

2006 Annual Message to Stockholders

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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.



Stockholder Information



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, 2006, NiSource Inc. had 40,401 registered common stockholders.

Anticipated Dividend Record and Payment Dates

NiSource Common Stock

Record Date	Payment Date
04-30-07	05-18-07
07-31-07	08-20-07
10-31-07	11-20-07
01-31-08	02-20-08

Common Stock Dividend Declared

At its meeting on Jan. 5, 2007, the board of directors 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:

Mellon Investor Services
P.O. Box 3315
South Hackensack, NJ 07606

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.melloninvestor.com

On June 6, 2006, 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, 2006.

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Dear Fellow Stockholders:

I am pleased to report continuing and significant progress toward NiSource's strategic destination of becoming the Premier Regulated Energy Company in North America.

In my 2005 letter, I assured you NiSource was on the right track. We had established a balanced and achievable business plan and put in motion initiatives to address key ongoing challenges. We also had embarked on a wide-ranging process to define our strategic direction and transform our company. These efforts acknowledged our core financial realities, recognized our company's unrealized potential, and reinforced our long-term aspiration.

Today, across virtually every key dimension of our business, NiSource has made extraordinary progress in redefining and moving our company forward.

At the forefront of that effort is the continued development of our strategic outlook and long-term business plan. As of this writing, we are nearing completion of a comprehensive financial and strategic review of NiSource's entire portfolio of businesses. Conducted in close collaboration with the NiSource Board of Directors, this review has considered and analyzed a broad spectrum of alternatives for unlocking the underlying value of NiSource's asset base and positioning the company on a solid footing for future growth. By the time you receive this letter, we expect to have shared additional information regarding the outcome of that review.

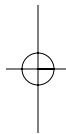
With a clear line of sight and a well-defined plan of execution, we are embarking on the next phase of our evolution as a company: NiSource's **Path Forward**.

Our Path Forward represents both a long-range vision and a series of near-term driving strategies designed to position NiSource as a premier performer in our industry. These strategies will produce a broad array of improved results for our stockholders, customers and employees.

Key deliverables we have set our sights on achieving by the close of this decade include:

- **A Strong Financial Profile**, with improving credit metrics, continued stable investment grade credit ratings and the ability to initiate steady dividend increases;
- **Robust, Sustainable Earnings Growth** in an ongoing 3–5 percent range per year, driven by a disciplined array of revenue-producing infrastructure investments and robust asset optimization;

**A Super-Charged
Company by 2010**



Our Balanced Plan Delivers Solid Results

Expansion & Commercial Growth in the Pipeline & Storage Business

- **Innovative Regulatory Practices and Constructive External Relationships**, resulting in contemporary rate structures and tariffs, timely recovery of capital expenditures, and minimized risk from weather and customer usage;
- **Premier Safety, Reliability and Service**, with ‘best-in-class’ operating and support platforms, and comprehensive, long-term infrastructure enhancement plans; and
- **A Continued Strong Foundation of Engaged, Aligned and Safe Employees**, with pride in our mission, unrelenting focus on execution, and a competitive array of career challenges, development opportunities and incentives to deliver results.

We now have a solid foundation as our starting point, but we know it will take several years to attain our strategic objectives. Getting there will require enhanced levels of financial strength and flexibility. It will call upon us to leverage the inherent strength of NiSource’s core assets. Having said that, I am convinced NiSource possesses the right combination of an extensive array of investment opportunities and the commercial, operational and regulatory expertise and commitment to make our long-term aspiration a reality.

As this strategy unfolds, we will continue to keep you and all key stakeholders engaged and informed. For now, let me reiterate my assurances to you: We are on the right path forward, gaining momentum and making progress every day.

Now in its third year, NiSource’s balanced, four-part business plan continues to deliver solid results from our low-risk portfolio of regulated assets. As we move forward, the fundamental components of that business plan will remain unchanged:

- Expansion and commercial growth in our pipeline and storage business,
- Regulatory and commercial initiatives,
- Financial management, and
- Process and expense management.

As you will see below, across each key plank of this platform our core operating units are continuing to deliver strong performance and positioning NiSource for long-term, sustainable growth.

Our Gas Transmission and Storage (GT&S) segment’s two-pronged growth strategy focuses on optimization of our strategically located natural gas pipeline and storage system, combined with aggressive physical expansion of our network.

Executing on that approach, the GT&S team is moving forward with a range of projects. These expansions are primarily driven by continuing core demand growth in mid-Atlantic and East Coast markets, as well as new growth opportunities created by changing supply patterns across the country.

One of the first of our new projects that will bear fruit is Hardy Storage Company LLC, a new underground gas storage field in West Virginia. Construction of the necessary facilities is under way, with the first customer storage injections scheduled for this spring. The project, a joint effort between Columbia Gas Transmission and a subsidiary of Piedmont Natural Gas, will ultimately deliver approximately 176,000 dekatherms (Dth) per day of new firm storage and transportation services. Those services are fully subscribed under contracts with four eastern utilities.

During 2006, Columbia Gas Transmission announced another fully subscribed project that will provide an incremental 97,050 Dth per day of storage deliverability and



associated firm pipeline transportation capacity to customers in the mid-Atlantic region. With an anticipated in-service date of April 2009, the Eastern Market Expansion Project will expand existing storage fields, pipelines and compression facilities in Ohio, Virginia and West Virginia. Four gas utilities have executed 15-year agreements for that project's new services.

The Millennium Pipeline project also achieved several important milestones during 2006. Late in 2006, the Federal Energy Regulatory Commission (FERC) granted final approval to construct the proposed 182-mile system. Work on the pipeline is expected to start this year, with a targeted in-service date of November 2008. Columbia Gas Transmission is a 47.5 percent owner of Millennium, with units of KeySpan and DTE Energy as the other partners.

NiSource's GT&S team also is working to provide customers with increased access to premium markets via NiSource's Columbia Gulf Transmission mainline system. As part of that effort, Columbia Gulf has established several promising new strategic pipeline interconnections, including a link with Texas Eastern Transmission Company in Kentucky. The new interconnect enables Columbia Gulf to deliver up to 200,000 Dth of gas per day from its mainline into Texas Eastern's Zone M-2, which encompasses portions of Kentucky, Indiana, Ohio, West Virginia and Virginia.

And finally, 2006 was a banner year for our enhanced GT&S capacity optimization business. These services allow customers to gain operating and commercial flexibility through more complete utilization of NiSource's existing pipeline and storage system. The tightly coordinated commercial and operations management of that system allowed our GT&S team to achieve optimization revenues approaching \$50 million for the year.

Cultivating win-win strategies that benefit all our stakeholders remains the core regulatory approach for NiSource's gas and electric utilities. That collaborative approach is important as we work to address changing customer conservation patterns, develop pricing structures and mechanisms that are better aligned with contemporary market conditions, and embark on long-term capital investment programs designed to enhance our infrastructure and expand our customer base.

As we've been regularly discussing, our gas distribution businesses have been challenged over the past few years by unprecedented customer usage and customer attrition dynamics, particularly in 2005 and 2006. In part, we believe these changes in customer demand were a response to higher market prices for natural gas, particularly in the aftermath of the 2005 hurricane season. As prices decreased during the later part of 2006, we did see some moderation in the levels of usage erosion, as well as a stronger return of customers to our system.

Nevertheless, we are continuing to work intently on these issues. In addition to

Ian M. Rolland
Chairman of the Board, NiSource Inc.

Dr. Steven C. Beering
President Emeritus, Purdue University

Dennis E. Foster
Retired Vice Chairman, ALLTEL Corp.

Peter McCausland
Chairman & CEO, Airgas, Inc.

Steven R. McCracken
Retired Chairman, President & CEO
Owens-Illinois, Inc.

Gary L. Neale
Retired Chairman, President & CEO
NiSource Inc.

Robert C. Skaggs, Jr.
President & CEO, NiSource Inc.

Richard L. Thompson
Retired Group President, Caterpillar Inc.

Robert J. Welsh
Chairman & CEO
Welsh Holdings, LLC

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.

Board of Directors

Regulatory & Commercial Initiatives

ongoing internal analysis, we have participated in an American Gas Association study, as well as Pennsylvania and Indiana working group efforts, designed to more closely examine issues relating to customer demand. These efforts are likely to result in recommendations for changes in rate design or other solutions.

Elsewhere in the regulatory arena, our utilities continue to advance a full agenda of key initiatives. These range from traditional rate cases, to value-added tariffs, new services, and innovative "tracker" mechanisms that allow for timely recovery of investments in infrastructure enhancement, uncollected accounts, and other costs.

In one important accomplishment during 2006, Columbia Gas of Virginia (CGV) reached a comprehensive settlement agreement with its commercial and regulatory stakeholders on an innovative performance-based regulation plan. The agreement provides rate stability and new service options for customers, increased financial certainty for CGV, and supports CGV's plans to make infrastructure investments to meet Virginia's growth needs.

In February 2007, Columbia Gas of Kentucky (CKY) filed a rate case with the Kentucky Public Service Commission, requesting the company's first increase in base rates since 1996. As part of its filing, CKY proposed an accelerated main replacement program to speed replacement of aging gas lines and enhance the overall safety and reliability of its gas distribution system over the next 20 years.

We also are seeing significant forward movement on regulatory initiatives in our other distribution company markets. In Pennsylvania, our comprehensive efforts are expected to culminate in a rate case filing early next year. In Indiana, we filed a rate simplification plan with the Indiana Utility Regulatory Commission designed to provide funding for weatherization and other customer programs while also providing relief to the company for reduced customer usage. Building on the strength of our 2005 rate proceeding at Bay State Gas Company, we are considering additional efforts to address infrastructure investment and conservation in that region. And at Columbia

Gas of Ohio, work is under way to engage key stakeholders during 2007 in the first stages of an effort to meet the mutual needs of all parties in shaping future regulatory, commercial and investment models.

Looking broadly across our organization, our large customer relations team and our energy supply services team each delivered outstanding results during 2006. Revenues from our large industrial and commercial distribution customer segment were extremely strong despite challenging market

dynamics during the year. Meanwhile, our energy supply services team capitalized on incremental revenue opportunities provided through optimization of NiSource's extensive contracted gas distribution supply and storage portfolio. Revenues from this system optimization activity are shared with customers.

Our electric business also delivered strong results during 2006, with steady residential and commercial growth and continued strength in industrial sales. An important factor

Robert C. Skaggs, Jr. President & CEO	Glen L. Kettering Senior Vice President, Corporate Affairs
Robert D. Campbell Senior Vice President, Human Resources	Harris H. Marple Senior Vice President Distribution Operations
Peter V. Fazio, Jr. Acting General Counsel	Michael W. O'Donnell Executive Vice President & CFO
Larry J. Francisco Vice President, Audit	Kathleen O'Leary Senior Vice President Energy Distribution Regulated Revenue
Jerry L. Godwin Senior Vice President Electric Generation and Transmission	Violet G. Sistovaris Senior Vice President Administrative Services
Christopher A. Helms Pipeline Group President	

Senior Executives

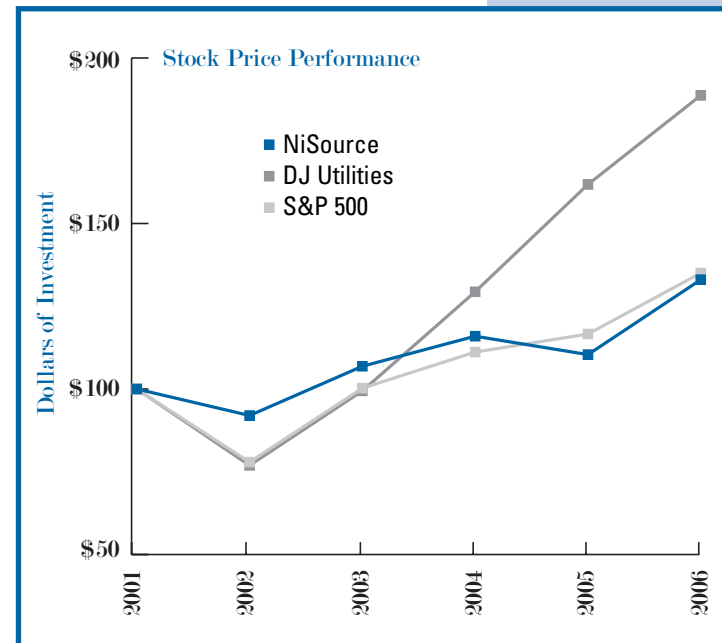
in improved electric results also was a reduction in unrecoverable costs associated with the Midwest Independent System Operator.

Along with our larger strategic and financial review, NiSource took several targeted steps to address overhanging financial challenges during 2006.

Our 2006 results were greatly enhanced by an approximately \$33 million decrease in interest expense due to the refinancing of \$2.4 billion in long-term debt during 2005 at lower rates.

Also during 2006, Standard & Poor's, Moody's Investors Service and Fitch Ratings all reaffirmed NiSource's investment grade ratings with a stable outlook. Looking forward, our Path Forward strategic initiatives are designed to provide new levels of financial flexibility to fund our significant revenue-generating investment opportunities, maintain a competitive cost of capital, enhance our balance sheet and ensure stable, ongoing investment grade credit ratings.

And, although not strictly a financial management initiative, we expect to see significant financial improvements as the result of a definitive agreement reached between our Whiting Clean Energy (WCE) unit and BP. The agreement redefines terms under which WCE will provide steam to BP for its oil refining process. The terms should improve the financial performance of WCE beginning in 2007, and will enable the plant to operate more competitively going forward. Additionally, by the end of 2009, BP intends to develop alternative solutions to meet the refinery's steam needs, which will position WCE to operate as a competitive merchant power plant. We anticipate this will drive results from our Other Operations segment, which has been producing negative results for a number of years, to approach operating earnings neutrality in 2007.



Financial Management

Cost & Process Management

The heart of our business is providing safe, reliable and cost-effective service to our customers. Delivering on that charge requires operational excellence and a relentless focus on continuous improvement across all our operating and support functions.

During 2006, our teams continued to meet that challenge by maintaining smooth operations and strong customer satisfaction levels while tightly managing O&M and capital spending. This achievement is particularly notable given challenging operating conditions in the wake of the Gulf hurricanes and dislocations caused by high gas prices. It also came as NiSource implemented the first phases of a broad administrative transformation and outsourcing initiative. While this transformation has been successful in a number of respects, in others it has presented stiff challenges and dislocations which require our ongoing, focused attention. Despite those challenges, we remain convinced that this transformation of systems and processes is key to developing the operating and support platforms we need for the future. We will continue to aggressively manage that process to ensure that it provides the expected benefits for NiSource and its customers.



Sprinting into
2007

As we move forward, our distribution operations will do so under a newly unified operating model that is fully integrated and aligned across NiSource's footprint and with each of our support functions. This model stresses standardized processes supported with disciplined technology investments and a foundation of engaged employees focused on safety. Similarly, our Electric Generation operations team is enhancing the system it uses to plan, schedule and manage work across its fleet of electric generating facilities, while continuing to enhance our environmental compliance profile. Cost efficiencies and productivity gains are obvious benefits of these approaches, but they also provide a clear line of sight to the essential roles and expectations of everyone on the team. This is a key to engaging our leaders and employees in their shared mission of working safely and efficiently to deliver results.

Our GT&S team also is meeting its target for implementing a new commercial/risk management operating system. The new system will provide enhanced tools for our customers and improved capabilities for our team to optimize NiSource's transmission and storage assets.

And at both GT&S and distribution, our teams are busy supplementing their commercial, operational and regulatory programs to carry out NiSource's aggressive infrastructure enhancement and asset growth initiatives. From the bare steel distribution system replacement program in Pennsylvania to our various market development efforts at GT&S, we are striving to put in place the talent, capabilities and process discipline needed to effectively execute on our key asset investment strategies.

Throughout all these efforts, we continue to place a strong emphasis on transparency, responsiveness and timely communication with stockholders, financial markets and key external and internal stakeholders. This approach has been well received and enhances our ability to convey NiSource's fundamental strategy and its long-term earnings prospects. In that regard, I truly appreciate your continued interest, support and investment in our—your—company.

I also am grateful for the ongoing commitment and strong efforts of our employees and leaders. As we move forward, we will continue to strengthen our employee proposition—providing rewarding and challenging careers, meaningful and targeted development opportunities, a sustainable platform of competitive wages and benefits, and an ongoing expectation of best-in-class safety.

As you can see, we are sprinting into 2007 with much to do, but with considerable positive momentum. Armed with a challenging, but attainable vision, and a vital, compelling strategy, we have a team that has ownership, passion, and commitment.

NiSource is positioned for a healthy, growing future. **Our Path Forward is clear.**

Sincerely,



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

Dear Fellow Stockholders:

On behalf of the NiSource Board of Directors, I echo Bob Skaggs' comments regarding the substantial progress made during 2006 to position your company for long-term, sustainable growth. Looking to the future, while the time is not yet ripe to comment on the results of our nearly year-long strategic review, I can say that the board has been actively engaged in this collaborative effort with the management team, and that we share Bob's enthusiasm and confidence concerning the company's Path Forward.

As a board, we are firmly committed to the principles of transparency, integrity and responsiveness and take very seriously our role as stewards of your investment in NiSource. I believe our recent corporate governance related actions attest to that commitment. Within the last year, we have adopted a number of measures to ensure we remain in step with contemporary governance standards. Specifically, beginning this year, all of NiSource's directors will be elected on an annual basis, and all directors must be elected by a majority vote in uncontested elections. In addition, in November of last year, we eliminated the company's shareholder rights plan and established the role of an independent board Chairman. Lastly, recognizing that corporate governance best practices are anything but static, the board is adjusting its committee structure to ensure that it remains highly effective, and will continue to assess its governance guidelines in the future and will modify or enhance them as necessary.

On behalf of the board, I would like to thank our two departing board members, Gary Neale and Bob Welsh, for their contributions and leadership during their many years of service to NiSource. They have been passionate advocates for the company and its aspirations, and we certainly wish them all the best. I would also note that the board has recommended two individuals to join its ranks following our annual meeting in May of this year. These prospective board members, W. Lee Nutter, Chairman of Rayonier, Inc., and Marty R. Kittrell, Executive Vice President and Chief Financial Officer of Andrew Corporation, will bring valuable added business expertise and financial depth to our board. We look forward to Lee and Marty joining the NiSource team.

Before closing, I would like to reaffirm my confidence that we are assembling a management team and a board that have the requisite skills, deep experience, and commitment to execute on NiSource's long-term strategy to grow the company in a balanced manner and create shareholder value.

Thank you for your continuing interest and support. We welcome and encourage you to provide me, the board, and management with your ongoing input and feedback as we strive to move the company forward. I am honored to serve as Chairman, and I hope you share my view that NiSource's best years lie ahead.

Sincerely,



Ian M. Rolland
Chairman of the Board

A Letter from
NiSource
Chairman
Ian Rolland

NiSource 
Form 10-K

