



Strength



Commitment



Service



Value

ASPIRATION

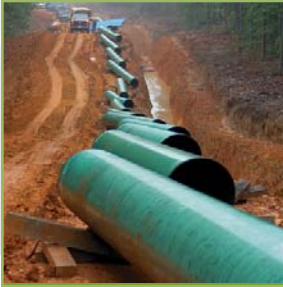
The Premier Regulated Energy Company in North America



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Dear Fellow Stockholders:

At NiSource, our aspiration is to be the **premier** company in our industry, with a strong financial profile; a wide range of investment-driven growth opportunities; robust and sustainable earnings and cash flow; top-tier safety, service and reliability metrics; and a solid foundation of engaged, aligned and safe employees.

I am pleased to report that 2007 was a year of significant progress that brought us closer to achieving that aspiration. Across virtually every dimension of our business, our team made extraordinary progress in “fixing,” “building” and “repositioning” NiSource in 2007. Certainly, advancing the implementation of NiSource’s Path Forward business strategy, which is premised on long-term infrastructure investments, is at the forefront of these accomplishments. Key components of that implementation effort included bold steps to resolve an array of legacy operating, regulatory and commercial issues—setting the stage for what promises to be a pivotal year for our company in 2008.

From an earnings standpoint, NiSource’s core regulated natural gas and electric operations continued to deliver solid performance, with results for 2007 that exceeded our outlook. Meanwhile, our teams made significant progress during the year to reposition the company to deliver long-term growth. With this important foundational work largely completed, each of our business segments is now poised to do what they do best—execute the key investment, regulatory and commercial elements of our business plan, deliver on our commitments, and **Achieve Our Aspiration of becoming The Premier Regulated Energy Company in North America.**

Throughout this report and NiSource’s accompanying 2007 Form 10-K, you will see evidence of progress made during the year. For now, I would like to highlight just a few examples.



Robert C. Skaggs, Jr.
President &
Chief Executive Officer



Michael W. O'Donnell
Executive Vice President
& Chief Financial Officer



Carrie J. Hightman
Executive Vice President
& Chief Legal Officer



Christopher A. Helms
Executive Vice President
& Group CEO, NI Gas
Transmission & Storage

Recommitting to our Core Regulated Assets and our Strategic Plan

Central to our long-term growth strategy is the underlying strength of NiSource's core regulated assets—our local natural gas distribution companies, our Indiana electric business and our extensive natural gas transmission and storage operations.

During 2007, we confirmed the value of those assets through our deliberate and disciplined strategic and financial review process. The review considered a broad range of options, financial techniques and structures within the context of our commitment to sustain NiSource's dividend and maintain our investment grade credit ratings.

As we reported in May, the review concluded that NiSource's existing set of core assets are fundamentally strong, with an array of long-term organic growth prospects. We are convinced we can maximize the value of those assets through our investment-driven strategic plan and deliver long-term, sustainable earnings and cash flow growth for our shareholders. And we are backing that strategic plan with an unprecedented \$1 billion plus annual investment program that will be tightly integrated with our regulatory and commercial activities.

Executing on our Four-Part Plan

Even as our strategic and financial review process was concluding, NiSource teams were actively advancing a wide array of initiatives as part of the company's four-part business plan. That plan centers on: 1) Expansion of and commercial growth of the gas transmission and storage business; 2) Regulatory and commercial initiatives at our utilities; 3) Financial management; and 4) Process and expense management.

At the forefront of those initiatives in 2007 was the progress we made on our development of a **master limited partnership** (MLP) as a strong complement to our NiSource Gas Transmission and Storage (NGT&S) growth strategy. That work led to our December announcement that our new, wholly-owned subsidiary, NiSource Energy Partners, L.P., had filed a registration statement with the Securities and Exchange Commission (SEC). The filing, subject to SEC review, proposed an initial public offering, with the partnership's initial asset being the Columbia Gulf Transmission Company system stretching from Louisiana to Kentucky.

Beyond the MLP initiative, our NGT&S group also continued to develop and execute on a steady stream of pipeline and storage growth projects—an important plank in our long-term growth platform. NGT&S projects advanced during 2007 included:

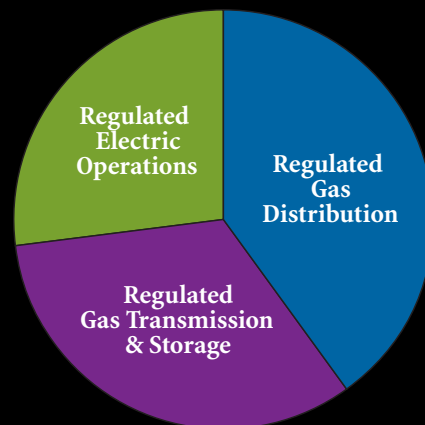
- The initiation of service under the Hardy Storage project,
- The Eastern Market Expansion, which received FERC approval in January of 2008 and is targeted for completion in early 2009,
- A major expansion of capacity into the Florida Gas Transmission system,
- Several new low-cost, high-return connections to the Columbia Gulf system,
- The June launch of construction on the Millennium Pipeline in New York—slated for completion in late 2008.



Our Balanced Approach

The NiSource portfolio of low-risk, regulated assets generates about \$3 billion in annual net revenues, ranking among the nation's largest integrated energy firms and squarely among the Fortune 400 list of top U.S. companies. Our operating income is balanced between each of our three business segments. NiSource stock trades on the New York Stock Exchange under the symbol NI.

VALUE



It is also important to note that the NGT&S team delivered improved operating income during 2007, despite tempered opportunities for optimization-related services due to less volatility in the natural gas market. Driving this improvement was the near-full subscription of the Columbia Gulf system and higher throughput as a result of increased storage injections, gas-fired electric generation demands, and marketing activities. NGT&S also delivered increased earnings in 2007 from our Hardy Storage partnership with Piedmont Natural Gas, which began operations in April.

Synchronizing Infrastructure-Driven Investments and Regulatory Activity

Another central feature of NiSource's long-term strategy is synchronizing our unprecedented infrastructure replacement and enhancement projects with thoughtful, collaborative regulatory initiatives in our **Gas Distribution Segment**. And here again, we made significant strides during 2007.



At **Columbia Gas of Pennsylvania (CPA)**, our team launched a 20-year, \$1.4 billion natural gas infrastructure program. That initiative set the stage for CPA's January 2008 filing of a base rate case seeking a nearly \$60 million annual increase in the company's rates, with an expected effective date of October 28, 2008. Our Pennsylvania team also is taking a leadership role in building support for legislation that would facilitate the timely recovery of costs associated with natural gas infrastructure improvements.

Meanwhile, in neighboring Ohio, **Columbia Gas of Ohio (COH)** and other stakeholders reached a landmark agreement in December that provides COH and its key stakeholders with critically important certainty for the future. The agreement establishes the framework for operations under the company's Customer CHOICESM program for the next several years and provides for a wholesale gas supply auction by early 2010. With this agreement in place, the stage has been set for COH to proceed with its own infrastructure-driven base rate case proceeding during the first quarter of 2008. COH has requested an increase of approximately \$80 million per year, and new base rates are expected to become effective in the fourth quarter of this year.

Also during 2007:

- **Columbia Gas of Virginia** received approval to implement an off-system sales and capacity release incentive mechanism, effective in January 2008.
- **Bay State Gas** received approval for a \$5.9 million increase in base rates, effective last November 1, under its performance-based rate program.
- **Northern Indiana Public Service Company (NIPSCO)** received approval in May for a natural gas rate simplification program that benefits both the company and customers, including the creation of a new energy conservation program.
- And **Columbia Gas of Kentucky** received approval of a rate case settlement that increases annual revenues by \$7.25 million.

The accomplishments in our Gas Distribution segment speak to our continued commitment to take constructive, collaborative approaches to address business and regulatory issues affecting our company and our customers.



Eileen O'Neill Odum
Executive Vice President
& Group CEO, NI Indiana
Business Segment



Jimmy Staton
Executive Vice President
& Group CEO, NI Gas
Distribution



Robert D. Campbell
Senior Vice President,
Human Resources



Glen L. Kettering
Senior Vice President,
Corporate Affairs

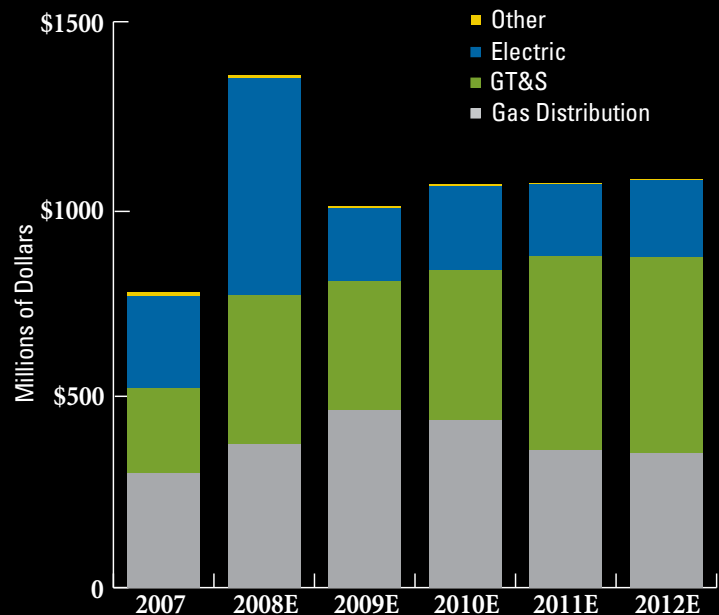


Maximizing Value: NiSource's Investment-Driven Strategy

As part of NiSource's strategy to maximize the value of its core regulated assets, the company has embarked on a \$1 billion-plus annual capital investment program. These investments span each of NiSource's business segments, including promising new organic growth prospects in natural gas transmission and storage, new generation capacity to meet electric customers' needs, and significant infrastructure replacement and enhancement programs in natural gas distribution. Our approach to these programs is straightforward—the investments will be disciplined, aggressively managed and synchronized with corresponding commercial and regulatory strategies in order to deliver long-term, sustainable earnings and cash flow growth for NiSource shareholders.

INVESTING

5-Year Capital Program



That same approach holds true in our **Electric Business**, where our NIPSCO team took several important steps during 2007 to set the stage for a robust 2008 regulatory agenda.

First, NIPSCO reached a settlement with regulatory stakeholders and large customers resolving matters related to the cost of purchasing electric power to meet growing demand. NIPSCO then filed an Integrated Resource Plan (IRP) with the Indiana Utility Regulatory Commission outlining its approach to meeting the company's need to add approximately 1,000 megawatts of new capacity by 2014. The IRP concluded that the best alternative for meeting that need would be for NIPSCO to invest in additional gas-fired combined cycle generating capacity. As of this writing, NIPSCO is actively pursuing several potential options for acquiring additional generating facilities.

The NIPSCO team, under the leadership of Eileen O'Neill Odum—Group CEO of our Indiana businesses—is now well positioned to file a base rate case on July 1 of this year. We are excited about the addition of Eileen to our senior leadership team and convinced that the business segment operating model being developed across NiSource will provide the necessary focus and accountability for NiSource to deliver on its financial commitments in the years to come. That model is already in place in our NGT&S segment under the leadership of Group CEO Chris Helms, and has been very recently established in our Gas Distribution segment, with the announcement of Jimmy Staton as Group CEO.

Resolving Legacy Issues

As indicated above, 2007 marked the successful resolution of a number of "legacy" issues that had caused distractions or financial pressures in the past. One of the notable accomplishments in this regard was the significantly improved results from our Whiting Clean Energy unit, under its redefined operating agreement with BP. During the year, our **Other Operations** segment delivered operating income of \$8.1 million, as compared to a loss of \$40.2 million in 2006. The \$48.3 million improvement was almost exclusively driven by improved results from the Whiting unit.

Also notable was the restructuring of NiSource's business services agreement with IBM. Under the restructured agreement, IBM will primarily provide information technology services, with a number of other business service functions transitioned back to the NiSource organization. Going forward, NiSource will be in a position to more effectively manage its employee and administrative expenses, while ensuring delivery of services to meet the company's needs. This situation has been a distraction over the last several years, and I am pleased we have made the necessary changes to stabilize these services and move forward on a solid footing.

Maintaining Investment Grade Credit Ratings

We met with credit rating agencies in late 2007 and reviewed our long-term business plans, including our \$1 billion plus annual infrastructure investment program. Both Moody's and Standard & Poor's (S&P) confirmed **NiSource's investment grade credit ratings**. The company received a Baa3 rating from Moody's and a BBB- rating from S&P. S&P's outlook is stable, while Moody's is negative. Despite being at the lower end of the investment grade rating category, we nonetheless were encouraged by the favorable view of NiSource's business profile expressed by each of the rating agencies, as well as their indication that the company's successful execution of its business plan should sustain our investment grade ratings.



W. Harris Marple
Senior Vice President,
Distribution Operations



Kathleen O'Leary
Senior Vice President,
Performance
Management



Violet G. Sistovaris
Senior Vice President,
Administrative Services



Larry J. Francisco
Vice President,
Audit

This impressive list of 2007 key accomplishments is proof positive of our team's ability to execute our game plan to position the company to deliver on our four-part business plan for long-term, sustainable growth. We continue to move aggressively, and thoughtfully, to engage our stakeholders, make disciplined investments, and position our teams to execute on NiSource's growth strategy.

Charging into a Pivotal Year

With significant groundwork having been laid in 2007, we view 2008 as a pivotal year in our long-term growth strategy. In fact, we are charging into 2008 with three critical areas of focus:

- **Executing on Major Infrastructure Enhancement Projects**, which will constitute a significant portion of NiSource's more than \$1 billion annual ongoing capital investment program.
- **Achieving our Key Regulatory Initiatives**, including gas base rate cases in Pennsylvania and Ohio, as well as NIPSCO's electric rate case scheduled for filing on July 1, 2008.
- **Advancing our NGT&S Growth Strategy**, including securing approvals and timely construction of announced projects, developing an array of potential new growth opportunities, and continuing with the formation of NiSource Energy Partners, L.P.

As we aggressively pursue these priorities, we are keenly aware and appreciative of your continued support. Our investment-driven utility and pipeline growth strategies clearly require time and considerable effort to bear fruit. Nevertheless, we are convinced that the foundation we have built, and will continue to build over the next several years, will position NiSource to generate meaningful and sustainable future earnings and cash flow growth.

Doing What We Do Best

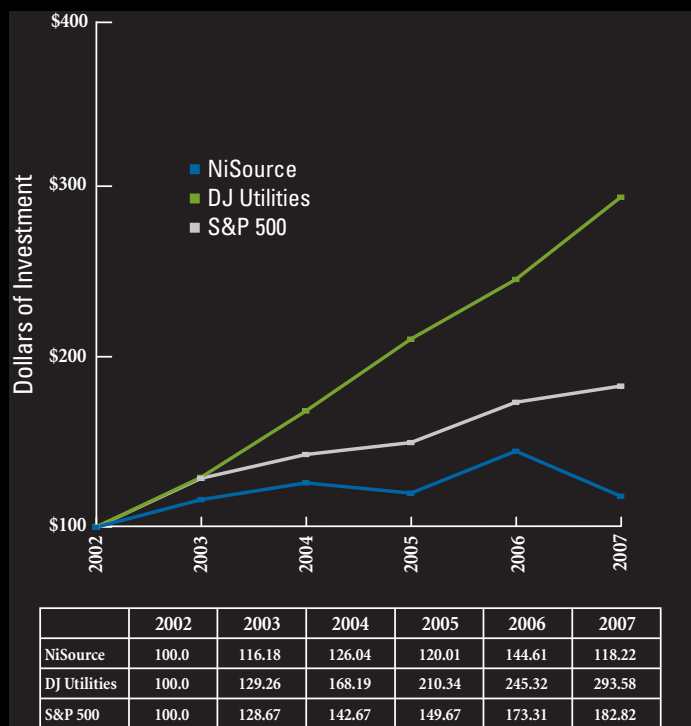
With our strategy clearly set, employees all across NiSource are hard at work today—committed to achieving our long-term aspiration, step-by-step, brick-by-brick. And the capstone is that our entire team is energized, and intently focused on executing this plan. Quite frankly, as a regulated energy company, we welcome these priorities. This is what we do best. As always, we remain committed to communicating with our investors and all other stakeholders in a transparent and timely manner regarding these and all of our efforts. Ongoing updates will be provided on www.nisource.com.

Thank you once again for your continued interest in and support of NiSource.

Sincerely,

Robert C. Skaggs, Jr.
President and Chief Executive Officer

NYSE: NI Stock Price Performance



Dear Fellow Stockholders:

On behalf of the Board of Directors, I want to take this opportunity to thank you for your investment in and continued support of NiSource.

As Bob Skaggs' letter in this report shows, 2007 was, indeed, a year of significant progress for NiSource, one that sets the stage for continued progress in 2008 as the company aggressively pursues its aspiration of becoming North America's premier regulated energy company. I can't emphasize enough the level of this Board's engagement, alignment and support of management's investment-driven business strategy and its detailed plans for executing on that strategy and delivering long-term, sustainable growth for our shareholders.

I would be remiss if I did not mention that many of our successes during this and previous years were made possible in part through the efforts of Peter Fazio and Roger Young. Peter retired in December 2007 as Executive Vice President and General Counsel after 15 years of service. Roger has elected to retire from the Board of Directors at the end of his current term in May of this year after nine years of service. Prior to that time, Roger served as Chairman of Bay State Gas. Peter and Roger each brought tremendous expertise and wise counsel to NiSource, and we wish them well in retirement.

Sadly, early this year, we said goodbye to another valued board member and friend, as Steve McCracken lost a long battle with cancer. Steve was a widely respected business leader, a member of our Board since 2005, and a committed husband and father. He is greatly missed.

Board of Directors

Ian M. Rolland

Chairman of the Board, NiSource Inc.

Dr. Steven C. Beering

Chairman, National Science Board

Deborah S. Coleman

EVP & COO, National Urban League

Dennis E. Foster

Principal, Foster Thoroughbred Investments

Marty Kittrell

EVP & CFO, Dresser, Inc.

W. Lee Nutter

Retired Chairman, President & CEO, Rayonier, Inc.

Robert C. Skaggs, Jr.

President & CEO, NiSource Inc.

Richard L. Thompson

Chairman, Lennox International, Inc.

Dr. Carolyn Y. Woo

Martin J. Gillen Dean & Ray & Milann Siegfried
Prof. of Entrepreneurial Studies
Mendoza College of Business
University of Notre Dame

Roger A. Young

Retired Chairman, Bay State Gas Co.

Also during 2007, we welcomed to the NiSource Board the new perspectives and business and operational insights of Deborah S. Coleman, who joined our ranks in July 2007. Deborah brings extensive background in process improvement and operational effectiveness. We also expect two new additions to the Board during 2008.

As we move into 2008, the NiSource Board will continue to test and validate key components of the company's Path Forward strategy. We take seriously our role as stewards of your investment, and are committed to building a long-term, sustainable enterprise predicated on sound business strategy, exemplary customer service, and strong financial metrics.

As a Board, we remain firmly committed to the principles of transparency, integrity and responsiveness, as well as to governance standards and practices that reflect those principles. We took a number of actions during 2007 that attest to that commitment, including

the adoption of revised director election processes and new committee structures. You have my commitment that the Board will assess its governance practices on an ongoing basis and make any adjustments necessary to continue to fulfill our fiduciary responsibilities to our shareholders.

Sincerely,



Ian M. Rolland
Chairman of the Board



STOCKHOLDER INFO

This document contains "forward-looking statements." For a discussion of factors that could cause actual results to differ materially from those contained in such statements, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the NiSource Inc. annual report on Form 10-K included herein.

NiSource Inc. common stock is listed and traded on the New York Stock Exchange under the symbol NI. The shares are listed in financial stock quotations as NISOURCE. As of Dec. 31, 2007, NiSource Inc. had 38,091 registered common stockholders.

Anticipated Dividend Record and Payment Dates

NiSource Common Stock

Record Date	Payment Date
04-30-08	05-20-08
07-31-08	08-20-08
10-31-08	11-20-08
01-30-09	02-20-09

Common Stock Dividend Declared

The Board of Directors, effective January 4, 2008, has declared a quarterly dividend of \$0.23 per share, equivalent to \$0.92 per share on an annual basis.

Investor and Financial Information

Financial analysts and investment professionals should direct written and telephone inquiries to NiSource Investor Relations at 801 E. 86th Ave., Merrillville, IN 46410 or (219) 647-6209.

Copies of NiSource's financial reports are available by writing or calling the Investor Relations department at the address or phone number listed above. The materials are also available at www.nisource.com.

Stockholder Services

Questions about stockholder accounts, stock certificates, transfer of shares, dividend payments, automatic dividend reinvestment and stock purchase plan, and electronic deposit may be directed to Mellon Investor Services at the following:

BNY Mellon Shareowner Services

P.O. Box 358015
Pittsburgh, PA 15252-8015

or

480 Washington Boulevard
Jersey City, NJ 07310-1900

(888) 884-7790

TDD for Hearing Impaired
(800) 231-5469

Foreign Stockholders
(201) 680-6578

TDD Foreign Stockholders
(201) 680-6610

www.bnymellon.com/shareowner/isd

On June 6, 2007, NiSource's Chief Executive Officer submitted to the New York Stock Exchange ("NYSE") an annual certification stating that as of that date he was not aware of any violation by the company of the New York Stock Exchange's corporate governance listing standards, as required by Section 303A.12(a) of the NYSE's Listed Company Manual. NiSource's Chief Executive Officer and Chief Financial Officer have provided certifications to the U.S. Securities and Exchange Commission as required by Section 302 of the Sarbanes-Oxley Act of 2002. These certifications are included as Exhibits 31.1 and 31.2 to the company's 10-K for the year ended December 31, 2007.

Stockholder Inquiries
BNY Mellon Shareowner Services

(888) 884-7790

Analyst Inquiries
Investor Relations

(219) 647-6209

Media Inquiries
Communications

(219) 647-5581

