



# C L A S S I C

2003 NiSource Inc. Message to Stockholders



## Table of Contents

|                                |                          |
|--------------------------------|--------------------------|
| <b>Letter to Stockholders</b>  | <b>1</b>                 |
| <b>Officers</b>                | <b>6</b>                 |
| <b>Board of Directors</b>      | <b>8</b>                 |
| <b>Form 10-K</b>               |                          |
| <b>Stockholder Information</b> | <b>Inside Back Cover</b> |

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**Gary Neale**  
Chairman,  
President &  
Chief Executive Officer

## Dear Fellow Stockholder:

NiSource accomplished what we set out to do in 2003. Since our merger with Columbia three years ago, we have been working to develop a low-risk portfolio of regulated energy companies with the quality of service and value our investors and customers expect. We met those expectations in 2003.

Like the classic sports car on our cover, your company now has the classic lines of a utility, the stability and low risk of a diversified energy company, and still delivers the exciting performance that utility investors remember from the past and continue to look for today. That performance is reflected in the 15 percent total return you earned in 2003, which includes stock price appreciation and dividends. Like our restored sports car, we intend to meet performance expectations for many years to come.

Our key accomplishments for the year included:

- Delivering income from continuing operations of \$1.64 per share.
- Affirming our investment grade credit rating, with a stable outlook, from all three credit rating agencies.
- Taking actions to significantly strengthen our balance sheet.
- Selling major non-core businesses, which allowed us to reduce debt and business risk and also focus our management team on our core, regulated assets.
- Holding the line on O&M costs, despite increases in employee benefit and pension expenses.
- Adopting a new organizational structure that continues our focus on operations and customers, while at the same time proactively shaping regulatory initiatives and building strong external relationships.

## Stability

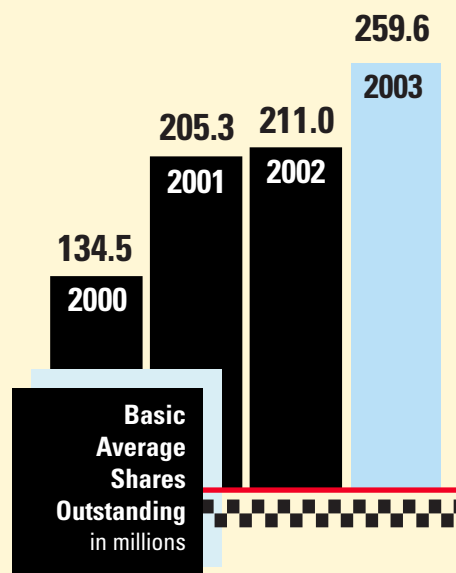
We witnessed investor confidence and support in the company as we made difficult, but necessary, decisions during 2003. Most notable was our decision to trim the dividend beginning in November. The market's confidence in our company and the value of our assets was demonstrated by an increase in NiSource's stock price following the dividend announcement. We have always been proud of our dividend history and understand its importance to you, our stockholders. We believe our current payout ratio, which we are targeting at approximately 55 percent, is sustainable for the long term and will support opportunities to grow overall stockholder value in the future.

### Total Shareholder Return

|                                    |            |
|------------------------------------|------------|
| 2002-2003 Stock Price Appreciation | \$ 1.94    |
| 2003 Dividends                     | +\$ 1.10   |
|                                    | <hr/>      |
|                                    | \$ 3.04    |
| 2002 Year-End Stock Price          | ÷ \$ 20.00 |
|                                    | <hr/>      |
| 2003 Total Shareholder Return      | <b>15%</b> |

NiSource also completed the previously announced divestitures of non-core assets, including our gas exploration and production unit, Primary Energy's steel-related cogeneration assets and our telecommunications business. These sales generated about \$305 million after taxes, plus the reduction of roughly \$274 million of debt that was assumed by the buyers. This strengthened our balance sheet and lowered our risk profile. Going forward, we will capitalize on our stable portfolio of nearly 100 percent regulated and strategically located gas and electric businesses.

Reducing interest expense was another objective for 2003. We saved \$51.7 million in interest expense last year, or a 10 percent reduction compared to 2002 interest expense levels, by retiring \$1.28 billion in debt and reissuing another \$1.35 billion of debt at a lower rate. We also downsized our revolving credit facilities by \$500 million and retired \$345 million in mandatory redeemable preferred securities, which further reduced fixed charges.



## Taking the Curves

Throughout 2003, our employees worked diligently to continually improve operations. NiSource demonstrated that we are operations focused and, therefore, customer focused — and that we have a vision of where we want to go and what it takes to get there.

Safe, reliable energy delivery remained the key directive throughout 2003. The year began with temperatures across our system 9 percent colder than normal. Sustained cold spells tested our natural gas infrastructure during the winter months. For example, we helped meet winter demand peaks in New England with supplemental fuels by diverting liquid propane rail shipments earmarked for the Midwest. Last summer, one of the largest blackouts in the nation's history on August 14 left our electric generation system unaffected because of recent investments in transmission controls. The year ended with volatile wholesale gas prices and unseasonably warm weather in the fourth quarter. January 2004 brought with it a sustained, record-breaking cold snap in the Northeast that again strained our natural gas delivery system there. As always, our experienced, focused employees did what was necessary to ensure reliability, comfort and convenience for our 3.7 million customers.



|                                  | 12/31/00       | 12/31/01       | 12/31/02       | 12/31/03       |
|----------------------------------|----------------|----------------|----------------|----------------|
| <b>Total Debt</b><br>in millions |                |                |                |                |
| Short-Term Debt                  | \$2,497        | \$1,854        | \$913          | \$686          |
| Current Maturities               | \$65           | \$411          | \$1,225        | \$118          |
| Long-Term Debt                   | \$6,023        | \$6,065        | \$4,850        | \$5,993        |
| <b>Total Debt</b>                | <b>\$8,585</b> | <b>\$8,330</b> | <b>\$6,988</b> | <b>\$6,797</b> |

# Visibility

To be the best, we realize the importance of understanding our operating and regulatory environment, our industry and what's important to our customers and investors. We need to be the best company we can be in the eyes of our customers, our regulators and our stockholders. We believe this requires us to be a leader in the energy industry.

Your company will continue to build value and customer trust by capitalizing on our super-regional utility and pipeline operations. We will focus on:

- Continuing to standardize our utility operations.
- Delivering the best possible service at the lowest cost.
- Continuing to develop innovative ways to help our customers manage heating bills and gas price volatility, with products such as our fixed-price option.
- Finding ways to further minimize the cost of generating electricity and provide capacity to meet the future requirements of our electric customers in an environmentally sound manner.
- Nationally supporting and pursuing projects that will bring long-term and attractively priced natural gas supplies to market.



**Sam Miller**  
Executive Vice  
President &  
Chief Operating  
Officer

**Bob Skaggs**  
Executive Vice  
President,  
Regulated Revenue

## An Innovative Structure

Our goal at NiSource is to operate as one utility in many markets and as one pipeline. We will accomplish this with one regulatory group and one operating group, with one coordinated strategy. This is exactly what our new corporate structure enables us to do.

NiSource adopted a new organizational structure last October that focuses on our regulated, core businesses that now generate virtually 100 percent of our operating income.

An experienced leadership team plays the key role in shaping the future of this company given this new structure. Leading this new organization are Bob Skaggs, executive vice president of regulated revenue, and Sam Miller, executive vice president and chief operating officer. They are supported by three corporate function leaders—Peter Fazio, executive vice president and general counsel; Mike O'Donnell, executive vice president and chief financial officer; and LaNette Zimmerman, executive vice president, human resources and communications.

The new organization positions Bob's team to operate across all of the company's markets and to develop innovative regulatory win-win strategies that benefit both customers and stockholders, while focusing on key constituencies within each of our local markets. At the same time, Sam's team will continue to focus on providing safe, reliable natural gas and electric utility service as well as natural gas transmission and storage services. Sam's group will also develop new joint venture projects and partnerships that better utilize the company's assets.



## Driving Solutions

This past year, we implemented several creative agreements by working collaboratively with regulators and other key stakeholders, which provided value for our customers and stockholders. Columbia Gas of Pennsylvania (CPA) received regulatory approval in October to recover certain costs associated with an affordable payment program for low-income gas customers with long-term bill payment problems. This program should reduce CPA's arrearages and bad debt write-offs going forward.

In Indiana, NIPSCO received approval from the Indiana Utility Regulatory Commission in 2003 to recover costs associated with environmental compliance programs for nitrogen oxide (NO<sub>x</sub>) pollution-reduction equipment at the company's generating stations.

Columbia Gas of Ohio (COH) received approval for a surcharge that will allow the company to recover previously uncollected bad debts beginning this year, with payment-troubled customers having the opportunity to participate in Customer CHOICE<sup>sm</sup> for the first time. Separately, as we go to print with this message to you, the Public Utilities Commission of Ohio (PUCO) has decided to modify parts of a collaborative initiative designed to give COH customers rate certainty and enhance the company's Customer CHOICE<sup>sm</sup> program. While we are pleased the Commission has decided to continue COH's Customer CHOICE<sup>sm</sup> program — one of the most successful of its kind in the nation — we are disappointed that the commission chose to modify several key components of the agreement. COH is highly likely to seek rehearing on the components that have been modified.



### **Mike O'Donnell**

Executive Vice  
President &  
Chief Financial Officer

### **LaNette Zimmerman**

Executive Vice  
President,  
Human Resources &  
Communications

### **Peter Fazio**

Executive Vice  
President &  
General Counsel

## Balance

During 2003, we lowered our overall corporate risk profile by focusing on core, regulated assets. What makes us unique among energy companies is the size and scope of these assets, many of which we have acquired over the past several years. Today we are a market-share leader in most of the regions we serve. Our businesses are regulated by nine state jurisdictions and the Federal Energy Regulatory Commission (FERC). This provides the opportunity to pursue innovative regulatory solutions in multiple jurisdictions.

Another NiSource advantage is our balance between gas transmission and gas distribution sales and also between gas and electric operations. Even though approximately 80 percent of our operating income comes from the transportation, storage and distribution of natural gas, with sales concentrated during the peak winter period, we also have strong operating earnings during the summer months from our electric business. Additionally, serving multiple geographic regions means we reduce the impact of abnormal weather in one part of the country on total energy sales and revenues.



## Performance

As a major player in the regulated energy business, we realize that performance is critical to our success. Performance means operating safe and reliable systems. It means delivering on financial expectations and making sound investment decisions that benefit our stockholders and our customers. It also means seeking out growth opportunities, consistent with our core businesses, that translate to future earnings potential. Just as importantly, performance requires discipline, which gains us the respect of federal and state regulators and investors. Regulators expect business prudence, collaboration and customer focus; our new business structure ensures that we deliver.

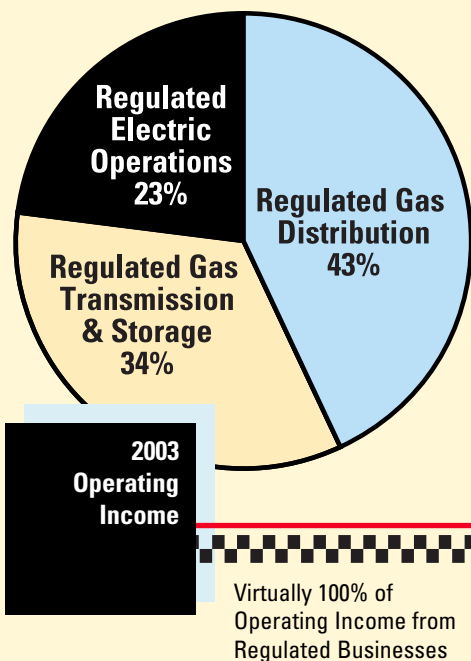
We intend to take advantage of the opportunities our strong asset base presents to maximize investment returns that stockholders expect.

## Options

Revenue enhancement comes from customer growth and additional products and services offered to the retail and wholesale markets. Opportunities to add revenue on the retail side include marketing energy products and services that add customer value. On the wholesale side, we are pursuing natural gas storage projects that capitalize on depleted underground gas caverns and natural gas gathering fields throughout our extensive Appalachian system.

There are many opportunities in our pipeline business including development of the Millennium Pipeline, which is designed to bring gas from Canada to New York City. As the Millennium operating partner, we are finalizing plans for Millennium Phase 1, which will provide access to Canadian gas via National Fuel Gas Company's Empire State Pipeline in upstate New York. Millennium has gained a significant new anchor shipper, KeySpan Energy Corp., for this Phase 1 portion of the pipeline, which will move gas 186 miles from Empire State Pipeline in Corning, N.Y., to pipeline interconnects in Ramapo, N.Y., with an expected in-service date of November 2006.

Concurrently, we are appealing the U.S. Commerce Department's decision to block the Federal Energy Regulatory Commission-approved project's Hudson River pipeline crossing route. We continue to believe that Millennium Phase 2, the crossing of the Hudson River, is the best alternative in terms of safety and environmental impact for gas delivery to New York City. The action to block this crossing reaffirms our belief that a National Energy Policy is needed to clearly define the responsibility for pipeline siting and to streamline permitting procedures for today's interstate pipelines. Capacity constraints in the Northeast, and the resulting extremely high gas prices experienced as recently as January 2004, reaffirm the need for more pipeline capacity to the New York City area.



# Responsibility

NiSource has undergone many changes over the past several years as we continue to adapt to industry and marketplace changes. On the other hand, our company values have not changed. At NiSource, we have consistently held ourselves to the high ethical standards that regulators and investors have always demanded of companies.

Your company has always been committed to accurate and complete financial reporting — and requires a strong commitment to ethical behavior by our employees. NiSource will continue our mandatory ethics training program in which employees at every level and in every function of our organization participate. Also, we have realigned our corporate board committees, are posting our corporate governance guidelines on the NiSource Web site, and are completing a comprehensive internal control review process for reporting to the Securities and Exchange Commission.

In addition, NiSource is a company that enhances and supports the quality of life in the communities we serve. Our commitment was recognized as we earned a place in the Dow Jones Sustainability World Indexes, an international benchmark for excellence in economic, environmental and social leadership. We are the only U.S. utility company to be included in the index for three consecutive years.

Your company is also committed to operating in an environmentally responsible manner. We will continue our work with the Environmental Protection Agency (EPA), the Department of Energy (DOE) and state agencies on developing and implementing a comprehensive, cost-effective and sustainable environmental strategy.

This year, NiSource became a voluntary partner in EPA's national Climate Leaders Program. A total of 54 companies from many industries participate and agree to report and establish goals that reduce greenhouse gases. We have submitted reports showing reductions in greenhouse gases to the DOE for its annual reporting program every year since 1994.

At the same time, the company continues to voluntarily participate in the EPA's Natural Gas STAR Program. This program encourages voluntary methane emissions reductions, and the promotion and involvement in STAR activities.

We believe in giving back to local communities in a much broader sense through the NiSource Charitable Foundation as well as contributions made directly by our subsidiary companies. Grants from the Foundation address critical needs, such as education, human services, public safety and the environment, while building on local economic development efforts. Highlights this past year included providing educational opportunities for inner-city youth and funding local food banks and state-of-the-art fire fighting equipment. Through a combination of strategic financial support, employee volunteerism and economic development, our company helps communities reach their full potential.



## NiSource Officers

### **Gary L. Neale**

Chairman, President &  
Chief Executive Officer

### **Samuel W. Miller, Jr.**

Executive Vice President &  
Chief Operating Officer

### **Robert C. Skaggs, Jr.**

Executive Vice President,  
Regulated Revenue

### **Peter V. Fazio, Jr.**

Executive Vice President &  
General Counsel

### **Michael W. O'Donnell**

Executive Vice President &  
Chief Financial Officer

### **S. LaNette Zimmerman**

Executive Vice President,  
Human Resources & Communications

### **Arthur E. Smith, Jr.**

Senior Vice President &  
Environmental Counsel

### **Mark D. Wyckoff**

Senior Vice President

### **Jeffrey W. Grossman**

Vice President & Controller

### **Barbara S. McKay**

Vice President, Communications

### **Arthur A. Paquin**

Vice President, Audit

### **Dennis E. Senchak**

Vice President, Investor Relations,  
Asst. Treasurer & Asst. Secretary

### **David J. Vajda**

Vice President & Treasurer

### **Gary W. Pottorff**

Secretary





## A Strong Base Means a Bright Future

When you invest in NiSource, you invest in our plan for the future. You also invest in a company that today has a strong energy asset base and a key strategic location—real assets, in real markets, in the energy business. About 40 percent of the nation's energy demand is consumed by the 30 percent of the population who live within or near our service area. Our company is the nation's third largest natural gas distributor, and operates the fourth largest pipeline and the largest market-area storage network in the United States. More than a trillion cubic feet of natural gas move through our system annually. We also own a mid-size electric generating and distribution system with a net demonstrated capacity of 3,392 megawatts. Our strategic objective is to continue to make decisions that optimize the value of these superior assets and grow stockholder value.

In closing, I would like to recognize the contributions of recently retired Vice Chairman Steve Adik during his 17 years with NiSource. We will miss his integrity, dedication and strategic insight on a day-to-day basis and are pleased he will continue as a NiSource board member.

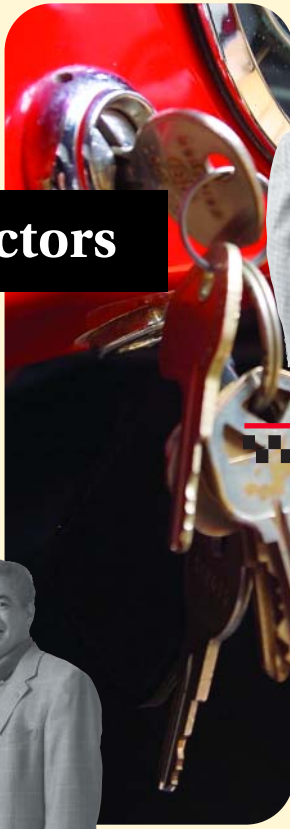
You have the commitment of this management team that NiSource will continue in its quest to become the best energy company and the best investment choice. We are the classic low-risk performer we believe our investors remember from the past and want in the future. NiSource has a dedicated team of employees to meet the energy challenges of tomorrow for our customers and capitalize on the opportunities that this changing industry will continue to offer our stockholders. We look forward to sharing with you our progress and success in 2004. Thank you for your continued support of NiSource.

Sincerely,

Gary L. Neale  
Chairman, President and Chief Executive Officer  
March 12, 2004



# Board of Directors



**Gary L. Neale**

Chairman, President &  
Chief Executive Officer  
NiSource Inc.  
Merrillville, Ind.

**Ian M. Rolland**  
*Lead Director*

Retired Chairman &  
Chief Executive Officer  
Lincoln National Corporation  
Fort Wayne, Ind.

**John W. Thompson**

Chairman & Chief Executive Officer  
Symantec Corporation  
Cupertino, Calif.



**Dr. Carolyn Y. Woo**

Martin J. Gillen Dean and  
Ray and Milann Siegfried  
Professor of Management  
University of Notre Dame  
Mendoza College of Business  
Notre Dame, Ind.

**Roger A. Young**

Retired Chairman  
Bay State Gas Company  
Westborough, Mass.

**Dennis E. Foster**

Retired Vice Chairman  
ALTEL Corporation  
Little Rock, Ark.

**Stephen P. Adik**

Retired Vice Chairman  
NiSource Inc.  
Merrillville, Ind.



**Arthur J. Decio**

Chairman of the Board and Director  
Skyline Corporation  
Elkhart, Ind.

**Robert J. Welsh**

Chairman & Chief Executive Officer  
Welsh Holdings, Inc.  
Merrillville, Ind.

**Dr. Steven C. Beering**

President Emeritus  
Purdue University  
West Lafayette, Ind.



# Stockholder Information

NiSource Inc. common stock is listed and traded on the New York, Pacific and Chicago stock exchanges under the symbol NI. The shares are listed in financial stock quotations as NISOURCE. As of Dec. 31, 2003, NiSource Inc. had 42,034 registered common stockholders.

## Common Stock Dividend Declared

At its meeting on Jan. 5, 2004, the board of directors declared a quarterly dividend of \$0.23 per share, equivalent to \$0.92 per share on an annual basis.

## Anticipated Dividend Record and Payment Dates

### NiSource Common

| Record Date | Payment Date |
|-------------|--------------|
| 04-30-04    | 05-20-04     |
| 07-30-04    | 08-20-04     |
| 10-29-04    | 11-19-04     |
| 01-31-05    | 02-18-05     |

### NIPSCO Preferred

| Record Date | Payment Date |
|-------------|--------------|
| 03-16-04    | 04-14-04     |
| 06-16-04    | 07-14-04     |
| 09-16-04    | 10-14-04     |
| 12-16-04    | 01-14-05     |

## 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) 647-6083.

Free 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

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

### Mellon Investor Services LLC

P.O. Box 3315  
South Hackensack, NJ 07606  
or  
85 Challenger Road  
Ridgefield Park, NJ 07660

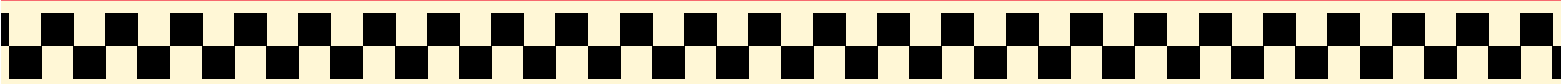
**(888) 884-7790**

TDD for Hearing Impaired  
(800) 231-5469

Foreign Stockholders  
(201) 329-8660

TDD Foreign Stockholders  
(201) 329-8354

[www.melloninvestor.com](http://www.melloninvestor.com)





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**[www.nisource.com](http://www.nisource.com)**

This document contains "forward-looking statements," including earnings guidance for fiscal year 2004. 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.

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