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NISOURCE INC/DE
Form 10-K/A
March 07, 2003

As Filed with the United States Securities and Exchange Commission on February 28, 2003.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

(AMENDMENT NO. 1)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-16189

NISOURCE INC.

(Exact name of registrant as specified in its charter)

Delaware

35-2108964

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

801 East 86th Avenue
Merrillville, Indiana

46410

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (877) 647-5990

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class ----- | Name of each exchange on which registered ----- |
|---|---|
| Common Stock | New York, Chicago and Pacific |
| Preferred Share Purchase Rights | New York, Chicago and Pacific |
| Stock Appreciation Income Linked Securities | New York |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] or No []

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] or No[]

The aggregate market value of Common Stock (based upon the June 28, 2002, closing price of \$21.83 on the New York Stock Exchange) held by non-affiliates was approximately \$4,498,623,003.44.

Documents Incorporated by Reference

Part III of this report incorporates by reference specific portions of the Registrant's Notice of Annual Meeting and Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 20, 2003.

EXPLANATORY NOTE

This report is an amendment to the NiSource Inc. Form 10-K for the year ended December 31, 2002. Item 8 of the report is being amended because, in footnote 26, "Exploration and Production Activities" the Historical Results of Operations table was omitted during the EDGARization process. The electronic version is being amended to include the omitted table. In addition, Item 15 is being amended to include the updated consent of NiSource's external auditors, Deloitte & Touche LLP.

Except as described above, no other change has been made to the NiSource Inc. Form 10-K filed on March 3, 2003.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

NISOURCE INC.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF NISOURCE INC.:

We have audited the accompanying consolidated balance sheets and statements of consolidated capitalization and long-term debt of NiSource Inc. and subsidiaries as of December 31, 2002 and 2001, and the related statements of consolidated income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedules listed in the index at Item 8. These financial statements and financial statement schedules are the responsibility of NiSource's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of NiSource Inc. and

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subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As explained in Note 2Q to the financial statements, effective January 1, 2001, NiSource Inc. adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivatives Instruments and Hedging Activities," as amended. As explained in Note 2I to the financial statements, effective January 1, 2002, NiSource adopted SFAS 142, "Goodwill and Other Intangible Assets."

Deloitte & Touche LLP
Chicago, Illinois
February 13, 2003

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC. STATEMENTS OF CONSOLIDATED INCOME

| Year Ended December 31, (in millions, except per share amounts) | 2002 | 2001 |
|---|------------|------------|
| | ----- | ----- |
| NET REVENUES | | |
| Gas Distribution | \$ 2,890.4 | \$ 3,849.0 |
| Gas Transmission and Storage | 1,011.9 | 996.0 |
| Electric | 1,103.6 | 1,862.0 |
| Exploration and Production | 155.7 | 156.0 |
| Other | 1,330.7 | 2,595.0 |
| | ----- | ----- |
| Gross Revenues | 6,492.3 | 9,461.0 |
| Cost of Sales | 3,163.3 | 6,054.0 |
| | ----- | ----- |
| Total Net Revenues | 3,329.0 | 3,406.0 |
| | ----- | ----- |
| OPERATING EXPENSES | | |
| Operation and maintenance | 1,288.2 | 1,438.0 |
| Depreciation, depletion and amortization | 574.0 | 641.0 |
| Loss (gain) on sale or impairment of assets | (27.2) | (0.0) |
| Other taxes | 291.3 | 294.0 |
| | ----- | ----- |
| Total Operating Expenses | 2,126.3 | 2,374.0 |
| | ----- | ----- |
| OPERATING INCOME | 1,202.7 | 1,032.0 |
| | ----- | ----- |
| OTHER INCOME (DEDUCTIONS) | | |
| Interest expense, net | (526.1) | (598.0) |
| Minority interest | (20.4) | (20.0) |
| Dividend requirements on preferred stock of subsidiaries | (6.8) | (7.0) |
| Other, net | 10.2 | 10.0 |
| | ----- | ----- |
| Total Other Income (Deductions) | (543.1) | (615.0) |

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| | | |
|---|----------|---------|
| INCOME FROM CONTINUING OPERATIONS | ----- | ----- |
| BEFORE INCOME TAXES | 659.6 | 417. |
| INCOME TAXES | 233.9 | 190. |
| | ----- | ----- |
| INCOME FROM CONTINUING OPERATIONS | 425.7 | 226. |
| | ----- | ----- |
| Income (loss) from Discontinued Operations - net of taxes | (9.4) | (14.) |
| Net loss on the Disposition of Discontinued Operations - net of taxes | (43.8) | — |
| Change in Accounting - net of taxes | -- | 4. |
| | ----- | ----- |
| NET INCOME | \$ 372.5 | \$ 216. |
| | ===== | ===== |
| | | |
| BASIC EARNINGS (LOSS) PER SHARE (\$) | | |
| Continuing operations | \$ 2.02 | \$ 1.1 |
| Discontinued operations | (0.25) | (0.0) |
| Change in accounting | -- | 0.0 |
| | ----- | ----- |
| BASIC EARNINGS PER SHARE | \$ 1.77 | \$ 1.0 |
| | ----- | ----- |
| | | |
| DILUTED EARNINGS (LOSS) PER SHARE (\$) | | |
| Continuing operations | \$ 2.00 | \$ 1.0 |
| Discontinued operations | (0.25) | (0.0) |
| Change in accounting | -- | 0.0 |
| | ----- | ----- |
| DILUTED EARNINGS PER SHARE | \$ 1.75 | \$ 1.0 |
| | ----- | ----- |
| | | |
| BASIC AVERAGE COMMON SHARES OUTSTANDING (MILLIONS) | 211.0 | 205. |
| DILUTED AVERAGE COMMON SHARES (MILLIONS) | 212.8 | 209. |
| | ----- | ----- |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

| As of December 31, (in millions) | 2002 | 2001 |
|---|------------|-----------|
| | ----- | ----- |
| ASSETS | | |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Utility Plant | \$16,435.0 | \$15,991. |
| Accumulated depreciation and amortization | (7,998.2) | (7,616.) |
| | ----- | ----- |
| Net utility plant | 8,436.8 | 8,374. |
| | ----- | ----- |
| Gas and oil producing properties, successful efforts method | | |
| United States cost center | 1,056.3 | 1,011. |
| Canadian cost center | 5.9 | 22. |
| Accumulated depletion | (122.7) | (74.) |

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| | | |
|---|------------|----------|
| Net gas and oil producing properties | 939.5 | 959 |
| Other property, at cost, less accumulated depreciation | 691.7 | 679 |
| Net Property, Plant and Equipment | 10,068.0 | 10,013 |
| INVESTMENTS AND OTHER ASSETS | | |
| Assets of discontinued operations | 79.2 | 509 |
| Unconsolidated affiliates | 118.8 | 124 |
| Assets held for sale | 26.1 | 15 |
| Other investments | 50.7 | 47 |
| Total Investments | 274.8 | 696 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 54.3 | 118 |
| Restricted cash | 1.9 | 9 |
| Accounts receivable (less reserve of \$53.7 and \$52.7, respectively) | 580.1 | 667 |
| Unbilled revenue (less reserve of \$3.5 and \$3.8, respectively) | 305.2 | 262 |
| Gas inventory | 255.3 | 377 |
| Underrecovered gas and fuel costs | 149.9 | 134 |
| Materials and supplies, at average cost | 65.9 | 73 |
| Electric production fuel, at average cost | 39.0 | 29 |
| Price risk management assets | 66.6 | 249 |
| Exchange gas receivable | 120.8 | 186 |
| Prepayments and other | 229.5 | 228 |
| Total Current Assets | 1,868.5 | 2,337 |
| OTHER ASSETS | | |
| Price risk management assets | 116.9 | 69 |
| Regulatory assets | 608.8 | 517 |
| Goodwill | 3,707.6 | 3,735 |
| Intangible assets | 57.3 | 2 |
| Deferred charges and other | 195.0 | 463 |
| Total Other Assets | 4,685.6 | 4,787 |
| TOTAL ASSETS | \$16,896.9 | \$17,834 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

As of December 31, (in millions)

2002 2001

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| | | |
|--|------------|------------|
| CAPITALIZATION AND LIABILITIES | | |
| CAPITALIZATION | | |
| Common Stock Equity | \$ 4,174.9 | \$ 3,469.4 |
| Preferred Stocks -- | | |
| Series without mandatory redemption provisions | 81.1 | 83.6 |
| Series with mandatory redemption provisions | 3.8 | 5.0 |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures | 345.0 | 345.0 |
| Long-term debt, excluding amounts due within one year | 5,018.0 | 6,301.5 |
| | ----- | ----- |
| Total Capitalization | 9,622.8 | 10,204.5 |
| | ----- | ----- |
| CURRENT LIABILITIES | | |
| Current redeemable preferred stock subject to mandatory redemption | -- | 43.0 |
| Current portion of long-term debt | 1,232.6 | 423.6 |
| Short-term borrowings | 913.1 | 1,854.3 |
| Accounts payable | 521.6 | 613.4 |
| Dividends declared on common and preferred stocks | 1.1 | 1.8 |
| Customer deposits | 65.2 | 50.3 |
| Taxes accrued | 242.1 | 247.5 |
| Interest accrued | 88.3 | 79.6 |
| Overrecovered gas and fuel costs | 13.1 | 49.3 |
| Price risk management liabilities | 44.9 | 243.1 |
| Exchange gas payable | 411.9 | 287.2 |
| Current deferred revenue | 130.2 | 89.0 |
| Other accruals | 513.3 | 669.1 |
| | ----- | ----- |
| Total Current Liabilities | 4,177.4 | 4,651.2 |
| | ----- | ----- |
| OTHER LIABILITIES AND DEFERRED CREDITS | | |
| Price risk management liabilities | 3.2 | 10.8 |
| Deferred income taxes | 1,861.7 | 1,725.0 |
| Deferred investment tax credits | 96.3 | 105.3 |
| Deferred credits | 145.0 | 133.5 |
| Noncurrent deferred revenue | 305.4 | 435.4 |
| Accrued liability for postretirement and pension benefits | 417.2 | 288.9 |
| Liabilities of discontinued operations | 2.1 | 18.3 |
| Other noncurrent liabilities | 265.8 | 261.5 |
| | ----- | ----- |
| Total Other | 3,096.7 | 2,978.7 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | -- | -- |
| | ----- | ----- |
| TOTAL CAPITALIZATION AND LIABILITIES | \$16,896.9 | \$17,834.4 |
| | ----- | ----- |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS

Year Ended December 31, (in millions)

2002

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| | | |
|---|-----------|--------|
| OPERATING ACTIVITIES | | |
| Net income | \$ 372.5 | \$ 216 |
| Adjustments to reconcile net income to net cash from continuing operations: | | |
| Depreciation, depletion, and amortization | 574.0 | 641 |
| Net changes in price risk management activities | (22.3) | (42) |
| Asset impairment | -- | 0 |
| Deferred income taxes and investment tax credits | 114.1 | (37) |
| Deferred revenue | (88.9) | (425) |
| Stock Compensation expense | 27.1 | 30 |
| Gain on sale of assets | (27.2) | (11) |
| Income from change in accounting | -- | (4) |
| Gain on sale of discontinued operations | 43.8 | |
| Income from discontinued operations | 9.4 | 14 |
| Other, asset items | (6.5) | (49) |
| Other, liability items | 27.0 | 24 |
| Changes in assets and liabilities, net of effect from acquisitions of businesses: | | |
| Accounts receivable, net | 102.7 | 551 |
| Inventories | 66.8 | (73) |
| Accounts payable | (91.6) | (495) |
| Taxes accrued | (5.4) | 142 |
| (Under) Overrecovered gas and fuel costs | (51.5) | 312 |
| Exchange gas receivable/payable | 190.7 | 355 |
| Other accruals | (136.5) | 157 |
| Other assets | 44.7 | (267) |
| Other liabilities | 45.7 | 53 |
| | ----- | ----- |
| Net Cash Flows from Continuing Operations | 1,188.6 | 1,094 |
| Net Cash Flows from Discontinued Operations | (16.2) | (34) |
| | ----- | ----- |
| Net Cash Flows from Operating Activities | 1,172.4 | 1,060 |
| | ----- | ----- |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (621.9) | (644) |
| Acquisition of businesses | -- | |
| Proceeds from disposition of assets | 419.2 | 227 |
| Other investing activities | -- | (7) |
| | ----- | ----- |
| Net Cash Flows from Investing Activities | (202.7) | (423) |
| | ----- | ----- |
| FINANCING ACTIVITIES | | |
| Issuance of long-term debt | -- | 300 |
| Retirement of long-term debt | (532.1) | (93) |
| Change in short-term debt | (941.2) | (642) |
| Retirement of preferred shares | (46.7) | (1) |
| Issuance of common stock | 734.9 | 15 |
| Acquisition of treasury stock | (6.9) | |
| Dividends paid - common shares | (241.5) | (239) |
| | ----- | ----- |
| Net Cash Flows from Financing Activities | (1,033.5) | (660) |
| | ----- | ----- |
| Increase (decrease) in cash and cash equivalents | (63.8) | (23) |
| Cash and cash equivalents at beginning of year | 118.1 | 141 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 54.3 | \$ 118 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid for interest, net of amounts capitalized | 496.6 | 518 |
| Interest capitalized | 4.3 | 4 |

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| | | |
|----------------------------|-------|-------|
| Cash paid for income taxes | 118.8 | 250 |
| | ----- | ----- |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED CAPITALIZATION

| | 2002 | |
|---|------------|-------|
| | ----- | ----- |
| As of December 31, (in millions) | | |
| Common shareholders' equity | \$ 4,174.9 | \$ |
| | ----- | ----- |
| Preferred Stocks, which are redeemable solely at option of issuer: | | |
| Northern Indiana Public Service Company -- Cumulative preferred stock -- \$100 par value -- | | |
| 4-1/4% series -- 209,035 outstanding | 20.9 | |
| 4-1/2% series -- 79,996 shares outstanding | 8.0 | |
| 4.22% series -- 106,198 shares outstanding | 10.6 | |
| 4.88% series -- 100,000 shares outstanding | 10.0 | |
| 7.44% series -- 41,890 shares outstanding | 4.2 | |
| 7.50% series -- 34,842 shares outstanding | 3.5 | |
| Premium on preferred stock and other | 0.3 | |
| Cumulative preferred stock -- no par value -- Adjusted rate series A (stated value -- \$50 per share), 473,285 shares outstanding | 23.6 | |
| | ----- | ----- |
| Series without mandatory redemption provisions | 81.1 | |
| | ----- | ----- |
| Redeemable Preferred Stocks, subject to mandatory redemption requirements or whose redemption is outside the control of issuer: | | |
| Northern Indiana Public Service Company -- Cumulative preferred stock -- \$100 par value -- | | |
| 7-3/4% series -- 11,136 and 16,690 shares outstanding, respectively | 1.1 | |
| 8.35% series -- 27,000 and 33,000 shares outstanding, respectively | 2.7 | |
| | ----- | ----- |
| Series with mandatory redemption provisions | 3.8 | |
| | ----- | ----- |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures | 345.0 | |
| | ----- | ----- |
| Long-term debt | 5,018.0 | |
| | ----- | ----- |
| TOTAL CAPITALIZATION | \$ 9,622.8 | \$1 |
| | ----- | ----- |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

| | |
|---|---------|
| As of December 31, (in millions) | 200 |
| <hr/> | |
| NiSource Inc.: | |
| Debentures due November 1, 2006, with interest imputed at 5.88% (SAILS(SM)) | \$ 126. |
| <hr/> | |
| Bay State Gas Company: | |
| Medium-Term Notes-- | |
| Interest rates between 6.26% and 9.20% with a weighted average interest rate of 7.08% and maturities between June 21, 2005 and February 15, 2028 | 80. |
| Northern Utilities: | |
| Medium-Term Note--Interest rate of 6.93% and maturity of September 1, 2010 | 5. |
| Medium-Term Note--Interest rate of 9.70% and maturity of September 1, 2031 | - |
| <hr/> | |
| Total long-term debt of Bay State Gas Company | 86. |
| <hr/> | |
| Columbia Energy Group: | |
| Debentures-- | |
| 6.80% Series C - due November 28, 2005 | 281. |
| 7.05% Series D - due November 28, 2007 | 281. |
| 7.32% Series E - due November 28, 2010 | 281. |
| 7.42% Series F - due November 28, 2015 | 281. |
| 7.62% Series G - due November 28, 2025 | 229. |
| Fair value adjustment of debentures for interest rate swap agreements | 30. |
| <hr/> | |
| Total | 1,385. |
| Unamortized discount on long-term debt | (108.) |
| Subsidiary debt--Capital lease obligations | 2. |
| <hr/> | |
| Total long-term debt of Columbia Energy Group | 1,279. |
| <hr/> | |
| Primary Energy, Inc. | |
| Long-Term Notes-- | |
| Whiting Clean Energy, Inc.--Interest rate of 8.18% and maturity of June 20, 2011 | 302. |
| Ironsides--Interest rate of 8.00% and maturity of September 30, 2012 | - |
| Capital Lease Obligation-- | |
| Portside Energy Corporation | 51. |
| Cokenergy, Inc. | 117. |
| <hr/> | |
| Total long-term debt of Primary Energy, Inc. | 471. |
| <hr/> | |
| NiSource Capital Markets, Inc: | |
| Subordinated Debentures--Series A, 7-3/4%, due March 31, 2026 | 75. |
| Senior Notes Payable--6.78%, due December 1, 2027 | 75. |
| Medium-term notes-- | |
| Issued at interest rates between 7.38% and 7.99%, with a weighted average interest rate of 7.66% and various maturities between April 1, 2004 and May 5, 2027 | 300. |
| <hr/> | |
| Total long-term debt of NiSource Capital Markets, Inc. | 450. |
| <hr/> | |

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Indianapolis Water Company:

Medium-term notes--

Medium-Term Notes--Interest rates of 5.99% and 6.61% with a weighted average interest rate of 6.34% and maturities of February 1, 2009 and February 1, 2019

Total long-term debt of Indianapolis Water Company

NiSource Development Company, Inc.:

NDC Douglas Properties, Inc.--Notes Payable--

Interest rate between 7.69% and 8.38% with a weighted average interest rate of 8.11% and various maturities between January 1, 2004 and January 1, 2008

Total long-term debt of NiSource Development Company, Inc.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

STATEMENTS OF CONSOLIDATED LONG-TERM DEBT (CONTINUED)

| As of December 31, (in millions) | 2002 |
|--|-----------|
| | ----- |
| NiSource Finance Corp.: | |
| Long-Term Notes-- | |
| 5-3/4% - due April 15, 2003 | -- |
| 7-1/2% - due November 15, 2003 | -- |
| 7-5/8% - due November 15, 2005 | 900.0 |
| 7-7/8% - due November 15, 2010 | 1,000.0 |
| Unamortized discount on long-term debt | (13.6) |
| | ----- |
| Total long-term debt of NiSource Finance Corp, Inc. | 1,886.4 |
| | ----- |
| Northern Indiana Public Service Company: | |
| First mortgage bonds-- | |
| Series NN, 7.10% - due July 1, 2017 | 55.0 |
| Pollution control notes and bonds-- | |
| Issued at interest rates between 1.14% and 1.40%, with a weighted average interest rate of 1.28% and various maturities between November 1, 2007 and April 1, 2019 | 223.0 |
| Medium-term notes-- | |
| Issued at interest rates between 6.50% and 7.69%, with a weighted average interest rate of 7.19% and various maturities between July 8, 2004 and August 4, 2027 | 437.5 |
| Unamortized premiums and discount on long-term debt, net | (2.1) |
| | ----- |
| Total long-term debt of Northern Indiana Public Service Company | 713.4 |
| | ----- |
| Total long-term debt, excluding amount due within one year | \$5,018.0 |
| | ----- |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY

| (in millions) | COMMON STOCK | TREASURY STOCK | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | OTHE |
|---|-----------------|-------------------|----------------------------------|----------------------|---------|
| | ----- | ----- | ----- | ----- | ----- |
| BALANCE JANUARY 1, 2000 | \$ 870.9 | \$ (472.5) | \$ 174.4 | \$ 774.4 | \$ 1. |
| Comprehensive Income: | | | | | |
| Net Income | | | | 150.9 | |
| Other comprehensive income, net of tax: | | | | | |
| Gain/loss on available for sale securities: | | | | | |
| Unrealized | | | | | |
| Realized | | | | | |
| Gain/loss on foreign currency translation: | | | | | |
| Unrealized | | | | | |
| Total comprehensive income | | | | | |
| Dividends: | | | | | |
| Common stock | | | | (98.3) | |
| Treasury stock acquired | | (65.9) | | | |
| Issued: | | | | | |
| Columbia acquisition | 0.7 | | 1,760.5 | | |
| Reduction of credit facility | 0.1 | | 280.8 | | |
| Long-term incentive plan | -- | 22.7 | 14.4 | | (26. |
| Formation of new NiSource | (869.7) | 515.1 | 354.6 | | |
| Amortization of unearned compensation | | | | | 6. |
| Equity contract costs | | | 7.7 | | |
| Other | | 0.6 | 4.9 | (3.3) | |
| BALANCE DECEMBER 31, 2000 | \$ 2.0 | \$ 0.0 | \$2,597.3 | \$ 823.7 | \$ (18. |
| Comprehensive Income: | | | | | |
| Net Income | | | | 216.2 | |
| Other comprehensive income, net of tax: | | | | | |
| Gain/loss on available for sale securities: | | | | | |
| Unrealized | | | | | |
| Realized | | | | | |
| Gain/loss on foreign currency translation: | | | | | |
| Unrealized | | | | | |
| Net unrealized gains on derivatives qualifying as cash flow hedges | | | | | |
| Total comprehensive income | | | | | |
| Dividends: | | | | | |
| Common stock | | | | (239.7) | |
| Treasury stock acquired | | | | | |
| Issued: | | | | | |
| Employee stock purchase plan | | | 1.3 | | |
| Long-term incentive plan | 0.1 | | 40.6 | | (31. |
| Amortization of unearned compensation | | | | | 30. |
| Equity contract costs | | | (1.9) | | |

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| | | | | | |
|--|--------|----------|-----------|----------|-----------|
| Other | | | | (1.6) | |
| BALANCE DECEMBER 31, 2001 | \$ 2.1 | \$ 0.0 | \$2,637.3 | \$ 798.6 | \$ (19.6) |
| Comprehensive Income: | | | | | |
| Net Income | | | | 372.5 | |
| Other comprehensive income, net of tax: | | | | | |
| Gain/loss on available for sale securities: | | | | | |
| Unrealized | | | | | |
| Realized | | | | | |
| Net unrealized gains on derivatives qualifying as cash flow hedges | | | | | |
| Minimum pension liability adjustment | | | | | |
| Total comprehensive income | | | | | |
| Dividends: | | | | | |
| Common stock | | | | (240.8) | |
| Treasury stock acquired | | (6.9) | | | |
| Issued: | | | | | |
| Common stock issuance | 0.4 | | 734.3 | | |
| Employee stock purchase plan | | | 0.9 | | |
| Long-term incentive plan | | | 17.0 | | (0.6) |
| Amortization of unearned compensation | | | | | 19.6 |
| Other | | | | 0.6 | |
| BALANCE DECEMBER 31, 2002 | \$ 2.5 | \$ (6.9) | \$3,389.5 | \$ 930.9 | \$ (0.6) |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY (CONTINUED)

| SHARES (IN THOUSANDS) | COMMON SHARES | TREASURY SHARES |
|------------------------------|------------------|--------------------|
| | ----- | ----- |
| BALANCE JANUARY 1, 2000 | 147,784 | (23,645) |
| Treasury stock acquired | | (3,971) |
| Issued: | | |
| Columbia acquisition | 72,453 | -- |
| Stock issuance | 11,500 | -- |
| Employee stock purchase plan | -- | 62 |
| Long-term incentive plan | 226 | 1,144 |
| Treasury stock cancelled | (26,410) | 26,410 |
| BALANCE DECEMBER 31, 2000 | 205,553 | -- |
| Issued: | | |
| Employee stock purchase plan | 46 | -- |
| Long-term incentive plan | 1,893 | -- |

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| | | |
|------------------------------|---------|-------|
| BALANCE DECEMBER 31, 2001 | 207,492 | -- |
| | ----- | ----- |
| Treasury stock acquired | | (350) |
| Issued: | | |
| Stock issuance | 41,400 | |
| Employee stock purchase plan | 43 | -- |
| Long-term incentive plan | 275 | -- |
| | ----- | ----- |
| BALANCE DECEMBER 31, 2002 | 249,210 | (350) |
| | ----- | ----- |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. HOLDING COMPANY STRUCTURE

NiSource Inc. (NiSource), a Delaware corporation, is a holding company whose subsidiaries provide natural gas, electricity and other products and services to approximately 3.7 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. Subsequent to the completion of the acquisition of Columbia Energy Group (Columbia) on November 1, 2000, as discussed in Note 3 below, NiSource became a holding company registered under the Public Utility Holding Company Act of 1935, as amended. NiSource derives substantially all of its revenues and earnings from the operating results of its 15 direct subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of NiSource and its majority-owned subsidiaries after the elimination of all intercompany accounts and transactions. Investments for which at least a 20% interest is owned, certain joint ventures and limited partnership interests of more than 3% are accounted for under the equity method. Except where noted above, investments with less than a 20% interest are accounted for under the cost method.

B. DILUTED AVERAGE COMMON SHARES COMPUTATION. Basic earnings per share (EPS) is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans and the forward equity contracts associated with the Stock Appreciation Income Linked Securities (SM) (SAILS (SM)) and the Corporate Premium Income Equity Securities (Corporate PIES).

The numerator in calculating both basic and diluted EPS for each year is reported net income. The computation of diluted average common shares follows:

| Diluted Average Common Shares Computation | 2002 | 2001 | 2000 |
|---|---------|---------|---------|
| | ----- | ----- | ----- |
| Denominator (thousands) | | | |
| Basic average common shares outstanding | 211,009 | 205,300 | 134,470 |
| Dilutive potential common shares | | | |

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| | | | |
|---|---------|---------|---------|
| Nonqualified stock options | 130 | 575 | 307 |
| Shares contingently issuable under employee stock plans | 880 | 1,723 | 410 |
| SAILS (SM) | 458 | 1,251 | -- |
| Shares restricted under employee stock plans | 297 | 847 | 624 |
| Corporate PIES | -- | 61 | -- |
| | ----- | ----- | ----- |
| Diluted Average Common Shares | 212,774 | 209,757 | 135,811 |
| | ----- | ----- | ----- |

C. CASH AND CASH EQUIVALENTS. NiSource considers all investments with original maturities of three months or less to be cash equivalents. NiSource reports amounts deposited in brokerage accounts for margin requirements in the restricted cash balance sheet caption.

D. BASIS OF ACCOUNTING FOR RATE-REGULATED SUBSIDIARIES. NiSource's rate-regulated subsidiaries follow the accounting and reporting requirements of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). SFAS No. 71 provides that rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for the application of SFAS No. 71. In such event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result. If transition cost recovery was approved by the appropriate regulatory bodies that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of SFAS No. 71, NiSource would be required to apply the provisions of SFAS No. 101, "Regulated Enterprises - Accounting for the Discontinuation of Application of Financial Accounting Standards Board (FASB) Statement No. 71." In management's opinion, NiSource's regulated subsidiaries will be subject to SFAS No. 71 for the foreseeable future.

Regulatory assets and liabilities were comprised of the following items:

| At December 31, (in millions) | 2002 | 2001 |
|---|---------|---------|
| | ----- | ----- |
| ASSETS | | |
| Reacquisition premium on debt | \$ 29.4 | \$ 32.7 |
| R. M. Schahfer Unit 17 and Unit 18 carrying charges and | | |

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| | | |
|---|---------|---------|
| deferred depreciation (see Note 2G) | 45.4 | 49.7 |
| Bailly scrubber carrying charges and deferred depreciation (see Note 2G) | 5.2 | 6.1 |
| Postemployment and other postretirement costs (see Note 11) | 179.5 | 198.6 |
| Retirement income plan costs | 16.8 | 15.5 |
| Environmental costs | 56.4 | 73.5 |
| Regulatory effects of accounting for income taxes (See Note 2R) | 232.4 | 169.9 |
| Underrecovered gas and fuel costs | 149.9 | 134.6 |
| Depreciation (see Note 2G) | 85.3 | 64.5 |
| Uncollectible accounts receivable deferred for future recovery | 22.5 | 19.5 |
| Other | 83.8 | 62.2 |
| | ----- | ----- |
| TOTAL ASSETS | \$906.6 | \$826.8 |
| | ----- | ----- |
| LIABILITIES | | |
| Rate refunds and reserves | \$ 10.2 | \$ 15.1 |
| Overrecovered gas and fuel costs | 13.1 | 49.3 |
| Regulatory effects of accounting for income taxes | 73.2 | 75.5 |
| Other | 12.8 | 18.3 |
| | ----- | ----- |
| TOTAL LIABILITIES | \$109.3 | \$158.2 |
| | ----- | ----- |

Regulatory assets of approximately \$482.4 million are not presently included in rate base and consequently are not earning a return on investment. These regulatory assets are being recovered as components of cost of service over periods generally ranging from 1 to 12 years. Regulatory assets of approximately \$157.3 million require specific rate action.

E. UTILITY PLANT AND OTHER PROPERTY AND RELATED DEPRECIATION AND MAINTENANCE. Property, plant and equipment (principally utility plant) are stated at cost. The rate-regulated subsidiaries record depreciation using composite rates on a straight-line basis over the remaining service lives of the electric, gas and common properties.

For rate-regulated companies, an allowance for funds used during construction (AFUDC) is capitalized on all classes of property except organization, land, autos, office equipment, tools and other general property purchases. The allowance is applied to construction costs for that period of time between the date of the expenditure and the date on which such project is completed and placed in service. For non-regulated companies, interest during construction (IDC) is capitalized pursuant to SFAS No. 34, "Capitalization of Interest Cost." The pre-tax rates for AFUDC and IDC were 2.8% and 7.5% in 2002, 6.6% and 6.8% in 2001, and 6.4% and 6.8% in 2000. The decline in the 2002 AFUDC rate, as compared with 2001, was due to lower short-term interest rates and the use of short-term borrowings to fund construction efforts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The depreciation provisions for utility plant, as a percentage of the original cost, for the periods ended December 31, 2002, 2001 and 2000 were as follows:

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| | 2002 | 2001 | 2000 |
|----------|------|------|------|
| | ---- | ---- | ---- |
| Electric | 3.6 | 3.7 | 3.7 |
| Gas | 3.0 | 3.0 | 4.6 |
| | ---- | ---- | ---- |

The cogeneration facilities owned or owned in-substance by Primary Energy, Inc. (Primary Energy) are being depreciated on a straight-line basis over a 40-year useful life.

The regulated subsidiaries follow the practice of charging maintenance and repairs, including the cost of removal of minor items of property, to expense as incurred. When property that represents a retired unit is replaced or removed, the cost of such property is credited to utility plant, and such cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation.

Net utility plant includes amounts allocated to utility plant in excess of the original cost as part of purchase price allocations associated with the acquisition of certain utility businesses (mainly Bay State), net of accumulated depreciation. These amounts were \$522.7 million and \$535.2 million at December 31, 2002, and December 31, 2001, respectively, and are being amortized over forty-year periods from the respective dates of acquisition.

F. GAS AND OIL PRODUCING PROPERTIES. NiSource accounts for the acquisition, exploration and development activities related to oil and gas reserves using the successful efforts method. Under the successful efforts method of accounting, except for property acquisition costs, only costs associated with specific discovered reserves are capitalized. Capitalized costs include mineral interests in properties, wells and related equipment and facilities. support equipment, and uncompleted wells, Duplerion expense is equal to annual production multiplied by the depletion rate per unit that is derived by spreading the total costs capitalized under successful efforts over the number of units expected to be extracted over the life of the reserves on a lease basis.

G. CARRYING CHARGES AND DEFERRED DEPRECIATION. Upon completion of units 17 and 18 at the R. M. Schahfer Generating Station, Northern Indiana Public Service Company (Northern Indiana) capitalized the carrying charges and deferred depreciation in accordance with orders of the Indiana Utility Regulatory Commission (IURC), pending the inclusion of the cost of each unit in rates. Such carrying charges and deferred depreciation are being amortized over the remaining service life of each unit.

Northern Indiana has capitalized carrying charges and deferred depreciation and certain operating expenses relating to its scrubber service agreement for its Bailly Generating Station in accordance with an order of the IURC. The accumulated balance of the deferred costs and related carrying charges is being amortized over the remaining life of the scrubber service agreement.

In Columbia Gas of Ohio, Inc.'s (Columbia of Ohio) 1999 rate agreement, the Public Utilities Commission of Ohio authorized Columbia of Ohio to revise its depreciation accrual rates for the period January 1, 1999 through December 31, 2004. The revised depreciation rates are lower than those which would have been utilized if Columbia of Ohio were not subject to regulation and, accordingly, a regulatory asset has been established for the difference. The amount of depreciation that would have been recorded for 2002 had Columbia of Ohio not been subject to rate regulation was \$35.0 million, a \$20.8 million increase over the \$13.4 million reflected in rates. The amount of depreciation that would have been recorded for 2001 had Columbia of Ohio not been subject to rate regulation

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was \$37.1 million, a \$24.5 million increase over the \$12.6 million reflected in rates. The balance of the regulatory asset was \$85.3 million as of December 31, 2002.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

H. AMORTIZATION OF SOFTWARE COSTS. External and incremental internal costs associated with computer software developed for internal use are capitalized. Capitalization of such costs commences upon the completion of the preliminary stage of each project in accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis over a period of five to ten years.

I. INTANGIBLE ASSETS. The excess of cost over the fair value of the net assets acquired in the Columbia acquisition was recorded as goodwill. Although the goodwill was being amortized over forty years, beginning January 1, 2002 goodwill amortization was discontinued pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). Goodwill assets of \$3.7 billion were reported at December 31, 2002. In addition, NiSource had approximately \$57.3 million of intangible assets recorded at December 31, 2002, which reflected the additional minimum liability associated with the unrecognized service cost of the pension plans pursuant to SFAS No. 87, "Employers' Accounting for Pensions."

J. REVENUE RECOGNITION. With the exception of amounts recognized for energy trading activities, revenues are recorded as products and services are delivered. Utility revenues are billed to customers monthly on a cycle basis. Revenues are recorded on the accrual basis and include estimates for electricity and gas delivered. Cash received in advance from sales of commodities to be delivered in the future is recorded as deferred revenue and recognized as income upon delivery of the commodities.

Revenues relating to energy trading operations are recorded based upon changes in the fair values, net of reserves, of the related energy trading contracts. Changes in the fair values of energy trading contracts are recognized in revenues net of associated costs. Transactions resulting in physical delivery are recorded on a gross basis with related costs recognized in cost of sales.

Beginning with financial statements issued for the first quarter 2003, NiSource will display revenues associated with trading activities net of related costs pursuant to EITF Issue No. 02-03 "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" (EITF No. 02-03), whether or not resulting in physical delivery. All periods will be adjusted to conform to the net presentation.

K. ESTIMATED RATE REFUNDS. Certain rate-regulated subsidiaries collect revenues subject to refund pending final determination in rate proceedings. In connection with such revenues, estimated rate refund liabilities are recorded which reflects management's current judgment of the ultimate outcomes of the proceedings. No provisions are made when, in the opinion of management, the facts and circumstances preclude a reasonable estimate of the outcome.

L. ACCOUNTS RECEIVABLE SALES PROGRAM. NiSource enters into agreements with third parties to sell certain accounts receivable without recourse. These sales

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are reflected as reductions of accounts receivable in the accompanying consolidated balance sheets and as operating cash flows in the accompanying statements of consolidated cash flows. The costs of these programs, which are based upon the purchasers' level of investment and borrowing costs, are charged to other income in the accompanying statements of consolidated income.

M. USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. FUEL ADJUSTMENT CLAUSE. All metered electric rates contain a provision for adjustment to reflect increases and decreases in the cost of fuel and the fuel cost of purchased power through operation of a fuel adjustment clause. As prescribed by order of the IURC applicable to metered retail rates, the adjustment factor has been calculated based on the estimated cost of fuel and the fuel cost of purchased power in a future three-month period. If two statutory requirements relating to expense and return levels are satisfied, any under-recovery or over-recovery caused by variances between estimated and actual costs in a given three-month period will be included in a future filing. The differences are recognized in income when rates are adjusted to accommodate the differences. Northern

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Indiana records any under-recovery or over-recovery as a current regulatory asset or liability until such time as it is billed or refunded to its customers. The fuel adjustment factor is subject to a quarterly hearing by the IURC and remains in effect for a three-month period.

O. GAS COST ADJUSTMENT CLAUSE. NiSource's gas distribution subsidiaries defer most differences between gas purchase costs and the recovery of such costs in revenues, and adjust future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions.

P. NATURAL GAS IN STORAGE. Both the last-in, first-out (LIFO) inventory methodology and the weighted average methodology are used to value natural gas in storage. The application of different methodologies is due to the acquisition of Bay State Gas Company (Bay State). Bay State uses the weighted average cost of gas method, as approved by state regulators, in setting its rates while both Northern Indiana and the Columbia subsidiaries use the LIFO methodology when setting rates in their respective jurisdictions. Inventory valued using LIFO was \$230.2 million and \$300.4 million at December 31, 2002, and December 31, 2001, respectively. Based on the average cost of gas using the LIFO method, the estimated replacement cost of gas in storage at December 31, 2002 and December 31, 2001, exceeded the stated LIFO cost by \$281.6 million and \$71.2 million, respectively. Inventory valued using the weighted average methodology was \$25.1 million at December 31, 2002 and \$77.3 million at December 31, 2001. Additionally, at December 31, 2001 EnergyUSA-TPC (TPC) had natural gas in storage at a fair value of \$30.1 million reflected in price risk management assets.

Q. ACCOUNTING FOR RISK MANAGEMENT ACTIVITIES. SFAS No. 133, "Accounting for

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Derivative Instruments and Hedging Activity" (SFAS No. 133), establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet at fair value, unless such contracts are exempted as normal under the provisions of the standard. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation. NiSource adopted SFAS No. 133 effective January 1, 2001, resulting in a cumulative after-tax increase to net income of approximately \$4.0 million and an after-tax reduction to other comprehensive income of approximately \$17.0 million.

If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recognized currently in earnings.

Unrealized and realized gains and losses are recognized each period as components of other comprehensive income, regulatory assets and liabilities or earnings depending on the nature of such derivatives. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to other comprehensive income and are recognized in earnings concurrent with the disposition of the hedged risks. If a forecasted transaction corresponding to a cash flow hedge is not expected to occur, the accumulated gains or losses on the derivative are recognized currently in earnings. For fair value hedges, the gains and losses are recorded in earnings each period along with the change in the fair value of the hedged item. As a result of the rate-making process, the rate-regulated subsidiaries generally record gains and losses as regulatory liabilities or assets and recognize such gains or losses in earnings when accommodated in rates.

Energy trading activities refers to energy contracts entered into with the objective of generating profits on, or from exposure to, shifts or changes in market prices. NiSource evaluates the contracts of its trading operations in accordance with the criteria for derivative contracts under SFAS No. 133. Through 2002, trading contracts not meeting the criteria to be accounted for as derivatives under SFAS No. 133 were recorded at fair value under EITF Issue No 98-10, "Accounting for Energy Trading and Risk Management Activities" (EITF No. 98-10). EITF No. 98-10 indicates that when certain trading criteria are met, energy contracts, including "energy-related contracts" such as tolling, transportation and storage contracts, should be accounted for at fair value (marked to market) along with any related derivative contracts. The resulting gains and losses resulting from marking the contracts to fair value are included currently in earnings. During an October 25, 2002 EITF meeting, EITF No. 98-10 was rescinded effective immediately for contracts entered into after that date, and beginning January 1, 2003 for existing trading contracts.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

R. INCOME TAXES AND INVESTMENT TAX CREDITS. NiSource records income taxes to

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recognize full interperiod tax allocations. Under the liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax bases of existing assets and liabilities. Previously recorded investment tax credits of the regulated subsidiaries were deferred and are being amortized over the life of the related properties to conform to regulatory policy.

S. ENVIRONMENTAL EXPENDITURES. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on currently enacted laws and regulations, existing technology and site-specific costs. The liability is adjusted as further information is discovered or circumstances change. Rate-regulated subsidiaries applying SFAS No. 71 establish regulatory assets on the balance sheet to the extent that future recovery of environmental remediation costs is probable through the regulatory process.

T. STOCK OPTIONS AND AWARDS. SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), encourages, but does not require, entities to adopt the fair value method of accounting for stock-based compensation plans. The fair value method would require the amortization of the fair value of stock-based compensation at the date of grant over the related vesting period. NiSource continues to apply the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), for awards granted under its stock-based compensation plans. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

| Year Ended December 31, (\$ in millions, except per share data) | 2002 | 2001 | 2000 |
|---|-------|-------|-------|
| | ----- | ----- | ----- |
| NET INCOME | | | |
| As reported | 372.5 | 216.2 | 150.9 |
| Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax | 6.4 | 6.1 | 2.7 |
| Pro forma | 366.1 | 210.1 | 148.2 |
| EARNINGS PER SHARE | | | |
| Basic - as reported | 1.77 | 1.05 | 1.12 |
| - pro forma | 1.74 | 1.02 | 1.10 |
| Diluted - as reported | 1.75 | 1.03 | 1.11 |
| - pro forma | 1.72 | 1.00 | 1.09 |
| | ----- | ----- | ----- |

U. SYNTHETIC LEASES RELATED TO COGENERATION PROJECTS. Primary Energy is currently involved in six projects, which produce electricity, steam or thermal energy on the sites of industrial customers. Five projects generate energy from process streams or fuel provided by the industrial customers. The energy is then delivered to the industrial customers under long-term contracts providing for tolling fees or processing fees. One project, Whiting Clean Energy, uses natural gas to produce electricity for sale in the wholesale markets and is expected to provide steam for industrial use. While two projects, Ironside and North Lake, are now directly owned by NiSource, generally the facilities are owned by unaffiliated special purpose entities.

Prior to the issuance of the June 30, 2002 financial statements, the assets and

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related debt associated with these projects were not included in NiSource's consolidated financial statements, which treatment was approved by NiSource's former independent public accountants. However, NiSource determined in consultation with Deloitte & Touche, its independent public accountants, that certain language contained in the operative agreements for four of the projects did not support characterization of those transactions as off-balance-sheet operating leases under EITF Issue No. 97-1, "Implementation Issues in Accounting for Lease Transactions, Including Those Involving Special Purpose Entities," and EITF Issue No. 97-10 "The Effect of Lessee Involvement in Asset Construction" (EITF No. 97-10). Certain provisions in the operative documents for two transactions (Whiting Clean Energy and Ironside), which were subject to EITF No. 97-10, could be interpreted to transfer substantial construction period risks to the lessee, resulting in Primary Energy being deemed the owner of the projects. Certain provisions in the other two

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

leases (Cokenergy and Portside) could be interpreted to require the inclusion of certain default-related obligations in minimum lease payments, resulting in the characterization of those leases as capital leases.

At June 30, 2002, as a result of this determination, NiSource changed the characterization of the leases associated with the four projects from synthetic leases to assets owned in substance (for Whiting Clean Energy and Ironside) and capital leases (for Cokenergy and Portside) for financial reporting purposes.

As of December 31, 2002, NiSource recognized approximately \$491.0 million of assets and the related debt on its balance sheet related to the projects remaining under leases. The comparative 2001 balance sheet has been adjusted to conform to the 2002 presentation. The cumulative effect of the change in characterization of \$4.1 million after-tax was recognized in income in 2002.

One project (Lakeside) continues to be accounted for as an off-balance-sheet synthetic lease. Beginning in the third quarter of 2003, the special purpose entity will likely be consolidated by NiSource as a variable interest entity under Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). See Note 6 for further information.

V. EXCISE TAXES. NiSource accounts for excise taxes that are customer liabilities by separately stating on its invoices the tax to its customers and recording amounts invoiced as liabilities payable to the applicable taxing jurisdiction. These types of taxes, comprised largely of sales taxes collected, are presented on a net basis affecting neither revenues nor cost of sales. NiSource accounts for other taxes for which it is liable by recording a liability for the expected tax with a corresponding charge to "Other Taxes" expense.

W. EQUITY FORWARD CONTRACTS. NiSource accounts for equity forward contracts on its own common shares as permanent equity consistent with the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (EITF No. 00-19). Accordingly, such contracts are recorded in equity at fair value at the date of inception and changes in fair value are not recognized as long as the contracts continue to be classified as equity.

3. ACQUISITIONS

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On November 1, 2000, NiSource completed its acquisition of Columbia for an aggregate consideration of approximately \$6 billion, primarily consisting of \$3,888 million in cash, 72.4 million shares of common stock valued at \$1,761 million and SAILS(SM) (units each consisting of a zero coupon debt security coupled with a forward equity contract in NiSource shares) valued at \$114 million. NiSource also assumed approximately \$2 billion in Columbia debt. NiSource accounted for the acquisition in accordance with the purchase method of accounting. The excess of the aggregate purchase price over the estimated fair value of the net assets acquired, approximately \$3.8 billion, has been reflected as goodwill in the consolidated financial statements. The goodwill was being amortized on a straight-line basis over forty years through 2001; however, the amortization was discontinued effective January 1, 2002 pursuant to the adoption of SFAS No. 142. The remaining goodwill balances were \$3,707.6 million and \$3,735.7 million at December 31, 2002 and December 31, 2001, respectively.

On a pro forma basis, NiSource's consolidated results of operations for the twelve months ended December 31, 2000, assuming the acquisition of Columbia had occurred on January 1, 2000, would have been:

UNAUDITED

| Twelve Months Ended December 31, (\$ in millions) | 2000 |
|---|---------|
| Gross revenues | 8,069.7 |
| Operating income | 1,001.8 |
| Net income | 131.3 |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. RESTRUCTURING ACTIVITIES

During 2000, NiSource developed and began the implementation of a plan to restructure its operations. The restructuring plan included a severance program, a transition plan to implement operational efficiencies throughout NiSource's operations and a voluntary early retirement program. During 2001, the restructuring initiative was continued with the addition of a plan to restructure the operations within NiSource's Gas Distribution and Electric Operations segments. In December 2001, NiSource announced its plan to indefinitely shut down the Dean H. Mitchell Generating Station located in Gary, Indiana.

During 2002, NiSource developed a new reorganization initiative, which resulted in the elimination of approximately 450 positions throughout the organization mainly affecting executive and other management-level employees. NiSource accrued approximately \$41.3 million of salaries and benefits associated with the eliminated positions during 2002. As of December 31, 2002, 246 of the approximately 450 employees were terminated.

For all of the plans, a total of approximately 1,750 management, professional, administrative and technical positions have been identified for elimination. As

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of December 31, 2002, approximately 1,400 employees had been terminated, of whom approximately 670 employees were terminated during 2002. At December 31, 2002 and December 31, 2001, the consolidated balance sheets reflected liabilities of \$49.6 million and \$58.3 million related to the restructuring plans, respectively. During 2002, 2001 and 2000, \$36.7 million, \$29.4 million and \$7.6 million of benefits were paid as a result of the restructuring plans, respectively. Additionally, during 2002, the restructuring plan liability was reduced by \$13.3 million due to a reduction in estimated expenses related to previous reorganization initiatives. The net pretax charge for 2002 was \$28.0 million. NiSource accrued approximately \$28.7 million and \$6.1 million during 2001 and 2000, respectively.

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During the fourth quarter of 2002, NiSource decided to exit the telecommunications business. The results of operations related to Columbia Transmission Communications Corporation (Transcom) were displayed as discontinued operations for all periods presented and were reflected as net assets and net liabilities of discontinued operations on the consolidated balance sheet at December 31, 2002.

On April 30, 2002, NiSource sold the water utility assets of the Indianapolis Water Company (IWC) and other assets of IWC Resources Corporation and its subsidiaries to the City of Indianapolis for \$540.0 million, which included \$157.5 million in IWC debt and the redemption of \$2.5 million of IWC preferred stock. As a result of this transaction, NiSource recorded an after-tax gain of \$7.5 million in the second quarter 2002. The gain included a tax benefit of \$33.2 million resulting from the reduction of a deferred tax liability no longer required. NiSource also sold its interest in White River Environmental Partnership (WREP), which was an IWC investment, to the other partners for \$8.0 million. The sales price of WREP approximated book value. The divestiture of the water utilities was required as part of the order of the U.S. Securities and Exchange Commission approving the November 2000 acquisition of Columbia. The water utilities' operations are reported as discontinued operations.

Results from discontinued operations of Transcom and the water utilities are provided in the following table:

| Twelve months ended December 31, (\$ in millions) | 2002 | 2001 | 2000 |
|---|--------|--------|-------|
| | ----- | ----- | ----- |
| REVENUES FROM DISCONTINUED OPERATIONS | 32.7 | 106.3 | 104.8 |
| | ----- | ----- | ----- |
| Income (Loss) from discontinued operations | (18.5) | (18.9) | 30.5 |
| Income taxes | (9.1) | (4.7) | 21.5 |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS | (9.4) | (14.2) | 9.0 |
| | ----- | ----- | ----- |

On January 28, 2003, NiSource announced that its subsidiary Columbia Natural Resources, Inc. (CNR) sold its interest in a natural gas exploration and production joint venture in New York State representing 39.3 billion cubic feet (Bcf) in reserves and approximately 6.0 Bcf of production for approximately \$95.0 million. The assets of CNR's interest in the joint venture are reported as assets held for sale on the consolidated balance sheet at December 31, 2002.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On July 1, 2002, TPC, a wholly-owned subsidiary, sold its net obligations under a significant portion of its gas forward transaction portfolio, physical storage inventory and associated agreements to a third party. In accordance with the terms of the agreement, NiSource paid \$6.8 million to settle the net obligations. As a result of the sale, a \$3.1 million pre-tax gain was recorded in the third quarter 2002.

On January 28, 2002, NiSource sold all of the issued and outstanding capital stock of SM&P Utility Resources, Inc. (SM&P), a wholly-owned subsidiary of NiSource, to The Laclede Group, Inc. for \$37.9 million. SM&P operates an underground line locating and marking service in ten midwestern states. In the first quarter 2002, NiSource recognized an after-tax gain of \$12.5 million related to the sale. The net assets of SM&P were reported as assets held for sale on the consolidated balance sheet at December 31, 2001.

On August 21, 2001, Columbia sold Columbia Propane Corporation and its subsidiaries to AmeriGas Partners L.P. for approximately \$196.0 million, consisting of \$152.0 million of cash and \$44.0 million of AmeriGas partnership common units. On December 11, 2001, NiSource sold the common units in a public offering for \$48.5 million. NiSource has also sold substantially all the assets of Columbia Petroleum Corporation, a diversified petroleum distribution company.

The net assets and net liabilities of discontinued operations and net assets and net liabilities held for sale were as follows:

| As of December 31, (in millions) | 2002 | 2001 |
|--|---------|---------|
| | ----- | ----- |
| ASSETS (LIABILITIES) HELD FOR SALE AND NET ASSETS OF DISCONTINUED OPERATIONS | | |
| Accounts receivable, net | \$ 33.7 | \$ 53.6 |
| Property, plant and equipment, net | 36.9 | 786.1 |
| Other assets | 73.6 | 154.6 |
| Current liabilities | (18.1) | (146.7) |
| Debt | (4.8) | (78.7) |
| Other liabilities | (16.0) | (244.3) |
| | ----- | ----- |
| Assets (Liabilities) Held for Sale and Net Assets of Discontinued Operations | 105.3 | 524.6 |
| | ----- | ----- |
| LIABILITIES HELD FOR SALE AND LIABILITIES OF DISCONTINUED OPERATIONS | | |
| Current liabilities | (2.1) | (18.3) |
| | ----- | ----- |
| Liabilities Held for Sale and Liabilities of Discontinued Operations | (2.1) | (18.3) |
| | ----- | ----- |
| NET ASSETS AND NET LIABILITIES HELD FOR SALE AND NET ASSETS AND NET LIABILITIES OF DISCONTINUED OPERATIONS | \$103.2 | \$506.3 |
| | ----- | ----- |

6. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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SFAS NOS. 141 AND 142 - BUSINESS COMBINATIONS AND GOODWILL AND OTHER INTANGIBLE ASSETS. In July 2001, the FASB issued SFAS No. 141, "Business Combinations" (SFAS No. 141), and SFAS No. 142. The key requirements of the two interrelated Statements include mandatory use of the purchase method of accounting for business combinations, discontinuance of goodwill amortization, a revised framework for testing for goodwill impairment at a "reporting unit" level, and new criteria for the identification and potential amortization of other intangible assets. Other changes to existing accounting standards involve the amount of goodwill to be used in determining the gain or loss on the disposal of assets and a requirement to test goodwill for impairment at least annually.

The adoption of SFAS No. 142 on January 1, 2002 resulted in an increase in operating income of \$93.1 million for the year ending December 31, 2002, reflecting the effects of discontinuing the amortization of goodwill. Net income would have been \$309.3 million, or \$1.51 per basic share for 2001 and \$166.4 million, or \$1.24 per basic share for 2000 had NiSource discontinued the amortization of goodwill effective January 1, 2000. NiSource adopted the provisions of SFAS No. 141 on July 1, 2001.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Pursuant to the requirements of SFAS No. 142, NiSource has aggregated the subsidiaries acquired in the acquisition of Columbia into two distinct reporting units, one within the Gas Distribution segment and one within the Transmission and Storage segment, for the purpose of testing goodwill for impairment. At December 31, 2002, goodwill was \$1,713.5 million for the Gas Distribution reporting unit and \$1,994.1 million for the Transmission and Storage reporting unit. NiSource completed its analysis of the transitional goodwill impairment test as of June 30, 2002. The results indicated that no impairment charge was required.

SFAS NO. 143 - ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS. In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. The rate-regulated subsidiaries will defer the difference between the amount recognized for depreciation and accretion and the amount collected in rates as required pursuant to SFAS No. 71. SFAS No. 143 is effective for NiSource beginning January 1, 2003.

NiSource currently estimates that the adoption of SFAS No. 143 on January 1, 2003 will result in the recognition of total asset retirement obligation liabilities of approximately \$54.3 million. The combined amount for depreciation and accretion for 2003 is estimated to total to \$4.4 million of this amount, \$0.9 million is related to rate-regulated subsidiaries and will be deferred as a regulatory asset. NiSource will also recognize a charge to discontinued operations of \$0.2 million for asset retirement obligations associated with the telecommunications network.

NiSource undertook an effort to identify the assets impacted by SFAS No. 143, align the assets with types of asset retirement obligations and develop a plan for measurement of the obligations for each asset group. Retirement obligations were identified at each of the business segments.

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For the Gas Distribution segment, the groups of assets reviewed for retirement obligations include distribution and service pipelines (almost all of which are on permanent easements), gas meters, underground gas storage facilities, propane gas facilities and underground storage tanks. Although the pipelines, underground gas storage facilities, propane gas facilities and underground storage tanks on owned property have certain legal obligations to remove the assets upon retirement, the lives of the assets are presently indeterminate and therefore, the liabilities are not quantifiable. Regulatory requirements in certain states require a particular number or percentage of meters be removed each year. The meters may be refurbished and reused or disposed of. No legal obligation exists to dispose of the removed meters; therefore, no liability would be recognized related to retirement obligations for meters. For underground gas storage tanks on leased property, where a determinate life exists, the cost to remove and dispose of the tanks is minimal.

Transmission and Storage segment assets include pipelines, storage fields and wells, storage tanks, compressor stations and offshore pipeline and platform facilities in the Gulf of Mexico. From an operational viewpoint, the onshore pipelines, related compressor stations and storage fields and wells presently have indeterminate lives and, therefore, the liabilities related to retirement obligations are not quantifiable. The compressor stations have legal obligations associated with their retirement involving the removal of facilities. The pipeline facilities are generally on land leased through permanent easements, which are silent with regard to removal. The pipelines are generally retired in place. Retirement obligations are quantifiable for the removal of facilities related to certain storage fields where Federal Energy Regulatory Commission (FERC) approval for abandonment has been obtained and compressor stations that have been shut down. Obligations to remove offshore platforms and cut, cap and fill offshore pipelines exist upon retirement.

The Electric segment has legal or contractual obligations associated with the retirement of a landfill; a fly ash pond; reservoirs and dams; and the disposal of certain chemicals and oils used in the substations, transformers, coal railcars, and oil-filled equipment on electric towers and overhead conductors. The lives of some of these facilities and equipment are presently indeterminate; therefore the associated liabilities are not quantifiable. Leased coal railcars have a determinate life. At the end of the lease terms, NiSource will incur costs to ensure the proper disposal of oils and return the railcars to contractually required condition. Water towers at the hydroelectric facilities are planned for demolition within 2004. Some costs will be incurred for the removal and disposal of lead-based paints and other contaminants associated with the towers.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Exploration and Production segment has retirement obligations for compressor stations, wells and well pipelines on either owned or leased land, treatment and injection facilities and disposal wells. The compressor stations presently have indeterminate lives; therefore an estimate of the liability for the associated retirement obligations is not calculable. The other facilities generally have determinate lives and liabilities will be measured for the estimated retirement obligations. NiSource estimates that most of the retirement obligations associated with its assets will be related to exploration and production assets primarily due to the large number of wells.

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The Other segment includes Primary Energy which has certain legal and contractual obligations associated with the ground leases related to its facilities. The obligations generally involve the removal of all buildings and equipment above and below grade. Two of the projects require the removal of all buildings and equipment to grade only. Because the assets are subject to ground leases, the lives are determinate and the liability would be estimable.

SFAS NO. 146 - ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES. In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The standard will be effective for exit or disposal activities initiated after December 2002. NiSource does not expect the Statement to have a material effect on its financial condition or results of operations. The costs associated with NiSource's restructuring plans initiated in 2002 were recorded in conformity with EITF No. 94-3.

EITF ISSUE NO. 02-03 - ISSUES INVOLVED IN ACCOUNTING FOR DERIVATIVE CONTRACTS HELD FOR TRADING PURPOSES AND CONTRACTS INVOLVED IN ENERGY TRADING AND RISK MANAGEMENT ACTIVITIES AND EITF ISSUE NO. 98-10 - ACCOUNTING FOR CONTRACTS INVOLVED IN ENERGY TRADING AND RISK MANAGEMENT ACTIVITIES. On October 25, 2002, the EITF reached a final consensus in EITF No. 02-03 that gains and losses (realized or unrealized) on all derivative instruments within the scope of SFAS No. 133 should be shown net in the income statement, whether or not settled physically, if the derivative instruments are held for trading purposes. For purposes of the consensus, energy trading activities encompass contracts entered into with the objective of generating profits on, or exposure to, shifts in market prices. This consensus is effective for financial statements issued for periods beginning after December 15, 2002. Nisource will reevaluate its portfolio of contracts in order to determine which contracts will be required to be reported net in accordance with the provisions of the consensus. Although EITF No. 02-03 will result in equal and offsetting reductions to revenues and cost of sales, NiSource operating income will remain unchanged for all periods presented.

The task force also reached a consensus to rescind EITF No. 98-10 and preclude mark-to-market accounting for energy trading contracts that are not derivatives pursuant to SFAS No. 133. This consensus will be effective for fiscal periods beginning after December 15, 2002, for energy trading and energy-related contracts that existed on or before October 25, 2002 that remain in effect at the date the consensus is initially applied (January 1, 2003 for NiSource). Contracts entered into after October 25, 2002, will be analyzed pursuant to a generally accepted accounting principles hierarchy, excluding EITF No. 98-10. Since NiSource is no longer involved in gas-related trading activities and has minimal power trading activities, it does not expect the rescission of EITF No. 98-10 to have a material effect on its financial condition or results of operations.

FASB INTERPRETATION NO. 45 - GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS. In November of 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after

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December 31, 2002. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15,

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2002. NiSource does not expect FIN 45 to have a material impact on its financial position or results of operations. Refer to "Other Commitments and Contingencies - Guarantees and Indemnities" in Note 19D for further discussion of NiSource's guarantees.

SFAS NO. 148 - ACCOUNTING FOR STOCK-BASED COMPENSATION -- TRANSITION AND DISCLOSURE. In December of 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" (SFAS No. 148). SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to SFAS No. 123 are effective for financial statements for fiscal years ending after December 15, 2002. NiSource adopted the disclosure provisions of SFAS No. 148 on December 31, 2002 and continues to account for its stock-based compensation under APB No. 25. The adoption of the Statement had no impact on NiSource's financial position or results of operations. See Notes 2T and 14 for further discussion regarding NiSource's stock-based compensation plans and related accounting matters.

FASB INTERPRETATION NO. 46 - CONSOLIDATION OF VARIABLE INTEREST ENTITIES. On January 17, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities". FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns. A company that consolidates a variable interest entity is called the primary beneficiary of that entity. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 also requires various disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest.

The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established.

At December 31, 2002, Primary Energy had four projects (Whiting Clean Energy, Cokenergy, Portside and Lakeside) that were leased from unrelated variable interest entities. Of the four projects, one of the projects (Whiting Clean Energy) was reflected on NiSource's consolidated balance sheets as an asset owned in substance and two projects (Cokenergy and Portside) were accounted for as capital leases. The remaining leased project (Lakeside) was treated as an off-balance-sheet, 15-year operating lease and was not included in NiSource's

consolidated balance sheets.

The Lakeside project was constructed on an industrial customer's site and was designed to process steam from the customer's facilities to generate up to 161 megawatts of electric power and provide process steam to the customer. As part of the lease agreement with the variable interest entity, an event of project termination would accelerate maturity of the underlying debt requiring Primary Energy to pay the unamortized lease value, which was \$41.3 million at December 31, 2002. If the project ownership and financing structure remains in its present form, the variable interest entity, including the unamortized debt and related assets associated with the Lakeside project, would be consolidated by NiSource beginning in the third quarter 2003. NiSource believes that the consolidation of the portions of the variable interest entities, related to the other three leased projects, not already reflected in its consolidated financial statements would be immaterial to its financial position and results of operations.

7. ELECTRIC AND GAS OPERATIONS REGULATORY MATTERS

On June 20, 2002, a settlement agreement was filed with the IURC regarding the Northern Indiana electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order provides that electric customers of Northern Indiana will receive an amount intended to approximate \$55.0 million each year in credits to their electric bills for 49 months, beginning on July 1, 2002. The order also provides that 60% of any future earnings beyond a specified cap will be retained by Northern Indiana. Pursuant to the IURC

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

order, Northern Indiana, as authorized, began to amortize one-half of its rate review expenses for this proceeding over a 49-month period. The remaining rate review expenses were charged to income in the third quarter of 2002.

On October 23, 2002, the IURC denied a petition for reconsideration of the settlement order filed on October 15, 2002 by fourteen residential customers. Therefore, Northern Indiana electric customers began to receive credits starting with their November monthly bill. The November bill included credits for the customers' consumption beginning on July 1, 2002. Credits amounting to \$28.1 million were recognized for electric customers for 2002. In addition, the order required Northern Indiana to establish and fund an escrow account to cover the litigation costs of certain of the parties to the electric rate review. The escrow account was established and fully funded with \$1.8 million in the fourth quarter. The order adopting the settlement is currently being appealed to the Indiana Court of Appeals by both the Citizen Action Coalition of Indiana and the fourteen residential customers.

Northern Indiana submitted its quarterly fuel adjustment clause filing for the twelve-month period ended September 30, 2002, which requires a sharing of earnings in excess of allowed earnings as outlined in the IURC order regarding the electric rate review settlement. The IURC issued an order related to the filing on January 29, 2002 taking exception to Northern Indiana's proposed sharing calculation. The proposed calculation prorated the amount to be shared with the customers based on the amount of time the rate credit was in effect during the twelve-month period. Northern Indiana has filed with the IURC, a request for a rehearing and reconsideration of the order in that proceeding.

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Northern Indiana believes its calculation for the amount of sharing is appropriate. Regardless of the outcome, the settlement of this issue will not have a material impact on NiSource's financial position or results of operations.

On August 11, 1999, the IURC approved a flexible gas cost adjustment mechanism for Northern Indiana. Under the procedure, the demand component of the adjustment factor will be determined, after hearings and IURC approval, and made effective on November 1 of each year. The demand component will remain in effect for one year until a new demand component is approved by the IURC. The commodity component of the adjustment factor will be determined by monthly filings, which will become effective on the first day of each calendar month, subject to refund. The monthly filings do not require IURC approval but will be reviewed by the IURC during the annual hearing that will take place regarding the demand component filing. Northern Indiana's gas cost adjustment factor also includes a gas cost incentive mechanism which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price. Northern Indiana made its annual filing on August 29, 2002. The IURC approved implementation of interim rates, subject to refund, effective November 1, 2002. Another party has filed testimony indicating that some gas costs should not be recovered. A hearing is scheduled for March 13, 2003. Management intends to vigorously oppose any efforts to reduce the recovery of gas costs.

In 1995 Northern Indiana filed an Open Access Transmission Tariff (OATT) in FERC Docket No. ER96-399 with FERC as required in FERC Order No. 888. The OATT established, subject to refund, rates that Northern Indiana could charge all of its customers for transmission of electric power across Northern Indiana's electric transmission facilities. The FERC established an administrative proceeding before one of its administrative law judges to examine the filing and to inquire into the appropriateness of the rates. Although the proceeding continued to litigation with regard to certain customers, Northern Indiana reached a settlement with its largest transmission customer, Wabash Valley Power Association (WVPA), which established rates to be charged to WVPA and eliminated any refund liability on behalf of Northern Indiana for transmission service provided to WVPA. In the remaining portion of the proceeding, on December 30, 2002, the FERC issued an order that, among other things, reduced the rate base and rate of return allowed to Northern Indiana regarding its OATT, thus creating a refund liability for Northern Indiana. Northern Indiana did not seek rehearing of the FERC's December 30, 2002 order. Thus under FERC procedures, Northern Indiana is required to submit a compliance filing, currently due by March 17, 2003 which will establish rates and services in compliance with the FERC's order and report on the magnitude of any refund liability resulting to Northern Indiana as a result of the proceeding. Northern Indiana is in the process of determining the refund liability resulting from the FERC Opinion.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. RISK MANAGEMENT ACTIVITIES

NiSource uses commodity-based derivative financial instruments to manage certain risks in its business. NiSource accounts for its derivatives under SFAS No. 133 and, through 2002, accounted for any trading contracts that did not qualify as derivatives accounted for under SFAS No. 133 pursuant to EITF No. 98-10.

HEADING ACTIVITIES. The activity for the years 2002 and 2001 affecting other

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comprehensive income, with respect to cash flow hedges included the following:

(in millions, net of tax)

Net unrealized gains (loss) on derivatives qualifying as cash flow hedges at the beginning of the period

Unrealized hedging gains (loss) arising during the period on derivatives qualifying as cash flow hedges

Reclassification adjustment for net loss (gain) included in net income

Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period

Unrealized gains and losses on NiSource's hedges were recorded as price risk management assets and liabilities along with unrealized gains and losses on NiSource's trading portfolio. The accompanying Consolidated Balance Sheets reflected price risk management assets related to unrealized gains and losses on hedges of \$167.1 million and \$66.7 million at December 31, 2002 and 2001, respectively, of which \$50.2 million and \$16.4 million were included in "Current Assets" and \$116.9 million and \$50.3 million were included in "Other Assets." Price risk management liabilities related to unrealized gains and losses on hedges (including net option premiums) were \$31.6 million and \$10.5 million at December 31, 2002 and 2001, respectively, of which \$28.4 million and \$10.5 million were included in "Current Liabilities," and in 2002, \$3.2 million was included in "Other Liabilities and Deferred Credits."

During 2002 and 2001, a net loss of \$0.7 million and a net gain of \$0.7 million, net of tax, was recognized in earnings due to the change in value of certain derivative instruments primarily representing time value, and there were no components of the derivatives' fair values excluded in the assessment of hedge effectiveness. Also during 2002 and 2001, NiSource reclassified \$0.7 million and \$2.4 million related to its cash flow hedges of natural gas production from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income recognition of amounts currently classified in other comprehensive income of approximately \$16.4 million, net of tax.

For regulatory incentive purposes, the Columbia gas distribution subsidiaries (Columbia LDCs) enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings.

Northern Indiana offers a Price Protection Service as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases New York Mercantile Exchange (NYMEX) futures and options contracts that correspond to a fixed or capped price and the associated delivery month. The NYMEX futures and options contracts are

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designated as cash flow hedges.

Northern Utilities, Inc. has implemented a hedging program designed to fix a portion of their gas supply costs for the coming year of service. In order to fix these costs, Northern Utilities purchases NYMEX futures that correspond to the associated delivery month. Since any gains or losses on the fair value of these derivatives are passed through to the ratepayer directly, the forward value of these derivatives is offset by either a regulatory asset or liability.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Northern Indiana and Bay State also engage in writing options that potentially obligate them to purchase or sell gas at the holder's discretion at some future market-based price. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. Northern Indiana also uses NYMEX derivative contracts to minimize its gas costs. These contracts do not qualify for hedge accounting and must be marked to fair value. Because these derivatives are used within the framework of its gas cost incentive mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

CNR has engaged in commodity and basis swaps to hedge the anticipated future sale of natural gas. These contracts are derivatives and are designated as cash flow hedges of anticipated future sales.

Columbia Energy Services, Inc. (Columbia Energy Services) has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These swaps are designated as cash flow hedges of the anticipated purchases

Columbia has entered into interest rate swap agreements to modify the interest characteristics of its outstanding long-term debt. The effect of these agreements is to modify the interest rate characteristics of a portion of Columbia's long-term debt from fixed to variable. On September 3, 2002, Columbia entered into new fixed-to-variable interest rate swap agreements for a combined notional amount of \$281.5 million with three counterparties effective as of September 5, 2002. Columbia will receive payments based upon a fixed 7.32% interest rate and pay a floating interest amount based on U.S. 6-month LIBOR-BBA plus 2.66 percent per annum. There was no exchange of premium at inception of the swaps. The swaps contain mirror-image call provisions that allow the counterparties to cancel the agreements beginning November 28, 2005 through the stated maturity date. In addition, each party has the one-time right to cancel the swaps on September 5, 2007 at mid-market.

As a result of the interest rate swap transactions, \$663.0 million of Columbia's long-term debt is now subject to fluctuations in interest rates. The interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt's fair value is measured using the short-cut method pursuant to SFAS No. 133. Columbia had no net gain or loss recognized in earnings due to ineffectiveness during 2002 or 2001.

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MARKETING AND TRADING ACTIVITIES. Effective July 1, 2002, TPC sold a significant portion of its net obligations under its gas forward transaction portfolio, physical storage inventory and associated agreements to a third party. Prior to the sale, TPC's operations included the activities of its gas and power trading businesses. Beginning with the effective date of the sale, the primary remaining operations associated with TPC include commercial and industrial gas sales (including arranging supply), gas supply and power marketing associated with NiSource's single merchant cogeneration facility, marketing a portion of the gas produced from NiSource's exploration and production operations and power trading. With the exception of power trading and one remaining gas trading deal, which expired in October 2002, since July 1, 2002 the gas-related activities at TPC have no longer been considered trading activities, and all positions were marked to fair value pursuant to SFAS No. 133.

The fair market values of NiSource's power trading assets and liabilities were \$16.4 million and \$16.4 million, respectively, at December 31, 2002 and \$60.3 million and \$59.4 million, respectively, at December 31, 2001. At December 31, 2002, there were no gas trading contracts remaining. The fair market values of NiSource's gas trading assets and liabilities were \$192.0 million and \$184.0 million, respectively, at December 31, 2001.

NiSource recorded power trading revenues and cost of sales of \$601.2 million and \$601.5 million, respectively, for the year ended December 31, 2002. NiSource recorded power trading revenues and cost of sales of \$981.0 million and \$962.5 million, respectively, for the year ended December 31, 2001. Power trading revenues and cost of sales were \$485.2 million and \$472.9 million, respectively, for the year ended December 31, 2000. NiSource recorded gas marketing and trading revenues and cost of sales of \$481.5 million and \$480.1 million, respectively, for the year

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ended December 31, 2002. NiSource recorded gas marketing and trading revenues and cost of sales of \$2,146.1 million and \$2,147.2 million, respectively, for the year ended December 31, 2001. Gas marketing and trading revenues and cost of sales were \$1,893.3 million and \$1,855.4 million, respectively, for the year ended December 31, 2000.

9. EQUITY INVESTMENT SUBSIDIARIES

Certain investments of NiSource are accounted for under the equity method of accounting. All investments shown as limited partnerships are limited partnership interests. The following is a list of NiSource's equity investments at December 31, 2002.

| Investee ----- | Type of Investment ----- |
|--|-----------------------------|
| Binghamton Cogeneration Limited Partnership | Limited Partnership |
| Binghamton Cogeneration Limited Partnership | Limited Partnership |
| Bittersweet Pointe, L.P. | Limited Partnership |
| Bristol Resources Production Company, L.L.C. | LLC Membership |

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| | |
|---|---------------------|
| Chicago South Shore & South Bend Railroad Co. | General Partnership |
| CID Equity Capital III, L.P. | Limited Partnership |
| Douglas Pointe Associates, L.P. | Limited Partnership |
| Douglas Pointe II Associates, L.P. | Limited Partnership |
| Douglas Pointe III Associates, L.L.C. | LLC Membership |
| Dunedin I, L.L.C. | LLC Membership |
| Dunedin II, L.L.C. | LLC Membership |
| EnerTek Partners, LP | Limited Partnership |
| Hebron Pointe, L.L.C. | LLC Membership |
| House Investments - Midwest Corporate Tax Credit Fund, L.P. | Limited Partnership |
| Illinois Indiana Development Company, L.L.C. | LLC Membership |
| Kingsmill Development Co., L.L.C. | LLC Membership |
| Laredo Nueces Pipeline Company | Common Shares |
| MidTex Gas Storage Company, L.L.P. | Limited Partnership |
| Millennium Pipeline Company, L.P. | Limited Partnership |
| Millennium Pipeline Management Company, L.L.C. | LLC Membership |
| N Squared Aviation, L.L.C. | LLC Membership |
| Nth Power Technologies Fund II, L.P. | Limited Partnership |
| Nth Power Technologies Fund II-A, L.P. | Limited Partnership |
| PCI Associates | Limited Partnership |
| Prestwick Square of Fort Wayne Associates, L.P. | Limited Partnership |
| Robertson, L.L.C. | LLC Membership |
| SunPower Corporation | Preferred Shares |
| The Wellingshire Joint Venture | General Partnership |
| Utech Climate Challenge Fund, L.P. | Limited Partnership |
| Woodland Crossing, L.L.C. | LLC Membership |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. INCOME TAXES

The components of income tax expense were as follows:

| Year Ended December 31, (in millions) | 2002 | 2001 | 2000 |
|--|---------|---------|---------|
| | ----- | ----- | ----- |
| INCOME TAXES | | | |
| Current | | | |
| Federal | \$122.6 | \$195.5 | \$ 81.2 |
| State | (2.8) | 32.3 | 14.2 |
| | ----- | ----- | ----- |
| Total Current | 119.8 | 227.8 | 95.4 |
| | ----- | ----- | ----- |
| Deferred | | | |
| Federal | 84.2 | (34.2) | 35.6 |
| State | 38.9 | 6.2 | 3.1 |
| | ----- | ----- | ----- |
| Total Deferred | 123.1 | (28.0) | 38.7 |
| | ----- | ----- | ----- |
| Deferred Investment Credits | (9.0) | (9.0) | (7.8) |
| | ----- | ----- | ----- |
| INCOME TAXES INCLUDED IN CONTINUING OPERATIONS | \$233.9 | \$190.8 | \$126.3 |
| | ----- | ----- | ----- |

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Total income taxes from continuing operations were different from the amount that would be computed by applying the statutory Federal income tax rate to book income before income tax. The major reasons for this difference were as follows:

| Year Ended December 31, (in millions) | 2002 | | 2001 | |
|--|----------|-------|----------|-------|
| | ----- | | ----- | |
| Book income from Continuing Operations before income taxes | \$ 659.6 | | \$ 417.2 | |
| Tax expense at statutory Federal income tax rate | 230.9 | 35.0% | 146.0 | 35.0% |
| Increases (reductions) in taxes resulting from: | | | | |
| Book depreciation over related tax depreciation | (2.2) | (0.3) | (0.1) | - |
| Amortization of deferred investment tax credits | (9.0) | (1.3) | (9.0) | (2.2) |
| State income taxes, net of federal income tax benefit | 23.4 | 3.5 | 25.0 | 6.0 |
| Low-income housing / Section 29 credits | (7.0) | (1.1) | (7.0) | (1.7) |
| Nondeductible amounts related to amortization of intangible assets and plant acquisition adjustments | - | - | 33.1 | 7.9 |
| Basis and stock sale differences | - | - | - | - |
| Other, net | (2.2) | (0.3) | 2.8 | 0.7 |
| | ----- | | ----- | |
| INCOME TAXES FROM CONTINUING OPERATIONS | \$ 233.9 | 35.5% | \$ 190.8 | 45.7% |
| | ----- | | ----- | |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Deferred income taxes resulted from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The principal components of NiSource's net deferred tax liability were as follows:

| At December 31, (in millions) | 2002 | 2001 |
|--|-----------|-----------|
| | ----- | ----- |
| DEFERRED TAX LIABILITIES | | |
| Accelerated depreciation and other property differences | \$1,842.0 | \$1,829.9 |
| Unrecovered gas & fuel costs | 46.7 | 28.1 |
| Other regulatory assets | 238.4 | 193.0 |
| SFAS No. 133 and price risk adjustments | 40.6 | 18.8 |
| Premiums and discounts associated with long-term debt | 48.4 | 56.0 |
| | ----- | ----- |
| Total Deferred Tax Liabilities | 2,216.1 | 2,125.8 |
| | ----- | ----- |
| DEFERRED TAX ASSETS | | |
| Deferred investment tax credits and other regulatory liabilities | (62.4) | (63.6) |
| Pension and other postretirement/postemployment benefits | (167.7) | (93.7) |
| Environmental liabilities | (41.2) | (44.6) |
| Other accrued liabilities | (53.2) | (62.5) |

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| | | |
|---|-----------|-----------|
| Other, net | (37.8) | (117.1) |
| | ----- | ----- |
| Total Deferred Tax Assets | (362.3) | (381.5) |
| | ----- | ----- |
| Less: Deferred income taxes related to current assets and liabilities | (7.9) | 19.3 |
| | ----- | ----- |
| NON-CURRENT DEFERRED TAX LIABILITY | \$1,861.7 | \$1,725.0 |
| | ----- | ----- |

On June 28, 2002, the governor of Indiana signed into law legislation that increases the Indiana Corporate Income tax rate from 4.5% to 8.5% effective January 1, 2003. As a result, NiSource recorded an additional deferred income tax liability of \$65.9 million (net) in the second quarter 2002 to reflect the impact of the increased tax rate. NiSource's regulated subsidiaries recorded a regulatory asset in the amount of \$65.0 million to reflect the probable collection of the increased tax liability through future rates. The overall impact on income tax expense in the second quarter was an increase of \$0.9 million.

11. PENSION AND OTHER POSTRETIREMENT BENEFITS

Noncontributory, defined benefit retirement plans cover the majority of employees. Benefits under the plans reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides certain health care and life insurance benefits for certain retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource. The expected cost of such benefits is accrued during the employees' years of service. Current rates of rate-regulated companies include postretirement benefit costs on an accrual basis, including amortization of the regulatory assets that arose prior to inclusion of these costs in rates. For most plans, cash contributions are remitted to grantor trusts. In 2000, NiSource began using September 30 as its measurement date rather than December 31 for its pension and postretirement benefit plans.

Due to the decline in the equity markets, the fair value of NiSource's pension fund assets, as measured at September 30, 2002, has decreased since 2001. In addition, the discount rate used to measure the accumulated benefit obligation has decreased, resulting in an increase in the estimated minimum liability. In accordance with SFAS No. 87, "Employers' Accounting for Pensions," NiSource recorded a minimum pension liability adjustment at September 30, 2002. The adjustment resulted in a decrease to prepaid pension costs of \$271.9 million, an increase in intangible assets of \$57.3 million, an increase to retirement benefit liabilities of \$126.1 million, an increase to deferred income tax assets of \$137.0 million and a decrease to other comprehensive income of \$203.7 million after-tax. Primarily due to the decline in plan assets, NiSource expects pension expense for 2003 to increase \$42.8 million over the amount recognized in 2002. Although NiSource expects market returns to revert to normal levels as demonstrated in historical periods, NiSource may be required to provide additional funding for the obligations if returns on plan assets fall short of the assumed 9.0% long-term rate.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables provide a reconciliation of the plans' funded status and amounts reflected in NiSource's Consolidated Balance Sheets at December 31 based

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on a September 30 measurement date:

| (in millions) | PENSION BENEFITS | | OTHER BENEFITS | |
|--|------------------|------------------|-------------------|-------------------|
| | 2002 | 2001 | 2002 | 2001 |
| CHANGE IN BENEFIT OBLIGATION | | | | |
| Benefit obligation at beginning of year | \$1,740.3 | \$1,777.2 | \$ 519.3 | \$ 519.3 |
| Service cost | 39.5 | 45.9 | 11.3 | 11.3 |
| Interest cost | 125.8 | 139.3 | 33.3 | 33.3 |
| Plan participants' contributions | -- | -- | 1.1 | 1.1 |
| Plan amendments | 1.1 | (9.7) | (14.0) | (14.0) |
| Actuarial (gain) loss | 194.3 | (32.8) | 23.2 | 23.2 |
| Settlement (gain) loss | -- | 15.8 | -- | -- |
| Curtailement (gain) loss | -- | (5.0) | -- | -- |
| Settlement payments | -- | (76.2) | -- | -- |
| Benefits paid | (152.7) | (114.2) | (32.9) | (32.9) |
| BENEFIT OBLIGATION AT END OF YEAR | \$1,948.3 | \$1,740.3 | \$ 541.3 | \$ 541.3 |
| CHANGE IN PLAN ASSETS | | | | |
| Fair value of plan assets at beginning of year | \$1,847.5 | \$2,265.2 | \$ 144.2 | \$ 144.2 |
| Actual return on plan assets | (92.0) | (230.5) | (7.0) | (7.0) |
| Employer contributions | 48.3 | 3.2 | 32.9 | 32.9 |
| Plan participants' contributions | -- | -- | 1.1 | 1.1 |
| Settlement payments | -- | (76.2) | -- | -- |
| Benefits paid | (152.7) | (114.2) | (32.9) | (32.9) |
| FAIR VALUE OF PLAN ASSETS AT END OF YEAR | \$1,651.1 | \$1,847.5 | \$ 138.3 | \$ 138.3 |
| Funded status | \$ (297.2) | \$ 107.2 | \$ (403.0) | \$ (403.0) |
| Contributions made after measurement date and before fiscal year end | 0.2 | -- | 7.7 | 7.7 |
| Unrecognized actuarial (gain) loss | 493.9 | 49.4 | (34.8) | (34.8) |
| Unrecognized prior service cost | 54.7 | 63.5 | 1.9 | 1.9 |
| Unrecognized transition obligation | 5.5 | 11.9 | 116.5 | 116.5 |
| NET AMOUNT RECOGNIZED AT END OF YEAR | \$ 257.1 | \$ 232.0 | \$ (311.7) | \$ (311.7) |
| AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF: | | | | |
| Prepaid benefit cost | \$ -- | \$ -- | -- | -- |
| Accrued benefit liability | (141.1) | -- | -- | -- |
| Intangible asset | 57.3 | -- | -- | -- |
| Accumulated other comprehensive income | 340.9 | -- | -- | -- |
| NET AMOUNT RECOGNIZED AT END OF YEAR | \$ 257.1 | \$ -- | \$ -- | \$ -- |
| OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO CHANGE IN ADDITIONAL MINIMUM LIABILITY RECOGNITION | \$ 339.3 | \$ -- | \$ -- | \$ -- |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| | PENSION BENEFITS | | |
|--|------------------|------|----|
| | 2002 | 2001 | |
| WEIGHTED-AVERAGE ASSUMPTIONS AS OF SEPTEMBER 30, | | | |
| Discount rate assumption | 7.0% | 7.5% | 7. |
| Compensation growth rate assumption | 4.0% | 4.5% | 4. |
| Medical cost trend assumption | - | - | 5. |
| Assets earnings rate assumption * | 9.0% | 9.0% | 9. |

* Two of the several established medical trusts and the trust established for life insurance are subject to taxation which results in an after-tax asset earnings rate that is less than 9.00%

The following table provides the components of the plans' net periodic benefits cost (benefit) for each of the three years:

| (in millions) | PENSION BENEFITS | | | OTHER B | |
|---|------------------|-----------|---------|---------|---------|
| | 2002 | 2001 | 2000 | 2002 | 2001 |
| NET PERIODIC COST | | | | | |
| Service cost | \$ 39.5 | \$ 45.9 | \$ 24.6 | \$ 11.3 | \$ 11.3 |
| Interest cost | 125.8 | 139.3 | 84.9 | 33.3 | 33.3 |
| Expected return on assets | (161.1) | (198.2) | (124.1) | (10.0) | (10.0) |
| Amortization of transitional obligation | 6.3 | 6.5 | 6.2 | 11.8 | 11.8 |
| Amortization of prior service cost | 9.9 | 10.3 | 7.1 | 1.5 | 1.5 |
| Recognized actuarial (gain) loss | 1.4 | (12.7) | (5.3) | (8.5) | (8.5) |
| Special termination benefits | -- | -- | 8.0 | -- | -- |
| Settlement (gain) loss | -- | (8.4) | -- | -- | -- |
| NET PERIODIC BENEFITS COST (BENEFIT) | \$ 21.8 | \$ (17.3) | \$ 1.4 | \$ 39.4 | \$ 39.4 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| (in millions) | 1% point increase | 1% point decrease |
|--|-------------------|-------------------|
| Effect on service and interest components of net periodic cost | \$ 6.5 | \$ (5.6) |
| Effect on accumulated postretirement benefit obligation | \$ 55.7 | \$ (50.0) |

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12. AUTHORIZED CLASSES OF CUMULATIVE PREFERRED AND PREFERENCE STOCKS

NiSource has 20,000,000 authorized shares of Preferred with a \$0.01 par value, of which 4,000,000 shares are designated Series A Junior Participating Preferred Shares and are reserved for issuance pursuant to the Share Purchase Rights Plan described in Note 13B.

The authorized classes of par value and no par value cumulative preferred and preference stocks of Northern Indiana are as follows: 2,400,000 shares of Cumulative Preferred with a \$100 par value; 3,000,000 shares of Cumulative Preferred with no par value; 2,000,000 shares of Cumulative Preference with a \$50 par value (none outstanding); and 3,000,000 shares of Cumulative Preference with no par value (none outstanding).

The preferred stockholders of Northern Indiana have no voting rights, except in the event of default on the payment of four consecutive quarterly dividends, or as required by Indiana law to authorize additional preferred shares, or by the Articles of Incorporation in the event of certain merger transactions.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The redemption prices at December 31, 2002, for the cumulative preferred stock, which is redeemable solely at the option of Northern Indiana, in whole or in part, at any time upon thirty days' notice, were as follows:

| | Series ----- |
|---|-----------------|
| NORTHERN INDIANA PUBLIC SERVICE COMPANY: | |
| Cumulative preferred stock - \$100 par value - | 4-1/4% |
| | 4-1/2% |
| | 4.22% |
| | 4.88% |
| | 7.44% |
| | 7.50% |
| Cumulative preferred stock - no par value adjustable rate (6.00% at December 31, 2002), Series A (stated value \$50 per share) | |

The redemption prices at December 31, 2002, as well as sinking fund provisions, for the cumulative preferred stock subject to mandatory redemption requirements, or whose redemption is outside the control of Northern Indiana, were as follows:

| Series ----- | Redemption Price per Share ----- | Sinking Fun Redemptio ----- |
|---------------------------------------|---|-----------------------------------|
| Cumulative preferred stock - 8.35% | \$100 par value - \$102.46, reduced periodically | 3,000 shares |

July 1; incr
 shares begin
 noncumulativ
 double amoun
 2,777 shares
 December 1;
 option to do
 each year

7-3/4%

\$103.35, reduced periodically

Sinking fund requirements with respect to redeemable preferred stocks outstanding at December 31, 2002, for each of the subsequent five years were as follows:

Year Ending December 31, (\$ in millions)

| | |
|------|-----|
| 2003 | 0.6 |
| 2004 | 0.9 |
| 2005 | 0.9 |
| 2006 | 0.9 |
| 2007 | 0.9 |

13. COMMON STOCK

As of December 31, 2002, NiSource had 400,000,000 authorized shares of common stock with a \$0.01 par value.

A. EQUITY OFFERING. In November 2002, NiSource issued 41.4 million shares of common stock at a per-share price of \$18.30 (\$17.75 on a net basis). The net proceeds of approximately \$734.9 million were used to reduce debt.

B. SHAREHOLDER RIGHTS PLAN. The Board of Directors of NiSource has adopted a Shareholder Rights Plan, pursuant to which one right accompanies each share of common stock. Each right, when exercisable, would initially entitle the holder to purchase from NiSource one one-hundredth of a share of Series A Junior Participating Preferred Stock, with \$0.01 par value, at a price of \$60 per one one-hundredth of a share. In certain circumstances, if an acquirer obtained 25% of NiSource's outstanding shares, or merged into NiSource or merged NiSource into the acquirer, the rights would entitle the holders to purchase NiSource's or the acquirer's common shares for one-half of

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

the market price. The rights will not dilute NiSource's common stock nor affect EPS unless they become exercisable for common stock. The plan was not adopted in response to any specific attempt to acquire control of NiSource. The rights are not currently exercisable.

14. LONG-TERM INCENTIVE PLANS

NiSource currently issues long-term incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (1994 Plan). The 1994 Plan, as amended and restated, permits the following types

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of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights (SARs), performance units, contingent stock awards and dividend equivalents payable on grants of options, performance units and contingent stock awards. Each option has a maximum term of ten years and vests one year from the date of grant. SARs may be granted only in tandem with stock options on a one-for-one basis and are payable in cash, common stock, or a combination thereof.

The amended and restated 1994 Plan provides for the issuance of up to 21 million shares through December 31, 2005. At December 31, 2002, there were 10,558,706 shares reserved for future awards under the amended and restated 1994 Plan. In connection with the acquisition of Columbia, no options were converted or assumed.

Restricted stock awards are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant. Restricted stock grants made in 2001 and 2000 were exchanged in 2001 for new grants equal to 150% of the shares of common stock subject to the original grants. Restricted stock issued in conjunction with the new grants generally will vest over a period of years beginning on December 31, 2002, and for the Chief Executive Officer, the awards will vest after the year of death, disability, termination without cause, change of control or retirement. Shares subject to the new grants must be held until December 31, 2004. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. There were 861,740 and 1,991,643 restricted shares outstanding at December 31, 2002 and December 31, 2001, respectively.

At December 31, 2002, NiSource had 913,527 outstanding awards under a contingent stock plan. The terms of the awards contain a provision that varies the number of shares to be issued based on the level of attainment of certain stock performance targets. In 2002, based on the performance of NiSource's common stock through December 31, 2002, NiSource recorded expense of \$7.3 million related to the plan.

NiSource established a time accelerated restricted stock restricted stock award plan (TARSAP), which governs restricted stock awards beginning with the January 1, 2003 grants. Under the plan, key executives are granted awards of restricted stock that generally vest over a period of six years or at age 62 if an employee would become age 62 within 6 years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at that point. On January 1, 2003, 732,029 grants were issued under the TARSAP.

The Nonemployee Director Stock Incentive Plan, which was approved by stockholders, provides for the issuance of up to 200,000 shares of common stock to nonemployee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan also allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age seventy, death or disability, any shares of common stock not vested as of the date of termination are forfeited. As of December 31, 2002, 95,300 shares had been issued under the Plan. An Amended and Restated Nonemployee Director Stock Incentive Plan, which provides for the issuance of up to 500,000 shares of common stock, in addition to those described above, and permits the granting of restricted stock units, has been approved by the board and will be submitted to the shareholders for approval at the 2003 annual meeting of shareholders.

The long-term incentive plans have been accounted for using the intrinsic value method under APB No. 25. The compensation cost that was charged against net income for restricted stock awards was \$19.9 million; \$30.0 million and \$6.8

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million for years ended December 31, 2002, 2001 and 2000, respectively. On January 1, 2001, NiSource granted 1.7 million employee stock options with an identical exercise price that was less than fair market value at the time of the grant. NiSource recorded a pre-tax charge of \$6.9 million in 2001 related to this option grant.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Transactions for the three years ended December 31, 2002, were as follows:

| | Options ----- | Weighted Average Option Price (\$) ----- |
|----------------------------------|------------------|--|
| Outstanding at December 31, 1999 | 3,948,456 | 19.90 |
| Granted | 1,235,000 | 20.97 |
| Exercised | (603,073) | 14.95 |
| Cancelled | (117,500) | 23.88 |
| | ----- | ----- |
| Outstanding at December 31, 2000 | 4,462,883 | 20.76 |
| Granted | 1,725,105 | 25.92 |
| Exercised | (563,908) | 17.40 |
| Cancelled | (141,014) | 25.93 |
| | ----- | ----- |
| Outstanding at December 31, 2001 | 5,483,066 | 22.62 |
| Granted | 2,190,745 | 21.80 |
| Exercised | (307,978) | 15.47 |
| Cancelled | (401,080) | 24.06 |
| | ----- | ----- |
| OUTSTANDING AT DECEMBER 31, 2002 | 6,964,753 | 22.59 |
| EXERCISABLE AT DECEMBER 31, 2002 | 5,017,914 | 22.90 |
| | ----- | ----- |

The following table summarizes information on stock options outstanding and exercisable at December 31, 2002:

| Range of Exercise Prices Per Share (\$) | Options Outstanding | | | Options |
|--|-----------------------|--|--|-----------------------|
| | Number Outstanding | Weighted Average Exercise Price Per Share (\$) | Weighted Average Remaining Contractual Life in Years | Number Exercisable |
| ----- | ----- | ----- | ----- | ----- |
| \$14.37 - \$14.61 | 186,900 | 14.38 | 1.6 | 186,900 |
| \$14.62 - \$17.53 | 432,400 | 16.40 | 1.6 | 432,400 |
| \$17.54 - \$20.45 | 721,376 | 18.73 | 5.5 | 683,200 |
| \$20.46 - \$23.38 | 2,474,866 | 21.30 | 7.6 | 1,128,578 |
| \$23.39 - \$26.30 | 2,650,711 | 25.18 | 7.6 | 2,088,336 |
| \$26.31 - \$29.22 | 498,500 | 29.22 | 5.0 | 498,500 |
| | ----- | ----- | ----- | ----- |
| | 6,964,753 | 22.59 | 6.6 | 5,017,914 |

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There were no SARs outstanding at December 31, 2002, 2001 or 2000.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.9-6.0%. The weighted average fair value of options granted was \$6.03, \$8.44 and \$4.61 during the years 2002, 2001 and 2000, respectively. The following assumptions were used for grants in 2002, 2001 and 2000:

| | 2002 ---- | 2001 ---- | 2000 ---- |
|---------------|--------------|--------------|--------------|
| Expected Life | 5.8 YRS | 5.6 yrs | 5.4-5.8 yrs |
| Interest Rate | 4.4-5.1% | 4.0-4.9% | 6.1-6.6% |
| Volatility | 40.7-42.0% | 27.5-28.4% | 26.2-29.0% |

15. LONG-TERM DEBT

In November 2000, NiSource, through its NiSource Finance Corp. (NiSource Finance) subsidiary, issued \$2.5 billion of notes, providing long-term financing for the acquisition of Columbia. This issuance included \$750.0 million of three-year notes bearing a 7.50% coupon and maturing on November 15, 2003; \$750.0 million of five-year notes bearing a 7.625% coupon and maturing on November 15, 2005 and \$1.0 billion of ten-year notes bearing a 7.875% coupon and maturing on November 15, 2010. Subsequently, an additional \$150.0 million of five-year notes were issued, bearing a 7.625% coupon and maturing on November 15, 2005. The notes are guaranteed by NiSource.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As a portion of the consideration payable in the acquisition of Columbia, NiSource issued 55.5 million SAILS(SM). The SAILS(SM) were issued as one unit consisting of two separate instruments: a debenture with a stated amount of \$2.60 and a purchase contract requiring the holder to purchase for \$2.60 cash, a fractional number of shares of NiSource common stock based on a settlement rate indexed to the market price of NiSource common stock. The purchase contract settlement date will be on November 1, 2004 or earlier if there is a change in control of NiSource before that date. The debentures, which mature on November 1, 2006, have been pledged to secure the holders' obligation to purchase common stock under the purchase contract.

The value of the consideration received (Columbia shares) was allocated between the debenture and the stock purchase contract consistent with the provisions of APB Opinion No. 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants" (APB No. 14). Payments under the debenture were \$144.4 million nominally and were discounted at a market interest rate to reflect a fair value of \$107.0 million at the date of issuance. The debentures are reflected as a component of long-term debt on NiSource's consolidated balance sheet. The value of the forward equity contracts at the date of issuance was determined to be \$7.4 million. The value of the stock purchase contracts was reflected as a component of equity, consistent with the provisions of EITF Issue

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No. 96-13, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" (EITF No. 96-13) (at that time) and, subsequently, EITF No. 00-19.

Sinking fund requirements and maturities of long-term debt outstanding at December 31, 2002, for each of the five years subsequent to December 31, 2002 were as follows:

Year Ending December 31, (\$ in millions)

| | |
|------|---------|
| 2003 | 1,232.6 |
| 2004 | 200.2 |
| 2005 | 1,328.9 |
| 2006 | 201.6 |
| 2007 | 402.3 |

Unamortized debt expense, premium and discount on long-term debt applicable to outstanding bonds are being amortized over the lives of such bonds.

Reacquisition premiums have been deferred and are being amortized. These premiums are not earning a return during the recovery period.

Of NiSource's \$5,018.0 million of long-term debt at December 31, 2002, \$450.0 million was issued by NiSource's affiliate, NiSource Capital Markets, Inc. (Capital Markets). The financial obligations of Capital Markets are subject to a Support Agreement between NiSource and Capital Markets, under which NiSource has committed to make payments of interest and principal on Capital Market's obligations in the event of a failure to pay by Capital Markets. Under the terms of the Support Agreement, in addition to the cash flow of cash dividends paid to NiSource by any of its consolidated subsidiaries, the assets of NiSource, other than the stock and assets of Northern Indiana, are available as recourse for the benefit of Capital Market's creditors. The carrying value of the assets of NiSource, other than the assets of Northern Indiana, was \$13.4 billion at December 31, 2002.

Columbia has entered into interest rate swap agreements for \$663.0 million of its outstanding long-term debt. The effect of these agreements is to modify the interest rate characteristics of a portion of Columbia's long-term debt from fixed to variable. See Note 8 for further information regarding the interest rate swaps.

16. SHORT-TERM BORROWINGS

During March 2002, NiSource Finance negotiated a \$500 million 364-day credit agreement with a syndicate of banks, led by Barclays Capital, which expires on March 20, 2003. This facility replaced the expiring \$1.25 billion 364-day credit facility and complements NiSource's existing \$1.25 billion three-year facility that expires on March 23, 2004. NiSource will not renew the 364-day facility, which expires on March 20, 2003. In addition, the \$1.25 billion three-year facility that expires on March 23, 2004 is being amended to allow for the aggregate letters of credit outstanding under this agreement to be increased from \$150 million to \$400 million. The reduction in NiSource's short-term borrowing needs is attributable to the sales of IWCR, SM&P, the exploration and production joint venture, the proceeds from the November 2002 equity offering, and positive operating cash flows.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of December 31, 2002, NiSource had \$171.7 million of letters of credit outstanding. At December 31, 2001, NiSource had \$51.7 million of letters of credit outstanding.

Short-term borrowings were as follows:

| At December 31, (in millions) | 2002 |
|--|-----------------|
| Commercial paper weighted average interest rate of 2.25% for 2002. | \$ 150.0 |
| Credit facility (3-Year Facility) borrowings weighted average interest rate of 2.107% at December 31, 2002 | 763.1 |
| TOTAL SHORT-TERM BORROWINGS | \$ 913.1 |

17. CORPORATE PIES AND COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF TRUST HOLDING SOLELY COMPANY DEBENTURES

In February 1999, NiSource completed an underwritten public offering of Corporate PIES. The net proceeds of approximately \$334.7 million were primarily used to fund the cash portion of the consideration payable in the acquisition of Bay State, and to repay short-term indebtedness.

The Corporate PIES were offered as one unit comprised of two separable instruments. The first component consists of stock purchase contracts to purchase, four years from the date of issuance, shares of common stock at a face value of \$50. The second component consists of mandatorily redeemable preferred securities, which represent an undivided beneficial ownership interest in the assets of NiSource Capital Trust I (Capital Trust). The preferred securities have a stated liquidation amount of \$50. The sole assets of Capital Trust are subordinated debentures of Capital Markets that earn interest at the same rates as the preferred securities to which they relate, and certain rights under related guarantees by Capital Markets. The preferred securities have been pledged to secure the holders' obligation to purchase common stock under the stock purchase contracts.

The proceeds of the offering were allocated between the preferred securities and the stock purchase contract consistent with the provisions of APB No. 14. The terms of the stock purchase contract provided for an initial fair value of zero and the cash received from the offering was allocated to the preferred security. The preferred securities were reflected in the mezzanine section of the balance sheet with the caption, "Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely company debentures," reflecting a full consolidation of the NiSource Capital Trust. The stock purchase contracts were reflected as a component of equity, consistent with the provisions of EITF No. 96-13 (at that time) and, subsequently, EITF No. 00-19. The quarterly contract payments due under the stock purchase contracts were accrued at inception, discounted appropriately, and charged to shareholders' equity. Distributions paid on the preferred securities were presented under the caption "Minority Interest" in NiSource's Statements of Consolidated Income. At December 31, 2002 and December 31, 2001, there were 6.9 million 5.9% preferred securities outstanding with Capital Trust assets of \$345.0 million.

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18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

INVESTMENTS. Where feasible, the fair value of investments is estimated based on market prices for those or similar investments.

LONG-TERM DEBT, PREFERRED STOCK AND PREFERRED SECURITIES. The fair values of these securities are estimated based on the quoted market prices for the same or similar issues or on the rates offered for securities of the same remaining maturities. Certain premium costs associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The carrying values and estimated fair values of financial instruments were as follows:

| | CARRYING AMOUNT 2002 ----- | ESTIMATED FAIR VALUE 2002 ----- | Carrying Amount 2001 ----- |
|---|-------------------------------------|--|-------------------------------------|
| At December 31, (\$ in millions) | | | |
| Long-term investments | 49.7 | 49.2 | 44.5 |
| Long-term debt (including current portion) | 6,250.6 | 6,715.5 | 6,725.1 |
| Preferred stock (including current portion) | 85.5 | 64.6 | 132.2 |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures | 345.0 | 265.0 | 345.0 |

In October 1999, Columbia of Ohio entered into an agreement to sell, without recourse, a majority of its trade accounts receivable to Columbia Accounts Receivable Corporation (CARC), a wholly-owned subsidiary of Columbia. At the same time, CARC entered into an agreement, with a third party, Canadian Imperial Bank of Commerce (CIBC), to sell a percentage ownership interest in a defined pool of accounts receivable (Sales Program). Under the Sales Program, CARC can transfer an undivided interest in a designated pool of its accounts receivable on an ongoing basis up to a maximum of \$200.0 million, \$75.0 million or \$50.0 million, as determined by the seasonal fluctuation in Columbia of Ohio's account receivable balances and the mutual consent of both parties. The amount available at any measurement date varies based upon the level of eligible receivables. Under this agreement, approximately \$99.5 million of receivables were sold as of December 31, 2002.

Under a separate agreement, in conjunction with the Sales Program, Columbia of Ohio acts as agent for CIBC, the ultimate purchaser of the receivables, by performing record keeping and cash collection functions for the accounts receivable sold by CARC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

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Northern Indiana may sell, without recourse, up to \$100 million of certain of its accounts receivable under a sales agreement, which expires May 2003. Northern Indiana has sold \$100 million under this agreement.

Under a separate agreement, in conjunction with the sales agreement, Northern Indiana acts as agent, by performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

NiSource's accounts receivable programs qualify for sale accounting based upon the conditions met in SFAS No. 140 "Accounting for Transfers and Servicing of Financial Asset and Extinguishments of Liabilities." In the agreements, all transferred assets have been isolated from the transferor and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. NiSource does not retain any interest in the receivables under both agreements.

19. OTHER COMMITMENTS AND CONTINGENCIES

A. CAPITAL EXPENDITURES. NiSource expects that approximately \$647.8 million will be expended for construction purposes during 2003.

B. SERVICE AGREEMENTS. Northern Indiana has entered into a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and Mitsubishi Heavy Industries America, Inc., under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on June 15, 1992, with annual charges approximating \$20 million. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period.

C. ASSETS UNDER LIEN. Substantially all of Columbia Gas Transmission Corporation's (Columbia Transmission) properties have been pledged to Columbia as security for debt owed by Columbia Transmission to Columbia. The first mortgage bonds of Northern Indiana constitute a first mortgage lien on certain utility property and franchises.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

D. GUARANTEES AND INDEMNITIES. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by-letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at December 31, 2002 and the years in which they expire were:

| (in millions) | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------|------|------|------|------|------|
| ----- | ---- | ---- | ---- | ---- | ---- |

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| | | | | | |
|--|-----------|----------|-----------|-----------|---------|
| Guarantees of subsidiaries debt | \$1,050.0 | \$ 131.9 | \$ 930.0 | \$ 40.0 | \$ 29.0 |
| Guarantees supporting commodity transactions of subsidiaries | 462.6 | -- | 61.1 | 1,037.8 | 47.9 |
| Other guarantees | 130.0 | -- | 51.1 | -- | -- |
| Lines of credit | 150.0 | 763.1 | -- | -- | -- |
| Letters of credit | 52.9 | 4.9 | 1.2 | -- | -- |
| <hr/> | | | | | |
| Total commercial commitments | \$1,845.5 | \$ 899.9 | \$1,043.4 | \$1,077.8 | \$ 76.9 |
| <hr/> | | | | | |

NiSource has guaranteed the payment of \$3.9 billion of debt for various wholly owned subsidiaries including the obligations of NiSource Finance and through a support agreement, the obligations of Capital Markets. The debt is recorded on NiSource's consolidated balance sheet. The subsidiaries are required to comply with certain financial covenants under the debt indenture. NiSource would be obligated to pay the debt's principal and related interest in the event of default. Currently, NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance. In addition, NiSource Finance maintains lines of credit with financial institutions. At December 31, 2002, the outstanding balance recorded on the consolidated balance sheet and guaranteed by NiSource amounted to \$913.1 million.

Additionally, NiSource has issued guarantees, which support up to approximately \$1.8 billion in commodity-related payments for its subsidiaries involved in energy marketing and forward gas sales activities. These guarantees were provided to counterparties in order to facilitate physical and financial transactions in gas, electricity and related transactions, commodities and services. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the consolidated balance sheets.

NiSource has issued standby letters of credit of approximately \$176.0 million through financial institutions for the benefit of third parties that have extended credit to certain subsidiaries. If a subsidiary does not pay amounts when due under covered contracts, the beneficiary may present its claim for payment to the financial institution, which will in turn request payment from NiSource.

NiSource has purchase and sale agreements guarantees totaling \$142.5 million, which guarantee performance of seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sale agreements guarantees are reflected in the consolidated balance sheet.

Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of these guarantees is remote.

Primary Energy continues to lease four of the projects in which it participates, three of which are recognized on the consolidated balance sheets as capital leases or assets owned in substance. NiSource through Capital Markets, has guaranteed or in substance guaranteed most lease payments to the special purpose entity lessors, including regular lease payments, accelerated lease payments on an event of default, and payment obligations, including residual guarantee amounts, at the end of lease terms. In the case of an event of default, a lessor can accelerate the full, unamortized amount of the lessor's funding. The total guarantees outstanding for all the projects at December 31, 2002 are \$573.8 million. As of December 31, 2002, approximately \$505.9 million of debt for the four projects is included in NiSource's consolidated balance sheet.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At the end of an initial lease term, Primary Energy has the right to purchase the facility for the unamortized amount of the lessor's funding. If Primary Energy cannot satisfy return conditions, it is required to purchase the facility at such price. If Primary Energy determines not to purchase the facility and it can satisfy the return conditions, the Lessee may be responsible for a residual guarantee amount. One project (Lakeside) remains under an operating lease. The total guarantee outstanding for the project at December 31, 2002 was approximately \$34.3 million.

A subsidiary of Primary Energy is a 50% partner in a partnership that operates a coal pulverization facility. The partnership has entered into a lease of a 50% undivided interest in the facility. NiSource has entered into a guarantee of all of the obligations of the partnership under the lease. In an event of default, the partnership will be required to pay a stipulated amount under the lease. This amount was approximately \$33.5 million as of December 31, 2002.

E. OTHER LEGAL PROCEEDINGS. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position.

F. INTERNAL REVENUE SERVICE (IRS) AUDIT. During 2002, NiSource reached a settlement with the IRS on all remaining issues for tax years 1992 through 1998. The field audit of tax years 1999 and 2000 is expected to begin in March 2003. For Columbia, the Revenue Agent's Report for years 1996 and 1997 was revised and reissued on December 10, 2002. Negotiations resulted in a payment of \$7.9 million that was made to the United States Treasury in December 2002 in settlement of tax and interest related to all remaining issues. The field audit of Columbia's 1998 through 2000 tax years began in February 2002. Management believes adequate reserves have been established for issues related to these and subsequently filed returns.

G. ENVIRONMENTAL MATTERS.

GENERAL. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

GAS DISTRIBUTION. Several Gas Distribution subsidiaries are "potentially responsible parties" (PRPs) at waste disposal sites under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) (commonly known as Superfund) and similar state laws, including at former manufactured gas plant (MGP) sites which such subsidiaries, or their corporate predecessors, own or previously owned or operated. Gas Distribution subsidiaries may be required to share in the cost of clean up of such sites. In addition, some Gas Distribution subsidiaries have corrective action liability under the Resource Conservation and Recovery Act (RCRA) for closure and clean-up costs associated with underground storage tanks and under the Toxic Substances Control Act for clean up of polychlorinated biphenyls released at various facilities.

Gas Distribution subsidiaries are parties to or otherwise involved in clean up of three waste disposal sites under Superfund or similar state laws. For one of these sites the potential liability is de minimis and, for the other two, the

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final costs of clean up have not yet been determined. As site investigations and clean-ups proceed and as additional information becomes available, the waste disposal site liability is reviewed and adjusted, as necessary.

A program has been instituted to identify and investigate former MGP sites where Gas Distribution subsidiaries or predecessors are the current or former owner. The program has identified 84 such sites. Initial investigation has been conducted at 40 sites. Of these sites, additional investigation activities have been completed or are in progress at 34 sites and remedial measures have been implemented or completed at 19 sites. Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5, "Accounting for Contingencies" (SFAS No. 5). As costs become probable and reasonably estimable, reserves will be adjusted as appropriate. As reserves are recorded, regulatory assets are recorded to the extent environmental expenditures are expected to be recovered through rates. NiSource is

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

unable, at this time, to accurately estimate the time frame and potential costs of the entire program. Management expects that, as characterization is completed, additional remediation work is performed and more facts become available, NiSource will be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with the Security Exchange Commission's Staff Accounting Bulletin No. 92 (SAB No. 92) which covers accounting and disclosures relating to loss contingencies, SFAS No. 5, and American Institute of Certified Public Accountants SOP 96-1, "Environmental Remediation Liabilities" (SOP No.96-1).

As of December 31, 2002, a reserve of approximately \$65.9 million has been recorded to cover probable environmental response actions. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, years of ownership or operation, the number of other PRPs and their financial viability and the extent of environmental response actions required. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any environmental response actions required, after consideration of insurance coverage, contributions from other PRPs and rate recovery, will not have a material effect on its financial position.

GAS TRANSMISSION AND STORAGE. Columbia Transmission continues to conduct characterization and remediation activities at specific sites under a 1995 Environmental Protection Agency (EPA) Administrative Order by Consent (AOC). The program pursuant to the AOC covers approximately 240 facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. Field characterization had been performed at all sites. Site characterization reports and remediation plans, which must be submitted to the EPA for approval, are in various stages of development and completion. Remediation has been completed at the mercury measurement stations, liquid removal point sites and storage well locations and at a number of the 240 facilities.

Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5. As costs become probable and reasonably estimable, the associated reserves will be adjusted as appropriate. During 2002, Columbia

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Transmission completed a sufficient number of the characterization reports and remediation plans to adjust its original estimate for the entire program. As a result, the liability was reduced by \$15.5 million. The estimate may be adjusted as additional work is completed consistent with SAB No. 92, SFAS No. 5, and SOP No. 96-1.

Columbia Transmission and Columbia Gulf are PRPs at several waste disposal sites. The potential liability is believed to be de minimis, however, the final allocation of clean-up costs has yet to be determined. As site investigations and clean-ups proceed and as additional information becomes available, waste disposal site liability is reviewed periodically and adjusted.

At December 31, 2002, the remaining environmental liability recorded on the balance sheet of Gas Transmission was \$61.3 million. Future expenditures will be charged against the previously recorded liability. A regulatory asset has been recorded to the extent environmental expenditures are expected to be recovered through rates. Management does not believe that Columbia Transmission's environmental expenditures will have a material adverse effect on NiSource's operations, liquidity or financial position, based on known facts, existing laws, regulations, Columbia Transmission's cost recovery settlement with customers and the time period over which expenditures will be made.

ELECTRIC OPERATIONS.

AIR. In December 2001, the EPA approved regulations developed by the State of Indiana to comply with EPA's nitrogen oxide (NOx) State Implementation Plan (SIP) call. The NOx SIP call requires certain states, including Indiana, to reduce NOx levels from several sources, including industrial and utility boilers, to lower regional transport of ozone. The NOx emission limitations in the Indiana rules are more restrictive than those imposed on electric utilities under the Clean Air Act Amendments of 1990 (CAAA) acid rain NOx reduction program. Compliance with the NOx limits contained in these rules is required by May 31, 2004. Northern Indiana plans to install Selective Catalytic Reduction NOx reduction technology at each of its active generating stations to comply with the rules and estimates capital costs will range from \$200.0 to \$250.0 million. Actual compliance costs may vary depending on a number of factors including market demand/resource constraints, uncertainty of future equipment and construction costs, and the potential need for additional control technology.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The EPA issued final rules revising the National Ambient Air Quality Standards for ozone and particulate matter in July 1997. Industry and others challenged these rules. On March 26, 2002, the United States Court of Appeals for the D.C. Circuit largely upheld the ambient air standards as challenged. Consequently, designation of areas not attaining the standards, promulgation of rules specifying a compliance level, compliance deadline, and controls necessary for compliance will be completed over the next few years, which will likely change air emissions compliance requirements. Resulting rules could require additional reductions in sulfur dioxide, particulate matter and NOx emissions from coal-fired boilers (including Northern Indiana's electric generating stations). The EPA and state regulatory authorities will set final implementation requirements. NiSource believes that the costs relating to compliance with any new limits may be substantial but are dependent upon the ultimate control program agreed to by the targeted states and the EPA, and are currently not

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reasonably estimable. NiSource will continue to closely monitor developments in this area. However, the exact nature of the impact of the new standards on its operations will not be known for some time.

During 1999, the EPA initiated enforcement actions against several electric utilities alleging violations of the new source review provisions of the CAAA and subsequently has issued additional information collection requests to many other utilities. Northern Indiana has also received and responded to information requests from the EPA on this subject over the last two years, most recently in June 2002. At this time, NiSource is unable to predict the result of EPA's review of Northern Indiana's information responses.

In November 2002, EPA announced reforms to the New Source Review rules that include two components. The first, a final rule, does not appear to significantly impact Northern Indiana. However, upon official publication of the rules by EPA on December 31, 2002, nine northeastern states filed a legal challenge against the final rule in the U.S. District Court of Appeals for District of Columbia. The second component is a proposed rule that is subject to further public comment and revision before finalization; therefore, Northern Indiana is unable at this time to evaluate its potential impacts on operations. Northern Indiana will continue to closely monitor the developments related to both rules for potential impacts.

Initiatives are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels. Reduction of such emissions could result in significant capital outlays or operating expenses for Northern Indiana.

The CAAA also contain other provisions that could lead to limitations on emissions of hazardous air pollutants. In response to the CAAA requirements, on December 20, 2000, the EPA issued a finding that the regulation of emissions of mercury and other air toxics from coal and oil-fired electric steam generating units is necessary and appropriate. The EPA expects to issue proposed regulations by December 15, 2003, and finalized regulations by December 15, 2004. The potential impact, if any, to NiSource's financial results that may occur because of any of these potential new regulations is unknown at this time.

The EPA is in the process of developing a program to address regional haze. The Bush administration announced that the EPA would move forward with rules that mandate the states to require power plants built between 1962 and 1977 to install the "best available retrofit technology" (BART). The BART program will target for control by 2013 those pollutants that limit visibility, namely particulate, sulfur dioxide and/or nitrogen oxides. Until the program is developed, Northern Indiana cannot predict the cost of complying with these rules.

WATER. The Great Lakes Water Quality Initiative (GLI) program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating stations located on Lake Michigan. The State of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. As promulgated, the regulations would provide the Indiana Department of Environmental Management (IDEM) with the authority to grant water quality criteria variances and exemptions for non-contact cooling water. However, the EPA revised the variance language and other minor provisions of IDEM's GLI rule. The EPA by and large left the non-contact cooling water exemption intact; however, a separate agreement between the EPA and IDEM on interpretation of this exemption still leaves uncertainty as to its impact. The EPA change to the variance rule prompted litigation by the affected industrial parties and an agreement on the non-contact cooling water exemption has been reached with EPA/IDEM. Northern Indiana expects that IDEM will issue a proposed permit renewal for each of its lakeside stations. Pending issuance of these permits,

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the costs of complying with these requirements cannot be predicted at this time.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

REMEDIATION. Northern Indiana is a PRP at three waste disposal sites under CERCLA and similar state laws, and shares in the cost of their cleanup with other PRPs. At one site, the remediation plan has been implemented and long-term monitoring is ongoing. At another site, investigations are ongoing and final costs of clean up have not yet been determined. At the third site, Northern Indiana has recently entered into an EPA Administrative Order on Consent to perform a removal action in the vicinity of a third party, state-permitted landfill where Northern Indiana contracted for fly ash disposal. EPA and IDEM are currently evaluating the potential for remedial action at this site. As investigations and clean-ups proceed at each of these sites, and as additional information becomes available, waste disposal site liability is reviewed periodically and adjusted. In addition, Northern Indiana has corrective action liability under the RCRA for closure and clean-up costs associated with treatment, storage and disposal sites. As of December 31, 2002, a reserve of approximately \$1.2 million has been recorded to cover probable environmental response actions at these sites. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, years of ownership of operations, the number of other PRPs and their financial viability and the extent of environmental response required. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any environmental response required will not have a material effect on the its financial position or results of operations.

OTHER.

PRIMARY ENERGY. On June 26, 2002, EPA issued a Notice of Violation (NOV) to three companies involved with a project at Ispat Inland Inc.'s East Chicago, Indiana facility, including Primary Energy's subsidiary, Cokenergy. The NOV alleges violations of the construction permit requirements of the Clean Air Act. At issue is whether air emissions permitting requirements for major sources applied to the construction of the project in 1997. Cokenergy representatives met with EPA in mid-September 2002 to discuss the details of the allegations. At the September meeting, the EPA indicated they would issue a request for additional information, as well as provide substantiation for the NOV. No requests or information have come from the EPA. Cokenergy maintains its belief that the project was properly permitted by the IDEM and pending further discussion with EPA, cannot predict whether any fines or penalties will be assessed or if additional compliance costs will be incurred.

In December 2002, Primary Energy received notice from IDEM that it is reviewing the required removal efficiency for Cokenergy's main stack desulfurization unit. IDEM is exploring this as part of a rule revision to support redesignation of Lake County, Indiana to attainment of the sulfur dioxide National Ambient Air Quality Standards. Until this rulemaking is finalized, Primary cannot predict if additional compliance costs will be incurred.

DISCONTINUED OPERATIONS. NiSource affiliates have retained environmental cleanup liability associated with some of its former operations including those of propane, petroleum and certain local gas distribution companies. The most significant environmental liability relates to a former MGP site. The remainder of the liability is associated with former petroleum operations.

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The ultimate liability in connection with these sites will depend upon many factors including the extent of environmental response actions required, other PRPs and their financial viability, and indemnification from previous facility owners. Only those corrective action costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5 and consistent with SOP No. 96-1. As costs become probable and reasonably estimable, reserves will be adjusted as appropriate. NiSource believes that any environmental response actions required at former operations, for which it is ultimately liable, after consideration of insurance coverage and contributions from other PRPs, will not have a material adverse effect on NiSource's financial position.

ENVIRONMENTAL RESERVES. It is management's continued intent to address environmental issues in cooperation with regulatory authorities in such a manner as to achieve mutually acceptable compliance plans. However, there can be no assurance that fines and penalties will not be incurred. Management expects most environmental assessment and remediation costs to be recoverable through rates for certain NiSource companies.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of December 31, 2002, a reserve of approximately \$132.1 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other PRPs and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required, after consideration of insurance coverages, contributions from other PRPs and rate recovery, will not have a material effect on its financial position or results of operations.

H. OPERATING LEASES. Payments made in connection with operating leases are primarily charged to operation and maintenance expense as incurred. Such amounts were \$79.0 million in 2002, \$132.4 million in 2001 and \$57.4 million in 2000.

Future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year are:

(\$ in millions)

| | |
|------------------------|-------|
| 2003 | 56.3 |
| 2004 | 51.1 |
| 2005 | 47.6 |
| 2006 | 45.0 |
| 2007 | 43.6 |
| After | 173.9 |
| ----- | |
| Total operating leases | 417.5 |
| ----- | |

I. PURCHASE COMMITMENTS. NiSource has service agreements that provide for

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pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2003 to 2014, require NiSource to pay fixed monthly charges. The estimated aggregate amounts of such payments at December 31, 2002, were:

(\$ in millions)

| | |
|----------------------------|---------|
| 2003 | 144.3 |
| 2004 | 202.0 |
| 2005 | 156.4 |
| 2006 | 119.3 |
| 2007 | 107.2 |
| After | 596.7 |
| ----- | |
| Total purchase commitments | 1,325.9 |
| ----- | |

20. ENRON BANKRUPTCY FILING

On December 2, 2001, Enron Corp. filed for protection from creditors under Chapter 11 of the United States Bankruptcy Code. NiSource has certain exposure to Enron as a result of hedging and trading activities and providing services to Enron at NiSource's gas pipeline and gas distribution subsidiaries. Prior to Enron's bankruptcy filing, NiSource had basis and commodity swaps, pipeline transportation and storage agreements, physical commodity contracts for natural gas, electricity and coal, and SO2 trading agreements in place with Enron as the counterparty. All contracts, with the exception of the pipeline transportation and storage agreements and a contract to supply gas to choice customers of the Columbia of Ohio gas distribution subsidiary, were terminated by NiSource at the end of November 2001. NiSource recorded a pre-tax charge of \$17.8 million in 2001 related to the Enron bankruptcy filing. In 2002, an additional pre-tax charge of \$4.7 million was recognized. It is not anticipated that the final disposition of Enron's liability to NiSource will have a significant effect on income.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. OTHER COMPREHENSIVE INCOME

The following table displays the components of Other Comprehensive Income.

| Year Ended December 31, (in millions) | 2002 | 2001 |
|---|------------|----------|
| ----- | ---- | ---- |
| Foreign currency translation adjustment | \$ (1.5) | \$ (1.5) |
| Gain (loss) on available for sale securities | (3.1) | 2.6 |
| Net unrealized gains (losses) on cash flow hedges | 67.8 | 50.1 |
| Minimum pension liability adjustment | (203.7) | - |
| ----- | | |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET | \$ (140.5) | \$ 51.2 |
| ----- | | |

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22. OTHER, NET

| Year Ended December 31, (in millions) | 2002 | 2001 |
|---------------------------------------|---------|---------|
| Interest income | 14.6 | 18.8 |
| Miscellaneous | (4.4) | (8.6) |
| TOTAL OTHER, NET | \$ 10.2 | \$ 10.2 |

23. INTEREST EXPENSE, NET

| Year Ended December 31, (in millions) | 2002 | 2001 |
|---|----------|----------|
| Interest on long-term debt | \$ 451.9 | \$ 438.6 |
| Interest on short-term borrowings | 57.6 | 145.4 |
| Discount on prepayment transactions | 21.0 | 20.5 |
| Allowance for borrowed funds used and interest during construction | (4.3) | (4.3) |
| Other | (0.1) | (2.2) |
| TOTAL INTEREST EXPENSE, NET | \$ 526.1 | \$ 598.0 |

24. SEGMENTS OF BUSINESS

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource's operations are divided into five primary business segments. The Gas Distribution segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage segment offers gas transportation and storage services for local distribution companies, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana. The Exploration and Production segment explores for, develops and produces gas and oil in the United States. The Other segment primarily includes gas marketing, power marketing and trading and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

During 2002, NiSource re-aligned its reportable segments to reflect the decision to significantly scale back its merchant operations. Electric wholesale and wheeling results were moved from the Merchant segment to the Electric segment. The remaining Merchant segment operations were merged into the Other segment. The telecommunications operations were moved from the Other segment to discontinued operations due to NiSource's decision to exit the telecommunications business. As a result of the realignment, all periods have been adjusted to reflect the new segments.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables provide information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

| (in millions) | 2002 | 2001 | 2000 |
|------------------------------|------------|------------|------------|
| ----- | ---- | ---- | ---- |
| REVENUES | | | |
| GAS DISTRIBUTION | | | |
| Unaffiliated | \$ 3,290.8 | \$ 4,239.7 | \$ 2,084.5 |
| Intersegment | 19.6 | 40.6 | 67.4 |
| | ----- | ----- | ----- |
| Total | 3,310.4 | 4,280.3 | 2,151.9 |
| | ----- | ----- | ----- |
| GAS TRANSMISSION AND STORAGE | | | |
| Unaffiliated | 621.8 | 634.7 | 116.8 |
| Intersegment | 300.4 | 329.0 | 114.8 |
| | ----- | ----- | ----- |
| Total | 922.2 | 963.7 | 231.6 |
| | ----- | ----- | ----- |
| ELECTRIC OPERATIONS | | | |
| Unaffiliated | 1,104.3 | 1,061.7 | 1,070.1 |
| Intersegment | 33.1 | 2.8 | 2.6 |
| | ----- | ----- | ----- |
| Total | 1,137.4 | 1,064.5 | 1,072.7 |
| | ----- | ----- | ----- |
| EXPLORATION AND PRODUCTION | | | |
| Unaffiliated | 176.7 | 170.4 | 40.6 |
| Intersegment | 33.9 | 65.3 | 0.5 |
| | ----- | ----- | ----- |
| Total | 210.6 | 235.7 | 41.1 |
| | ----- | ----- | ----- |
| OTHER | | | |
| Unaffiliated | 1,283.8 | 3,348.0 | 2,702.2 |
| Intersegment | 46.1 | 103.3 | 72.2 |
| | ----- | ----- | ----- |
| Total | 1,329.9 | 3,451.3 | 2,774.4 |
| | ----- | ----- | ----- |
| Adjustments and eliminations | (418.2) | (534.5) | (242.3) |
| | ----- | ----- | ----- |
| CONSOLIDATED REVENUES | \$ 6,492.3 | \$ 9,461.0 | \$ 6,029.4 |
| | ----- | ----- | ----- |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| (in millions) | 2002 | 2001 | |
|------------------------------|------------|------------|-----|
| OPERATING INCOME (LOSS) | | | |
| Gas Distribution | \$ 459.1 | \$ 380.8 | \$ |
| Gas Transmission and Storage | 398.3 | 349.0 | |
| Electric | 322.3 | 340.7 | |
| Exploration and Production | 41.7 | 51.9 | |
| Other | (34.3) | (53.8) | |
| Corporate | 4.3 | (10.9) | (1 |
| Adjustments and eliminations | 11.3 | (24.8) | |
| | ----- | ----- | --- |
| CONSOLIDATED | \$ 1,202.7 | \$ 1,032.9 | \$ |
| | ----- | ----- | --- |

DEPRECIATION AMORTIZATION & DEPLETION

| | | | |
|------------------------------|----------|----------|-----|
| Gas Distribution | \$ 189.2 | \$ 228.8 | \$ |
| Gas Transmission and Storage | 109.4 | 161.4 | |
| Electric | 172.2 | 166.8 | |
| Exploration and Production | 66.7 | 63.1 | |
| Other | 26.4 | 10.2 | |
| Corporate | 10.3 | 10.4 | |
| Adjustments and eliminations | (0.2) | 0.6 | |
| | ----- | ----- | --- |
| CONSOLIDATED | \$ 574.0 | \$ 641.3 | \$ |
| | ----- | ----- | --- |

ASSETS

| | | | |
|------------------------------|-------------|-------------|--------|
| Gas Distribution | \$ 5,391.9 | \$ 5,368.6 | \$ 5, |
| Gas Transmission and Storage | 2,849.6 | 2,911.8 | 3, |
| Electric | 2,882.3 | 3,012.5 | 3, |
| Exploration and Production | 1,173.4 | 1,181.3 | |
| Other | 1,440.4 | 1,309.7 | 2, |
| Corporate | 9,581.6 | 13,249.4 | 13, |
| Adjustments and eliminations | (6,422.3) | (9,198.9) | (9,0 |
| | ----- | ----- | --- |
| CONSOLIDATED | \$ 16,896.9 | \$ 17,834.4 | \$ 19, |
| | ----- | ----- | --- |

CAPITAL EXPENDITURES

| | | | |
|------------------------------|----------|----------|-----|
| Gas Distribution | \$ 196.4 | \$ 211.3 | \$ |
| Gas Transmission and Storage | 128.0 | 137.4 | |
| Electric | 197.8 | 134.7 | |
| Exploration and Production | 90.8 | 118.8 | |
| Other | 5.9 | 77.0 | |
| | ----- | ----- | --- |

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CONSOLIDATED

\$ 618.9

\$ 679.2

\$

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data does not always reveal the trend of NiSource's business operations due to nonrecurring items and seasonal weather patterns, which affect earnings, and related components of net revenues and operating income.

| (\$ in millions, except per share data) | First Quarter | Second Quarter | Qu |
|---|------------------|-------------------|-------|
| ----- | ----- | ----- | ----- |
| 2002 | | | |
| Gross revenues | 2,208.2 | 1,375.9 | 1, |
| Operating Income | 521.2 | 165.6 | |
| Income (Loss) from Continuing Operations | 243.8 | 22.6 | |
| Income from Discontinued Operations - net of taxes | (1.6) | 2.4 | |
| Net Income | 242.2 | 25.0 | |
| Basic Earnings Per Share of Common Stock | | | |
| Continuing Operations | 1.19 | 0.11 | |
| Discontinued Operations | (0.01) | 0.01 | |
| Basic Earnings Per Share | 1.18 | 0.12 | |
| Diluted Earnings Per Share of Common Stock | | | |
| Continuing Operations | 1.17 | 0.11 | |
| Discontinued Operations | (0.01) | 0.01 | |
| Diluted Earnings Per Share | 1.16 | 0.12 | |
| 2001 | | | |
| Gross revenues | 3,859.5 | 1,939.1 | 1, |
| Operating Income | 467.3 | 167.4 | |
| Income (Loss) from Continuing Operations | 179.9 | (1.7) | |
| Income from Discontinued Operations - net of taxes | (2.0) | (9.9) | |
| Change in Accounting- net of taxes | 4.0 | - | |
| Net Income | 181.9 | (11.6) | |
| Basic Earnings Per Share of Common Stock | | | |
| Continuing Operations | 0.88 | (0.01) | |
| Discontinued Operations | (0.01) | (0.05) | |
| Change in accounting | 0.02 | - | |
| Basic Earnings Per Share | 0.89 | (0.06) | |

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| | | | |
|--|--------|--------|-----|
| Diluted Earnings Per Share of Common Stock | | | |
| Continuing Operations | 0.86 | (0.01) | (|
| Discontinued Operations | (0.01) | (0.05) | (|
| Change in accounting | 0.02 | - | |
| | ----- | ----- | --- |
| Diluted Earnings Per Share | 0.87 | (0.06) | (|
| | ----- | ----- | --- |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. EXPLORATION AND PRODUCTION ACTIVITIES (UNAUDITED)

Reserve information contained in the following tables is based on management's estimates, which were reviewed by the independent consulting firm of Schlumberger Data and Consulting Services. Reserves are reported as net working interest. Gross revenues are reported after deduction of royalty interest payments. The following information begins with the year 2001, due to NiSource's acquisition of Columbia Resources toward the end of 2000. Although NiSource has Canadian holdings, no significant costs or reserves are associated with those properties.

RESERVE QUANTITY INFORMATION

| | UNITED STATES |
|--|-----------------------|
| | ----- |
| Proved Reserves | Gas (Bcf) ----- |
| RESERVES AS OF DECEMBER 31, 2000 | 1,098.6 |
| Revisions of previous estimate | (90.8) |
| Extensions, discoveries and other additions | 62.2 |
| Production | (54.0) |
| Sale of reserves-in-place | (3.2) |
| | ----- |
| RESERVES AS OF DECEMBER 31, 2001 | 1,012.8 |
| Revisions of previous estimate | 70.3 |
| Extensions, discoveries and other additions | 124.7 |
| Production | (54.2) |
| | ----- |
| RESERVES AS OF DECEMBER 31, 2002 | 1,153.6 |
| | ----- |
| Reserves Held for Sale (a) | 39.3 |
| Proved developed reserves as of December 31, | |
| 2001 | 729.0 |
| 2002 | 819.9 |
| | ----- |

(a) The amount shown as Reserves Held for Sale is included in the total Reserves as of December 31, 2002.

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CAPITALIZED COSTS

| (\$ in millions) | UNITED STATES | |
|-------------------------------|---------------|---------|
| | 2002 | 2001 |
| CAPITALIZED COSTS AT YEAR END | | |
| Proved properties | 968.1 | 916.6 |
| Unproved properties (a) | 88.2 | 94.9 |
| | ----- | ----- |
| Total capitalized costs | 1,056.3 | 1,011.5 |
| Accumulated depletion | (119.3) | (66.9) |
| | ----- | ----- |
| NET CAPITALIZED COSTS | 937.0 | 944.6 |
| | ----- | ----- |

COSTS CAPITALIZED DURING YEAR

| | | |
|------------------------|-------|-------|
| Acquisition properties | | |
| Proved | 1.5 | 2.0 |
| Unproved | 6.2 | 6.7 |
| Exploration | 5.8 | 7.2 |
| Development | 62.5 | 57.0 |
| | ----- | ----- |
| COSTS CAPITALIZED | 76.0 | 72.9 |
| | ----- | ----- |

(a) Represents expenditures associated with properties on which evaluations have not been completed.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OTHER EXPLORATION AND PRODUCTION DATA

| (\$ in millions) | UNITED STATES | |
|--|---------------|-------|
| | 2002 | 2001 |
| ----- | ----- | ----- |
| Average sales price per Mcf of gas (\$) (a) | 3.45 | 4.00 |
| Average sales price per barrel of oil and other liquids (\$) | 19.01 | 22.00 |
| Production (lifting) cost per dollar of gross revenue (\$) | 0.17 | 0.17 |
| Depletion rate per dollar of gross revenue (\$) | 0.31 | 0.31 |
| | ----- | ----- |

(a) Includes the effect of hedging activities

HISTORICAL RESULTS OF OPERATIONS

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| (\$ in millions) | UNITED STATES | |
|------------------------------|---------------|-------------|
| | 2002 | 2001 |
| Gross revenues | | |
| Unaffiliated | 156.9 | 157.0 |
| Affiliated | 33.9 | 65.0 |
| Production costs | 32.7 | 35.0 |
| Depletion | 59.7 | 56.0 |
| Successful Efforts Expense | 12.2 | 21.0 |
| Income tax expense | 32.7 | 41.0 |
| RESULTS OF OPERATIONS | 53.5 | 67.0 |

Results of operations for exploration and production activities exclude administrative and general costs, corporate overhead and interest expense. Income tax expense is expressed at statutory rates less Section 29 credits.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

| (\$ in millions) | UNITED STATES | |
|--|----------------|--------------|
| | 2002 | 2001 |
| Future cash inflows | 6,076.7 | 3,158.8 |
| Future production costs | (1,045.3) | (793.5) |
| Future development costs | (421.6) | (311.8) |
| Future income tax expense | (1,861.1) | (642.7) |
| Future net cash flows | 2,748.7 | 1,410.8 |
| Less: 10% discount | 1,738.1 | 797.3 |
| STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW | 1,010.6 | 613.5 |

Future cash inflows are computed by applying year-end prices to estimated future production of proved gas and oil reserves. Future expenditures (based on year-end costs) represent those costs to be incurred in developing and producing the reserves. Discounted future net cash flows are derived by applying a 10% discount rate, as required by the Financial Accounting Standards Board, to the future net cash flows. This data is not intended to reflect the actual economic value of NiSource's gas and oil producing properties or the true present value of estimated future cash flows since many arbitrary assumptions are used. The data does provide a means of comparison among companies through the use of standardized measurement techniques.

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NISOURCE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of the components resulting in changes in the standardized measure of discounted cash flows attributable to proved gas and oil reserves for the year ending December 31, 2002 follows. The Exploration and Production Operations segment became a part of NiSource operations on November 1, 2000, as a result of the Columbia acquisition and consequently, the years are not comparable, therefore the 2001 reconciliation has been omitted.

| (\$ in millions) ----- | UNITED STATES 2002 ----- |
|---|--------------------------------|
| BEGINNING OF YEAR | 613.5 |
| Gas and oil sales net of production costs | (158.1) |
| Net changes in prices and production costs | 844.3 |
| Change in future development costs | (65.8) |
| Extensions, discoveries and other additions, net of related costs | 173.9 |
| Revisions of previous estimates, net of related costs | 139.1 |
| Accretion of discount | 87.1 |
| Net change in income taxes | (404.9) |
| Timing of production and other changes | (218.5) |
| ----- | ----- |
| END OF YEAR | 1,010.6 |
| | ----- |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC. AND SUBSIDIARIES

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEET

| As of December 31, (in millions) ----- | 2002 ---- |
|--|--------------|
| ASSETS | |
| Other property, at cost, less accumulated depreciation | \$ 12.4 |
| Investments and Other Assets: | |
| Net assets of discontinued operations | 79.2 |
| Assets held for sale | 26.1 |
| Investments in subsidiary companies | 7,798.6 |
| | ----- |
| Total Investments | 7,903.9 |
| | ----- |
| Current Assets: | |
| Cash and cash equivalents | 1.3 |
| Amounts receivable from subsidiaries | 666.1 |
| Deferred taxes | 111.5 |
| Prepayments | 0.1 |

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| | |
|--|------------|
| Total Current Assets | 779.0 |
| Other (principally notes receivable from associated companies) | 28.5 |
| TOTAL ASSETS | \$ 8,723.8 |
| CAPITALIZATION AND LIABILITIES | |
| Capitalization: | |
| Common stock equity | \$ 4,174.9 |
| Long-term debt, excluding amounts due within one year | 125.9 |
| Total Capitalization | 4,300.8 |
| Current Liabilities | 81.9 |
| Other (principally notes payable to associated companies) | 4,341.1 |
| TOTAL CAPITALIZATION AND LIABILITIES | \$ 8,723.8 |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC. AND SUBSIDIARIES

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF INCOME

| Year Ended December 31, (in millions, except per share amounts) | 2002 | 2001 |
|---|----------|----------|
| ----- | ---- | ---- |
| Equity in net earnings of subsidiaries | \$ 581.6 | \$ 368.9 |
| Other income (deductions): | | |
| Administrative and general expenses | (21.8) | (12.4) |
| Loss on asset impairment | - | (9.2) |
| Gain on sale of assets/property | 19.5 | - |
| Interest income | 9.0 | 32.3 |
| Interest expense | (292.1) | (78.5) |
| Other, net | (10.5) | (116.5) |
| | (295.9) | (184.3) |
| Income from continuing operations before income taxes | 285.7 | 184.6 |
| Income taxes | (86.8) | (27.5) |
| Income from continuing operations | 372.5 | 212.1 |
| Income from discontinued operations - net of tax | - | 0.1 |
| Change in accounting - net of taxes | - | 4.0 |
| NET INCOME | \$ 372.5 | \$ 216.2 |
| | ===== | ===== |
| Average common shares outstanding (thousands) | 211,009 | 205,301 |
| Basic earnings per share | | |

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| | | |
|-------------------------------------|---------|---------|
| Continuing operations | \$ 2.02 | \$ 1.10 |
| Income from discontinued operations | (0.25) | (0.07) |
| Change in accounting | -- | 0.02 |
| | ----- | ----- |
| BASIC EARNINGS PER SHARE | \$ 1.77 | \$ 1.05 |
| | ===== | ===== |
| Diluted earnings per share | | |
| Continuing operations | \$ 2.00 | \$ 1.08 |
| Income from discontinued operations | (0.25) | (0.07) |
| Change in accounting | - | 0.02 |
| | ----- | ----- |
| DILUTED EARNINGS PER SHARE | \$ 1.75 | \$ 1.03 |
| | ===== | ===== |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC. AND SUBSIDIARIES

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF CASH FLOWS

| Year Ended December 31, (in millions, except per share amounts) | 2002 | 2001 |
|---|----------|----------|
| ----- | ----- | ----- |
| Net cash provided in operating activities | \$ 119.8 | \$ 119.8 |
| CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES: | | |
| Acquisition of businesses, net of cash acquired | - | - |
| Construction work in progress | - | - |
| Proceeds from disposition of assets | 35.6 | 35.6 |
| Investments at cost | (261.9) | (261.9) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | (226.3) | (226.3) |
| | ----- | ----- |
| CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES: | | |
| Issuance of common shares | 734.9 | 734.9 |
| Increase (decrease) in notes payable to subsidiaries | (298.0) | (298.0) |
| Increase in notes receivable from subsidiaries | (88.5) | (88.5) |
| Cash dividends paid on common shares | (241.5) | (241.5) |
| Acquisition of treasury shares | (6.9) | (6.9) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 100.0 | 100.0 |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | (6.5) | (6.5) |
| Cash and cash equivalents at beginning of year | 7.8 | 7.8 |
| | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 1.3 | \$ 1.3 |
| | ----- | ----- |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

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NISOURCE INC. AND SUBSIDIARIES

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. DIVIDENDS FROM SUBSIDIARIES

Cash dividends paid to NiSource by its consolidated subsidiaries were (in millions of dollars): \$444.4, \$248.0 and \$302.2 in 2002, 2001 and 2000, respectively. In addition, NiSource received (in millions of dollars): \$15.7, \$7.0 and \$16.3 in 2002, 2001 and 2000, respectively in cash distributions from equity investments.

2. NOTES TO CONDENSED FINANCIAL STATEMENTS

See Item 8 for the full text of notes to the Consolidated Financial Statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

TWELVE MONTHS ENDED DECEMBER 31, 2002

| Description (\$ in millions) | Balance Jan. 1, 2001 | Acquisitions | Additions | | Sales Assets |
|--|-------------------------|--------------|-------------------------------------|--------------------------------|-----------------|
| | | | Charged to Costs and Expenses | Charged to Other Account | |
| Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply: | | | | | |
| Reserve for accounts receivable | 56.5 | - | 54.3 | 46.4 | - |
| Reserve for other investments | 25.6 | - | (0.5) | 4.3 | - |
| Reserves Classified Under Reserve Section of Consolidated Balance Sheet: | | | | | |
| Environmental reserves | 167.4 | - | (8.4) | - | - |
| Restructuring reserve | 58.3 | - | 41.3 | (13.3) | - |
| Reserve for cost of operational gas | 13.7 | - | (6.8) | - | - |
| Accumulated provision for rate refund | 1.5 | - | 0.8 | 0.4 | - |
| Unpaid medical claims | 2.9 | - | - | - | - |
| Gas air conditioning development funding reserve | 1.3 | - | - | - | - |
| Amount owed for purchase gas imbalance | 0.4 | - | - | - | - |
| Construction project reserve | 3.2 | - | - | - | - |

Additions

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| Description (\$ in millions) | Balance | Acquisitions | Charged to | Charged | Sale |
|--|--------------|--------------|------------|----------|-------|
| | Jan. 1, 2001 | | Costs and | to Other | Asse |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply: | | | | | |
| Reserve for accounts receivable | 41.8 | -- | 61.8 | 59.3 | |
| Reserve for other investments | 43.4 | -- | 7.0 | 4.0 | 1 |
| Reserves Classified Under Reserve Section of Consolidated Balance Sheet: | | | | | |
| Environmental reserves | 130.5 | -- | 54.9 | -- | |
| Restructuring reserve | 65.4 | (6.4) | 28.7 | -- | |
| Reserve for cost of operational gas | 1.2 | -- | 19.8 | -- | |
| Accumulated provision for rate refund | 1.5 | -- | -- | -- | |
| Unpaid medical claims | 2.9 | -- | -- | -- | |
| Gas air conditioning development funding reserve | 1.3 | -- | -- | -- | |
| Amount owed for purchase gas imbalance | 0.4 | -- | -- | -- | |
| Construction project reserve | 1.8 | -- | -- | 1.4 | |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA (continued)

NISOURCE INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

TWELVE MONTHS ENDED DECEMBER 31, 2000

| Description (\$ in millions) | Balance | Acquisitions | Additions | | Sale |
|--|---------|--------------|------------|----------|-------|
| | | | Charged to | Charged | |
| ----- | ----- | ----- | Costs and | to Other | Asse |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply: | | | | | |
| Reserve for accounts receivable | 30.4 | 15.0 | 93.2 | 1.2 | 0 |
| Reserve for other investments | 24.7 | - | 21.5 | - | |
| Reserves Classified Under Reserve Section of Consolidated Balance Sheet: | | | | | |
| Environmental reserves | 23.8 | 110.0 | 1.8 | - | |
| Restructuring reserve | - | 66.9 | 6.1 | - | |
| Reserve for cost of operational gas | 1.2 | - | - | - | |
| Accumulated provision for rate refund | 0.5 | - | 1.0 | - | |
| Unpaid medical claims | 2.9 | - | - | - | |
| Gas air conditioning development funding reserve | 1.3 | - | - | - | |
| Amount owed for purchase gas imbalance | 0.4 | - | - | - | |
| Construction project reserve | 0.6 | - | 1.2 | - | |

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ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

Exhibits

The exhibits filed herewith as a part of this report on Form 10-K are listed on the Exhibit Index. Each management contract or compensatory plan or arrangement of NiSource, listed on the Exhibit Index, is separately identified by an asterisk.

Financial Statement Schedules

All of the financial statements and financial statement schedules filed as a part of the Annual Report on Form 10-K are included in Item 8.

Reports on Form 8-K

The following reports on Form 8-K were filed during the fourth quarter of 2002.

| Item Reported | Financial Statements Included | Date of Event | Date Filed |
|---------------|-------------------------------|---------------|------------|
| 5,7 | No | 10/28/2002 | 11/1/2002 |
| 9 | No | 11/3/2002 | 11/4/2002 |
| 5,7 | No | 11/6/2002 | 11/7/2002 |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused Amendment No. 1 to this report to be signed on its behalf by the undersigned, hereunto duly authorized.

NiSource Inc.

(Registrant)

Date March 7, 2003

By: /s/ Jeffrey W. Grossman

Jeffrey W. Grossman
Vice President and Controller
(Principal Accounting Officer)

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary L. Neale, certify that:

1. I have reviewed this annual report on Form 10-K/A of NiSource Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 7, 2003

By: /s/ Gary L. Neale

Gary L. Neale
Chief Executive Officer

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael W. O'Donnell, certify that:

1. I have reviewed this annual report on Form 10-K/A of NiSource Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have

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disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 7, 2003

By: /s/ Michael W. O'Donnell

Michael W. O'Donnell
Chief Financial Officer

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EXHIBIT INDEX

NISOURCE INC.

EXHIBIT
NUMBER

DESCRIPTION OF ITEM

- | ----- | ----- |
|-------|--|
| (2.1) | Agreement and Plan of Merger dated as of February 27, 2000, as amended and restated as of March 31, 2000, among Columbia Energy Group, NiSource Inc., New NiSource Inc., Parent Acquisition Corp., Company Acquisition Corp. and NiSource Finance Corp (incorporated by reference to Annex I to the joint proxy statement/prospectus dated April 24, 2000, filed as a part of the Registration Statement on Form S-4 (No. 333-33896)). |
| (3.1) | Amended and Restated Certificate of Incorporation of NiSource Inc., effective October 31, 2000, as amended November 1, 2000 (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000). |
| (3.2) | Amended and Restated By-Laws of NiSource Inc (incorporated by reference to Exhibit 3.2 to the NiSource Inc. Annual Report on Form 10-K for the year ended December 31, 2001). |
| (4.1) | Indenture dated August 1, 1939 between Northern Indiana Public Service Company (Northern Indiana) and Trustees (incorporated by reference to Exhibit 7 to the Northern Indiana Registration Statement (Registration |

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No. 2-5178)).

- (4.2) Eighteenth Supplemental Indenture dated September 1, 1967 (incorporated by reference to Exhibit 1 to the Northern Indiana Current Report on Form 8-K dated October 9, 1967).
- (4.3) Forty-first Supplemental Indenture dated July 1, 1991 (incorporated by reference to Exhibit 1 to the Northern Indiana Current Report on Form 8-K dated March 25, 1992).
- (4.4) Indenture dated as of March 1, 1988, between Northern Indiana and Manufacturers Hanover Trust Company, as Trustee (incorporated by reference to Exhibit 4 to the Northern Indiana Registration Statement (Registration No. 33-44193)).
- (4.5) First Supplemental Indenture dated as of December 1, 1991, between Northern Indiana and Manufacturers Hanover Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to the Northern Indiana Registration Statement (Registration No. 33-63870)).
- (4.6) Memorandum of Agreement with City of Michigan City, Indiana (incorporated by reference to Exhibit 7 to the Northern Indiana Registration Statement (Registration No. 2-48531)).
- (4.7) Financing Agreement No. 1 dated November 1, 1988, between Northern Indiana and Jasper County, Indiana regarding \$37,000,000 Series 1988A Pollution Control Refunding Revenue Bonds. Identical Financing agreements between Northern Indiana and Jasper County, Indiana provide for the issuance of \$47,000,000 Series 1988B, \$46,000,000 Series 1988C and \$24,000,000 Series 1988D Pollution Control Refunding Revenue Bonds (incorporated by reference to Exhibit 8 to the Northern Indiana Current Report on Form 8-K dated March 16, 1989).
- (4.8) Financing Agreement dated July 1, 1991, with Jasper County, Indiana regarding \$55,000,000 Series 1991 Collateralized Pollution Control Refunding Revenue Bonds (incorporated by reference to Exhibit 3 to the Northern Indiana Current Report on Form 8-K dated March 25, 1992).
- (4.9) Financing Agreement dated August 1, 1994, with Jasper County, Indiana regarding \$10,000,000 Series 1994A, \$18,000,000 Series 1994B and \$41,000,000 Series 1994C Pollution Control Refunding Revenue Bonds (incorporated by reference to Exhibit 4.16 to the Northern Indiana Annual Report on Form 10-K for year ended December 31, 1994).

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EXHIBIT INDEX (continued)

NISOURCE INC.

- (4.10) Indenture between NIPSCO Industries, Inc., NIPSCO Capital Markets, Inc. and Chemical Bank as Trustees dated February 1, 1996 (incorporated by reference to Exhibit 1 to the NIPSCO Industries, Inc. Registration Statement (Registration No. 33-65285)).
- (4.11) Rights Agreement, dated November 1, 2000, between NiSource Inc. and ChaseMellon Shareholder Services, L.L.C., as rights agent

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(incorporated by reference to Exhibit 4.1 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000).

- (4.12) Indenture Agreement between NIPSCO Industries, Inc., NIPSCO Capital Markets, Inc. and Chase Manhattan Bank as trustee dated February 14, 1997 (incorporated by reference to Exhibit 4.1 to the NIPSCO Industries, Inc. Registration Statement (Registration No. 333-22347)).
- (4.13) First Supplemental Indenture dated February 16, 1999, by and among NIPSCO Capital Markets, Inc., NIPSCO Industries, Inc., and the Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.36 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 1999)
- (4.14) Indenture, dated November 1, 2000, between NiSource Inc. and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.3 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000).
- (4.15) First Supplemental Indenture, dated November 1, 2000, between NiSource Inc. and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.4 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000).
- (4.16) Purchase Contract Agreement, dated November 1, 2000, between NiSource Inc. and The Chase Manhattan Bank, as purchase contract agent (incorporated by reference to Exhibit 4.5 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000).
- (4.17) Pledge Agreement, dated November 1, 2000, between NiSource Inc., Bank One, National Association, as collateral agent, Bank One, National Association, as securities intermediary, and The Chase Manhattan Bank, as purchase contract agent (incorporated by reference to Exhibit 4.6 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000).
- (4.18) Remarketing Agreement, dated November 1, 2000, between NiSource Inc. and Credit Suisse First Boston Corporation, as remarketing Agent (incorporated by reference to Exhibit 4.7 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000).
- (4.19) Second Supplemental Indenture, dated as of November 1, 2000 among NiSource Capital Markets, Inc., NiSource Inc., New NiSource Inc., and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.45 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2000).
- (4.20) First Supplemental Indenture, dated as of November 1, 2000, among NiSource Capital Markets, Inc., NiSource Inc., and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.46 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2000).
- (4.21) Supplemental Agreement dated November 1, 2000, between NiSource Inc., The Chase Manhattan Bank, as purchase contract agent, and The First National Bank of Chicago, as collateral agent and securities intermediary (incorporated by reference to Exhibit 4.47 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2000).

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EXHIBIT INDEX (continued)

NISOURCE, INC.

- (4.22) 364-Day Revolving Credit Agreement, dated as of March 21, 2002, among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the Lenders party thereto, as Lenders, Barclays Bank PLC, as Administrative Agent and LC Bank, Barclays Capital and Credit Suisse First Boston, as Lead Arrangers and Barclays Capital, as Sole Book Runner (incorporated by reference to Exhibit 4.48 to NiSource Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2002).
- (4.23) Indenture, dated November 14, 2000, among NiSource Finance corp., NiSource Inc., as guarantor, and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.3 to the NiSource Inc. Form S-3, dated January 17, 2001 (Registration No. 333-49330)).
- (4.24) Indenture between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-S to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
- (4.25) Third Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-V to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
- (4.26) Fourth Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-W to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
- (4.27) Fifth Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-X to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
- (4.28) Sixth Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-Y to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
- (4.29) Seventh Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-Z to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
- (4.30) Instrument of Resignation, Appointment and Acceptance dated as of March 1, 1999, between Columbia Energy Group and Marine Midland Bank, as Resigning Trustee and The First National Bank of Chicago, as Successor Trustee (incorporated by reference to Exhibit 4-I to the Columbia Energy Group Annual Report on Form 10-K for the period ended December 31, 1998).
- (4.31) 3-Year Revolving Credit Agreement, dated as of March 23, 2001 among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the

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Lead Arrangers, Arrangers, Senior Managing Agents, Managers, and Lenders party thereto, as Lenders, Credit Suisse First Boston, as Syndication Agent, Bank One, National Association (Main Office, Chicago), Citibank, N.A., Toronto Dominion (Texas), Inc. as Co-Documentation Agents, Barclays Bank PLC, as Administrative Agent and LC Bank, Barclays Capital and Credit Suisse First Boston, as Lead Arrangers and Barclays Capital, as Sole Book Runner (incorporated by reference to Exhibit 4.60 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2000).

- (4.32) First Amendment to Financing Agreement No. 1, dated as of November 1, 2000, between Jasper County and Northern Indiana regarding Series 1988A Pollution Control Refunding Revenue Bonds. Northern Indiana entered into identical First Amendments to Financing Agreements Nos. 2, 3 and 4, each dated as of November 1, 2000, between Jasper County and Northern Indiana in connection with the Series 1988B, 1988C and 1988D Pollution Control Refunding Revenue Bonds (incorporated by reference to Exhibit 4.61 to the NiSource, Inc. Annual Report on Form 10-K for the period ended December 31, 2000).

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EXHIBIT INDEX (continued)

NISOURCE INC.

- (10.1) Supplemental Life Insurance Plan effective January 1, 1991 (incorporated by reference to Exhibit 2 to the NIPSCO Industries, Inc. Current Report on Form 8-K dated March 25, 1992).*
- (10.2) NiSource Inc. Executive Deferred Compensation Plan effective November 1, 2000 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.3) Columbia Energy Group Deferred Compensation Plan amended and effective July 1, 1998 (incorporated by reference to Exhibit 10.3 to the NiSource, Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.4) Form of Change in Control and Termination Agreements and Schedule of Parties to the Agreements (incorporated by reference to Exhibit 10.4 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.5) Nonemployee Director Stock Incentive Plan of NiSource Inc. (As Amended July 7, 2002 and Restated Effective July 1, 2002) (incorporated by reference to Exhibit 10.5 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.6) NiSource Inc. Long-Term Incentive Plan (As Amended and Restated Effective April 14, 1999) (incorporated by reference to Exhibit 10.6 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 1999).*
- (10.7) NiSource Inc. 1994 Long-Term Incentive Plan (As Amended and Restated Effective January 1, 2000) (incorporated by reference to Annex VI to the joint proxy statement/prospectus dated April 24, 2000, filed as a

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part of the Registration Statement on Form S-4 (No. 333-33896)).*

- (10.8) First and Second Amendments to the NiSource Inc. 1994 Long Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the NiSource Inc. Annual Report on Form 10-K for the year ended December 31, 2001).*
- (10.9) Third and Fourth Amendment to the NiSource Inc. 1994 Long Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.10) Letter Agreement dated December 16, 2002, between Patrick J. Mulchay and NiSource Corporate Services Company (incorporated by reference to Exhibit 10.10 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).* ***
- (10.11) Letter Agreement dated August 28, 2002, as amended November 4, 2002, between Jeffrey W. Yundt and NiSource Corporate Services Company (incorporated by reference to Exhibit 10.11 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).* ***
- (10.12) Letter Agreement dated October 25, 1999, between Mr. Roger A. Young and NiSource Inc. (incorporated by reference to Exhibit 10.1 to NiSource Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 1999).*
- (10.13) Amended and restated Indenture of Mortgage and Deed of Trust by Columbia Gas Transmission Corporation to Wilmington Trust Company, dated as of November 28, 1995 (incorporated by reference to Exhibit 10-AF to the Columbia Energy Group Annual Report on Form 10-K for the period ended December 31, 1995).

* Management contract or compensatory plan or arrangement of NiSource Inc.

** Exhibit filed herewith.

*** Confidential portions of this exhibit have been redacted and filed separately with the Commission pursuant to a confidential treatment request in accordance with Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

EXHIBIT INDEX (continued)

NISOURCE INC.

- (10.14) \$50,000,000 Amended and Restated Credit Agreement dated October 11, 2000, among Columbia Energy Group and certain banks party thereto and Citibank, N.A. as Administrative and Syndication Agent (incorporated by reference to Exhibit 10-CQ to the Columbia Energy Group Annual Report on Form 10-K for the period ended September 30, 2000).

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- (10.15) \$850,000,000 Amended and Restated Credit Agreement dated October 11, 2000, among Columbia Energy Group and certain banks party thereto and Citibank, N.A. as Administrative and Syndication Agent (incorporated by reference to Exhibit 10-CR to the Columbia Energy Group Annual Report on Form 10-K for the period ended September 30, 2000).
- (10.16) Annual Incentive Compensation Plan of The Columbia Gas System, Inc., as amended, dated as of November 16, 1988 (incorporated by reference to Exhibit 10-BB to Columbia Energy Group's Annual Report on Form 10-K for the period ended December 31, 1988).
- (10.17) Memorandum of Understanding among the Millennium Pipeline Project partners (Columbia Transmission, West Coast Energy, MCN Investment Corp. and TransCanada Pipelines Limited) dated December 1, 1997 (incorporated by reference to Exhibit 10-CF to Columbia Energy Group's Annual Report on Form 10-K for the period ended December 31, 1998).
- (10.18) Agreement of Limited Partnership of Millennium Pipeline Company, L.P. dated May 31, 1998 (incorporated by reference to Exhibit 10-CG to Columbia Energy Group's Annual Report on Form 10-K for the period ended December 31, 1998).
- (10.19) Contribution Agreement Between Columbia Gas Transmission Corporation and Millennium Pipeline Company, L.P. dated July 31, 1998 (incorporated by reference to Exhibit 10-CH to Columbia Energy Group's Annual Report on Form 10-K for the period ended December 31, 1998).
- (10.20) Regulations of Millennium Pipeline Management Company, L.L.C. dated May 31, 1998 (incorporated by reference to Exhibit 10-CI to Columbia Energy Group's Annual Report on Form 10-K for the period ended December 31, 1998).
- (10.21) Nonemployee Director Retirement Plan, as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.21 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.22) Supplemental Executive Retirement Plan effective June 1, 2002 (incorporated by reference to Exhibit 10.22 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.23) Bay State Gas Company Supplemental Executive Retirement Plan restated January 1, 1992 (incorporated by reference to Exhibit 10.23 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.24) Pension Restoration Plan of The Columbia Gas System, Inc., amended and restated March 1, 1997 (incorporated by reference to Exhibit 10.27 of the NiSource Inc. Quarterly Report on Form 10-Q for the period ended September 30, 2001).*
- (10.25) Thrift Restoration Plan for The Columbia Energy Group, as amended and restated effective January 1, 2000 (incorporated by reference to Exhibit 10.28 to the NiSource Inc. Quarterly Report or Form 10-Q for the period ended September 30, 2001).*
- (10.26) Agreement dated December 18, 2000 between Catherine G. Abbott and NiSource Inc. (incorporated by reference to Exhibit 10.29 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2000).*

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* Management contract or compensatory plan or arrangement of NiSource Inc.

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EXHIBIT INDEX (continued)

NISOURCE INC.

- (10.27) NiSource Inc. Executive Severance Policy, effective June 1, 2002 (incorporated by reference to Exhibit 10.27 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.28) NiSource Inc. Annual Incentive Plan, effective as of January 1, 2002 (incorporated by reference to Exhibit 10.28 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.29) Natural Gas Advance Sale Contract, dated December 1, 1999, between Columbia Natural Resources, Inc. and Mahonia II Limited (incorporated by reference to Exhibit 10.30 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2001).
- (10.30) First Amendment to Natural Gas Advance Sale Contract (dated December 1, 1999), effective March 30, 2001, between Columbia Natural Resources, Inc. and Mahonia II Limited (incorporated by reference to Exhibit 10.31 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2001).
- (10.31) Natural Gas Advance Sale Contract, dated August 24, 2000, between Columbia Natural Resources, Inc. and Mahonia II Limited (incorporated by reference to Exhibit 10.32 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2001).
- (10.32) First Amendment to Natural Gas Advance Sale Contract (dated August 24, 2000), effective March 30, 2001, between Columbia Natural Resources, Inc. and Mahonia II Limited (incorporated by reference to Exhibit 10.33 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2001).
- (10.33) Form of Agreement between NiSource Inc. and certain officers of Columbia Energy Group and schedule of parties to such Agreements (incorporated by reference to Exhibit 10.33 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.34) NiSource Inc. Directors' Charitable Gift Program effective January 1, 2001 (incorporated by reference to Exhibit 10.35 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2001).*
- (10.35) Letter Agreement between NiSource Corporate Services Company and S. LaNette Zimmerman, dated July 15, 2002 (incorporated by reference to Exhibit 10.35 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*
- (10.36) Consulting Agreement, effective February 2002, between Jeffrey W. Yundt and NiSource Corporate Services Company (incorporated by reference to Exhibit 10.36 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).*

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- (12) Ratio of Earnings to Fixed Charges, (incorporated by reference to Exhibit 12 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).
- (16) Letter from Arthur Andersen LLP regarding change in certifying accountant (incorporated by reference to Exhibit 16 to the NiSource Inc. Current Report on Form 8-K dated May 21, 2002).
- (21) List of Subsidiaries (incorporated by reference to Exhibit 21 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).
- (23.1) Consent of Deloitte & Touche LLP.**

* Management contract or compensatory plan or arrangement of NiSource Inc.
** Exhibit filed herewith.

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EXHIBIT INDEX (continued)

NISOURCE INC.

- (23.2) Written consent, dated February 5, 2003, to the filing and use of information contained in such letter report, in Reports and Registration Statements filed during 2002, of Schlumberger Data and Consulting Services independent petroleum and natural gas consultants (incorporated by reference to Exhibit 23.2 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002).
- (99.1) Certification of Gary L. Neale, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
- (99.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **

** Exhibit filed herewith.

References made herein to Columbia Energy Group filings can be found at Commission File Number 001-01098 and references made to NiSource Inc. filings made prior to November 1, 2000 can be found at Commission File Number 001-09779.

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