

A photograph of a worker in a blue polo shirt, white hard hat, and safety glasses. The worker is looking at a clipboard held in their hands. They are standing next to large industrial tanks wrapped in reflective insulation. The scene is lit with a blue and orange glow, suggesting an industrial setting.

Commitment

2008 Annual Message to Stockholders

MISource



Our Aspiration

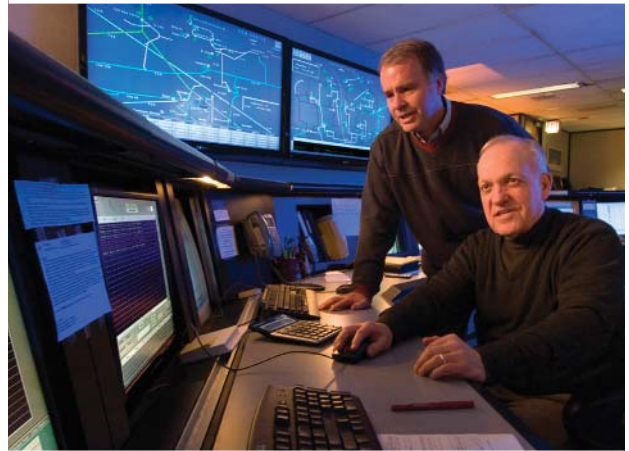
Become the **premier** company in our industry, with a strong financial profile, a wide range of investment-driven growth opportunities, robust and sustainable earnings and cash flow, top-tier safety, service and reliability metrics, and a solid foundation of engaged, aligned and safe employees.

Our Strategy

- Execute on regulatory initiatives and infrastructure programs at our utilities
- Expand and grow our natural gas transmission and storage business
- Strengthen our financial foundation
- Enhance processes, performance, safety and reliability across our companies

Our Commitments

- Operate safely
- Deliver reliable service to our customers
- Execute on our balanced business plan
- Maintain our investment-grade credit ratings and dividend
- Generate long-term, investment-driven earnings growth
- Communicate in a transparent and timely manner



Dear Fellow Stockholders:

During 2008, NiSource delivered on its commitments.

Across virtually every key dimension of our business, NiSource teams made excellent progress.

- We hit our key financial and business targets.
- We strengthened our financial foundation.
- We resolved legacy issues.
- We continued building a foundation for sustainable, investment-driven growth.

These achievements are somewhat obscured by the challenging economic and financial conditions we and other companies have faced of late and the extent to which those factors have affected our share price performance. However, as discussed below, I believe that – by almost any measure – the progress our team made in 2008 was truly exceptional.

Acknowledging Global Challenges, Preserving Our Plan

Although we made significant strides forward over the course of the last year, we fully appreciate the challenges that lie ahead and the need to continue to effectively navigate the ongoing economic downturn and difficult financial market conditions. To that end, our management team and Board of Directors have taken steps to preserve the core elements of our business strategy while maintaining financial flexibility and adequate liquidity.

As we move forward into 2009, our team is equipped with a balanced, measured long-term business plan and a proactive strategy for addressing the near-term challenges that face our company. It is my privilege to share this update with you and explain why – today more than ever – I am convinced we will **deliver on our commitments** to enhance shareholder value, deliver long-term earnings growth and become **North America's premier regulated energy company.**

Delivering Results

As you know from our periodic updates, NiSource's financial performance for 2008 was

solid. For the year, we delivered net operating earnings (non-GAAP) of \$348.5 million, or \$1.27 per share. On a GAAP basis, income from continuing operations was \$369.8 million, or \$1.35 per share. For the second consecutive year, those results were in line with our earnings targets, and reflected the collective effort and commitment by people across our organization.



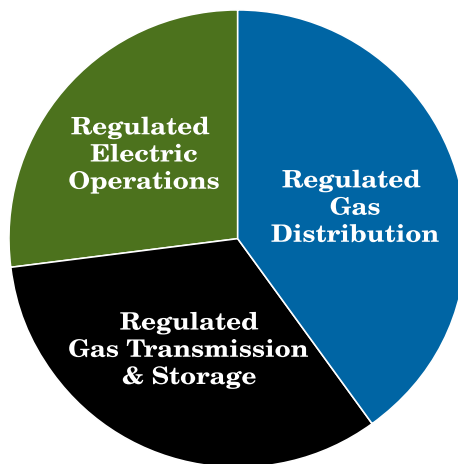
On a business segment basis, we saw high-quality execution on a number of key initiatives that are central to our

balanced plan for delivering long-term growth. As you will see in the segment profiles featured in this year's report, there were significant accomplishments across each of our three primary businesses during 2008:

- Our gas distribution team advanced an extensive array of landmark infrastructure enhancement programs and complementary regulatory and commercial initiatives.
- Our Indiana team made significant progress in addressing near-term electric generating capacity needs and advanced an aggressive regulatory agenda, including the important

Northern Indiana Public Service Company (NIPSCO) electric rate case.

- Our gas transmission and storage (NGT&S) team continued to deliver on its strategy of maximizing value from existing assets and advancing growth projects that leverage our unparalleled pipeline and storage footprint.



A Balanced, 100% Regulated Portfolio

I would be remiss if I didn't also point out that our NiSource teams delivered these results despite a daunting array of unprecedented and, in some cases unimaginable, challenges. These ranged from devastating storms and hurricanes, to flooding, and – in the case of our NGT&S team – the catastrophic destruction of an entire mainline compressor station by a tornado.

Management Team

Robert C. Skaggs, Jr.

President & Chief Executive Officer

Stephen P. Smith

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

Eileen O'Neill Odum

Executive Vice President & Group CEO, NI Indiana Business Unit

Jimmy Staton

Executive Vice President & Group CEO, NI Gas Distribution

Michael W. O'Donnell

Executive Vice President

Robert D. Campbell

Senior Vice President, Human Resources

Glen L. Kettering

Senior Vice President, Corporate Affairs

Kathleen O'Leary

Senior Vice President, Performance Management

Violet G. Sistovaris

Senior Vice President & Chief Information Officer

Larry J. Francisco

Vice President, Audit

As we have come to expect – and by no means take for granted – the response of NiSource employees to these and other challenges was remarkable. Our teams remained focused, productive and safe. This is a key reason why a solid foundation of engaged, aligned and safe employees remains a key priority for our organization.

Sharpening Our Focus, Strengthening Our Foundation

In addition to our business unit accomplishments, we took several key steps during 2008 to strengthen our balance sheet, sharpen our corporate focus and eliminate distracting legacy issues. In particular, I would highlight:

- The sale of Northern Utilities and Granite State Gas Transmission to Unitil Corp. for about \$200 million, including working capital.
- The sale of non-strategic Columbia Gulf Transmission assets in the Gulf of Mexico to Tennessee Gas Pipe Line for \$7.5 million.
- The successful completion of the sale of the Whiting Clean Energy facility to BP Alternative Energy North America for approximately \$217 million, including working capital.
- Resolution of the Tawney class action litigation, which involved natural gas royalty claims against Columbia Natural Resources, a former NiSource subsidiary.

We also took steps throughout the year to secure financing and strengthen NiSource's liquidity position. During the second quarter, we successfully issued \$700 million of senior unsecured debt at favorable rates. We later successfully refinanced about \$250 million in NIPSCO Pollution Control Bonds and supplemented our \$1.5 billion revolving credit facility that extends to July 2011 with a new, six-month \$500 million credit facility. That facility helped ensure ample liquidity to accommodate the company's seasonal cash flow requirements and to provide near-term



Gas Distribution

Executing on regulatory initiatives & infrastructure enhancement programs

During 2008, NiSource's natural gas distribution businesses advanced an array of infrastructure enhancement programs and complementary regulatory and commercial initiatives:

- **Columbia Gas of Pennsylvania** reached a unanimous \$41.5 million rate case settlement with regulatory stakeholders – closely linked to the company's \$1.4 billion, 20-year distribution system replacement program.
- **Columbia Gas of Ohio** received approval of a landmark rate case settlement that provides an additional \$47.1 million in annual base revenues and establishes an enhanced rate structure and new demand side management and low income customer support programs. The settlement contains a tracking mechanism closely synchronized with the company's \$2 billion long-term infrastructure enhancement and replacement program.
- Advanced other regulatory and commercial initiatives, including the filing of a \$3.7 million rate case at **Columbia Gas of Maryland**, preparations for rate case filings at **Columbia Gas of Kentucky** and **Bay State Gas**, and securing an agreement for **Columbia Gas of Virginia** to serve the planned 580-megawatt Bear Garden generating station in Buckingham County, Va.

Gas Transmission & Storage

Maximizing growth and value

During 2008, NiSource's Gas Transmission & Storage (NGT&S) business continued its strategy of developing a portfolio of growth projects while maximizing value from its existing asset base.

- Successfully launched the 182-mile **Millennium Pipeline**, jointly owned by units of NiSource, National Grid, and DTE Energy.
- Increased overall revenues and throughput from the first full year of Hardy Storage operations and new system interconnects along the Columbia Gulf Transmission and Columbia Gas Transmission pipeline systems.
- Continued construction on the fully-subscribed **Eastern Market Expansion** to add 97,000 dekatherms (Dth) per day of storage and transportation deliverability this year.
- Received approval to construct the fully subscribed **Appalachian Expansion** project, adding 100,000 Dth per day of transportation capacity by late this year.
- Advanced other near-term growth opportunities, including those linked to the company's unparalleled pipeline and storage footprint in the Appalachian Basin's **Marcellus Shale** development areas.

funding flexibility related to the Tawney settlement. As of the end of 2008, approximately \$750 million of aggregate credit capacity was available to NiSource under these facilities.

Given the substantial progress made in advancing our business plan during 2008, under normal circumstances, we would have been delighted with our prospects as we entered 2009. However, for us and countless other businesses across the globe, circumstances are anything but normal.

Taking a Thoughtful, Proactive Approach

From the outset of the global financial and economic crisis, NiSource's executive team and Board of Directors have been actively engaged in assessing potential impacts on our businesses and developing plans to effectively manage through this period.

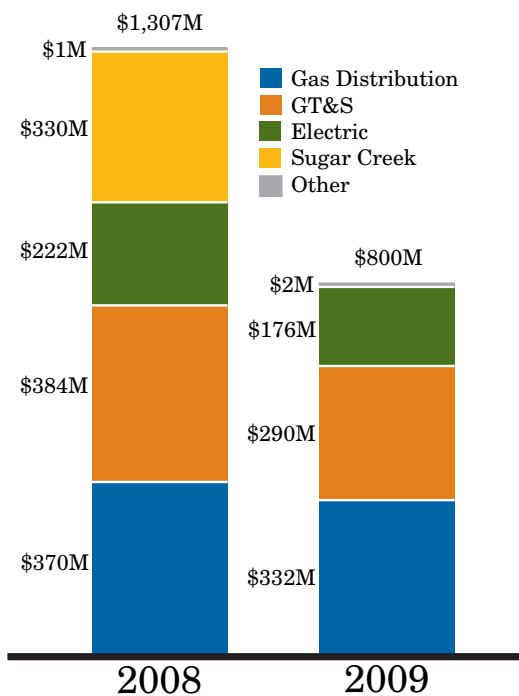
As you might expect, a focal point of our initial efforts has been to ensure continued access to credit markets on reasonable terms – an essential requirement for a capital intensive business such as ours. We also have concentrated on the potential impacts of the economic decline on the industrial and other markets we serve, as well as on increases in pension expense and funding requirements. While these issues certainly are not unique to NiSource, they represent a set of challenges that we need to – and will – thoughtfully and proactively manage.

With that in mind, we developed a plan to address the issues created by current financial and economic conditions without sacrificing the core elements of our long-term growth strategy. This balanced and measured approach is designed to maintain our business commitments while managing liquidity in a prudent and disciplined fashion. Here are some key elements of our plan, many of which I am pleased to say have already been accomplished or are well under way:

- We reduced planned capital spending for 2009 from slightly more than \$1 billion to

\$800 million – with 2009 investments split evenly between growth (or revenue generating) and maintenance projects.

- We have reduced working capital requirements to generate at least \$250 million in additional liquidity for 2009, a reduction that, if anything, we regard as conservative.
- We repurchased approximately \$32 million of the \$450 million of debt scheduled to mature in November 2009, as well as \$68 million of debt scheduled to mature in November 2010.
- We developed plans to adopt an expanded dividend reinvestment plan, which is expected to reduce cash requirements by \$15 to \$20 million annually.



Capital Expenditures

I would also note that NiSource’s near-term liquidity profile will be enhanced by the “bonus” tax depreciation provisions contained in the American Recovery and Reinvestment Act of 2009, enacted in February of this year. Specifically, we estimate that the measure will effectively generate \$100 million in incremental cash for NiSource in 2009.

In addition, we have undertaken a number of initiatives that will help us further enhance efficiency and reduce operating and maintenance expenses. These include tightly managing staffing, freezing base compensation for senior executives and postponing most exempt employee pay increases across all of NiSource. Our business units have launched additional efforts to generate cash or better manage costs – with activities tailored to the unique circumstances of our companies. For example, in response to the economic slowdown, our NGT&S unit recently accelerated a planned restructuring of its operations to better focus on core business processes, increasing efficiency and maintaining safe, reliable customer service.



Ensuring Financial Flexibility and Liquidity

The combined effect of these initiatives has been to reduce NiSource’s total projected 2009 financing requirements from nearly \$1 billion to less than \$500 million. I am pleased to say that, as of this writing, we have fully addressed those 2009 financing requirements, and we are well along in meeting our 2010 financing needs.

In February we closed on a \$265 million two-year term loan under attractive terms, with the opportunity to expand up to a total of \$500 million in April under an accordion feature in the financing agreement. Additionally, in March, we issued \$600 million in senior unsecured notes in an underwritten offering. The proceeds from that issuance will allow us to complete the refinancing of outstanding debt scheduled to mature in November 2009 and for general corporate purposes, including refinancing a portion of outstanding debt scheduled to mature in November 2010.



Electric Operations

Addressing capacity needs while pursuing a robust regulatory agenda

NiSource's **Northern Indiana Public Service Company (NIPSCO)** took steps in 2008 to meet customers' long-term electric generation capacity needs, diversify its electric supply portfolio and pursue an aggressive regulatory agenda:

- Acquired the \$330 million, 535 megawatt Sugar Creek combined cycle electric generating facility. By December 1, 2008, the plant was successfully dispatched into the Midwest Independent Transmission System Operator (MISO), allowing it to begin directly serving NIPSCO's 455,000 electric customers.
- Added wind-generated power to NIPSCO's portfolio beginning in 2009.
- Filed NIPSCO's electric base rate case – its first in 20 years – seeking a rate adjustment of approximately 9.8 percent, or about \$85 million annually. The proceeding is expected to be completed and new rates placed into effect in late 2009 or early 2010.
- Continued a multi-year generation reliability investment program and accelerated distribution system reliability and outage response improvements.
- Proposed expanded energy efficiency programs for electric customers, such as direct load control programs, energy efficiency rebates, and advanced metering.

Suffice it to say, I am confident that our comprehensive and proactive strategy will enable us to successfully maintain NiSource's financial flexibility and solid liquidity going forward.

Navigating Though Earnings Headwinds

It's worth noting that, if not for a few unforeseen items, we would essentially be on track to achieve NiSource's three-year earnings trajectory that we shared with you in late 2007. Unfortunately, those items for 2009 are significant – starting with increased pension expense.

Like many of our peers in the utility industry and, indeed, large employers in general, we are seeing a significant increase in pension expense, due to the recent deterioration in global securities markets. While over time we expect to reflect increased pension expenses in rates, this issue will have a negative impact on earnings in the near term. In that regard, for 2009, NiSource's pension expense will be about \$100 million higher than it was in 2008, reducing forecasted earnings by 24 cents per share.

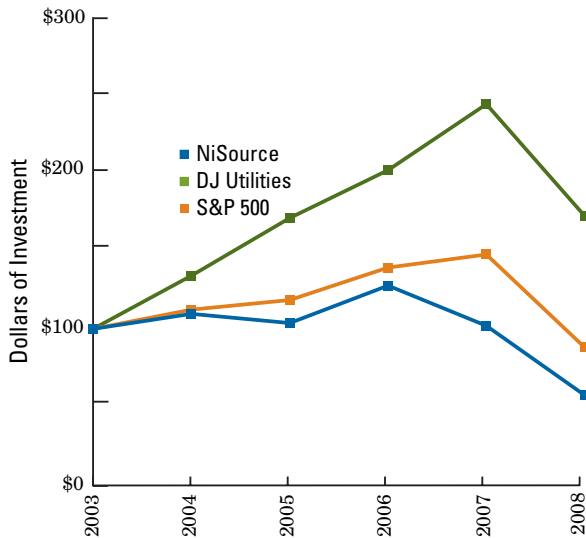
I would emphasize that our pension asset performance historically has been quite strong and that we entered 2008 in a fully funded position. For 2008, our plan assumed asset performance of 9 percent, while actual returns – like those for many companies – were down by approximately 30 percent.

In addition, as a result of the Tawney settlement payments and other factors, we expect a year over year increase in interest expense of approximately 12 cents per share.

Lastly, we expect that the economic downturn will negatively affect 2009 earnings by about 5 cents per share and that increased property taxes and other costs will amount to about 8 cents per share.

On the positive side of the ledger, we expect our 2009 earnings will be positively impacted by a number of items, including increased

revenue from customer growth and pipeline projects (totaling 11 cents per share) and favorable regulatory outcomes in Pennsylvania and Ohio (which are expected to contribute about 16 cents per share).



	NiSource	DJ Utilities	S&P 500
2008	62.49	163.89	89.53
2007	101.75	227.12	142.09
2006	124.47	189.79	134.69
2005	103.29	162.73	116.32
2004	108.49	130.12	110.88
2003	100.0	100.0	100.0

Stock
Price
Performance

As a result of these factors, we expect NiSource's net operating earnings (non-GAAP) for 2009 to fall within a range of \$1.00 to \$1.10 per share. On a GAAP basis, the range for basic earnings per share from continuing operations is expected to be the same as net operating earnings.

Although this decline in expected earnings from 2008 to 2009 effectively resets our earnings baseline, we remain firmly committed to achieving long-term, sustainable growth for our many stakeholders. Because our core business remains sound and our progress is real, I have confidence in our ability to deliver on that commitment. If anything, I am even more convinced that NiSource's portfolio of low risk, regulated businesses can consistently deliver 3 to 5 percent earnings growth over the long term.

Delivering on Our Commitments

In closing, I will revisit a point I made at the beginning of this letter: Although somewhat obscured by today's financial and economic conditions – and the headwinds they present for the current year – 2008 was indeed a strong year for NiSource. We executed against an aggressive, highly visible plan, in a tough economic environment.

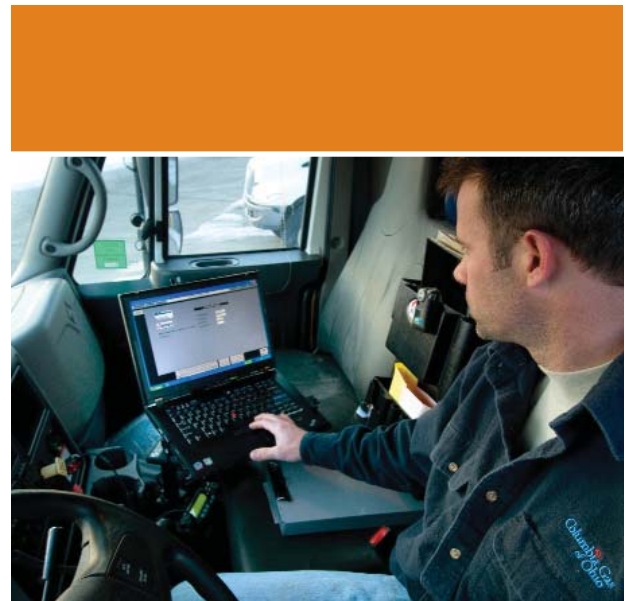
Going forward, we remain strongly committed to maintaining a solid financial foundation and to delivering on our fundamental promise of growing NiSource by investing in our infrastructure and coupling that investment with effective regulatory and commercial actions.

If we can do that – and I am confident we can – we will generate long-term, sustainable value for NiSource shareholders.

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

Sincerely,

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



Dear Fellow Stockholders:

On behalf of the Board of Directors, thank you for your investment in and continued support of NiSource.

As highlighted in President and CEO Bob Skaggs' letter, 2008 was a year of significant progress for our company. In the face of a number of stiff challenges, the NiSource team delivered on its commitments and advanced the company's strategy of delivery long-term sustainable growth.

Without question, the persisting downturn in the economic and financial environment will present NiSource – and virtually all companies – with a continuing wave of challenges as we move forward in 2009. While NiSource's portfolio of low-risk, regulated and resilient businesses may be better positioned than many to weather these turbulent times, the company's management and Board recognize that we too must make adjustments and take the steps necessary to prudently manage through this period. I want to underscore to you that the Board has been actively engaged and is very supportive of management's plan to move the company forward in 2009, and is confident in the ability of the NiSource team to execute on that plan.

As a Board, we take seriously our role as stewards of your investment in NiSource, and we are firmly committed to principles of integrity, transparency and independence.

During 2008, we welcomed two new Board members – Richard A. Abdo and Michael E. Jesanis – who come to NiSource with a depth of corporate and energy industry experience and valuable financial and operational insight. Their commitment and perspective, and that of the entire Board, are very much appreciated.

As we move forward through 2009, I can assure you that the Board will continue to maintain a high level of engagement with Management and, together with Bob and his team, will test and validate the company's strategies and plans on an ongoing basis. Despite what promises to be a challenging environment, we are confident the company will continue to deliver on its commitments to you and our other key stakeholders.

Once again, thank you for your investment, and for your continuing support of OUR company.

Sincerely,



Ian M. Rolland
Chairman of the Board
NiSource Inc.

Board of Directors

Ian M. Rolland
Chairman of the Board
NiSource Inc.

Richard A. Abdo
President
R.A. Abdo & Co. LLC

Dr. Steven C. Beering
Chairman
National Science Board

Dennis E. Foster
Principal
Foster Thoroughbred Investments

Michael E. Jesanis
Principal
Serrafix

Marty Kittrell
EVP & CFO
Dresser, Inc.

W. Lee Nutter
Retired Chairman
President & CEO, Rayonier, Inc.

Deborah S. Parker
President & CEO
International Business Solutions, 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

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, 2008, NiSource Inc. had 36,194 registered common stockholders.

Anticipated Dividend Record and Payment Dates

NiSource Common Stock

Record Date	Payment Date
04-30-09	05-20-09
07-31-09	08-20-09
10-30-09	11-20-09
01-29-10	02-19-10

Common Stock Dividend Declared

The Board of Directors, effective January 9, 2009, 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 9, 2008, 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, 2008.

Stockholder Inquiries
BNY Mellon
Shareowner Services

(888) 884-7790

Analyst Inquiries
Investor Relations

(219) 647-6209

Media Inquiries
Communications

(219) 647-5581

NiSource Inc.
801 East 86th Avenue
Merrillville, IN 46410
www.nisource.com