entire Trust excluding the Thermal (Steam and Chilled Water) operations. The Gas Utility Distribution System (GUDS) Revenue Refunding Bonds, Series 1998A, Series 2001A and Series 2003A, are secured by and payable from the income and revenues of the GUDS as provided for in the respective trust indentures. The Series 1998A first lien bonds are subordinate to the bonds outstanding under the 1986 trust indenture and were issued at a premium of $1.9 million. The GUDS Second Lien Multi-Mode Revenue Bonds, Series 2001 and Series 2003 are subordinate to the bonds issued under the 1986 trust indenture and the bonds issued under the 1998 trust indenture.

The City of Indianapolis Thermal Energy System Revenue Bonds, Series 2001A and 2001B were issued pursuant to a Thermal Energy System trust indenture dated January 1, 2001. The bonds issued under the Thermal Energy System trust indenture are secured by and payable from all income and revenues of the Thermal Energy System provided for in the Thermal Energy System trust indenture.

CBP entered into a $5 million term loan during 2005 with JP Morgan Chase, the proceeds of which are used for general corporate purposes at CBP.

The Trust is obligated to satisfy certain covenants, including meeting certain minimum debt service coverage requirements for each bond issue. The Trust's debt service coverage ratios are summarized as follows for 2007 and 2006:

	Minimum Covenant % Requirement	**2007**	2006
GUS Revenue Refunding Bonds Series 1986 B	1.40	**19.18**	16.54
GUDS Revenue Refunding Bonds Series 1998 A	1.10	**2.86**	1.21
Series 2001A & Series 2003 A, Second Lien Multi-Mode Revenue Bonds	1.00	**1.71**	0.71*
Thermal Energy System Revenue Bonds Series 2001 A and 2001 B	1.00	**1.67**	1.63
CBP Term Loan	3.00	**34.71**	89.16

** This indenture specifies that if, in any fiscal year, the debt service requirements cannot be met, the Trust shall take any appropriate action under the law and within its power, to generate for fiscal years thereafter income and revenues of GUDS in the amounts required to satisfy the requirements for later fiscal years. These actions include, but are not limited to, the filing of a proceeding seeking additional revenues or other relief before the IURC. Management filed such action in December 2004 and received an order for rate relief in October 2006 (see Note 13 for further explanation).*

Concurrent with the issuance of the Series 2003 bonds, the Trust entered into a fixed-rate pay interest rate swap agreement. The swap amortizes annually an amount equal to the annual reduction in par amount of the bonds outstanding. The notional value of the swap was $70.4 million and $72.0 million as of September 30, 2007 and 2006, respectively. Under the terms of the swap agreement, the Trust pays a monthly fixed rate of 4.59 percent of the notional amount to the swap provider and receives a monthly variable rate payment equal to 70 percent of the average one month LIBOR rate for each monthly period. The variable rate received from the counterparty approximates the variable rate paid to bondholders on the Series 2003 bonds. The Trust has the right to terminate the swap agreement at any time subject to a termination payment equal to the current market value of the interest rate swap. A termination at current market value may result in a gain or loss to the Trust.

The fair value of the interest rate swap, designated as a cash flow hedge, at September 30, 2007 and 2006 was $5.4 million and $5.9 million, respectively. An unrealized loss of $0.1 million associated with the hedge was charged to Other Comprehensive Income (OCI) in fiscal 2007, compared to an unrealized gain of $1.5 million charged to OCI in 2006.

In August 2006, The Trust entered into an interest rate swaption agreement attributed to the Series 1998A bonds with JPMorgan as the counterparty. In September 2006, The Trust received an up-front cash premium of $2.9 million as part of this transaction. After incurring mark-to-market adjustments of $0.4 million in 2007, the fair market value of this interest rate swaption at September 30, 2007 was $4.9 million.

Principal maturities of long-term debt for the next five years and thereafter are as follows:

	(In Thousands)
2008	$ 14,293
2009	15,088
2010	15,843
2011	16,648
2012	17,483
Thereafter	413,900
Total principal maturities	$ 493,255

The fair value of the Trust's bonds is estimated using discounted cash flows based on current rates offered to the Trust for similar debt with similar maturities. Using this method, the estimated fair value of the debt is $489.2 million at September 30, 2007 and $466.0 million at September 30, 2006.

6. Short-term Borrowings

The Trust maintains a tax-exempt commercial paper program to meet short-term working capital and construction expenditure requirements with $50 million authorized and outstanding for the GUDS at September 30, 2007 and 2006. In addition, the GUDS has a one year line of credit agreement with Key Bank, NA, of which $50 million remained available to the Trust as of September 30, 2007 and 2006.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as shown in the accompanying Consolidated Statement of Financial Position are comprised of the following components at September 30, 2007 and 2006, respectively:

	(In Thousands)	
	2007	2006
Accounts payable	$ **39,707**	$ 29,671
Salaries and employee benefits	**9,980**	7,551
Customer credit balances	**20,379**	15,483
Post-retirement benefits	**17,158**	8,119
Accrued interest	**5,599**	4,541
Deferred credits	**175**	3,603
Other	**6,061**	2,099
Total accounts payable and accrued expenses	**$ 99,059**	$ 71,067

8. Retirement Plans

The Trust has a non-contributory defined benefit pension plan covering substantially all full time employees. The policy of the Trust is to fund amounts necessary to maintain the plan on an actuarially sound basis. Contributions are intended to provide not only benefits attributed to service-to-date but also for benefits expected to be earned in the future.

In January 2007 the Trust combined the Bargaining and Non-Bargaining pension plans into one Plan for Citizens Gas Employees.

The Trust adopted SFAS 158 *Employers' Accounting for Defined Benefit Pension and Other post-retirement Plans* as of September 30, 2007. The adoption of SFAS 158 had the following effects on our consolidated balance sheet as of September 30, 2007 as we recognized the funded status of our defined benefit and postretirement benefit plans with a corresponding adjustment to Accumulated Other Comprehensive Income. The following table sets forth the funded status of the plan and amounts recognized in the Trust's Statement of Financial Position at September 30, 2007 and 2006:

	(In Thousands)	
	2007	2006
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	**$168,400**	$ 153,895
Plan assets at fair value	**$185,135**	$ 164,138
Projected benefit obligation	**189,803**	174,900
Plan assets in excess of or less than projected benefit obligation	**(4,668)**	(10,762)
Unrecognized net loss	**24,940**	36,967
Unrecognized prior service cost	**3,180**	3,792
Adjustment to recognize minimum liability	**-**	(13,922)
SFAS 158 Adjustment	**(28,120)**	-
Prepaid pension cost included in deferred charges	**$ (4,668)**	$ 16,075

The net pension cost for these plans included the following components:

	(In Thousands)	
	2007	2006
Service cost-benefits earned during the period	**$ 5,330**	$ 5,308

Interest cost on projected benefit obligation	**10,440**	9,034
Actual return on assets	**(26,244)**	(9,200)
Net amortization and deferral	**16,833**	(123)
Net periodic pension cost	**6,359**	$ 5,019
Early window retirement expense	**4,213**	
Total expense for the year	**$10,572**	

The weighted-average assumptions used to determine net periodic pension costs at September 30 are as follows:

	2007	2006
Expected long-term rate of return on assets	**7.5%**	7.5%
Discount rates used to value benefit obligations	**6.10%**	6.14%
Rates of increase in compensation levels	**3.5%**	3.0%

To calculate the expected long-term rate of return on assets, the Trust used the plan's assets fair market value and an expected long-term rate of return. Based on a targeted 60 percent equity and 40 percent debt allocation for the plan, the Trust used a long-term expected rate of return of 7.5 percent to calculate periodic benefit cost for both 2007 and 2006. The discount rate percentages of 6.10 percent and 6.14 percent are based on the Moody's AA Corporate Bond Index at the measurement dates of June 30, 2007 and 2006, respectively.

Assets of the plan consist principally of investments in long-term and intermediate-term fixed income securities and common stocks. The measurement dates of June 30, 2007 and 2006 were used to determine the pension cost for the years 2007 and 2006.

The Trust's pension plan weighted-average asset allocation as of June 30, 2007 and 2006, by asset category is as follows:

	2007	2006
Equity securities	**69%**	65%
Debt securities	**29%**	30%
Other	**2%**	5%
Total	**100%**	100%

The primary investment objective of the retirement funds is to earn a reasonable rate of return over a market cycle while avoiding high levels of risk. The portfolio's return is monitored in total and is designed to outperform inflation. These investment objectives are long-term in nature. The Trust expects to contribute, at a minimum, $1.5 million to its pension plan for 2008. The following pension benefit payments, which reflect future service, as appropriate, are expected to be paid:

	(In Thousands)
2008	$ 9,501
2009	$ 9,587
2010	$ 9,708
2011	$ 9,919
2012	$ 10,243
Years 2013-2017	$ 60,200

In addition to providing defined benefit pension plan benefits, the Trust also offers other retirement benefits to eligible employees including a pension replacement plan, thrift savings plans, and post-retirement health care benefits.

The pension replacement plan provides retirement benefits for employees whose pension benefit exceeds the maximum allowable benefit under the Employee Retirement Income Security Act (ERISA) for qualified pension plans. The replacement plan was established during 1990 and is a non-qualified plan for income tax purposes.

The thrift savings plans are defined contribution plans covering most employees. The Trust matches a portion of the contributions made by the employees to the savings plans. The cost to the Trust for its matching portion was $1.6 million and $1.5 million for 2007 and 2006, respectively.

The Trust provides post-retirement health and dental benefits to eligible retirees, which includes payment of up to 80 percent of single and dependent coverage premiums until age 65. The percentage of premiums paid by the Trust is dependent upon the age and years of service at the date the employee retires. The post-retirement benefit plan is unfunded. The Trust accrues the expected cost of post-retirement health benefits during the years in which employees render service. This expense was $1.6 million and $0.7 million for 2007 and 2006, respectively. Since 1994, in accordance with an IURC order permitting the deferral of costs in excess of pay as you go, the Trust had been deferring such post-retirement benefit costs of the Gas Division. Management has received an IURC order allowing recovery of these costs over a twelve-year period. The Trust has deferred $3.2 million and $3.6 million as of September 30, 2007 and 2006, respectively. Post-retirement benefit costs applicable to the Thermal, Manufacturing and Oil divisions have not been deferred.

The following table sets forth the plan's unfunded status reconciled with the amount reported in the Trust's Statement of Financial Position at September 30, 2007 and 2006:

	(In Thousands)	
	2007	2006
Accumulated post-retirement benefit obligation (APBO):		
Active employees not eligible to retire	**$13,763**	$ 15,636
Active employees eligible to retire	**2,066**	2,352
Retirees	**6,394**	7,596

Total APBO	**22,223**	25,584
Unrecognized transition obligation	**(3,549)**	(4,139)
Unrecognized prior service cost	**(892)**	(1,299)
Unrecognized net gain (loss)	**(3,572)**	(7,921)
Accrued post-retirement benefit liability	**n/a**	$ 12,225
SFAS 158 adjustment	**8,013**	
Post-retirement liability	**$22,223**	

The Trust is amortizing its transition obligation over a 20-year period. Net periodic post-retirement benefit cost for 2007 and 2006 included the following components:

	(In Thousands) 2007	2006
Service cost-benefits attributed to service during the period	**$ 1,058**	$ 920
Interest cost	**1,323**	1,143
Amortization of transition obligation	**590**	590
Amortization of prior service cost	**407**	198
Actuarial gain	**325**	226
Net periodic post-retirement benefit cost	**3,703**	3,077
Amount deferred	**451**	451
Amount charged to expense	**$ 4,154**	$ 3,528

The measurement dates of September 30, 2007 and 2006 were used to determine the post-retirement benefit cost for the years 2007 and 2006. The following table sets forth the assumed health care cost trends rates at September 30:

	2007	2006
Health care cost trend rate assumed for next year	**9.0%**	9.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	**5.0%**	5.0%
Year that the rate reaches the ultimate trend rate	**2010**	2010

The discount rate used to value end of year accumulated post-retirement benefit obligations was 6.13 percent and 5.66 percent for 2007 and 2006, respectively. The discount rate used to value net periodic post-retirement benefit costs was 5.66 percent and 5.36 percent for 2007 and 2006, respectively. The discount rates are based on Moody's AA Corporate Bond Index at September 30, 2007 and 2006, respectively. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage change in assumed health care cost trend rates would have the following effects:

	(In Thousands) 1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 298	$ (254)
Effect on post-retirement benefit obligation	$2,384	$(2,090)

Estimated future post-retirement benefit payments, net of employee contributions, are as follows:

	(In Thousands)
2008	$ 1,686
2009	$ 1,790
2010	$ 1,876
2011	$ 2,028
2012	$ 2,038
Years 2013-2017	$ 10,447

9. Enhanced Retirement Offer

In February, Citizens offered an enhanced early retirement package to 41 Manufacturing Division employees in anticipation of the sale of the division. On June 30, 2007, 34 employees had accepted the offer and retired on that date. The early retirement offer included enhanced benefits for those employees 50 years of age and with 85 points (calculated as the number of years of service plus the employee's age) or more. The benefit costs for employees who have accepted the offer have been reflected in the financial statements.

10. Financial Segment Information

The operations of the Trust include activities in five business segments: Gas, Steam, Chilled Water, Oil and CBP. The former Manufacturing business segment is now classified as Discontinued Operations.

Gas Operations activities include purchasing natural gas; operating underground natural gas storage and liquefied natural gas storage facilities in Indiana; distributing natural gas to residential, commercial, and industrial customers located in Marion County, Indiana; and distributing manufactured gas to a steam production facility.

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.

Oil activities include the production and sale of crude oil from reserves discovered in connection with development of underground natural gas storage fields.

CBP has invested in several energy-related subsidiaries and affiliated joint ventures in order to broaden the business activities of the Trust and to ultimately provide enhanced benefits to Trust beneficiaries.

Other includes advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments.

Operating revenues and operating expenses are set forth in the Consolidated Statement of Operations. Operating income represents operating revenues less operating expenses directly attributable to the divisions and an allocation of certain operating expenses benefiting each.

A corporate support group comprised of various administrative departments provides support services to each of the Trust's business segments, certain affiliates, and for the Trust as a whole, and charges the associated cost of the services to the appropriate segment. Management reviews the allocation methodology for the corporate support services on a regular basis and refines the methodology as necessary.

Certain other financial segment information for the years ended September 30, 2007 and 2006 are summarized as follows:

SEGMENT FOOTNOTE - CONSOLIDATED STATEMENT OF OPERATIONS
Citizens Gas & Coke Utility and Subsidiary, Indianapolis, Indiana
(In Thousands)
For Fiscal Year Ended September 30, 2007

	Gas	Steam	Chilled Water	Oil	CBP	Other	Disc Ops	**Total**
Operating revenues:								
Utility operating revenues	419,271	58,028	-	-	4,826	-	-	**482,125**
Non-utility operating revenues	-	-	31,996	5,085	3,286	-	-	**40,367**
Total operating revenues	419,271	58,028	31,996	5,085	8,112	-	-	**522,492**
Operating expenses:								
Cost of goods sold:								
Utility cost of goods sold	299,826	35,019	-	-	3,636	-	-	**338,481**
Non-utility cost of goods sold	-	-	10,493	-	1,172	-	-	**11,665**
Total cost of goods sold	299,826	35,019	10,493	-	4,808	-	-	**350,146**
Other operations and maintenance	39,529	12,199	3,652	1,031	3,256	-	-	**59,667**
General and administrative	34,920	5,918	2,173	93	914	-	-	**44,018**
Depreciation and amortization	19,516	2,221	1,808	475	790	-	-	**24,810**
Taxes	11,298	1,245	1,572	91	428	-	-	**14,634**
Total operating expenses	405,089	56,602	19,698	1,690	10,196	-	-	**493,275**
Total operating income (loss)	14,182	1,426	12,298	3,395	(2,084)	-	-	**29,217**
Other income (expense)-net:								
Interest income	3,203	921	846	2	(107)	-	-	**4,865**
Other	(487)	(68)	(87)	-	1,206	(2,457)	-	**(1,893)**
Total other income (expense)	2,716	853	759	2	1,099	(2,457)	-	**2,972**
Income (loss) before equity in earnings of affiliates and interest charges	16,898	2,279	13,057	3,397	(985)	(2,457)	-	**32,189**
Equity in earnings of affiliates	-	-	-	-	32,762	-	-	**32,762**
Interest charges:								
Interest on long-term debt	15,004	3,109	4,058	-	(107)	-	-	**22,064**
Other interest including discount amortization	5,335	(118)	(40)	-	-	-	-	**5,177**
Total interest charges	20,339	2,991	4,018	-	(107)	-	-	**27,241**
Income (loss) from continuing operations	(3,441)	(712)	9,039	3,397	31,884	(2,457)	-	**37,710**
Loss from discontinued operations	-	-	-	-	-	-	(66,290)	**(66,290)**
Net income (loss)	(3,441)	(712)	9,039	3,397	31,884	(2,457)	(66,290)	**(28,580)**

SEGMENT FOOTNOTE - CONSOLIDATED STATEMENT OF OPERATIONS
Citizens Gas & Coke Utility and Subsidiary, Indianapolis, Indiana
(In Thousands)
For Fiscal Year Ended September 30, 2006 (Restated)

	Gas	Steam	Chilled Water	Oil	CBP	Disc Ops	Total
Operating revenues:							
Utility operating revenues	413,750	49,753	-	-	4,590	-	468,093
Non-utility operating revenues	-	-	29,123	4,996	3,008	-	37,127
Total operating revenues	413,750	49,753	29,123	4,996	7,598	-	505,220
Operating expenses:							
Cost of goods sold:							
Utility cost of goods sold	315,325	28,969	-	-	3,550	-	347,844
Non-utility cost of goods sold	-	-	9,632	-	997	-	10,629
Total cost of goods sold	315,325	28,969	9,632	-	4,547	-	358,473
Other operations and maintenance	34,954	10,579	3,151	833	2,048	-	51,565
General and administrative	34,368	5,308	2,275	135	698	-	42,784
Depreciation and amortization	18,460	1,689	1,622	461	732	-	22,964
Taxes	10,558	1,068	1,140	103	289	-	13,158
Total operating expenses	413,665	47,613	17,820	1,532	8,314	-	488,944
Total operating income (loss)	85	2,140	11,303	3,464	(716)	-	16,276
Other income (expense)-net:							
Interest income	1,759	621	1,431	-	-	-	3,811
Other	(4,952)	(60)	(199)	-	438	-	(4,773)
Total other income (expense)	(3,193)	561	1,232	-	438	-	(962)
Income (loss) before equity in earnings of affiliates and interest charges	(3,108)	2,701	12,535	3,464	(278)	-	15,314
Equity in earnings of affiliates	-	-	-	-	30,074	-	30,074
Interest charges:							
Interest on long-term debt	14,874	3,123	4,070	-	-	-	22,067
Other interest including discount amortization	5,578	(49)	(156)	-	-	-	5,373
Total interest charges	20,452	3,074	3,914	-	-	-	27,440
Income (loss) from continuing operations	(23,560)	(373)	8,621	3,464	29,796	-	17,948
Loss from discontinued operations	-	-	-	-	-	(17,597)	(17,597)
Net income (loss)	(23,560)	(373)	8,621	3,464	29,796	(17,597)	351

SEGMENT FOOTNOTE - CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Citizens Gas & Coke Utility and Subsidiary, Indianapolis, Indiana
(In Thousands)

At September 30, 2007

	Gas	Steam	Chilled Water	Oil	CBP	Other	Disc Ops	**Total**
Assets								
Property, Plant and Equipment	301,912	43,061	35,839	1,456	8,896	-	-	**391,164**
Intangibles	-	31,668	90,922	-	-	-	-	**122,590**
Investments	5,957	3,297	4,290	-	107,869	-	-	**121,413**
Current Assets	200,800	19,566	22,107	5,104	(3,399)	5,275	14,979	**264,432**
Deferred Charges and Other Non-Current Assets	28,943	1,372	3,136	10	-	-	(140)	**33,321**
Total Assets	537,612	98,964	156,294	6,570	113,366	5,275	14,839	**932,920**
Capitalization and Liabilities								
Retained Earnings and Accumulated OCI	35,578	23,089	48,699	5,326	144,285	2,818	(42,990)	**216,805**
Long-Term Debt	318,942	64,789	84,452	-	4,625	-	-	**472,808**
Other Long-Term Liabilities	13,518	-	-	-	-	-	24,224	**37,742**
Current Liabilities	169,574	11,086	23,143	1,244	(35,544)	2,457	33,605	**205,565**
Total Capitalization and Liabilities	537,612	98,964	156,294	6,570	113,366	5,275	14,839	**932,920**

SEGMENT FOOTNOTE - CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Citizens Gas & Coke Utility and Subsidiary, Indianapolis, Indiana
(In Thousands)

At September 30, 2006
(Restated)

	Gas	Steam	Chilled Water	Oil	CBP	Disc Ops	Total
Assets							
Property, Plant and Equipment	292,985	35,851	32,667	1,488	8,797	-	371,788
Intangibles	1,545	32,139	91,360	3	-	-	125,047
Investments	5,736	3,259	4,242	-	78,681	-	91,918
Current Assets	163,633	30,680	21,437	404	27,260	37,709	281,123
Deferred Charges and Other Non-Current Assets	41,394	393	1,247	(54)	-	34,291	77,271
Total Assets	505,293	102,322	150,953	1,841	114,738	72,000	947,147
Capitalization and Liabilities							
Retained Earnings and Accumulated OCI	52,676	22,848	39,027	11,389	108,841	29,763	264,544
Long-Term Debt	327,403	67,000	87,334	-	4,949	-	486,686
Other Long-Term Liabilities	15,341	-	-	-	-	11,070	26,411
Current Liabilities	109,873	12,474	24,592	(9,548)	948	31,167	169,506
Total Capitalization and Liabilities	505,293	102,322	150,953	1,841	114,738	72,000	947,147

CAPITAL EXPENDITURES

	Capital Expenditures (In Thousands)	
	2007	2006
Gas	**$28,352**	$ 22,597
Steam	**9,247**	8,356
Chilled Water	**4,543**	2,421
Oil	**443**	485
CBP and Other	**1,118**	2,227
Discontinued Operations	**-**	2,214
Total	**$43,703**	$ 38,300

ADDITIONAL THERMAL ENERGY FINANCIAL INFORMATION

Additional Thermal Energy (Steam and Chilled Water) financial information for the year ended September 30, 2007 and 2006 is summarized as follows:

	(In Thousands)	
	2007	2006
Net Income	**$ 8,327**	$ 8,248
Total Liabilities	**$ 183,470**	$ 191,400
Owners' Equity	**$ 71,788**	$ 61,875
Interest on Long-Term Debt	**$ 7,167**	$ 7,193
Cash Flow Information:		
Beginning Cash Position	**$ 31,326**	$ 31,589
Cash from Operations	**8,042**	990
Cash to Investments	**(11,162)**	(10,661)
Cash (to)/from Financings	**(4,869)**	9,408
Ending Cash Position	**$ 23,337**	$ 31,326

11. Manufacturing Discontinuation of Production and Related Asset Retirement Obligations

The Manufacturing Division, d.b.a. Indianapolis Coke, has faced substantial challenges in recent years including significant financial losses during the current and prior fiscal year; a declining U.S. coke market coupled with increasing foreign competition; and an inability to find a buyer for the Division in spite of a protracted effort in that regard. After several months of considerable review of the facts, issues, and impacts, the Board of Directors voted on April 11, 2007 to cease production at the Manufacturing plant and cease operations as soon as reasonably practicable. On July 13, 2007, all coke-making and production operations ceased at the plant.

The financial impacts of plant discontinuation are substantial. The plant employed approximately 300 workers. Eligible employees received a termination benefit package. Such termination benefits for eligible employees are reflected in the accompanying financial statements in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. While operating losses from recent months will diminish and ultimately cease, the costs of decommissioning, demolition and remediation will continue for several years. Current estimates of closure, demolition and remediation costs are included in the 2007 financial statements as part of the asset retirement obligation. Plant in service, capitalized asset retirement cost and construction work in process were deemed fully impaired (exclusive of salvage value) and written off in March 2007 through a $35.8 million charge to depreciation expense. Subsequent to the cessation of operations of the facility, the company will report financial information for the Manufacturing business segment under Discontinued Operations, with the appropriate disclosures.

Since July 13, 2007, the segment has been classified as a discontinued operation. Prior to cessation of operations, the Manufacturing segment operated a manufactured gas and coke oven facility located in Indianapolis, Indiana that provided manufactured gas to the Steam and Chilled Water divisions, and sold foundry, blast furnace and other industrial coke and other coke oven by-products to industrial users located primarily in the Midwest. All surplus manufactured gas was transferred to the Steam Division at a transfer price approved by the IURC. The major classes of assets and liabilities of discontinued operations are presented in the segment balance sheets for periods ended September 30, 2007 and 2006 in Note 10.

The operating results of the Manufacturing segment for fiscal years ended September 30, 2007 and 2006 are as follows:

	(In Thousands)	
	2007	2006
Revenue	**$ 85,265**	$ 117,605
Operating expenses	**151,555**	135,202
Loss from discontinued operations	**$ (66,290)**	$ (17,597)

The Trust performed a review of its asset retirement obligations under SFAS 143 related to the site restoration and decommissioning costs of the manufacturing facility. These obligations, which are inclusive of quantifiable and non-quantifiable obligations, relate to the environmental laws requiring the Trust to restore the facility to a "brown site" status upon closure of the facility. Changes in the liability due to the passage of time (accretion) are charged to the Consolidated Statement of Operations. Changes in the liability are also made periodically due to revisions to either the timing or amount of the estimated cash flows. These types of changes are then adjusted to the carrying amount of the related asset under most circumstances. Due to the decision to cease production at the Manufacturing plant, the Company revised its estimates in both the timing and amount of the estimated cash flows in March, 2007. However, because this coincided with the impairment write down of the plant assets, this adjustment was charged to capitalized asset retirement cost and then immediately written off through a charge to depreciation expense. The net result of this adjustment was an $11.1 million increase to the asset retirement obligation liability in March, 2007 relating to increased estimates for eventual environmental remediation. This adjustment, and the activity in fiscal year 2006 and 2007 for the asset retirement obligation liability are as follows:

	(In Thousands)
Asset retirement obligation at 9/30/05	$ 9,884
Accretion expense	1,186
Asset retirement obligation at 9/30/06	11,070
Accretion expense	1,998
Change in cash flows (March, 2007)	11,154
Asset retirement obligation at 9/30/07	$ 24,222

Changes in the liability due to accretion are charged to the Consolidated Statement of Operations, whereas changes due to the timing or amount of the cash flows are recorded as an adjustment to the carrying amount of the related asset.

12. Derivatives And Hedging

The Trust's Price Volatility Mitigation Policy (PVMP) sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. The Trust's objectives for using derivatives are to decrease the volatility associated with fluctuating natural gas prices. The Trust enters into natural gas options purchased and sold on the New York Mercantile Exchange (NYMEX). These instruments, in conjunction with physical gas supply contracts, are designated to cover estimated gas customer requirements. In accordance with SFAS 133, such energy contracts, to the extent they are not considered "normal" as defined by SFAS 133, are recognized at fair value as derivative assets or liabilities on the balance sheet. 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.

The Trust entered into weather hedge contracts in 2007 and 2006, whereby the Trust mitigated the risk of revenue loss from extreme fluctuations in winter weather, measured in degree-days. The agreement produced proceeds of $2.5 million in 2007 and $2.3 million in 2006, which was recorded as other Gas revenues in the Consolidated Statement of Operations. The Trust has not secured a weather hedge for fiscal year 2008. Weather hedges are not subject to SFAS 133 and therefore are accounted for on an accrual rather than a market value basis.

13. Commitments and Contingencies

a. Environmental Contingencies

The Trust is subject to various environmental laws and regulations and believes it is in compliance with existing federal, state and local statutes, ordinances, rules and regulations governing environmental matters. The Trust has no way of estimating the enactment or promulgation of future environmental laws and regulations.

b. Legal Contingencies

The Trust is 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 of the Trust.

On January 16, 2007, a complaint was filed against the Utility in Marion County Superior Court alleging that benzene had been released from the Prospect Street coke plant, thereby causing the plaintiff to develop Acute Promyelocytic Leukemia. The plaintiff claims to have lived in neighborhoods near the coke plant his entire life, and asserts that negligent construction, maintenance, and operation of the plant allowed benzene to be released beyond the grounds of the plant. The Utility believes the suit is without merit and intends to vigorously defend against the claim, and accordingly cannot make any estimate as to the likelihood or amount of any potential liability.

On or about April 27, 2007 a complaint was filed against the Utility in the United States District Court for the Southern District of West Virginia by the Central Coal Company ("Central"). The complaint alleges that during 2006 and 2007 the Utility breached its contract with Central by failing to purchase all of the quantities specified in a contract between the Utility and Central. The Utility intends to vigorously defend against the claim, and accordingly cannot make any estimate as to the likelihood or amount of any potential liability.

In July 2004, the Utility filed a declaratory judgment action in the Marion County Indiana Environmental Court seeking an order that certain insurance policies owned by the Utility dating back to 1952 would indemnify the Utility for possible future environmental remediation at the Prospect Street coke plant and the former coke plant located on Langsdale

Avenue, both in Indianapolis. Fourteen settlement letters were sent to various insurers on or about March 9, 2006 proposing settlements totaling $79.4 million. An estimate of the eventual outcome of these proceedings cannot be made at this time.

In June 2005, the Public Utilities Commission of Ohio (PUCO) issued an order in Vectren Energy Delivery of Ohio's (VEDO) Gas Cost Recovery (GCR) audit proceeding for the period of November 2000 – October 2002 disallowing the recovery of approximately $9.6 million of gas costs relating to that audit period. VEDO is a wholly-owned subsidiary of Vectren Corporation. ProLiance is the portfolio administrator for VEDO. Following a December 2005 PUCO Order on Reconsideration that reduced the overall disallowance by $1.9 million from the June 2005 Order, the Utility recorded a reserve of $0.7 million in December of 2005, reflective of the assessment of its share of ProLiance's liability under the Order. Discussions between the Utility and Vectren regarding ProLiance's liability as a result of the Order are ongoing, and the timing or outcome of those discussions cannot be determined at this time.

c. Regulatory Contingencies

On November 8, 2006, the Utility filed a request for rehearing and partial reconsideration of certain aspects of the IURC's final order approving a gas rate increase for the Utility, which was issued on October 19, 2006. On November 17, 2006, the Utility filed a notice of appeal with the Indiana Court of Appeals preserving its ability to appeal certain aspects of the IURC's final order in that case. Subsequently, a settlement agreement between the Utility, the Indiana Office of the Utility Consumer Counselor, and the Industrial Intervener group was reached. The IURC approved that settlement agreement on August 29, 2007, which, among other things, authorized the Utility to implement a decoupling mechanism that will ensure the Utility's actual revenues more closely track the Utility's authorized revenue requirement approved by the IURC. As a result of the IURC's approval of the settlement agreement, the petitions for rehearing and appeal of the rate case order were dismissed.

On December 29, 2006, Citizens Thermal Energy (CTE) filed a petition with the IURC requesting approval of a new schedule of rates and charges to increase its steam utility operating revenues. Subsequently, a settlement agreement between the Utility, the Indiana Office of the Utility Consumer Counselor, and the Industrial Intervener group was reached. The IURC approved that settlement agreement, which, among other things, authorized new rates reflecting an annual $6.5 million phase 1 increase in operating revenues, an annual $3.1 million phase 2 increase effective December 1, 2008, to recover increased costs that will be incurred under a new steam purchase agreement effective on that date and transition from an annual to a quarterly adjustment to its fuel cost recovery mechanism.

d. Leases

The Trust has entered into operating leases for storage of natural gas at various sites and for miscellaneous equipment. Lease expenses were $13.1 million and $13.7 million for the years ended September 30, 2007 and 2006, respectively. Future minimum lease payments under noncancelable operating leases as of September 30, 2007 are as follows:

	Amounts (In Millions)
2008	$ 11.6
2009	11.6
2010	11.3
2011	6.2
2012	.5
Thereafter	–
Total minimum lease payments	$ 41.2

14. New Accounting Standards

SFAS No. 157 – Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements; however, the standard will impact how other fair value based GAAP is applied. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with early adoption encouraged. The Trust is currently assessing the impact this statement will have on its consolidated financial statements.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* – including an amendment of FASB Statement No. 115 (SFAS 159). This statement permits entities to choose, at specified election dates, to measure many financial instruments and other items at fair value that are not currently required to be measured at fair value. Once the fair value option is made on a particular instrument, it is irrevocable. Unrealized gains and losses, including upfront costs and fees, would be reported for which instruments the fair value option has been elected in earnings. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with early adoption encouraged, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. The Trust is currently assessing the impact this statement will have on its consolidated financial statements.

Report Of Independent Auditors

To the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, a Municipal Corporation of the State of Indiana, doing business as Citizens Gas & Coke Utility:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of operations, cash flows and equity present fairly, in all material respects, the financial position of Citizens Gas & Coke Utility and its subsidiaries at September 30, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 8 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans effective September 30, 2007. The Company also restated its 2007 and 2006 consolidated financial statements as discussed in Note 2.

PricewaterhouseCoopers LLP

December 10, 2007, except for the first paragraph in
Note 2, as to which the date is March 7, 2008
Indianapolis, Indiana

Report Of Management

The Trust has prepared the financial statements and related financial information included in this report. Management has the primary responsibility for the integrity of the financial statements and other financial information included therein, and for ascertaining that the data accurately reflect the financial position and results of operations of the Trust. The financial statements were prepared in accordance with generally accepted accounting principles and necessarily included estimates and judgments with appropriate consideration to materiality. Financial information included elsewhere in this annual report is consistent with the financial statements.

The Trust maintains a system of internal accounting controls to provide reasonable assurance that assets are safe-guarded and that the books and records reflect the authorized transactions of the Trust. Limitations exist in any system of internal control based upon the recognition that the cost of the system should not exceed the benefits derived. Management believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship.

The Trust's independent auditors provide an independent objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. As part of this audit, they regularly evaluate the system of internal accounting control and perform tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

The Executive Committee of the Board of Directors, comprised of three Directors, none of whom is an employee of the Trust, serves as the audit committee. The committee meets periodically with management, the internal auditors and the independent auditors in connection with its review of matters pertaining to the Trust's financial statements, the internal audit program, and the services of the independent auditors.

We believe that these policies and procedures provide reasonable assurance that our operations are conducted in conformity with appropriate statutory requirements and with a high standard of business conduct.

John R. Brehm
Senior Vice President & Chief Financial Officer

Citizens Gas & Coke Utility

Board of Directors - Board of Trustees - Executive Management

Board of Directors:

(Left to Right:) ***Board President, James A. Wade****, Chairman and CEO, R.W. Armstrong & Associates;* ***Board Secretary Dorothy J. Jones****, President, BOS Community Development Corp.;* ***R. Stephen Radcliffe****, Retired Vice Chairman, American United Life Insurance Co.;* ***Board Vice President/Vice Chairwoman Martha D. Lamkin****, President and CEO, Lumina Foundation for Education;* ***James M. McClelland****, President, Goodwill Industries of Central Indiana, Inc.;* ***Anne Nobles****, Vice President, Eli Lilly and Co.;* ***Board Treasurer Lawrence A. O'Connor, Jr.****, Retired President, Bank One, Indiana.*

Board of Trustees:

Board Vice President Fred D. Scott, *Private Practice of Law;* ***Kathryn Betley****, co-owner, Romancing the Seasons;* ***Board President Daniel C. Appel****, President, Gregory & Appel Insurance;* ***Board Secretary Dr. Gerald L. Bepko****, Trustee's Professor Indiana University School of Law;* ***Dan Evans****, President and CEO, Clarian Health Partners.*

Executive Support Team:

(Front Row, Left to Right:) Barb Smith, General Manager Strategic Growth Initiatives; **M. Jean Richcreek,** Senior Vice President, Chief Administrative Officer; **Carey Lykins,** President & Chief Executive Officer; **LaTona Prentice,** Executive Director, Regulatory Affairs; **(Middle Row, Left to Right:) Lindsay Lindgren,** Vice President, Gas & Steam Operations; **Jeffrey Harrison,** Vice President, Engineering and Facilities Management; **Kristine Kuhn,** Director, Internal Audit; **Blaire Daugherty,** Executive Director & Controller; **Robert Hummel,** Vice President, Human Resources; **Yvonne Perkins,** Vice President, Community Relations; **David Toombs,** General Manager, Steam Operations; **Andrew Proctor,** Vice President Customer and Information Services; **William Tracy,** Senior Vice President, Operations; **(Back Row, Left to Right:) John Brehm,** Senior Vice President & Chief Financial Officer; **Aaron Johnson,** Associate Counsel; **John Whitaker,** Senior Vice President, Corporate and Legal Affairs; **Michael Strohl,** Vice President, Market Development. **(Not pictured:) Chris Braun,** General Manager, Gas Operations and **Jamie Dillard**, General Manager, Project Engineering.

Citizens Gas
& COKE UTILITY

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