



**NISOURCE INC.**  
801 EAST 86th AVENUE  
MERRILLVILLE, IN 46410  
###.NISOURCE.COM

# BUILDING

NiSource Inc. 2011 Annual Message to Stockholders

# NYSE: NI

# 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 "Risk Factors" and "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 December 31, 2011, NiSource Inc. had 30,663 registered common stockholders.

## Anticipated Dividend Record and Payment Dates

### NiSource Common Stock

RECORD DATE	PAYMENT DATE
04-30-12	05-18-12
07-31-12	08-20-12
10-31-12	11-20-12
02-04-13	02-20-13

### Common Stock Dividend Declared

The Board of Directors, effective January 27, 2012, 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](http://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 Computershare Shareowner Services LLC at the following:

Computershare Shareowner Services LLC  
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/equityaccess](http://www.bnymellon.com/shareowner/equityaccess)

On June 8, 2011, 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, 2011.

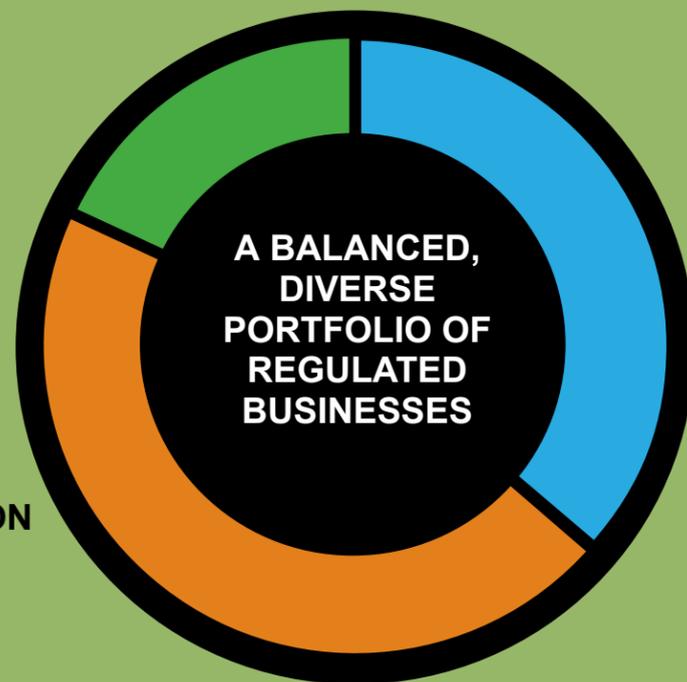
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(888) 884-7790

(219) 647-6209

(219) 647-5581

ELECTRIC OPERATIONS



GAS DISTRIBUTION

GAS TRANSMISSION & STORAGE

## NiSource

A COMPELLING INVESTMENT OPPORTUNITY

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## A BALANCED FOUR-PART PLAN

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## FELLOW SHAREHOLDERS:

For NiSource, 2011 was a year of significant achievement, groundbreaking performance and industry-leading growth in shareholder value.

Through consistent execution of our balanced, well-established business strategy, the NiSource Team continued **building long-term, sustainable value** for our customers, investors and other key stakeholders.

- **We delivered on NiSource's financial commitments for the fifth consecutive year**, producing 2011 net operating earnings per share of \$1.35 (non-GAAP),\* at the top of our guidance range.
- **We led the industry in building shareholder value**, generating a total return of 40 percent, significantly outperforming the broader market and utility indices for the third straight year.
- **We continued building a deep inventory of accretive infrastructure investment opportunities**, driving more than \$1.1 billion in 2011 capital investments, and a record \$1.4 billion 2012 capital program.
- **We strengthened our financial foundation** by reducing financing costs, extending our debt maturity profile, and managing liabilities – including our pension.
- **And we delivered on our core commitments** to provide our customers safe, reliable and affordable energy, while maintaining a strong and secure dividend, stable investment-grade credit ratings and long-term, sustainable earnings growth.

At the heart of NiSource's success is our balanced strategy of executing stakeholder-focused commercial and regulatory initiatives, paired with disciplined and accretive capital investments. This straightforward approach has enabled NiSource to more than triple its market capitalization over the past three years, from about \$2 billion in the first quarter of 2009 to more than \$6.8 billion.

\*For a reconciliation to GAAP, see Schedule 1 of NiSource's February 1, 2012, earnings release.

## STOCK PRICE PERFORMANCE

NiSource's 2011 performance ranked first among all companies in the Dow Jones Utility Average.

# BUILDING



That's an impressive achievement, but as you will see in this year's annual report, we have our sights set even higher. Our Team is committed to building a world-class company – one that will consistently deliver value to all of our stakeholders for years to come.

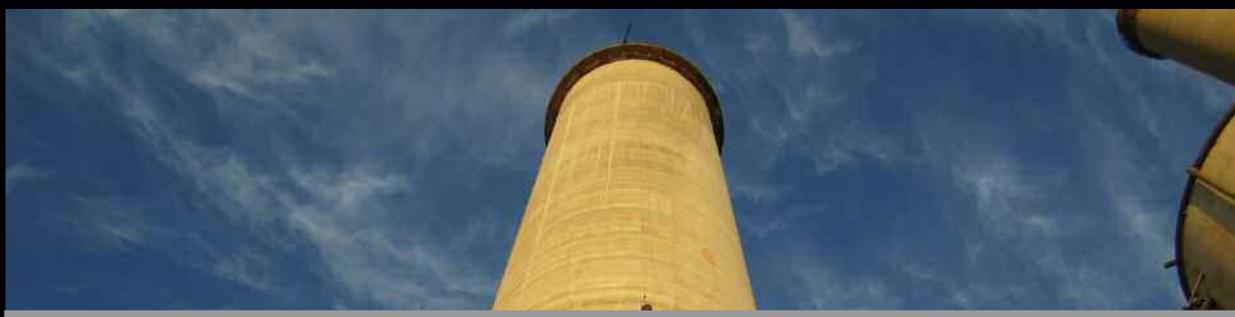
# LANDMARK INDIANA ACHIEVEMENTS

It's fitting that we begin our overview of NiSource's 2011

satisfaction, while significantly expanding its electric conservation and energy efficiency programs. These new programs will complement similar natural gas programs that have helped NIPSCO customers reduce their energy costs by millions of dollars over the last several years.

Looking to the future, NIPSCO will play a key role in a multi-state initiative to strengthen the Midwest region's electric transmission grid. This effort includes a major investment to construct a new 100-mile, 345-kilovolt transmission line in northern Indiana.

Without question, 2011 was a "break-out" year for NIPSCO, and its future has never looked brighter. Working in close partnership with its customers, communities and other key stakeholders, the NIPSCO Team is fully committed to achieving its vision of building Indiana's premier utility.



## **NIPSCO**

### **ENVIRONMENTAL INVESTMENTS**

In January 2011, NIPSCO embarked on a series of environmental improvements that together amount to an investment of approximately \$850 million. These investments are designed to clean the air and create economic- and job-related benefits in northern Indiana. The first – and most significant – investment is the installation of flue gas desulfurization equipment at the company's R.M. Schahfer Generating Station in Wheatfield, Ind.

#### **OVERALL ENVIRONMENTAL INVESTMENTS**

- Investing approximately \$850 million in environmental technology over the next six to eight years
- Reducing generation emissions by 80 percent from 2010 levels
- Helping maintain the region's current EPA attainment designation
- Positioning NIPSCO to comply with U.S. Environmental Protection Agency emission standards

#### **ABOUT SCHAHFER GENERATING STATION**

- NIPSCO's largest generating station, built between 1976-1986
- Station Net Capacity – 1,780 MW
- Four coal-fired generating units; two natural gas peaking units
- Produces enough electricity to supply 1.6 million average households
- Approximately 3,900 acres of land – 600 acres donated to the Nature Conservancy

#### **SCHAHFER FLUE GAS DESULFURIZATION INSTALLATION**

- Largest project in NIPSCO history
- \$510 million investment over four years
- Adding 20 full-time NIPSCO jobs
- \$66 million in construction wages paid
- 1.8 million hours of local labor
- 499-foot chimney stacks
- 1.1 million feet of electric cable
- Enough steel to build seven Boeing 747 aircrafts
- 5,000 cement truck loads
- On schedule and on budget

# SHALE-DRIVEN TRANSMISSION, STORAGE AND MIDSTREAM GROWTH

At NiSource Gas Transmission & Storage (NGT&S), CEO Jimmy Staton and Team are intently focused on developing and deploying a robust, comprehensive strategy for meeting customer needs and maximizing the value of our extensive pipeline and storage assets – including our very attractive position in the Marcellus and Utica shale production regions.

For 2012, we expect to invest about \$430 million in capital projects at NGT&S, a more than 40 percent increase over 2011. A very significant portion of our 2012 capital program is targeted at value-adding growth opportunities in and around the shale gas production plays. In addition, our Team will continue capturing organic growth opportunities that leverage our core Columbia Gas Transmission, Columbia Gulf Transmission and related pipeline systems.

The Team is off to a great start with the recent announcement of a new supply-driven project to install and operate about 90 miles of pipeline facilities in western Pennsylvania. Anchored by a major producer, this \$145 million project will have an initial capacity of about 300,000 dekatherms per day and provide interconnects with multiple interstate pipelines. Work is well underway and the project is scheduled to be in service later this year.

Shale production also is driving expansion of the Millennium Pipeline, 47.5 percent owned by NiSource. Pending Federal Energy Regulatory Commission (FERC) approval, Millennium is creating new firm capacity with the addition of more than 12,000 horsepower of compression in Orange County, NY. The expansion represents an investment of nearly \$45 million for the partnership and is anticipated to be in-service in November 2012.

The NGT&S Team also is making progress in leveraging our extensive mineral rights position in the developing Utica shale production area, where we estimate NiSource has approximately 100,000 to 200,000 prospective acres available for lease to producers. The pace of drilling activity in the Utica is expected to accelerate in 2012, especially in the so-called “wet” areas of the play, where wells produce a valuable mixture of natural gas and heavier hydrocarbons such as ethane.

## MODERNIZATION CLENDENIN COMPRESSOR STATION

A significant portion of NGT&S' capital investment program for 2012 is targeted at value-adding growth opportunities in and around the shale gas production plays.

# BUILDING

NGT&S is actively engaged in discussions with a number of producers to optimize the value of our Utica acreage position, in particular in the eastern part of the play. As we develop and execute our minerals strategy, our focus will be on capturing opportunities that enhance the long-term value of our assets, offer accretive investment opportunities and create long-term shareholder value.

The NGT&S Team also is in the process of developing a long-term program to modernize its transmission and storage system. Similar to the modernization programs in place at

our gas utilities, this effort would enhance the reliability and flexibility of our core Columbia Gas Transmission system, ensuring continued safe and reliable service while positioning the company to meet anticipated regulatory requirements.

We are discussing the plan – which is expected to involve an investment of about \$4 billion over a 10- to 15-year period – with customers and other key stakeholders. This long-term modernization effort offers numerous customer, environmental and economic benefits, while at the same time supporting ongoing growth for the company.



## **NISOURCE GAS TRANSMISSION & STORAGE**

### **SHALE GAS OPPORTUNITY**

The production of gas and oil from shale reserves is a game changer for the entire nation. End-use customers get the benefits of lower natural gas prices and a domestically available, clean energy resource. Other related businesses, like the chemical and plastics industries, also benefit from the associated gas and petroleum production. And, local economies get a much-needed boost from job growth and significant economic development investments.

The opportunities for NiSource are significant, as our existing pipeline assets overlay two of the largest shale production areas: the Utica and Marcellus. Our vast natural gas pipeline and storage system extends throughout much of the Marcellus and Utica play, providing opportunities to transport new supplies of natural gas to processing centers and end users.

Extending this potential is NiSource's 100,000 to 200,000 acres in the Utica shale that have production lease potential. This acreage position also enables significant long-term midstream and downstream infrastructure investment.

This trifecta of opportunity – minerals, midstream and traditional pipeline projects – positions NiSource to capture immediate and long-term revenue-generating opportunities from increased shale production.

Consistent with our overall approach, our strategy will be to use our lease position to secure additional gas production that is supportive of firm downstream infrastructure investment.

# TEAM MANAGEMENT

**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

**JIMMY D. STATON**  
EXECUTIVE VICE PRESIDENT & GROUP CEO  
GAS TRANSMISSION & STORAGE & NIPSCO

**ROBERT D. CAMPBELL**  
SENIOR VICE PRESIDENT  
HUMAN RESOURCES

**GLEN L. KETTERING**  
SENIOR VICE PRESIDENT  
CORPORATE AFFAIRS

**VIOLET G. SISTOVARIS**  
SENIOR VICE PRESIDENT &  
CHIEF INFORMATION OFFICER

**LARRY J. FRANCISCO**  
VICE PRESIDENT  
AUDIT

Our NGT&S business remains a centerpiece of our balanced portfolio with significant opportunities to grow earnings predictably over the long term. The initiatives underway at NGT&S position us to remain responsive to our customers and other stakeholders, while ensuring the safety, flexibility and reliability of our system now and in the future.

## INDUSTRY- LEADING GAS DISTRIBUTION PROGRAMS

In 2011, our NiSource Gas Distribution (NGD) Teams continued to execute on an industry-leading series of long-term infrastructure modernization and replacement programs paired with stakeholder-focused regulatory and customer programs.

We invested nearly \$320 million in these modernization programs in 2011 to ensure safe and reliable service. In 2012, we will continue at a similar pace as part of our more than \$4 billion plus modernization program spanning the next 20 years.

Our NGD Team also continues to pursue complementary strategies to help customers save money on their energy bills through reduced energy usage and other assistance initiatives. For example, during 2011, Columbia Gas of Ohio received approval from the Public Utilities Commission of Ohio to extend and expand its energy efficiency programs for an additional five years. Over the life of the programs, we estimate customers will save up to \$300 million through reduced energy usage.

On the regulatory and legislative front, our Teams continued to make steady progress during 2011. For example, in October, the Pennsylvania Public Utility Commission issued a final order in Columbia Gas of Pennsylvania's base rate case, authorizing an annual revenue increase of \$17 million. As part of the order, the Commission also authorized a new residential rate design with a higher minimum monthly charge, including a fixed customer charge and usage allowance.

Also in Pennsylvania, in early February of this year, the General Assembly enacted a law that will support investment in Pennsylvania's energy infrastructure, create jobs and help

manage customer energy costs. This came on the heels of landmark legislation enacted in Ohio last May. Among other things, the Ohio legislation helps modernize the way natural gas utilities are regulated and encourages infrastructure investment in the state. Consistent with regulatory and legislative efforts across all of our businesses, our NGD teams played a key role in the effort to develop and enact these statutes.

In Virginia, Columbia Gas of Virginia received regulatory approval of an application under the Commonwealth's SAVE

Act (Steps to Advance Virginia's Energy Plan) for accelerated recovery of certain infrastructure modernization investments. Over the next five years, we expect to invest more than \$100 million under this program.

NGD's ongoing infrastructure modernization programs continue to benefit customers and communities, as well as NiSource shareholders. The Team's consistent, collaborative approach has served us well as we execute on this core long-term strategy.



## **NISOURCE GAS DISTRIBUTION**

### **INFRASTRUCTURE MODERNIZATION INITIATIVES**

Starting nearly three years ago, NiSource Gas Distribution launched a \$4+ billion infrastructure modernization initiative. The initiative is designed to ensure the safe and reliable delivery of natural gas to our customers, while providing additional earnings opportunities for the company.

This modernization includes replacing aging pipelines with more corrosion-resistant materials, including coated steel and plastic, as well as the installation of automated meter readers.

The largest modernization programs across the NiSource footprint are located in Ohio, Pennsylvania and Massachusetts. Other programs are moving ahead in Kentucky, Virginia and Maryland.

In Ohio alone, the \$1.8 billion, 25-year planned investment is anticipated to create or support up to 1,485 annualized jobs over the duration of the project.\* The bulk of jobs will be created in the non-utility areas such as the construction sector, retail and restaurant sectors and plastics and technical services sectors.

Ohio and local government revenues will increase by more than \$200 million over the project life. Local government wage taxes will amount to nearly \$50 million and state government revenues based on income, commercial activity and sales taxes will amount to more than \$160 million.

Across NiSource's entire footprint, similar economic development and job creation opportunities are being created and will continue for the next two decades.

*\*Data based on an economic impact study completed by Kleinhenz & Associates.*

# BUILDING FROM A STRONG FINANCIAL FOOTING

The foundation of NiSource's infrastructure investment-driven growth platform is a thoughtful, disciplined financial strategy.

During 2011, Chief Financial Officer Steve Smith and his Team further strengthened NiSource's financial profile through a series of strategic transactions designed to reduce financing costs, extend our debt maturity profile, and manage liabilities, including our pension obligations.

These transactions included:

- Issuing a total of \$900 million of long-term notes;
- Completing a \$250 million debt tender offer;
- Launching a \$500 million commercial paper program; and
- Renewing our \$1.5 billion revolving credit facility for an additional four years.

I am also pleased to report that in late 2011 and early in 2012, NiSource's stable investment-grade credit ratings were again affirmed by Moody's, Fitch and Standard and Poor's. As I have noted in the past, a stable investment-grade credit rating is an essential element of our balanced business plan.

Over the last several years, we have demonstrated our commitment to a strong and secure dividend. Looking to the future, NiSource's Board of Directors is currently reviewing the company's dividend policy, with the objective of resuming sustainable dividend growth at the earliest appropriate date. We expect to be in a position to communicate our prospective policy and timetable later this year.

## SIGNIFICANT 2011 ACCOMPLISHMENTS

- NiSource Leads Dow Jones Utility Index in Total Shareholder Return
- Capital Investment Program Exceeds \$1.1 Billion; Record \$1.4 Billion Program in 2012
- \$850 Million Environmental Investment Program Launched in Indiana
- NIPSCO Electric Rate Settlement Approved
- Columbia Gas of Pennsylvania and Columbia Gulf Rate Case Settlements Approved
- Nearly \$320 Million Invested in NiSource Gas Distribution Modernization Programs
- NGT&S Announced 100,000 to 200,000 Acres in Utica Shale Area May Hold Production Lease Potential

# GROWING EARNINGS & SHAREHOLDER VALUE IN 2012

Our balanced plan and focused execution have enabled NiSource to outline a robust growth plan for 2012.

Our announced non-GAAP net operating earnings outlook for 2012 is \$1.40 to \$1.50 per share, which at the midpoint represents nearly a 7.5 percent increase over 2011 earnings.

And, as I noted above, helping fuel this and future growth will be our record \$1.4 billion capital investment program. That plan reflects an increase of almost 25 percent over 2011, with the largest increases relating to the deep inventory of value-adding projects at NGT&S and our electric business. These and other investments will serve to enhance the long-term value of our assets for the benefit of our customers, shareholders and other key stakeholders.

As our 2011 results attest and our 2012 commitments confirm, the NiSource Team is building a consistent track record of delivering on our promises. Looking forward to 2012 – with the engagement of our nearly 8,000 employees and the strong support of our Board of Directors – I am convinced that we have the strategy, the resources and the capabilities to continue to deliver on those commitments, and to build **North America's Premier Regulated Energy Company**.

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



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



## BUILDING SHAREHOLDER VALUE IN 2011

- Total Shareholder Return: 40 percent
- Capital Investment Program: \$1.13B
- Share Price Appreciation: 35 percent
- Year-End Net Available Liquidity: \$364M
- 2012 Capital Investment Program: \$1.4B
- Reduced Financing Costs, Extended the Company's Debt Maturity Profile
- Growth, Environmental, Modernization Investments On Schedule and On Budget
- Significant Shale Opportunities – Midstream, Minerals and Traditional Pipeline Opportunities

# BUILDING

# BOARD OF DIRECTORS

**IAN M. ROLLAND**  
CHAIRMAN OF THE BOARD  
NISOURCE INC.

**RICHARD A. ABDOO**  
PRESIDENT  
R.A. ABDOO & CO. LLC

**DR. STEVEN C. BEERING**  
CHAIRMAN  
UNIVERSITIES RESEARCH ASSOCIATION

**SIGMUND L. CORNELIUS**  
RETIRED SENIOR VICE PRESIDENT,  
FINANCE & CFO  
CONOCOPHILLIPS

**MICHAEL E. JESANIS**  
PRINCIPAL  
SERRAFIX

**MARTY R. KITTRELL**  
RETIRED EXECUTIVE VICE PRESIDENT & CFO  
DRESSER, INC.

**W. LEE NUTTER**  
RETIRED CHAIRMAN, PRESIDENT & CEO  
RAYONIER, INC.

**DEBORAH S. PARKER**  
SENIOR VICE PRESIDENT, QUALITY  
ALSTOM POWER

**ROBERT C. SKAGGS, JR.**  
PRESIDENT & CEO  
NISOURCE INC.

**RICHARD L. THOMPSON**  
CHAIRMAN  
LENNOX INTERNATIONAL, INC.

**DR. CAROLYN Y. WOO**  
PRESIDENT & CEO  
CATHOLIC RELIEF SERVICES

## LETTER FROM THE CHAIRMAN

2011 unquestionably was a year of significant achievement for NiSource shareholders, the customers and communities we serve, as well as the entire team.

By successfully executing on its balanced business plan, NiSource is positioned to step up its game a notch – maybe even two – this year. The pinnacle of this accomplishment is the \$1.4 billion capital investment program outlined for 2012.

Underpinning NiSource's plan is a solid governance model and an engaged and active Board of Directors. As a group, we take very seriously our role as stewards of your investment, and we are committed to the principles of integrity, transparency and independence. These commitments remain absolute as NiSource advances along its growth plans.

In 2011 we welcomed the newest member of NiSource's Board, Sigmund Cornelius. Sig's leadership and financial experience at ConocoPhillips will be a great asset as NiSource continues to execute on its long-term, investment-driven growth strategy.

In addition, it is with sincere gratitude that I acknowledge the significant contributions of retiring board member, and friend, Dr. Steven Beering. For 25 years we have served together on NiSource's board, and his dedication and commitment to the company and its employees have proven invaluable. On behalf of the entire Board, I extend our deep appreciation to Steve for his contributions and many years of service.

I'm pleased to add that, given the anticipated long-term earnings growth enabled by the company's infrastructure investment-driven strategy, the Board is evaluating plans to resume growth of NiSource's dividend, with an announcement anticipated later this year. This – among countless other examples – is a noteworthy demonstration of the Board's confidence in management's plan and vision for building North America's Premier Regulated Energy Company and sustainable shareholder value.

As we move forward through 2012, 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. We are confident the company will continue to deliver on its commitments to you and our other key stakeholders.

Thank you for your continuing support of OUR company.

Sincerely,



Ian M. Rolland  
Chairman of the Board  
NiSource Inc.