VALMONT INDUSTRIES INC
Form DEF 14A
March 15, 2017

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

Valmont Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PROXY STATEMENT

FOR THE
APRIL 25, 2017
ANNUAL SHAREHOLDERS' MEETING

Dear Shareholder:

You are cordially invited to attend Valmont's annual meeting of shareholders on Tuesday, April 25, 2017 at 1:00 p.m. The meeting will be held at Valmont's headquarters at One Valmont Plaza in Omaha, Nebraska.

The formal meeting of shareholders will be followed by a review of Valmont's business operations and our outlook for the future. Following the meeting, you are invited to an informal reception where you can visit with the directors and officers about the activities of the Company.

We are pleased to furnish our proxy materials to you over the Internet. We believe that this e-proxy process should expedite shareholders' receipt of proxy materials, while also lowering the costs and reducing the environmental impact of our annual meeting. On March 15, 2017, we mailed to many of our shareholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy statement and annual report and vote online. Those shareholders who do not receive such a Notice, including shareholders who have previously requested to receive paper copies of proxy materials, will receive a copy of the proxy statement, proxy card, and annual report by mail. The proxy statement contains instructions on how you can (i) receive a paper copy of the proxy statement, proxy card, and annual report, if you only received a Notice by mail, or (ii) elect to receive your proxy statement, proxy card, and annual report over the Internet next year, if you received them by mail this year.

Whether or not you plan to attend the meeting, your vote is important and we encourage you to vote promptly. You may vote your shares via a toll-free telephone number or over the Internet. If you received a paper copy of the proxy card by mail, you may vote by signing, dating and mailing the proxy card in the envelope provided. Instructions regarding these three methods of voting are contained on the Notice and the proxy card. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares.

I look forward to seeing you at our annual meeting.

Sincerely,

Mogens C. Bay
Chairman and Chief Executive Officer

Valmont Industries, Inc.

NOTICE OF ANNUAL MEETING
OF SHAREHOLDERS

Notice is hereby given that the annual meeting of shareholders of Valmont Industries, Inc., a Delaware corporation, will be held at Valmont's headquarters, One Valmont Plaza, Omaha, Nebraska, on Tuesday, April 25, 2017 at 1:00 p.m. local time for the purpose of:

(1) Electing three directors of the Company to three year terms.

(2) Advisory approval of the Company's executive compensation.

(3) Advisory vote on the frequency of executive compensation votes.

(4) Ratifying the appointment of Deloitte & Touche LLP as independent auditors for fiscal 2017.

(5) Transacting such other business as may properly come before the meeting.

Shareholders of record at the close of business on March 1, 2017 are entitled to notice of, and to vote at, the Annual Meeting.

Your vote is important. Please note that if you hold your shares through a broker, your broker may no longer vote your shares on certain matters in the absence of your specific instructions as to how to vote. In order for your vote to be counted, please make sure that you submit your vote to your broker.

Whether or not you plan to attend the meeting, we urge you to vote your shares via the toll-free telephone number or over the Internet. If you received a copy of the proxy card by mail, you may sign, date and mail the proxy card in the envelope provided. Instructions regarding these three methods of voting are contained on the Notice and the proxy card. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares.

By Order of the Board of Directors

Mark C. Jaksich
Executive Vice President, Chief Financial Officer and Secretary

PROXY STATEMENT

To Our Shareholders:

The board of directors of Valmont Industries, Inc. solicits your proxy in the form enclosed for use at the annual meeting of shareholders to be held on Tuesday, April 25, 2017, or at any adjournments thereof.

At the close of business on March 1, 2017, the record date for shareholders entitled to notice of and to vote at the meeting, there were outstanding 22,557,828 shares of the Company's common stock. There were no preferred shares outstanding. All holders of common stock are entitled to one vote for each share of stock held by them.

The presence of a majority of the outstanding common stock represented in person or by proxy at the meeting will constitute a quorum. Shares represented by proxies that are marked "abstain" will be counted as shares present for purposes of determining the presence of a quorum. Proxies relating to "street name" shares that are voted by brokers on some matters will be treated as shares present for purposes of determining the presence of a quorum, but will not be treated as shares entitled to vote at the annual meeting on those matters as to which authority to vote is withheld by the broker ("broker non-votes"). **Please note that if you hold your shares through a broker, your broker may no longer vote your shares on certain matters in the absence of your specific instructions as to how to vote. In order for your vote to be counted, please make sure that you submit your vote to your broker.**

Election of the three director nominees requires the affirmative vote of a majority of the votes cast for the election of directors at the annual meeting. Votes may be cast in favor of or withheld with respect to all of the director nominees, or any of them. Abstentions and broker non-votes are not treated as votes cast and therefore will not affect the outcome of the election of directors. An incumbent director nominee who receives a greater number of votes "withheld" than "for" in an election is required to tender his resignation to the board, and the resignation will be accepted or rejected by the board as more fully described in Election of Directors.

The proposals to approve the ratification of the appointment of the auditors and the approval of the advisory say-on-pay resolution on executive compensation will be decided by the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote. Abstentions will be counted; they will have the same effect as a vote against the matter. Broker non-votes will be disregarded.

The say-on-pay frequency option that receives the highest number of votes cast by holders of shares present in person or represented by proxy at the meeting and entitled to vote will be the advisory shareholder selection for the frequency of holding executive compensation votes. Abstentions and broker non-votes will have no impact on the selection of the frequency option.

Any shareholder giving a proxy may revoke it before the meeting whether delivered by telephone, Internet or through the mail, by using the telephone voting procedures, the Internet voting procedures or by mailing a signed instrument revoking the proxy to: Corporate Secretary, Valmont Industries, Inc., One Valmont Plaza, Omaha, Nebraska 68154-5215. To be effective, a mailed revocation must be received by the Corporate Secretary before the date of the meeting and a telephonic or Internet revocation must be submitted by 11:59 p.m. Eastern Time on April 24, 2017. A shareholder may attend the meeting in person and at that time withdraw the proxy and vote in person.

As permitted by Securities and Exchange Commission rules, Valmont is making this proxy statement and its annual report available to its stockholders electronically via the Internet. On March 15, 2017, we mailed to many of our shareholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access this proxy statement and our annual report and to vote online. If you received such a Notice by mail, you will not receive a printed copy of the proxy materials in the mail. Instead, the Notice instructs you on how to access and review all of the important information contained in the proxy statement and annual report. The Notice also instructs you on how you may submit your proxy over the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials contained on the Notice.

The Securities and Exchange Commission's rules permit us to deliver a single Notice or set of this proxy statement and our annual report to one address shared by two or more of our shareholders. This delivery method is referred to as "householding" and can result in significant cost savings. To take advantage of this opportunity, we have delivered only one Notice or set of this proxy statement and our annual report to multiple shareholders who share an address, unless we received contrary instructions from such shareholders prior to the mailing date. We agree to deliver promptly, upon written or oral request, a separate copy of the Notice or a set of this proxy statement and our annual report, as requested, to any shareholder at the shared address to which a single copy of those documents was delivered. If you prefer to receive separate copies of the Notice or this proxy statement and our annual report, contact Broadridge Financial Solutions, Inc. at 1-800-542-1061 or in writing at Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717.

The cost of solicitation of proxies, including the cost of reimbursing banks and brokers for forwarding proxy materials to their principals, will be borne by the Company.

Certain Shareholders

The following table sets forth, as of March 1, 2017, the number of shares beneficially owned by (i) persons known to the Company to be beneficial owners of more than 5% of the Company's outstanding common stock, (ii) executive officers named in the summary compensation table, (iii) directors, and (iv) all directors and executive officers as a group.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership March 1, 2017(1)	Percent of Class(2)
BlackRock, Inc.(3) 40 East 52nd Street New York, NY 10022	1,660,511	7.4%
T. Rowe Price Associates, Inc.(4) 100 E. Pratt Street Baltimore, MD 21202	2,347,491	10.4%
The Vanguard Group(5) 100 Vanguard Boulevard Malvern, PA 19355	1,850,529	8.2%
Neuberger Berman Group LLC(6) 605 Third Avenue New York, NY 10158	1,354,346	6.0%
Mogens C. Bay	377,443	1.7%
Walter Scott, Jr.	133,869	
Kenneth E. Stinson	66,482	
Kaj den Daas	11,617	
Clark T. Randt, Jr.	5,979	
Daniel P. Neary	17,869	
J. B. Milliken	4,056	
Catherine James Paglia	3,868	
Theo W. Freye	1,731	
Mark C. Jaksich	54,527	
Stephen Kaniewski	15,375	
Barry Ruffalo	9,357	
Vanessa K. Brown	25,783	
All Executive Officers and Directors As Group (15 persons)	737,348	3.3%

(1) Includes shares which the directors and executive officers have, or within 60 days of March 1, 2017 will have, the right to acquire through the exercise of stock options, as follows: 127,445 shares for Mr. Bay; 25,464 shares for Mr. Jaksich; 12,030 shares for Mr. Kaniewski; 6,677 shares for Mr. Ruffalo; 15,030 shares for Ms. Brown; and 194,726 shares for all executive officers and directors as a group. Includes restricted stock units held by directors which will vest within 60 days of March 1, 2017 as follows: 835 restricted stock units for Mr. Freye and 911 restricted stock units for each other director (other than Mr. Bay).

(2) Unless otherwise indicated, beneficial ownership of any named individual does not exceed 1% of the outstanding shares of common stock.

(3) Based on a Schedule 13G filed by BlackRock, Inc. with the Securities and Exchange Commission on January 27, 2017.

(4) Based on a Schedule 13G filed by T. Rowe Price Associates with the Securities and Exchange Commission on February 7, 2017.

(5) Based on a Schedule 13G filed by The Vanguard Group with the Securities and Exchange Commission on February 10, 2017.

(6) Based on a Schedule 13G filed by Neuberger Berman Group LLC with the Securities and Exchange Commission on February 14, 2017.

(7) Three individuals, Timothy Daugherty, Mogens Bay and Kenneth Stinson, together direct the voting of 500,000 shares owned by the Robert B. Daugherty Foundation.

Corporate Governance

Valmont is committed to having strong corporate governance principles. The board of directors believes such principles are essential to the effective operation of Valmont's businesses and to maintaining Valmont's integrity in the marketplace.

Overview

The board of directors has adopted corporate governance principles which are set out in the "Investor Relations" section of the Company's website at *www.valmont.com*. The following corporate governance documents also appear on the Company's website and these documents and the Company's Corporate Governance Principles are available in print to any shareholder upon request to the Corporate Secretary:

- Code of Business Conduct
- Code of Ethics for Senior Officers
- Audit Committee Charter
- Human Resources Committee Charter
- Governance and Nominating Committee Charter
- Procedures for bringing concerns or complaints to the attention of the Audit Committee

The board met five times over eight days during 2016. All directors attended at least 75% of all board meetings and all meetings of Committees on which the director served. Directors are encouraged to attend the annual shareholders' meeting and all Company directors attended the 2016 annual shareholders' meeting. The board of directors periodically reviews the Corporate Governance Principles and any changes are communicated to shareholders by posting them on the Company's website.

Board Leadership Structure and Risk Oversight

The board's leadership structure consists of a Chairman and a Lead Director. The Chairman is also the Chief Executive Officer. The board believes this combined role promotes unified leadership and direction for the board and executive management and allows for a single clear focus for the chain of command to execute the Company's strategic initiatives and business plans. The board does not believe the combined role adversely affects the independence of the board. All board members have substantial business experience and all board members, with the exception of the Chief Executive Officer, are independent within the meaning of the Company's corporate governance principles and the NYSE Listing Standards. The Company's independent directors meet in executive session without management present at every board meeting. The Chief Executive Officer periodically updates the board on succession planning for key officers and the board reviews CEO succession planning in detail annually at its July meeting.

The board has established the position of Lead Director. The position is filled by independent director Kenneth E. Stinson. The lead director presides at executive sessions of the independent directors, serves as a liaison between the independent directors and the Chief Executive Officer, and has the ability to call meetings of the independent directors. Interested parties who wish to contact the board of directors or the lead director may communicate through the lead director by writing to: Lead Director of Valmont Board of Directors, Valmont Industries, Inc., One Valmont Plaza, Suite 601, Omaha, Nebraska, 68154-5215.

The board has oversight responsibility for risks affecting the Company. The board has delegated risk oversight with respect to operational, compliance and financial matters to the Audit Committee and has delegated risk oversight with respect to compensation matters to the Human Resources Committee.

Governance Actions

The board of directors and board committees have taken a number of corporate governance actions. The more significant actions include:

- The board of directors has approved bylaws which adopt a majority voting system for the election of directors.

- The board of directors has adopted director stock ownership guidelines. The guidelines provide that directors should own Valmont common stock with a value at least equal to five times the director's annual retainer. Directors have five years after joining the board to meet the guidelines.

- The board of directors has adopted stock ownership and retention guidelines for senior management. The guidelines require an equity position having a value of six times base salary for the Chief Executive Officer, three times base salary for the Chief Operating Officer, Chief Financial Officer and Group Presidents, and two times base salary for other corporate officers. The officers are required to retain 75% of the net shares acquired upon the exercise of stock options and the vesting of restricted stock until the stock ownership guidelines have been attained and maintained. The Company also has a policy prohibiting stock hedging and stock pledges applicable to directors and officers.

- The board of directors has adopted an executive compensation recoupment policy. The policy generally provides that if Valmont is required to restate its financial statements, due to material noncompliance with any financial reporting requirements, the board of directors may require reimbursement of all or any part of any cash or stock award based on an incentive plan that relates to the performance of Valmont, if the employee engaged in certain conduct which caused or contributed to the need for the restatement. The board of directors has the right to apply the recoupment policy in all cases to the Chief Executive Officer, Chief Financial Officer and Group President (if the conduct occurred in the Group) if an employee engaged in the designated conduct.

- The Human Resources Committee has engaged Frederick W. Cook & Co. ("Cook") as its independent executive compensation consulting firm. The Company does not engage Cook for any services beyond their support of the Human Resources Committee.

- The board of directors in December 2005 permitted the Company's Shareholder Rights Plan to expire, effectively terminating the Shareholder Rights Plan.

Board Independence

The board of directors is composed of a majority of independent directors. The board has established independence standards for Valmont's directors. These standards are set forth below and are contained in the Company's Corporate Governance Principles and follow the director independence standards established by the New York Stock Exchange:

> A director will not be independent if, within the preceding three years (1) the director was employed by Valmont or an immediate family member of the director was an executive officer of Valmont, (2) a Valmont executive officer was on the compensation committee of the board of directors of a company which employed the Valmont director as an executive officer or which employed an immediate family member of the director as an executive officer, or (3) the director or the director's immediate family member received more than $120,000 during any twelve-month period in direct compensation from Valmont (other than director and committee fees).

> A director will not be independent if (1) the director is an executive officer or an employee, or the director's immediate family member is an executive officer, of another company and (2) the other company made payments to, or received payments from, Valmont for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1,000,000 or 2% of either (i) such other company's consolidated gross revenues or (ii) Valmont's consolidated gross revenues.

> A director will not be independent if (1) the director or an immediate family member is a current partner of Valmont's independent auditor, (2) the director is an employee of Valmont's independent auditor, (3) the director has an immediate family member who is a current employee of Valmont's independent auditor who personally works on Valmont's audit, or (4) the director or an immediate family member was within the last three years a partner or employee of Valmont's independent auditor and personally worked on Valmont's audit within that time.

> Tax-exempt organizations to which Valmont makes contributions shall not be considered "companies" for purposes of these independence standards. However, Valmont will disclose in its annual proxy statement any such contribution which it makes to a tax-exempt organization in which a director serves as an employed executive officer if, within the preceding three years, contributions in any fiscal year exceeded the greater of $1,000,000 or 2% of such tax-exempt organization's consolidated gross revenues.

> For relationships not covered by the foregoing standards, the determination of whether the relationship is material or not, and therefore whether the director would be independent or not, is made by the directors who satisfy the above independence standards. The board's determination of each director's independence is disclosed annually in the Company's proxy statement.

The board has determined that all directors except Mr. Bay (the Company's Chief Executive Officer) have no material relationship with the Company and are independent within the meaning of the Company's Corporate Governance Principles and the NYSE listing standards.

Audit Committee

The members of the Audit Committee are directors Scott (Chairman), den Daas, Neary and Paglia. All members of the Audit Committee are independent within the meaning of the Company's Corporate Governance Principles and the listing standards of the NYSE. The board has determined that all members of the Audit Committee are qualified as audit committee financial experts within the meaning of SEC regulations. The Audit Committee acts under a written charter, adopted by the board of directors, a copy of which is available on the Company's website. The report of the Audit Committee is included in this proxy statement.

The Audit Committee met six times during 2016. The Audit Committee assists the board by reviewing the integrity of the financial statements of the Company; the qualifications, independence and performance of the Company's independent auditors and internal auditing department; and compliance by the Company with legal and regulatory requirements. The Audit Committee has sole authority to retain, compensate, oversee and terminate the independent auditor. The Audit Committee reviews the Company's annual audited financial statements, quarterly financial statements, and filings with the Securities and Exchange Commission. The Audit Committee reviews reports on various matters, including critical accounting policies of the Company, significant changes in the Company's selection or application of accounting principles, and the Company's internal control processes. The Audit Committee pre-approves all audit and non-audit services performed by the independent auditor. The Audit Committee has a written policy with respect to its review and approval or ratification of transactions between the Company and a director, executive officer or related person. The Audit Committee reviews and approves or disapproves any material related person transaction, i.e., a transaction in which the Company is a participant, the amount involved exceeds $120,000, and a director, executive officer or related person has a direct or indirect material interest. The Audit Committee reports to the board of directors any such material related person transaction that it approves or does not approve.

Human Resources Committee

The members of the Human Resources Committee are directors Neary (Chairman), Stinson and Paglia. All members of the Human Resources Committee are independent within the meaning of the Company's Corporate Governance Principles and the listing standards of the NYSE. The Human Resources Committee acts under a written charter, adopted by the board of directors, a copy of which is available on the Company's website. The report of the Human Resources Committee is included in this proxy statement.

The Human Resources Committee met three times during 2016. The Human Resources Committee assists the board in fulfilling its responsibilities relating to compensation of the Company's directors, executive officers and other selected employees. The Committee has responsibility for reviewing, evaluating and approving compensation plans, policies and programs for such persons. The Human Resources Committee annually reviews and approves corporate goals and objectives for the chief executive officer's compensation and evaluates the chief executive officer's performance in light of those goals and objectives. The Human Resources Committee, together with the other independent directors, determines the chief executive officer's compensation. The Committee also approves incentive compensation plans and equity based plans for executive officers and other selected employees. The Committee reviews the Company's management level organization and programs for management development and succession planning and reviews reports from management on human resources topics as determined by the Committee. The Human Resources Committee has established stock ownership and retention guidelines for company officers, which are described in this proxy statement in Corporate Governance Governance Actions. The board, upon recommendation of the Human Resources Committee, has established stock ownership guidelines for Company directors, which are described in this proxy statement in Corporate Governance Governance Actions.

The Human Resources Committee has the authority to retain the services of independent consultants and other experts to assist in fulfilling its responsibilities. The Committee has engaged the services of Frederic W. Cook & Co., Inc. ("Cook"), a national executive compensation consulting firm, to review and provide recommendations concerning all of the components of the Company's executive compensation program. Cook performs services solely on behalf of the Committee and does not perform any services for the Company. The Committee has assessed the independence of Cook pursuant to SEC rules and concluded that no conflict of interest exists that would prevent Cook from independently representing the Committee.

Governance and Nominating Committee

The members of the Governance and Nominating Committee are directors Randt (Chairman), Milliken and Freye. All members of the Governance and Nominating Committee are independent within the meaning of the Company's Corporate Governance Principles and the listing standards of the NYSE. The Governance and Nominating Committee acts under a written charter, adopted by the board of directors, a copy of which is available on the Company's website.

The Governance and Nominating Committee met four times during 2016. The Governance and Nominating Committee assists the board by (1) recommending to the board Corporate Governance Principles for the Company, and (2) identifying qualified candidates for membership on the board, proposing to the board a slate of directors for election by the shareholders at each annual meeting, and proposing to the board candidates to fill vacancies on the board. The Governance and Nominating Committee coordinates the annual self-evaluation by the directors of the board's performance and the CEO's performance and the annual performance evaluation by each committee of the board. The Governance and Nominating Committee oversees the Company's process for consideration of nominees to the Company's board of directors. The process is described in Director Nomination Process.

Director Nomination Process

The Governance and Nominating Committee considers candidates for board membership suggested by its members and other board members, as well as management and shareholders. The Committee may also retain a third-party executive search firm to identify candidates from time to time. A shareholder who wishes to recommend a prospective nominee for board membership should notify the Company's Corporate Secretary in writing at least 120 days before the annual shareholder meeting at which directors are to be elected and include whatever support material the shareholder considers appropriate. The Governance and Nominating Committee will also consider nominations by a shareholder pursuant to the provisions of the Company's bylaws relating to shareholder nominations as described in Shareholder Proposals.

The Governance and Nominating Committee makes an initial determination as to whether to conduct a full evaluation of the candidate once it has identified a prospective nominee. This initial determination is based on whatever information is provided to the Committee as well as other information available to or obtained by the Committee. The preliminary determination is based primarily on the need for additional board members to fill vacancies or expand the size of the board and the likelihood that the prospective nominee can satisfy the evaluation factors described below. If the Committee determines that additional consideration is warranted, it may request a third-party search firm or other third parties to gather additional information about the prospective nominee.

The Committee evaluates each prospective nominee in light of the standards and qualifications set out in the Company's Corporate Governance Principles, including:

- Background, including demonstrated high standards of ethics and integrity, the ability to have sufficient time to effectively carry out the duties of a director, and the ability to represent all shareholders and not a particular interest group.

- Board skill needs, taking into account the experience of current board members, the candidate's ability to work in a collaborative culture with other board members, and the candidate's qualifications as independent and qualifications to serve on the Audit Committee, Human Resources Committee and/or Governance and Nominating Committee.

- Diversity, including the extent to which the candidate reflects the composition of Company shareholders and other constituencies.

Business experience, which should reflect a broad experience at the policy-making level in business, government or education, both domestically and internationally.

The Committee also considers such other relevant factors as it deems appropriate. In connection with the evaluation, the Committee determines whether to interview the prospective nominee, and if warranted, one or more members of the Committee interview prospective nominees in person or by telephone. After completing this evaluation process, the Committee makes a recommendation to the full board as to the persons who should be nominated by the board, and the board determines the nominees after considering the recommendations of the Committee. The Committee assesses the effectiveness of its policies in determining nominees for director as part of its annual performance evaluation.

ITEM 1: BOARD OF DIRECTORS AND ELECTION OF DIRECTORS

The Company's board of directors is composed of nine members. The board is divided into three classes and each class serves for three years on a staggered term basis.

Three directors have terms of office that expire at the 2017 annual meeting: Mogens Bay, Walter Scott, Jr. and Clark T. Randt, Jr. These three individuals have been nominated by the board of directors, upon recommendation of the Governance and Nominating Committee, for re-election to three-year terms.

The Company bylaws provide that directors are elected by the affirmative vote of a majority of the votes cast with respect to the director at the meeting, unless the number of nominees exceeds the number of directors to be elected (a contested election), in which case directors will be elected by the vote of a plurality of the shares present and entitled to vote at the meeting. If a nominee is not elected and the nominee is an incumbent director, the director is required to promptly tender his resignation to the board. The Governance and Nominating Committee will consider the tendered resignation and recommend to the board whether to accept or reject the resignation or whether other action should be taken. The board will act on the tendered resignation and publicly disclose its decision within 90 days from the certification of the election results. The director who tenders his resignation will not participate in the Committee's recommendation or the board action regarding whether to accept or reject the tendered resignation.

The Company's policy on director retirement, as expressed in the Corporate Governance Principles, provides that a director will not be nominated to a new term if he or she would be over age 73 at the time of election. The board evaluated its skill needs and concluded not to apply the policy to Mr. Scott, a highly-experienced director who is Chairman of the Audit Committee, for the 2017 director election.

The shares represented by the enclosed proxy will be voted for the election of the nominees named above. In the event any of such nominees becomes unavailable for election, the proxy holders will have discretionary authority to vote the proxies for a substitute. The board of directors has no reason to believe that any such nominee will be unavailable to serve.

The following discussion provides information about the three nominees, and the six directors whose terms expire in 2018 and 2019, including ages, years of service, business experience, and service on other boards of directors within the past five years. Information is also provided concerning each person's specific experience, qualifications, attributes or skills that led the board to conclude that the person should serve as a director of the Company.

NOMINEES FOR ELECTION Terms Expire 2020

Mogens C. Bay, age 68, has been Chairman and Chief Executive Officer of the Company since January 1997. He was President and Chief Executive Officer of the Company from August 1993 through December 1996. Mr. Bay currently serves as a director of Peter Kiewit Sons', Inc. and previously served as a director of ConAgra Foods, Inc. Mr. Bay is the only Valmont officer who serves on the Company's board of directors. Mr. Bay's 38 years of experience with Valmont provides an extensive knowledge of Valmont's operating companies and its lines of business, its long-term strategies and domestic and international growth opportunities. Mr. Bay has served as a director of the Company since October 1993.

Walter Scott, Jr., age 85, previously served as Chairman of the Board and President of Peter Kiewit Sons', Inc. Mr. Scott was Chairman of Level 3 Communications from 1998 - 2014. Mr. Scott is a director of Berkshire Hathaway, Inc. and Berkshire Hathaway Energy. He previously served as a director of Commonwealth Telephone Enterprises and Burlington Resources. Mr. Scott is a civil engineer with management experience of infrastructure construction operations at Kiewit. His extensive board experience provides a valuable resource of strategic and oversight input to the Valmont board of directors. He has served as a director of the Company since April 1981.

Clark T. Randt, Jr., age 71, is currently President of Randt & Co. LLC (business consulting) and lived and worked in Asia for more than thirty-five years. Ambassador Randt served as the United States Ambassador to the People's Republic of China from July 2001 to January 2009. He currently serves as a director of United Parcel Service, Inc., Qualcomm Incorporated and Wynn Resorts Ltd. Ambassador Randt was formerly a partner with the international law firm of Shearman & Sterling in Hong Kong where he headed the firm's China practice. Ambassador Randt is a member of the New York bar association and was admitted to the Hong Kong bar association and has over 25 years of experience in cross-border corporate and finance transactions. He is a member of the Council on Foreign Relations. His international experience and knowledge of Asian business operations and experience with U.S. investment in China serves the Company well as it expands its operations in Asia. Ambassador Randt has served as a director of the Company since February 2009.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE ABOVE NOMINEES.

CONTINUING DIRECTORS Terms Expire in 2019

Kaj den Daas, age 67, was CEO of TCP International Holdings, Ltd. (lighting products manufacturer) from July 2015 to October 2016. Mr. den Daas retired in 2009 as Executive Vice President of Philips Lighting B.V. of the Netherlands (manufacturer of lighting fixtures and related components) and Chairman of its North American Lighting Operations. Mr. den Daas was responsible for oversight of the manufacturing, distribution, sales and marketing of Philips products in the United States, Canada and Mexico, with prior Philips experience in the Asia Pacific area. He previously served on the board of directors of Lighting Science Group Corp. Mr. den Daas, a native of the Netherlands, has more than 35 years of international experience in the lighting industry. His extensive international business experience provides value to the Valmont board of directors. Mr. den Daas has been a director of the Company since October 2004.

James B. Milliken, age 60, has been Chancellor of the City University of New York since June 2014. CUNY is the nation's largest urban public university with 275,000 students pursuing degrees on 24 campuses in New York City and another 250,000 adult and continuing education students. CUNY has an annual operating budget of over $4 billion. Mr. Milliken was President of the University of Nebraska from August 2004 to May 2014; the University of Nebraska has an annual budget of approximately $2.5 billion. Mr. Milliken has a law degree from New York University and practiced law on Wall Street before his academic career. He has led the development of research and education programs in China, India, Brazil and other countries. He is a member of the Council on Federal Relations and the Executive Committee on the Council on Competitiveness. He has chaired commissions on innovation and economic competitiveness for the Association of Public and Land-grant universities and the Council on Competitiveness. Mr. Milliken's experience in managing large organizations which work closely with business and industry and in countries around the world provides value to the Valmont board of directors as the Company grows internationally. Mr. Milliken has served as a director of the Company since December 2011.

Catherine James Paglia, age 64, has been a director of Enterprise Asset Management, Inc., a New York based privately-held real estate and asset management company since September 1998. Ms. Paglia previously spent eight years as a managing director at Morgan Stanley, ten years as a managing director of Interlaken Capital, and served as chief financial officer of two public corporations. Ms. Paglia serves on the board of directors of the Columbia Funds and is a member of the board of trustees of the Carnegie Endowment for International Peace. Her extensive Wall Street experience and prior service as a chief financial officer of public companies provide an excellent background for membership on Valmont's Audit Committee. Ms. Paglia has served as a director of the Company since February 2012.

CONTINUING DIRECTORS Terms Expire 2018

Daniel P. Neary, age 65, has been Chairman of Mutual of Omaha (full service and multi-line provider of insurance and financial services) since December 2004. Mr. Neary served as CEO of Mutual from 2004 - 2015. Mutual of Omaha's revenues were in excess of $7 billion in 2016. He was previously President of the Group Insurance business unit of Mutual of Omaha. Mr. Neary's training as an actuary and knowledge of the financial services industry provides valuable background for board oversight of the Company's accounting matters. His experience in strategic development and risk assessment for the Mutual of Omaha insurance companies are well suited to membership on Valmont's board of directors. Mr. Neary has been a director of the Company since December 2005.

Kenneth E. Stinson, age 74, is currently Chairman Emeritus of Peter Kiewit Sons', Inc. (construction and mining). Mr. Stinson was Chairman of Peter Kiewit Sons' Inc. from March 1998 to December 2012. He was Chief Executive Officer of Peter Kiewit Sons', Inc. from 1998 to 2005. He previously served as Chairman and CEO of Kiewit Construction Group, Inc. Peter Kiewit Sons', Inc. revenues were in excess of $9 billion in 2016. Mr. Stinson also serves as a director of McCarthy Group LLC and was previously a director of ConAgra Foods, Inc. Mr. Stinson has a civil engineering degree and had management responsibility at Kiewit for the construction of highways, bridges, transit systems, power plants and refineries for commercial, industrial and governmental customers. His extensive experience in the United States infrastructure business aids the board's oversight of Valmont's engineered support structures segment and utility support structures segment. Mr. Stinson has served as a director of the Company since December 1996.

Theo Freye, age 67, retired in October 2014 as CEO of CLAAS KgaA, a $4.5 billion family owned agricultural machinery firm headquartered in Germany. Mr. Freye, a native of Germany, has more than 30 years of international machinery experience. He holds a Master's Degree in Mechanical Engineering and a Ph.D. in Agricultural Science. His extensive international business experience and engineering background provides value to the Valmont board of directors. Mr. Freye has served as a director of the Company since June 2015.

Compensation Discussion and Analysis

General. The following compensation discussion and analysis provides information which the Human Resources Committee of the Board of Directors (the "Committee") believes is relevant to an assessment and understanding of Valmont's executive compensation programs. This discussion should be read in conjunction with these sections of the proxy statement: (1) the summary compensation table and related tables, (2) the Human Resources Committee information in the corporate governance section and (3) the compensation summary in the advisory vote on executive compensation section.

Say-On-Pay Vote. Valmont conducted its first advisory vote on executive compensation in April 2011. Valmont's shareholders in April 2011 cast 94.6% of their votes in favor of an annual say-on-pay vote. The compensation resolution passed with at least 96% of the vote in each year, including 98.6% in 2016. The board of directors and the Human Resources Committee considered these results in determining compensation policies and decisions, and determined to hold annual say-on-pay votes and, based on the significant level of shareholder support, to continue the current compensation objectives, strategies, processes and practices described below.

Compensation Objectives and Strategies. Valmont's executive compensation programs, policies and practices are approved by the Committee. The compensation programs apply to executive officers and to certain key employees who are not executive officers. The programs specifically apply to the executive officers listed in the summary compensation table (named executive officers). The Committee has established Valmont compensation objectives pursuant to which Valmont's compensation programs are designed to:

- target total compensation amounts at competitive market levels to attract, retain, motivate and reward the performance of executive officers and other key employees;

- direct management focus to the long-term growth of the Company, enhance shareholder value, and ensure that executive officers have significant ownership without increasing dilution over acceptable levels; and

- pay for performance by providing performance based incentive plans measured against established targets, with no guaranteed minimum payment provisions, and with total awards above median market levels for exceeding performance targets and below median market levels if performance targets are not achieved.

The Committee established compensation strategies designed to carry out the compensation objectives, including:

- target total compensation evaluated by position, on an annual basis, against like positions in companies of similar sales volume, according to data provided by outside compensation consultants; and

- base pay, annual incentives and long-term incentives targeted at median market levels, with the opportunity for annual and long-term incentives at the 75th percentile or higher for significantly exceeding performance targets. Actual compensation will be above median if performance exceeds targets and below median when performance is below targets.

The Committee has engaged Frederic W. Cook & Co., Inc. ("Cook") as the Committee's independent executive compensation consultant. Cook reports directly to the Committee and provides advice to the Committee on the structure and amounts of executive and director compensation. Cook provides no other services to the Company.

Compensation Processes and Practices. The Committee follows certain processes and practices in connection with the structure and implementation of executive compensation plans.

- The elements of compensation, and target total compensation, are reviewed annually against general industry survey data and a peer group developed by Cook and approved by the Committee. The Committee uses the survey data and peer group information to assess the competitiveness of target compensation levels and pay mix for the CEO, CFO and other executives.

The Committee used as its primary benchmark a general industry Aon Hewitt Survey of 107 companies which Cook adjusted to provide representative compensation levels for companies within a range of Valmont's annual revenues. The adjusted revenue size range of the companies in the Aon Hewitt Survey was approximately $2.53 billion. Valmont's 2016 revenues were approximately $2.52 billion. The competitive medians referenced below for base salary, target annual incentives and long-term incentives are the competitive medians based on the Aon Hewitt Survey data.

The Committee also used a peer group developed by Cook as a supplemental benchmark of CEO and CFO pay levels. Cook advised that, due to differences in the jobs of the individuals reported in the proxies of the peer group companies, consistent and reliable comparable compensation information was available only for the CEO and CFO. The current peer group consists of the following twelve companies:

Barnes Group	Harsco	SPX Corporation
Carlisle Corporation	Hubbell	TORO
Crane	IDEX	Trinity Industries
FlowServe	Pentair	Watts Water

The Company's revenues approximated the median of the peer group. The peer group had median revenue of $2.58 billion. Valmont's revenues for 2016 were approximately $2.52 billion.

The Committee also reviews a tally sheet with respect to the total compensation (target and actual) of each named executive officer and each group president. The Committee utilizes tally sheets as a reference point to ensure that the Committee has a comprehensive picture of the compensation paid and payable to each executive officer. The Committee uses market data provided by its independent compensation consultant as one of the primary factors in executive compensation decisions and the tally sheets are not determinative with respect to any particular element of compensation.

The compensation programs provide for both cash and equity elements. Base salary and annual incentives are paid in cash. Long-term incentives comprised of Company performance shares are paid in cash for executives who have met their stock ownership guidelines, and are paid 50% in cash and 50% in equity for other executives. Stock options are settled in equity.

The Committee determines the mix of cash and equity compensation. The Committee has no pre-established policy for the allocation between either cash and non-cash or short-term and long-term incentive compensation. The Committee reviews information provided by compensation consultants to determine the appropriate level and mix of incentive compensation. The Committee believes that a majority of an executive's overall compensation opportunity should be incentive-based and that each executive who has not attained applicable stock ownership guidelines should receive at least 50% of long-term performance plan compensation in equity.

The structure of all incentive compensation plans is reviewed periodically to assure their linkage to the current objectives and strategies and performance goals.

The Committee's policy is to establish base salary, annual incentives and long-term incentives with targets at the competitive median level and potential payouts of incentives up to 200% of target for executive officers who significantly exceed performance targets. The annual incentives and long-term incentives are established for each executive officer by using a percentage of base salary that approximates the competitive target median for the executive. There are no material differences in compensation policies with respect to individual executive officers.

The Company's programs have been designed so that compensation paid to executive officers will be deductible under the Internal Revenue Code's compensation limits for deductibility, although the Committee may from time to time make restricted stock awards or discretionary cash awards in excess of the deductibility limits to recognize exceptional performance in a particular year. Executive compensation generally produces ordinary income to the executive and a corresponding tax deduction for Valmont, except for amounts deferred under Valmont's qualified and related nonqualified plan, amounts subject to future vesting, and amounts related to stock awards which are subject to special accounting and tax provisions.

Elements of Compensation. Valmont's executive compensation is based on three components, each of which is intended to support the overall compensation philosophy.

The three components are base salary, annual incentives, and long-term performance incentives (which include equity incentives). For 2016, base salary accounted for approximately 70.5% of the total compensation of the named executive officers and incentive compensation accounted for approximately 25.7% of such total compensation.

Valmont's executive officers do not have employment agreements.

Valmont's executive officers do not have agreements providing for special payments in the event of a termination of employment or a change-of-control of Valmont. Valmont's 2013 Stock Plan provides for accelerated vesting of non-vested amounts in the event of an involuntary termination following a change-of-control. See Potential Payments Upon Termination or Change-in-Control.

Valmont does not have a pension plan. Valmont's executive officers do participate in its 401(k) Plan and also participate in the related non-qualified supplemental benefit plan.

Valmont does not maintain a perquisite program for its executive officers. Amounts relating to the Chief Executive Officer's limited use of Company aircraft for personal travel are included in the summary compensation table.

Valmont has an executive compensation recoupment policy described on page 5.

Base Salary. Base salary is targeted at the competitive median level. Competitive median levels are provided by Cook based on the primary benchmark survey prepared by Aon Hewitt. Base salary is intended to compensate the executive for satisfying the requirements of the position. Salaries for executive officers and other key employees are reviewed by the Committee on an annual basis and may be changed based on the individual's performance or a change in competitive pay levels in the marketplace.

The Committee reviews with the Chief Executive Officer an annual salary plan for the Company's executive officers and other key employees (other than the Chief Executive Officer). The annual salary plan is developed by the Company's Human Resources staff, under the ultimate direction of the Chief Executive Officer, and is based on national surveys of companies with similar characteristics and on performance judgments as to the past and expected future contributions of the individual executive. The salary plan is modified as deemed appropriate and approved by the Committee. The Committee reviews and establishes the base salary of the Chief Executive Officer based on competitive compensation data provided by Cook and the Committee's assessment of his past performance, his leadership in establishing performance standards in the conduct of the Company's business, and its expectation as to his future contribution in directing the long-term success of the Company and its businesses.

The Committee continued the Company's combined matching contribution under the Valmont Employees Retirement Savings Plan (a 401(k) plan) and related Restoration Plan (a non-qualified plan in place since 2002 designed to restore benefits otherwise limited by IRS regulations). The contribution is 15% of covered compensation (salary, bonus and cash incentives) for Mr. Bay and 4.5% for other executive officers. The Committee set the contribution percentage for the Chief Executive Officer at a higher rate due to the need to retain his critical services and the absence of any pension plan; the higher contribution percentage for the Chief Executive Officer will end when Mr. Bay no longer holds this position. The Company's contributions to such plans for 2016 compensation for the named executive officers (which matched the amounts contributed by such executive officers) are set forth in the Non-Qualified Deferred Compensation table.

Based on the factors described above, the Committee in December 2015 reviewed the base salaries of the named executive officers for 2016. The base salary for Mr. Bay was not changed. The base salaries for the other named executive officers were increased 3%, except Mr. Kaniewski's base salary was established at $575,000 when he became Chief Operating Officer in October 2016. . For 2016, base salaries of Bay, Jaksich, and Kaniewski were 104%, 106%, and 107% of the survey competitive median level. The Committee reviewed executive base salaries in December 2016 again based on the factors described above. The Committee made no change in the base salary for 2017 of Mr. Bay or Mr. Kaniewski. The base salaries for 2017 for the other named executive officers were increased 3%.

Annual Incentives. The Company's short-term incentives are paid pursuant to programs established under the shareholder approved Executive Incentive Plan. The Committee believes that the annual incentive of executive officers should be based on optimizing profits and managing working capital. Accordingly, the executive officer programs provide for target performance levels based 75% on the Company's net earnings performance and 25% on working capital intensity. Working capital intensity is average working capital (average accounts receivable, average FIFO inventory and average prepaid expenses less average accounts payable and average accrued expenses) divided by annual net sales. Annual incentives are targeted at the competitive median level. Competitive median levels are provided by Cook based on the primary benchmark survey prepared by Aon Hewitt. For 2016, each named executive officer's annual incentive opportunity ranged from 0% to 200% of the targeted incentive, depending on the level of achievement of the Company's performance goals. For executive officers' 2016 annual incentives, a target incentive was established ranging from 40% to 110% of base salary, and performance goals were set based on net earnings and working capital intensity performance; the percentage of base salary for the named executive officers was: Mr. Bay, 110%; Mr. Jaksich, 70%; Mr. Kaniewski, 60%, Mr. Ruffalo, 60%; and Ms. Brown, 40%. The annual incentive targets for Bay, Jaksich, and Kaniewski were 108%, 72%, and 80% of the survey competitive median level. A minimum threshold level of performance had to be attained before any incentive was earned by an executive officer. Payout under the plan to any executive officer was capped at two times the target incentive. Participants, thresholds and specific performance levels are established by the Committee at the beginning of each fiscal year. The Committee may in addition award discretionary non-incentive based bonuses to an executive officer to recognize exceptional performance in a particular year; no discretionary awards were made to named executive officers with respect to performance in the last three years.

The Committee approved in February 2016 participation, including executive officers, in the short-term incentive program for 2016. The annual incentives for 2016 were based 75% on net earnings improvement and 25% on net working capital intensity. With respect to net earnings improvement, the Human Resources Committee established threshold net earnings of $140 million, a 6% improvement over 2015 net earnings of $132 million (which adjusted net earnings added back certain impairment, restructuring and non-recurring charges); the Human Resources Committee determined that a target annual incentive would be earned for net earnings of $155 million (a 17% increase) and that a maximum incentive of 2x target would be earned for net earnings of $190 million (a 44% increase). With respect to net working capital intensity, the Human Resources Committee established a threshold of 21.5%, a target of 20.3% and a maximum incentive of 2x target for a net working capital intensity of 19%. The 2016 net working capital intensity of 21.3% resulted in an incentive at 59% of target. The 2016 net earnings of $145.8 million ($173.2 million GAAP earnings reduced primarily by a contingent liability reversal and non-recurring income tax benefits) resulted in earnings performance at 69% of target. The combination of the factors resulted in an annual incentive payout for executive officers at 67% of target for 2016. Mr. Kaniewski's 2016 annual incentive was based on the performance of the Global Utility business which he headed prior to becoming Chief Operating Officer in October 2016; the performance factors were based 75% on division earnings and 25% on division working capital intensity. Mr. Ruffalo's 2016 annual incentive was based in part on the performance of the Energy and Minings business which he headed; the performance factors were based 80% on division earnings and 20% on division working capital intensity. Based on the 2016 results, annual incentives for 2016 were $722,260 for Mr. Bay, $241,325 for Mr. Jaksich, $192,635 for Mr. Kaniewski, $225,262 for Mr. Ruffalo, and $94,200 for Ms. Brown. In February 2017, the Committee selected the participants and established the performance goals for the 2017 annual incentive program; the performance goals for named executive officers in 2017 are again based 75% on net earnings and 25% on net working capital intensity.

Long-Term Performance Incentives. Long-term performance incentives for senior management employees are provided in two ways: through long-term performance share programs established under the shareholder approved Executive Incentive Plan, and through equity awards under the shareholder approved 2013 Stock Plan. Both long-term performance incentive programs (long-term performance share plan and equity awards) are targeted at competitive median levels. Competitive median levels are provided by Cook based on the primary benchmark survey prepared by Aon Hewitt. For the three-year award cycle ended in 2016, each named executive officer's long-term incentive opportunity under the performance share program ranged from 0% to 200% of the targeted incentive, depending on the level of achievement of the Company's performance goals. The 2016 long-term incentive targets (for both performance shares and options) for Bay, Jaksich and Kaniewski were 107%, 97% and 113% of the survey competitive median level.

The current long-term performance share programs operate on three-year award cycles. The Committee selects participants, establishes target awards, and determines a performance matrix. The Committee in February 2014 designed the matrix for the award cycle ending in 2016 to encourage both the effective use of the Company's capital and the growth of its earnings, and consequently the matrix was based on average return on invested capital or "ROIC" and cumulative compound operating income growth or "OIG", weighted 40% ROIC and 60% OIG, at the beginning of the award cycle. Average ROIC of less than 8.0% coupled with OIG growth of less than 3% resulted in no incentive payment. Average ROIC of 9.5% coupled with OIG growth of 10% generated a target incentive payment (based on the competitive median established by Cook's primary benchmark survey). Average ROIC of 13% coupled with OIG of 17% generated a two times target incentive payment (based on the Committee's judgment as to performance substantially exceeding the target levels). Targets for the 2014-2016 award cycle were established based on a predetermined percentage ranging from 20% to 175% of base salary, which amount was converted to performance shares valued at the Company's stock price at the beginning of the performance period (which for the 2014-2016 performance period was a thirty-day average of $144.48). The percentages of base salary for the named executive officers was: Mr. Bay, 175%; Mr. Jaksich 70% for periods as CFO and 40% for prior periods; Ms. Brown, 40% and Mr. Kaniewski, 60% for the 2014-2016 plan and 85% for periods as Chief Operating Officer and 70% for prior periods for the plans ending in 2017 and 2018. Mr. Ruffalo who was hired in 2015 received a prorated participation in the plan. The performance matrix provides for the potential payouts to be increased or decreased in number based on greater or lesser levels of performance. Earned performance shares are valued at the Company's stock price at the end of the performance period (the thirty-day average prior to fiscal year end); consequently, payouts may be higher or lower based on the Company's stock price performance during the award cycle. Performance incentives are generally forfeited if a participant leaves the Company before the end of the performance cycle. Prorated awards may be earned based on performance results in the event of death, disability, normal retirement, termination of employment without cause, or a change in control. Earned performance shares are capped at two times the target number of performance shares. The Committee approves the number of performance shares to be paid following a review of results at the end of each performance cycle. Awards may be paid in cash or in shares of common stock or any combination of cash and stock; participants who have not attained applicable stock ownership guidelines receive 50% of the award in common stock.

The Committee in February 2014 selected the participants, including executive officers, for participation in the three-year award cycle ending in 2016. Based on the above described ROIC and OIG performance goals established by the Committee, and the Company's three-year average 9.9% ROIC and negative three-year cumulative compound operating income growth, no performance shares were earned for the 2014-2016 period.

In February 2016, the Committee selected the participants and established the performance goals for the 2016-2018 award cycle; the performance goals for the cycle ending in 2018 are again based on a combination of growth in operating income and return on invested capital; beginning with the 2015-2017 award cycle, the Committee changed the weighting to 50% average ROIC and 50% OIG growth to reflect an increased emphasis on improving operations and working capital management.

Targets were established for executive officers based on a percentage of base salary ranging from 40% to 175% and performance targets established at 9.5% average ROIC and 10% OIG growth. In February 2017, the Committee selected the participants and established the performance goals for the 2017-2019 long-term performance share program; the performance goals for named executive officers are again based on ROIC and OIG performance with a weighting 50% ROIC and 50% OIG.

Stock Incentives and Ownership Guidelines. The board of directors, upon recommendation of the Committee, has established stock ownership and retention guidelines for senior management. The guidelines require an equity position having a value of six times base salary for the Chief Executive Officer, three times base salary for the Chief Financial Officer, Chief Operating Officer and Group Presidents, and two times base salary for other corporate officers. The officers are required to retain 75% of the net shares acquired upon the exercise of stock options and the vesting of restricted stock until the stock ownership guidelines have been attained and maintained. The Chief Executive Officer, Chief Financial Officer and the other named executive officers currently meet these targets, except for Mr. Ruffalo who was hired in March 2015 and Mr. Kaniewski who became an executive officer in October 2016. The Company has policies prohibiting hedging and pledging of Company stock by directors and officers.

Long-term stock incentives are provided through grants of stock options and restricted stock units to executive officers and other key employees pursuant to the shareholder approved 2013 Stock Plan. The stock component of compensation is intended to retain and motivate employees to improve long-term shareholder value. Such grants for executive officers were in 2014, 2015 and 2016 made at the regularly scheduled Committee meeting in December of each year. Stock options are granted at the market value on the date of grant and have value only if the Company's stock price increases. Stock options granted during 2016 vest beginning on the first anniversary of the grant in equal amounts over three years and expire seven years after the date of grant. Employees must be employed by the Company at the time of vesting in order to exercise the options. Options granted in 2016 also vest on death, disability and involuntary termination following a change-of-control; if an employee retires after age 62 (with five years of service), options continue to vest and be exercisable according to the original terms. The Company's stock plans prohibit repricing. Restricted stock units granted during 2016 vest in three equal installments beginning on the first anniversary of the grant; the units also vest on death, disability, and involuntary termination following a change-of-control, and vesting is prorated if an employee retires after age 62 (with five years of service).

The Committee establishes the number and terms of the options and restricted stock units granted under the stock plans. The Committee established the terms and provisions of such equity grants based on industry standards as provided to the Committee by its independent compensation consultant. The Committee established the number of options and restricted stock units to each executive officer so that the aggregate long-term incentive compensation would be targeted at competitive median levels. The value used in determining the number of stock options granted to each executive officer was computed in accordance with FASB Accounting Standards Codification Topic 718, which is described in footnote 11 to the Company's consolidated financial statements. The Committee encourages executives to build a substantial ownership investment in the Company's common stock. The table on page 3 reflects the ownership position of the directors and executive officers at March 1, 2017. Outstanding performance by an individual executive officer is recognized through larger equity grants. The Committee, in determining grants of equity under the stock plans, also reviews and considers the executive's history of retaining shares previously obtained through the exercise of prior options and restricted stock grants. In December 2016, stock options and/or restricted stock units were granted to named executive officers with a fair market value of a percentage of base salary: Mr. Bay, 175%; Mr. Jaksich, 80%; Mr. Kaniewski, 85%; Mr. Ruffalo, 70%; and Ms. Brown, 50%. The amounts were established so that aggregate long-term incentive compensation would be targeted at competitive median levels. Competitive median levels are provided by Cook based on the primary benchmark survey prepared by Aon Hewitt.

The Committee granted options for an aggregate of 83,540 shares to 11 employees and restricted stock units for an aggregate of 51,002 shares to 250 employees in December 2016, including options to named executive officers as described below. The Committee had granted options in 2016 for 1,522 shares and restricted stock units for 7,932 shares prior to December 2016.

The Committee determined in December 2016 that the equity grants to the Chief Executive Officer and Chief Operating Officer should be stock options, and the equity grants to the other executive officers should be 50% stock options and 50% restricted stock units (on a value basis), to reflect current market practices as determined by Cook. In December 2016, the Committee granted 42,377 stock options to Mr. Bay, and 12,076 stock options to Mr. Kaniewski. The Committee also granted 5,238 stock options and 1,395 restricted stock units to Mr. Jaksich, 4,129 stock options and 1,100 restricted stock units to Mr. Ruffalo, and 2,236 stock options and 595 restricted stock units to Ms. Brown. The option grants and restricted stock unit grants vest in equal installments over three years. The Committee determined that such grants were appropriate long-term incentives, based on market data and the Committee's review of each executive's performance.

The Committee believes that the programs described above provide compensation that is competitive with comparable companies, link executive and shareholder interests and provide the basis for the Company to attract and retain qualified executives. The Committee will continue to monitor the relationship among executive compensation, the Company's performance, and shareholder value.

Chief Operating Officer Designation

The board of directors named Stephen Kaniewski as President and Chief Operating Officer effective October 1, 2016. Mr. Kaniewski joined Valmont in 2010 as Vice President Information Technology, became Vice President Global Operations for the Irrigation segment in 2014, and became Group President of the Utility Support Structures segment in 2015. The Human Resources Committee approved Mr. Kaniewski's compensation effective October 2016 as follows: (1) a base salary of $575,000 per year, (2) continued participation in Valmont's 2016 Global Utility Annual Incentive Plan,

(3) continued participation in the performance share element of Valmont's 2014-2016, 2015-2017, and 2016-2018 Long Term Incentive Plans with a target of (i) 60% of prior base salary for the 2014-2016 Plan and (ii) 80% of base salary from start date as Chief Operating Officer (and 70% of base salary for prior periods) for the 2015-2017 Plan and the 2016-2018 Plan, capped at 2x target, (4) continued participation in the stock option element of Valmont's Long-Term Incentive Plans, with an eligibility for an option grant in December 2016 with a target value of 85% of base salary, and (5) participation in Valmont's Non-Qualified Deferred Compensation Plan, VERSP 401(k) Plan, and health and welfare benefit plans.

Compensation Risk Assessment

The Human Resources Committee in February 2017, with its independent compensation consultant, conducted a risk assessment of the Company's compensation programs. The Committee determined that the risks arising from the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company. The Committee believes the programs are designed to promote long-term value creation and do not motivate imprudent risk taking. The Company sets performance goals that are reasonable in light of past performance and market conditions. The annual and long-term incentive plans for executives and senior management use an aggregate of three or more company-wide performance metrics which provide for sliding scale incentives rather than an all-or-nothing approach; all such incentives have thresholds before they are paid and all are capped. The long-term incentives, consisting of performance shares, stock options and restricted stock units, have a three-year performance period or vesting period and consequently the value to executives varies with the Company's stock price over the period. The Company has a stock retention policy which requires retention of 75% of the net shares acquired upon the exercise of stock options and the vesting of restricted stock until stock ownership guidelines are met. The Company also has an executive clawback policy in the event of financial restatements due to fraud.

Human Resources Committee Report

The Human Resources Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the board that the Compensation Discussion and Analysis be included in this Proxy Statement.

HUMAN RESOURCES COMMITTEE
Daniel P. Neary, Chairman
Kenneth E. Stinson
Catherine James Paglia

Executive Compensation

Summary Compensation Table

	Year	Salary ($)	Bonus ($)	Stock awards ($)(1)	Option awards ($)(2)	Non-equity incentive plan compensation ($)	All other compensation ($)(3)	Total ($)
Mogens C. Bay	2016	980,000	0	1,715,000	1,700,589	722,260	323,439	5,441,288
Chairman and Chief	2015	980,000	0	1,715,000	1,789,580	0	412,023	4,896,603
Executive Officer	2014	980,000	0	1,715,000	1,554,061	0	935,135	5,184,196
Mark C. Jaksich	2016	514,551	0	623,541	210,201	241,325	33,957	1,623,575
Executive Vice President	2015	499,550	0	399,700	429,528	0	31,422	1,360,200
and Chief Financial Officer	2014	453,000	0	329,025	362,125	0	43,693	1,187,843
Stephen G. Kaniewski(4) President and Chief Operating Officer	2016	470,408	0	446,109	484,610	192,635	13,500	1,607,262
Barry Ruffalo(5)	2016	463,500	0	491,540	165,657	225,262	23,981	1,369,940
Executive Vice President Operational Excellence	2015	362,250	0	809,089	571,682	0	10,927	1,753,948
Vanessa K. Brown	2016	351,488	0	230,976	89,731	94,200	20,025	786,420
Senior Vice President	2015	341,250	0	136,500	146,692	0	19,739	644,181
Human Resources	2014	325,000	0	130,030	123,670	0	28,110	606,810

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(1) Stock awards consist of the grant date fair value (based on the target award amount) of the performance shares which can be earned by each of the above-named executives under the long-term incentive program with respect to grants in each fiscal year. See Compensation Discussion and Analysis for a description of these awards. The maximum award value, if earned (exclusive of increases in performance share value based on increases in the Company's stock price) would be two times the amounts shown in this column for the performance shares. Stock awards include the value of restricted stock units granted to Mr. Jaksich, Mr. Ruffalo and Ms. Brown in December 2016. See Grants of Plan-Based Awards for Fiscal 2016.

(2) Option awards reflects the aggregate grant date fair value of stock options computed in accordance with FASB Accounting Standards Codification Topic 718. See footnote 11 to the Company's consolidated financial statements for the assumptions used in the valuation of these awards. The exercise price of all options granted in 2016 to the named executive officers was $151.90.

(3) All Other Compensation reflects amounts contributed by the Company to its 401(k) plan and related supplemental benefit plan, which matches the amounts contributed in 2016 by executive officers in accordance with plan provisions; such Company contributions are 4.5% of the executive officer's salary, bonus and incentives that are paid in cash (15% for Mr. Bay). Contributions to the supplemental benefit plan are based on cash compensation, a majority of which is performance based and variable and is paid only if performance levels are met. All other compensation for Mr. Bay includes $69,570 with respect to Mr. Bay's personal use of Company aircraft in 2016, based on the Company's variable operating costs.

(4) Mr. Kaniewski became an executive officer in October 2016. See Chief Operating Officer designation.

(5) Mr. Ruffalo began employment in March 2015 and became an executive officer in April 2015; his stock awards represent prorata performance share grants under both the 2014-2016 and 2015-2017 long-term incentive programs.

Grants of Plan-Based Awards for Fiscal 2016

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards ($)(1)			Estimated Future Payouts Under Equity Incentive Plan Awards (# of shares)(1)						
Name	Grant Date	Threshold	Target	Maximum	Threshold	Target	Maximum	All Other Stock Awards: Number of Shares of Stock or Units (#)(1)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/ share)	Grant Date Fair Value of Stock and Option Awards ($)(2)
Mogens C. Bay	02/22/2016	0	1,078,000	2,156,000	7,669	15,339	30,678				
	12/19/2016							0	42,377	151.90	1,700,589
Mark C. Jaksich	02/22/2016	0	360,186	720,372	1,840	3,681	7,362				
	12/19/2016							1,395	5,238	151.90	422,102
Stephen G. Kaniewski	02/22/2016	0	250,875	501,750	1,528	3,056	6,112				
	12/19/2016							0	12,076	151.90	484,610
Barry Ruffalo	02/22/2016	0	139,050	278,100	1,451	2,902	5,804				
	12/19/2016							1,100	4,129	151.90	332,747
Vanessa K. Brown	02/22/2016	0	140,595	281,190	628	1,257	2,514				
	12/19/2016							595	2,236	151.90	180,112

(1) Non-equity incentive awards were made with respect to the Company's 2016 annual incentive plan. Equity incentive plan awards represent performance shares under the Company's 2016-2018 long-term incentive plan. See Compensation Discussion and Analysis for a description of each plan. Performance shares, option awards and restricted stock unit awards are made under the shareholder-approved 2013 Stock Plan.

(2) See footnote 11 to the Company's consolidated financial statements for the assumptions used in valuing these awards.

Outstanding Equity Awards at Fiscal Year-End

Name	Number of Securities Underlying Unexercised Options (#) Exercisable(1)	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(4)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(5)
Mogens C. Bay	39,531	0	0	136.42	12/17/2019			11,870	1,672,483
	35,926	0		145.25	12/09/2020			12,955	1,825,359
	30,552	15,276		132.84	12/08/2021			15,339	2,161,265
	21,434	42,870		104.47	12/16/2022				
	0	42,377		151.90	12/19/2023				
Mark C. Jaksich	2,906	0	0	85.32	12/13/2017	1,395	196,550	2,277	320.829
	3,838	0		83.94	12/12/2018			3,018	425,236
	3,280	0		136.42	12/17/2019			3,681	518,652
	3,177	0		145.25	12/09/2020				
	7,120	3,559		132.84	12/08/2021				
	5,144	10,290		104.47	12/16/2022				
	0	5,238		151.90	12/19/2023				
Stephen G. Kaniewski	3,065	0	0	136.42	12/17/2019			1,219	171,757
	2,869	0		145.25	12/09/2020			1,797	253,197
	1,215	608		132.84	12/08/2021			3,056	430,339
	4,881	9,764		104.47	12/16/2022				
	0	12,076		151.90	19/19/2023				
Barry Ruffalo	1,266	2,534	0	120.91	03/10/2022	1,100	154,900	2,227	313,784
	5,411	10,823		104.47	12/16/2022			1,317	185,565
Vanessa K. Brown	1,380	0		85.32	12/13/2017	595	83,835	900	126,810
	3,059	0		83.94	12/12/2018			1,031	145,268
	3,226	0		136.42	12/17/2019			1,257	177,111
	3,247	0		145.25	12/09/2020				
	2,432	1,215		132.84	12/08/2021				
	1,757	3,514		104.47	12/16/2022				
	0	2,236		151.90	12/19/2023				

(1) The options that expire on December 13, 2017 vested in equal amounts on December 13 of 2011, 2012 and 2013. The options that expire on December 12, 2018 vested in equal amounts on December 12 of 2012, 2013 and 2014. The options that expire on December 17, 2019 vested in equal installments on December 17 of, 2013, 2014 and 2015. The options that expire on December 9, 2020 vested or vest in equal amounts on December 9 of 2014, 2015 and 2016. The options that expire on December 8, 2021 vested or vest in equal amounts on December 8 of 2015, 2016 and 2017. The options that expire on December 16, 2022 vest in equal amounts on December 16of 2016, 2017 and 2018. The options that expire on December 19, 2023 vest in equal amounts on December 23 of 2017, 2018 and 2019. The options granted to Mr. Ruffalo that expire on March 10, 2022 vested or vest in equal amounts on March 10 of 2016, 2017 and 2018.

(2) The restricted stock units vest in equal installments over three years and on vesting will be settled in an equal number of shares of common stock. Dividends are paid upon vesting of restricted shares.

(3) Based on the number of shares or units at the closing market price at the end of the 2016 fiscal year ($140.90 per share).

(4)

Number shown is based on the target number of performance shares which can be earned under the long-term incentive plans for the three-year periods ending in 2016, 2017, and 2018, respectively. See Compensation Discussion and Analysis for a description of the provisions of the long-term incentive plans.

(5) Based on the target number of performance shares at the closing market price at the end of the 2016 fiscal year ($140.90 per share).

Options Exercised in Fiscal 2016

Name	Option Awards Number of Shares Acquired on Exercise ($)	Value Realized on Exercise ($)(1)
Mogens C. Bay	0	0
Mark C. Jaksich	0	0
Stephen Kaniewski	0	0
Barry Ruffalo	0	0
Vanessa K. Brown	1,530	61,053

(1)
Difference between the exercise price of the options and the market price on date of exercise.

Nonqualified Deferred Compensation

Name	Executive Contributions in Last Fiscal Year ($)(1)	Registrant Contributions in Last Fiscal Year ($)(2)	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)(3)(4)
Mogens C. Bay	234,269	241,944	537,392	0	15,128,133
Mark C. Jaksich	150,484	22,032	156,078	0	2,644,251
Stephen G. Kaniewski	0	1,575	659	0	9,182
Barry Ruffalo	13,974	12,056	513	0	31,217
Vanessa K. Brown	93,935	8,101	68,066	0	912,200

(1)
Executive officer contributions are included in the executive compensation amounts reflected in the Summary Compensation Table as part of Salary, Bonus and Non-equity Incentive Plan Compensation; such contributions include deferrals to the nonqualified deferred compensation plan but not amounts contributed to the qualified 401k plan.

(2)
Company contributions match executive contributions to the 401(k) and related nonqualified deferred compensation plans with respect to compensation and are included in the Summary Compensation Table under All Other Compensation. Company contributions are 4.5% of the executive officer's salary, bonus and cash incentives (15% for Mr. Bay).

(3)
The aggregate balance includes amounts contributed after the fiscal year end with respect to fiscal 2016 compensation.

(4)
The Company does not have a pension plan or other defined benefit plan. The Company's nonqualified deferred compensation plan is offered to allow certain Company employees who, due to compensation and contribution ceilings established under the Internal Revenue Service regulations, are limited in making contributions to the Company's 401(k) plan. This plan is fully funded and the related assets in the plan are reported on the Company's balance sheet and are subject to creditor claims in event of the Company's bankruptcy. The vesting provisions follow that of the Company's 401(k) plan. Compensation that is eligible for deferral by the executive includes salary, bonus and cash incentives, and the executive may defer any percentage of eligible compensation. Investment values and related earnings are based on quoted market prices of the investments held by the plan. Investment alternatives under the plan are selected by each executive and may be changed based on the rules set forth by each investment fund selected by the employee. Distribution payments are made upon some specified period after separation from service in accordance with Section 409A of the Internal Revenue Code. The methods of

distribution include single lump sum cash payment or annual installments for 2-10 years. In-service withdrawals are allowed in compliance with Section 409A of the Code.

Director Compensation

Name	**Fees Earned or paid in Cash ($)(1)**	**Stock Awards ($)(1)(2)**	**Option Awards ($)(2)**	**Non-Equity Incentive Plan Compensation ($)**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)**	**All Other Compensation ($)**	**Total ($)**
Walter Scott, Jr.	108,500	129,972	0	0	0	0	238,472
Kenneth E. Stinson	130,060	129,972	0	0	0	0	260,032
Kaj den Daas	100,060	129,972	0	0	0	0	230,032
Daniel P. Neary	116,060	129,972	0	0	0	0	246,032
Clark T. Randt	103,000	129,972	0	0	0	0	232,972
J. B. Milliken	95,500	129,972	0	0	0	0	225.472
Catherine J. Paglia	104,500	129,972	0	0	0	0	234,472
Theo W. Freye	95,500	119,129	0	0	0	0	214,629

(1) Non-employee directors in 2016 received (1) an annual retainer of $75,000, (2) $2,500 for each board meeting attended ($1,000 if the participation was via teleconference), and (3) $2,000 for each committee meeting attended ($1,000 if the participation was via teleconference). The lead director received an additional $35,000 for the year and each committee chairman received an additional $10,000 for the year. Director Scott has elected to receive his cash fees in the form of deferred compensation which accrues interest indexed to U.S. government bonds compounded monthly. Non-employee directors also received a grant of restricted stock units with a value of $130,000 (based on the closing market price of the Company's common stock on the date of the Company's annual shareholders' meeting). The equity grants are made annually on the date of and following completion of the Company's annual shareholders' meeting. The restricted stock units vest on the first anniversary of the grant date (subject to deferral by the director). The total cash compensation and the grant date fair value of equity awards for a non-employee director may not exceed $500,000 in a calendar year.

(2) Unexercised stock awards (consisting of unvested restricted stock units) for each director as of December 26, 2016 were as follows:

Name	**Restricted Stock Units**
Walter Scott, Jr.	911
Kenneth E. Stinson	911
Kaj den Daas	911
Daniel P. Neary	911
Clark T. Randt	911
J. B. Milliken	911
Catherine J. Paglia	911
Theo W. Freye	835

Equity Compensation Plan Information

The following table provides information about the Company's common stock that may be issued upon exercise of options, warrants and rights under existing equity compensation plans as of December 31, 2016.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation (including securities plans reflected in column (a)) (c)
Equity compensation plans approved by security holders	793,173	122.77	706,298
Equity compensation plans not approved by security holders	0		0
Total	793,173		706,298

Potential Payments Upon Termination or Change-In-Control

Valmont does not have employment agreements with its executive officers. Valmont also does not have special severance or change-in-control payment agreements with its executive officers.

Valmont's executive officers may receive severance payments upon a termination of employment under Valmont's severance plan which is generally available to all administrative employees. The severance plan generally provides 16 weeks of salary plus one week of salary for each year of service. Valmont's executive officers would also be entitled to receive upon termination of employment amounts accumulated in their respective deferred compensation accounts, at the times and in the manner established for their respective accounts; such amounts are described in the Non-Qualified Deferred Compensation table.

Valmont's 2013 Stock Plan provides that all outstanding options become immediately exercisable in the event of an involuntary termination following a change-in-control and that all restrictions on restricted stock lapse in the event of such an involuntary termination following a change-in-control. A change-in-control, defined specifically in the plans, generally occurs if: (i) a person, entity or group (excluding Valmont plans) acquires 50% or more of Valmont's common stock or total voting power of Valmont's voting securities; (ii) incumbent directors or their replacements (whose election or nomination was approved by at least a majority of then incumbent directors) cease to constitute a majority of the board; (iii) a reorganization, merger, consolidation, or sale of substantially all of the Company's assets occurs unless Valmont's shareholders prior to the transaction own after the transaction 50% or more of the voting power of Valmont's securities; and (iv) Valmont is liquidated or dissolved. Options granted in 2008 and subsequent years provide for continued vesting pursuant to the option terms if the optionee voluntarily retires on or after attaining age 62. If such a change-in-control (involving an involuntary termination) or retirement had occurred on the last day of fiscal 2016, the incremental value (fair market value of company common stock on such date less exercise price) of unvested options held by the named executed officers would have been Mr. Bay $1,684,878; Mr. Jaksich $403,550; Mr. Kaniewski $360,603; Mr. Ruffalo $444,936; and Ms. Brown $137,727; and the value of unvested restricted stock would have been for Ms. Brown $83,835 for Mr. Ruffalo $154,990; and for Mr. Jaksich $196,550. The unvested stock options for such individuals and the unvested restricted stock for such individuals are set forth in the Outstanding Equity Awards at Fiscal Year-End table. In addition, a pro rata portion (based on period of service and full period performance results) of the performance shares awarded under the long-term incentive plan may be earned in the event of death, disability, normal retirement, termination of employment without cause, or change-in-control. If such a change-in-control or retirement had occurred on the last day of fiscal 2016, the prorated value of the long-term incentive awards (based on target award numbers) which would have been payable to the named executive officers would have been: Mr. Bay $1,935,390; Mr. Jaksich $455,918; Mr. Kaniewski $312,015; Mr. Ruffalo $270,773; and Ms. Brown $155,726.

Shareholder Return Performance Graphs

The graphs below compare the yearly change in the cumulative total shareholder return on the Company's common stock with the cumulative total returns of the S&P Mid Cap 400 Index and the S&P Mid Cap 400 Industrial Machinery Index for the five and ten-year periods ended December 31, 2016. The Company was added to these indexes in 2009 by Standard & Poor's. The graphs assume that the beginning value of the investment in Company Common Stock and each index was $100 and that all dividends were reinvested.

TEN YEAR COMPARISON

FIVE YEAR COMPARISON

Audit Committee Report

The Audit Committee (the "Committee") is appointed by the board of directors to assist the board by reviewing (1) the integrity of the Company's financial statements, (2) the qualifications, independence and performance of the Company's independent auditors and internal auditing department and (3) the compliance by the Company with legal and regulatory requirements. The Committee manages the Company's relationship with its independent auditors, who report directly to the Committee. The Committee has sole authority to retain, compensate, oversee and terminate the independent auditors. The Committee acts under a written charter, adopted by the board of directors, a copy of which is available on the Company's website at www.valmont.com.

The Company's management is responsible for its financial reporting process and internal controls. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements and issuing an opinion on the conformity of those audited financial statements with generally accepted accounting principles. The Committee oversees the Company's financial reporting process and internal controls on behalf of the board of directors.

The Committee reviews the Company's annual audited financial statements, quarterly financial statements and filings with the Securities and Exchange Commission. The Committee reviews reports on various matters, including (1) critical accounting policies of the Company, (2) material written communications between the independent auditor and management, (3) the independent auditor's internal quality-control procedures, (4) significant changes in the Company's selection or application of accounting principles and (5) the effect of regulatory and accounting initiatives on the financial statements of the Company. The Committee also considered whether the provision of non-audit services provided by Deloitte & Touche LLP ("Deloitte"), the Company's independent auditors, to the Company during fiscal 2016 was compatible with the auditor's independence.

The Committee reviewed and discussed the Company's audited financial statements for fiscal 2016 with both management and Deloitte. The Committee received from and discussed with Deloitte the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Committee concerning independence. The Committee also discussed with Deloitte any matters required to be discussed by Auditing Standard No. 1301, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board relating to communications between the audit committee and the independent auditors. Based on these reviews and discussions, the Committee recommended to the board of directors and the board has approved that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

AUDIT COMMITTEE
Walter Scott, Jr., Chairman
Kaj den Daas
Daniel P. Neary
Catherine James Paglia

ITEM 2: ADVISORY VOTE ON EXECUTIVE COMPENSATION

Valmont is asking its shareholders to provide advisory approval of the compensation paid to named executive officers. Shareholders are being asked to vote on the following resolution:

> RESOLVED, that the shareholders approve, on an advisory basis, the compensation paid to the Company's named executive officers, as disclosed in the Company's proxy statement for the 2017 annual meeting of stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the compensation tables and the related narrative discussion.

The Company believes that its compensation programs have served to achieve the objectives of attracting highly competent executives, enhancing long-term growth and shareholder value, and assuring compensation at appropriate levels based on performance.

Valmont conducted its first advisory vote on executive compensation in April 2011. Valmont's shareholders in April 2011 cast 94.6% of their votes in favor of an annual say-on-pay vote. The compensation resolution passed with over 96% of the vote every year since 2011, including 98.6% of the vote in 2016. The board of directors and the Human Resources Committee considered these results in determining compensation policies and decisions, and determined to hold annual say-on-pay votes and, based on the significant level of shareholder support, to continue the current compensation objectives, strategies, processes and practices described below.

Compensation Objectives, Strategies, Processes and Practices

The Company encourages shareholders to read about its compensation objectives, strategies, processes and practices in the Compensation Discussion and Analysis. Some of the more significant elements of the compensation practices are:

- Base pay, target annual incentives and long-term incentives are targeted at median market levels. Median market levels are determined by Frederic W. Cook & Co., Inc. ("Cook"), the independent executive compensation consultant to the Human Resources Committee, based on peer group surveys and surveys prepared by Aon Hewitt. Cook reports directly to the Human Resources Committee and provides no other services to the Company.

- Annual incentives and long-term incentives are performance based. Executive officers do not receive incentive payments unless pre-established targets are met.

- Valmont's executive officers do not have employment agreements.

- Valmont's executive officers do not have agreements providing for special payments in the event of a termination of employment or change-of-control.

- Valmont does not maintain a perquisite program for executive officers.

- Valmont has an executive compensation recoupment policy.

- Valmont's stock plan prohibits option repricing.

- Valmont has stock ownership guidelines for directors and executive officers.

- Valmont has a stock retention policy for executive officers which requires retention of 75% of the net shares acquired upon the exercise of stock options and the vesting of restricted stock until the stock ownership guidelines are met.

Valmont has policies prohibiting hedging and pledging of Valmont stock applicable to directors and officers.

Fiscal 2016 Compensation for Executive Officers

Base Salary. The base salaries paid to certain of Valmont's named executive officers in 2016 were increased to bring such salaries more in line with competitive medians as determined by the independent compensation consultant of the Human Resources Committee. There were no changes to the base salary of the Chief Executive Officer for 2016 or 2017. The Chief Financial Officer received a 3% base salary increase for 2016 and 2017. The other named executive officers received 3% base salary increases in 2016 and 2017, except Mr. Kaniewski's compensation was adjusted when he became Chief Operating Officer in October 2016; See Chief Operating Officer Designation.

Annual Incentives. Annual incentives are performance based. The annual incentives for 2016 were based 75% on net earnings improvement and 25% on net working capital intensity. With respect to net earnings improvement, the Human Resources Committee established threshold net earnings of $140 million, a 6% improvement over 2015 net earnings of $132 million (which adjusted net earnings added back certain impairment, restructuring and non-recurring charges); the Human Resources Committee determined that a target annual incentive would be earned for net earnings of $155 million (a 17% increase) and that a maximum incentive of 2x target would be earned for net earnings of $190 million (a 44% increase). With respect to net working capital intensity, the Human Resources Committee established a threshold of 21.5%, a target of 20.3% and a maximum incentive of 2x target for a net working capital intensity of 19%. The 2016 net working capital intensity of 21.3% resulted in an incentive at 59% of target. The 2016 net earnings of $145.8 million ($173.2 million GAAP earnings reduced primarily by a contingent liability reversal and non-recurring income tax benefits) resulted in earnings performance at 69% of target. The combination of the factors resulted in an annual incentive payout for executive officers at 67% of target for 2016. The target annual incentive was based on the competitive median pursuant to the primary benchmark survey provided by Cook.

Long-Term Incentives. Long-term incentives are performance based. The three-year performance period which ended in 2016 based long-term incentives on a combination of three-year average ROIC (return on invested capital) and three-year growth in OIG (cumulative compound operating income growth), weighted 40% ROIC and 60% OIG. The Human Resources Committee established in February 2014 the targets for the three-year performance cycle ending in 2016. The targets were established at OIG growth of 10% and average ROIC of 9.5%. The three-year growth in OIG of 9.9% and the negative three-year average ROIC resulted in no payouts under the 2014-2016 long-term incentive plan.

Equity Incentives. Stock options and restricted stock units are also a form of long-term incentive. The Human Resources Committee established the terms and provisions of equity awards granted in 2016 based on industry standards as provided by its independent compensation consultant. The number of options and restricted stock units granted to each executive officer was established so that the aggregate long-term incentive compensation would be targeted at competitive median levels. Information on the equity awards granted to named executive officers during 2016 is at Grants of Plan Based Awards for Fiscal 2016.

This advisory resolution, commonly referred to as a "say-on-pay" resolution, is nonbinding on the board of directors. Although nonbinding, the board of directors and the Human Resources Committee will review and consider the voting results when making future decisions regarding the Company's executive compensation programs.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF ITEM 2.

ITEM 3: ADVISORY VOTE ON FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION

Valmont is asking shareholders to vote on whether future advisory votes on executive compensation, of the nature reflected in Item 2 above, should occur every year, every two years, or every three years. Securities and Exchange Commission rules require that the frequency of say-on-pay votes be put to shareholder vote every six years. Valmont's shareholders in April 2011 cast 94.6% of their votes in favor of an annual say-on-pay vote. The shareholders will vote on the following resolution:

> 'RESOLVED, that the Company include in its proxy statement an advisory vote on executive compensation every one year, two years, or three years."

The board of directors, upon recommendation of the Human Resources Committee, has determined that an advisory vote on executive compensation that occurs every year is the most appropriate alternative for Valmont at this time.

In formulating its recommendation, the board of directors considered that an annual advisory vote on executive compensation will allow our shareholders to provide their direct input on the Company's compensation philosophy, policies and practices as disclosed in the proxy statement every year. While the Company's executive compensation programs are designed to promote a long-term connection between pay and performance, the board of directors recognizes that executive compensation disclosures are made annually. Holding an annual advisory vote on executive compensation provides the Company with more direct and immediate feedback on our compensation disclosures. Shareholders should realize that because the advisory vote on executive compensation occurs well after the beginning of the compensation year, in most cases it may not be feasible to change any executive compensation program in consideration of any one year's advisory vote on executive compensation.

Shareholders will be able to specify one of four choices with respect to this proposal on the proxy card: one year, two years, three years, or abstain. The option of one year, two years or three years that receives the highest number of votes cast by shareholders will be the shareholder-approved frequency selection for the advisory vote on executive compensation. The vote is advisory and not binding; however, the Board and the Human Resources Committee will carefully review the voting results.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EVERY ONE YEAR ON THE FREQUENCY OF THE EXECUTIVE COMPENSATION VOTE.

ITEM 4: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The firm of Deloitte & Touche LLP and the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively "Deloitte Entities") conducted the 2016 and 2015 audits of the Company's financial statements. Fees billed by the Deloitte Entities to the Company for services provided during the 2016 and 2015 fiscal years were as follows:

	2016	**2015**
Audit Fees	2,228,787	2,285,619
Audit-Related Fees	19,000	18,250
Tax Fees	200,191	314,243
Other Fees	2,000	2,000
Total Fees	2,449,978	2,620,112

Audit Fees consist of the audit of the Company's fiscal 2016 and 2015 annual financial statements, review of the Company's quarterly financial statements during 2016 and 2015, fees associated with registration statements and other services that are normally provided in connection with statutory and regulatory filings. Audit fees also included the audit of the effectiveness of the Company's internal control over financial reporting.

Audit-Related Fees consist of financial statement audits of employee benefit plans, consents related to Securities and Exchange Commission filings, agreed-upon procedures, documentation review in connection with the Company's internal controls over financial reporting and due diligence services performed with respect to acquisitions.

Tax Fees consist of international tax planning and federal, state and expatriate tax compliance.

The Committee pre-approves all audit and permitted non-audit services to be performed by the independent auditor, including audit services, audit-related services, tax services and any other services. The Committee periodically grants pre-approval of specific audit and non-audit services including cost levels for such services. Any services not covered by prior pre-approvals, or services exceeding the pre-approved cost levels, must be approved in advance by the Committee. In periods between Committee meetings, the Committee Chairman has the delegated authority to pre-approve additional services, and such pre-approvals are then communicated to the full Committee.

The Audit Committee has appointed Deloitte & Touche LLP as independent auditors to conduct the 2016 audit of the Company's financial statements and requests that the shareholders ratify this appointment. A representative from Deloitte & Touche LLP will be present at the annual meeting of shareholders and will have the opportunity to make a statement and to respond to appropriate questions. In the event the shareholders do not ratify the appointment, the appointment will be reconsidered by the Audit Committee.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEM 4.

Shareholder Proposals

Shareholder proposals intended to be presented at the next annual meeting of shareholders must be received by the Company no later than November 15, 2017 in order to be considered for inclusion in the proxy statement for such meeting.

The Company's bylaws set forth certain procedures which shareholders must follow in order to nominate a director or present any other business, not submitted for inclusion in the proxy statement, at an annual shareholders' meeting. Generally, a shareholder must give timely notice to the Secretary of the Company. To be timely, such notice must be received by the Company at its principal executive offices not less than 90 nor more than 120 days prior to the first anniversary of the 2017 annual shareholders' meeting. If the date of the 2018 annual shareholders' meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date, then the notice must be received not earlier than the 120th day prior to such annual meeting and not later than the later of the close of business on the 90th day prior to such annual meeting or the tenth day following the date on which public announcement of the meeting date is first made. The bylaws specify the information which must accompany such shareholder notice. Details of the provision of the bylaws may be obtained by any shareholder from the Secretary of the Company.

The Company's proxy card for the 2017 annual shareholders' meeting will give discretionary authority with respect to all shareholder proposals properly brought before the 2017 annual shareholders' meeting that are not included in this proxy statement.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers and directors to file reports of changes in ownership of the Company's common stock with Securities and Exchange Commission. Executive officers and directors are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms so filed. Based solely on a review of the copies of such forms furnished to the Company and written representations from the Company's executive officers and directors, the Company believes that all persons subject to these reporting requirements filed the required reports on a timely basis during fiscal 2016.

Other Matters

The board of directors does not know of any matter, other than those described above, that may be presented for action at the annual meeting of shareholders. If any other matter or proposal should be presented and should properly come before the meeting for action, the persons named in the accompanying proxy will vote upon such matter and upon such proposal in accordance with their best judgment.

By Order of the Board of Directors

Mark C. Jaksich
Executive Vice
P-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;">
$

		218.9	$	276.1
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities[1]	**2.8**		(1.7	)
Net unrealized gain (loss) on cash flow hedges[2]	**(19.3**	)	35.4	
Unrecognized pension and OPEB benefit[3]	**0.9**		0.2	
Total other comprehensive income (loss)	**(15.6**	)	33.9	
Comprehensive Income	**$ 203.3**		$ 310.0	

[1] Net unrealized gain (loss) on available-for-sale securities, net of $0.7 million tax expense and $0.4 million tax benefit in the first quarter of 2019 and 2018, respectively.
[2] Net unrealized gain (loss) on cash flow hedges, net of $6.5 million tax benefit and $11.7 million tax expense in the first quarter of 2019 and 2018, respectively.
[3] Unrecognized pension and OPEB benefit, net of $0.4 million and $0.1 million tax expense in the first quarter of 2019 and 2018, respectively.
The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Consolidated Balance Sheets (unaudited)

(in millions)	**March 31, 2019**	December 31, 2018
ASSETS		
Property, Plant and Equipment		
Utility plant	**$23,079.7**	$ 22,780.8
Accumulated depreciation and amortization	**(7,356.9)**	(7,257.9)
Net utility plant	**15,722.8**	15,522.9
Other property, at cost, less accumulated depreciation	**18.6**	19.6
Net Property, Plant and Equipment	**15,741.4**	15,542.5
Investments and Other Assets		
Unconsolidated affiliates	**2.1**	2.1
Other investments	**208.5**	204.0
Total Investments and Other Assets	**210.6**	206.1
Current Assets		
Cash and cash equivalents	**151.0**	112.8
Restricted cash	**9.8**	8.3
Accounts receivable (less reserve of $31.4 and $21.1, respectively)	**1,132.1**	1,058.5
Gas inventory	**75.1**	286.8
Materials and supplies, at average cost	**107.3**	101.0
Electric production fuel, at average cost	**33.3**	34.7
Exchange gas receivable	**72.1**	88.4
Regulatory assets	**190.9**	235.4
Prepayments and other	**144.2**	129.5
Total Current Assets	**1,915.8**	2,055.4
Other Assets		
Regulatory assets	**1,979.4**	2,002.1
Goodwill	**1,690.7**	1,690.7
Intangible assets, net	**218.0**	220.7
Deferred charges and other	**134.0**	86.5
Total Other Assets	**4,022.1**	4,000.0
Total Assets	**$21,889.9**	$ 21,804.0

The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)	**March 31, 2019**	December 31, 2018
CAPITALIZATION AND LIABILITIES		
Capitalization		
Stockholders' Equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 373,002,671 and 372,363,656 shares outstanding, respectively	**$3.8**	$ 3.8
Preferred stock - $0.01 par value, 20,000,000 shares authorized; 440,000 shares outstanding	**880.0**	880.0
Treasury stock	**(99.9)**	(99.9)
Additional paid-in capital	**6,406.5**	6,403.5
Retained deficit	**(1,358.0)**	(1,399.3)
Accumulated other comprehensive loss	**(52.8)**	(37.2)
Total Stockholders' Equity	**5,779.6**	5,750.9
Long-term debt, excluding amounts due within one year	**7,110.1**	7,105.4
Total Capitalization	**12,889.7**	12,856.3
Current Liabilities		
Current portion of long-term debt	**51.4**	50.0
Short-term borrowings	**2,080.0**	1,977.2
Accounts payable	**675.2**	883.8
Dividends payable - common stock	**74.6**	—
Dividends payable - preferred stock	**19.4**	—
Customer deposits and credits	**152.6**	238.9
Taxes accrued	**232.8**	222.7
Interest accrued	**93.7**	90.7
Exchange gas payable	**15.5**	85.5
Regulatory liabilities	**152.1**	140.9
Legal and environmental	**18.9**	18.9
Accrued compensation and employee benefits	**111.0**	149.7
Claims accrued	**258.5**	114.7
Other accruals	**79.5**	63.8
Total Current Liabilities	**4,015.2**	4,036.8
Other Liabilities		
Risk management liabilities	**55.8**	46.7
Deferred income taxes	**1,391.6**	1,330.5
Deferred investment tax credits	**10.8**	11.2
Accrued insurance liabilities	**84.5**	84.4
Accrued liability for postretirement and postemployment benefits	**377.3**	389.1
Regulatory liabilities	**2,488.3**	2,519.1
Asset retirement obligations	**358.4**	352.0
Other noncurrent liabilities	**218.3**	177.9
Total Other Liabilities	**4,985.0**	4,910.9
Commitments and Contingencies (Refer to Note 17, "Other Commitments and Contingencies")	**—**	—
Total Capitalization and Liabilities	**$21,889.9**	$ 21,804.0

The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Statements of Consolidated Cash Flows (unaudited)

Three Months Ended March 31, *(in millions)*	**2019**	2018
Operating Activities		
Net Income	**$218.9**	$276.1
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Depreciation and amortization	**175.1**	144.7
Deferred income taxes and investment tax credits	**51.6**	56.8
Other adjustments	**6.5**	(15.6)
Changes in Assets and Liabilities:		
Components of working capital	**(27.2)**	(178.4)
Regulatory assets/liabilities	**0.4**	117.1
Deferred charges and other noncurrent assets	**(58.3)**	1.9
Other noncurrent liabilities	**32.1**	(14.4)
Net Cash Flows from Operating Activities	**399.1**	388.2
Investing Activities		
Capital expenditures	**(353.7)**	(370.0)
Cost of removal	**(25.3)**	(19.0)
Other investing activities	**3.6**	(9.9)
Net Cash Flows used for Investing Activities	**(375.4)**	(398.9)
Financing Activities		
Repayments of long-term debt and capital lease obligations	**(2.3)**	(279.0)
Premiums and other debt related costs	**(4.0)**	—
Repayment of short-term debt (maturity > 90 days)	**(350.0)**	—
Change in short-term borrowings, net (maturity ≤ 90 days)	**452.8**	361.6
Issuance of common stock	**3.1**	3.7
Acquisition of treasury stock	**—**	(3.6)
Dividends paid - common stock	**(74.5)**	(65.7)
Dividends paid - preferred stock	**(9.1)**	—
Net Cash Flows from Financing Activities	**16.0**	17.0
Change in cash, cash equivalents and restricted cash	**39.7**	6.3
Cash, cash equivalents and restricted cash at beginning of period	**121.1**	38.4
Cash, Cash Equivalents and Restricted Cash at End of Period	**$160.8**	$44.7

Supplemental Disclosures of Cash Flow Information

Three Months Ended March 31, *(in millions)*	**2019**	2018
Non-cash transactions:		
Capital expenditures included in current liabilities	**$123.7**	$145.4
Dividends declared but not paid	**94.0**	65.8
Reclassification of other property to regulatory assets	**—**	142.3

The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Statements of Consolidated Equity (unaudited)

(in millions)	Common Stock	Preferred Stock[1]	Treasury Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of January 1, 2019	**$ 3.8**	**$ 880.0**	**$ (99.9)**	**$ 6,403.5**	**$ (1,399.3)**	**$ (37.2)**	**$ 5,750.9**
Comprehensive Income:							
Net Income	—	—	—	—	218.9	—	218.9
Other comprehensive loss, net of tax	—	—	—	—	—	(15.6)	(15.6)
Dividends:							
Common stock ($0.40 per share)	—	—	—	—	(149.1)	—	(149.1)
Preferred stock (See Note 5)	—	—	—	—	(28.5)	—	(28.5)
Stock issuances:							
Employee stock purchase plan	—	—	—	1.3	—	—	1.3
Long-term incentive plan	—	—	—	(2.7)	—	—	(2.7)
401(k) and profit sharing	—	—	—	4.4	—	—	4.4
Balance as of March 31, 2019	**$ 3.8**	**$ 880.0**	**$ (99.9)**	**$ 6,406.5**	**$ (1,358.0)**	**$ (52.8)**	**$ 5,779.6**

[1]Series A and Series B shares have an aggregate liquidation preference of $400M and $500M, respectively. See Note 5, "Equity" for additional information.

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of January 1, 2018	**$ 3.4**	**$ (95.9)**	**$ 5,529.1**	**$ (1,073.1)**	**$ (43.4)**	**$ 4,320.1**
Comprehensive Income:						
Net Income	—	—	—	276.1	—	276.1
Other comprehensive income, net of tax	—	—	—	—	33.9	33.9
Common stock dividends ($0.39 per share)	—	—	—	(131.7)	—	(131.7)
Treasury stock acquired	—	(3.6)	—	—	—	(3.6)
Cumulative effect of change in accounting principle	—	—	—	9.5	(9.5)	—
Stock issuances:						
Employee stock purchase plan	—	—	1.2	—	—	1.2
Long-term incentive plan	—	—	4.0	—	—	4.0
401(k) and profit sharing	—	—	6.2	—	—	6.2
Balance as of March 31, 2018	**$ 3.4**	**$ (99.5)**	**$ 5,540.5**	**$ (919.2)**	**$ (19.0)**	**$ 4,506.2**

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Statements of Consolidated Equity (unaudited) (continued)

	Preferred	Common		
Shares *(in thousands)*	**Shares**	**Shares**	**Treasury**	**Outstanding**
Balance as of January 1, 2019	**420**	**376,326**	**(3,963)**	**372,363**
Issued:				
Preferred stock	20			
Employee stock purchase plan	—	50	—	50
Long-term incentive plan	—	426	—	426
401(k) and profit sharing	—	164	—	164
Balance as of March 31, 2019	**440**	**376,966**	**(3,963)**	**373,003**

	Common		
Shares *(in thousands)*	**Shares**	**Treasury**	**Outstanding**
Balance as of January 1, 2018	**340,813**	**(3,797)**	**337,016**
Treasury Stock acquired		(149)	(149)
Issued:			
Employee stock purchase plan	47	—	47
Long-term incentive plan	420	—	420
401(k) and profit sharing	264	—	264
Balance as of March 31, 2018	**341,544**	**(3,946)**	**337,598**

The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

Our accompanying Condensed Consolidated Financial Statements (unaudited) reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with GAAP in the United States of America. The accompanying financial statements contain our accounts and that of our majority-owned or controlled subsidiaries.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors.

The Condensed Consolidated Financial Statements (unaudited) have been prepared pursuant to the rules and regulations of the SEC. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made in this Quarterly Report on Form 10-Q are adequate to make the information herein not misleading.

2. Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements

We are currently evaluating the impact of certain ASUs on our Condensed Consolidated Financial Statements (unaudited) and Notes to Condensed Consolidated Financial Statements (unaudited), which are described below:

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*	The pronouncement clarifies and improves certain areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement. Topics 1, 2, and 5 of this update amends ASU 2016-13 as it relates to accrued interest, transfers between investment classifications, expected recoveries and reinsurance recoverables. Topic 3 improves guidance related to fair value hedges. Topic 4 of this update relates to codification improvements to ASU 2016-01.	Annual period ending after December 15, 2019, including interim periods therein. Early adoption is permitted.	We are currently evaluating the impact of codification improvements under Topics 1, 2, and 5 of this pronouncement, if any, on our Condensed Consolidated Financial Statements (unaudited) and Notes to Condensed Consolidated Financial Statements (unaudited). Topics 3 and 4 of this ASU are not material to us. We expect to adopt this ASU on its effective date.
ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for*	The pronouncement modifies the disclosure requirements for defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific	Annual periods ending after December 15, 2020. Early adoption is permitted.	We are currently evaluating the effects of this pronouncement on our Notes to Condensed Consolidated Financial Statements (unaudited). We expect to adopt this ASU on its effective date.

Defined Benefit Plans	requirements of disclosures and adds disclosure requirements identified as relevant. The modifications affect annual period disclosures and must be applied on a retrospective basis to all periods presented.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)*	The pronouncement changes the impairment model for most financial assets, replacing the current "incurred loss" model. ASU 2016-13 will require the use of an "expected loss" model for instruments measured at amortized cost. It will also require entities to record allowances for available-for-sale securities rather than impair the carrying amount of the securities. Subsequent improvements to the estimated credit losses of available-for-sale securities will be recognized immediately in earnings instead of over time as they are under historic guidance.	Annual periods beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for annual or interim periods beginning after December 15, 2018.	We maintain investments in U.S. Treasury, corporate and mortgage-backed debt securities, which are pledged as collateral for trust accounts related to our wholly-owned insurance company. These debt securities are classified as available for sale. We also have recorded balances for trade receivables that fall within the scope of the standard. We are currently evaluating the impact of adoption, if any, on our Condensed Consolidated Financial Statements (unaudited) and Notes to Condensed Consolidated Financial Statements (unaudited). We expect to adopt this ASU on its effective date.

Recently Adopted Accounting Pronouncements

Standard	Adoption
ASU 2019-01, *Leases (Topic 842): Codification Improvements* ASU 2018-11, *Leases (Topic 842): Targeted Improvements* ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842* ASU 2016-02, *Leases (Topic 842)*	See Note 16, "Leases," for our discussion of the effects of implementing these standards.

3. Revenue Recognition

Revenue Disaggregation and Reconciliation. We disaggregate revenue from contracts with customers based upon reportable segment as well as by customer class. As our revenues are primarily earned over a period of time, and we do not earn a material amount of revenues at a point in time, revenues are not disaggregated as such below. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana.

The tables below reconcile revenue disaggregation by customer class to segment revenue as well as to revenues reflected on the Condensed Statements of Consolidated Income (unaudited) for the three months ended March 31, 2019 and March 31, 2018:

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Three Months Ended March 31, 2019 *(in millions)*	Gas Distribution Operations	Electric Operations	Corporate and Other	Total
Customer Revenues[1]				
Residential	$ 975.3	$ 118.8	$ —	$ 1,094.1
Commercial	330.5	119.3	—	449.8
Industrial	82.9	163.3	—	246.2
Off-system	20.1	—	—	20.1
Miscellaneous	17.2	6.9	0.2	24.3
Total Customer Revenues	$ 1,426.0	$ 408.3	$ 0.2	$ 1,834.5
Other Revenues	12.8	22.5	—	35.3
Total Operating Revenues	$ 1,438.8	$ 430.8	$ 0.2	$ 1,869.8

[1] Customer revenue amounts exclude intersegment revenues. See Note 20, "Business Segment Information," for discussion of intersegment revenues.

Three Months Ended March 31, 2018 *(in millions)*	Gas Distribution Operations	Electric Operations	Corporate and Other	Total
Customer Revenues[1]				
Residential	$ 893.6	$ 114.5	$ —	$ 1,008.1
Commercial	308.3	116.9	—	425.2
Industrial	74.6	162.5	—	237.1
Off-system	22.3	—	—	22.3
Miscellaneous	16.8	7.5	0.2	24.5
Total Customer Revenues	$ 1,315.6	$ 401.4	$ 0.2	$ 1,717.2
Other Revenues	11.7	21.9	—	33.6
Total Operating Revenues	$ 1,327.3	$ 423.3	$ 0.2	$ 1,750.8

[1] Customer revenue amounts exclude intersegment revenues. See Note 20, "Business Segment Information," for discussion of intersegment revenues.

Customer Accounts Receivable. Accounts receivable on our Condensed Consolidated Balance Sheets (unaudited) includes both billed and unbilled amounts, as well as certain amounts that are not related to customer revenues. Unbilled amounts of accounts receivable relate to a portion of a customer's consumption of gas or electricity from the date of the last cycle billing through the last day of the month (balance sheet date). Factors taken into consideration when estimating unbilled revenue include historical usage, customer rates and weather. The opening and closing balances of customer receivables for the three months ended March 31, 2019 are presented in the table below. We had no significant contract assets or liabilities during the period. Additionally, we have not incurred any significant costs to obtain or fulfill contracts.

(in millions)	Customer Accounts Receivable, Billed (less reserve)	Customer Accounts Receivable, Unbilled (less reserve)
Balance as of December 31, 2018	$ 540.5	$ 349.1
Balance as of March 31, 2019	692.2	284.6
Increase (Decrease)	$ 151.7	$ (64.5)

Utility revenues are billed to customers monthly on a cycle basis. We generally expect that substantially all customer accounts receivable will be collected within the month following customer billing, as this revenue consists primarily of monthly, tariff-based billings for service and usage. We maintain common utility credit risk mitigation practices, including requiring deposits and actively pursuing collection of past due amounts. In addition, our regulated operations utilize certain regulatory mechanisms that facilitate recovery of bad debt costs within tariff-based rates, which provides further evidence of collectibility. It is probable that substantially all of the consideration to which we are entitled from customers will be collected upon satisfaction of performance obligations.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

4. Earnings Per Share

Basic EPS is computed by dividing net income attributable to common shareholders by the weighted-average number of shares of common stock outstanding for the period. The weighted-average shares outstanding for diluted EPS includes the incremental effects of the various long-term incentive compensation plans and forward agreements when the impact would be dilutive (See Note 5 "Equity"). The computation of diluted average common shares is as follows:

	Three Months Ended March 31,	
(in thousands)	**2019**	2018
Denominator		
Basic average common shares outstanding	**373,356**	338,012
Dilutive potential common shares:		
Shares contingently issuable under employee stock plans	**1,062**	715
Shares restricted under employee stock plans	**133**	264
Forward Agreements	**105**	—
Diluted Average Common Shares	**374,656**	338,991

5. Equity

ATM Program and Forward Sale Agreement. On November 1, 2018, we entered into five separate equity distribution agreements, pursuant to which we may sell, from time to time, up to an aggregate value of $500.0 million of our common stock. The program expires on December 31, 2020.

On December 6, 2018, under the ATM program, we executed a forward agreement, which allows us to issue a fixed number of shares at a price to be settled in the future. From December 6, 2018 to December 10, 2018, 4,708,098 shares were borrowed from third parties and sold by the dealer at a weighted average price of $26.55 per share. We may settle this agreement in shares, cash, or net shares by December 6, 2019. Had we settled all the shares under the forward agreement at March 31, 2019, we would have received approximately $124.3 million, based on a net price of $26.40 per share.

As of March 31, 2019, the ATM program (including impacts of the forward sale agreement discussed above) had $309.4 million of equity available for issuance. We did not have any activity under the ATM program for the three months ended March 31, 2019.

Preferred Stock. As of March 31, 2019 we had 20,000,000 shares of preferred stock authorized for issuance, of which 440,000 shares of preferred stock were outstanding. The following table displays preferred dividends declared for the period by outstanding series of shares:

			Quarter Ended March 31, 2019	March 31, 2019	December 31, 2018
(in millions except shares and per share amounts)	Liquidation Preference Per Share	Shares	Dividends Declared Per Share	Outstanding	
5.650% Series A	$1,000.00	400,000	$ 28.25	$393.9	$ 393.9
6.500% Series B	$25,000.00	20,000	$ 862.15	$486.1	$ 486.1

In addition, 20,000 shares of Series B–1 Preferred Stock, par value $0.01 per share, were issued as a distribution with respect to the Series B Preferred Stock in order to enhance the voting rights of the Series B Preferred Stock to comply with the New York Stock Exchange's minimum voting rights policy. Holders of Series B–1 Preferred Stock are not entitled to receive dividend payments and have no conversion rights. The Series B–1 Preferred Stock is paired with the Series B Preferred Stock and may not be transferred, redeemed or repurchased except in connection with the simultaneous transfer, redemption or repurchase of the underlying Series B Preferred Stock.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

6. Gas in Storage

We use both the LIFO inventory methodology and the weighted-average cost methodology to value natural gas in storage. Gas Distribution Operations prices natural gas storage injections at the average of the costs of natural gas supply purchased during the year. For interim periods, the difference between current projected replacement cost and the LIFO cost for quantities of gas temporarily withdrawn from storage is recorded as a temporary LIFO liquidation credit or debit within the Condensed Consolidated Balance Sheets (unaudited). Due to seasonality requirements, we expect interim variances in LIFO layers to be replenished by year end. We had a temporary LIFO liquidation debit of $21.5 million and zero as of March 31, 2019 and December 31, 2018, respectively, for certain gas distribution companies recorded within "Prepayments and other," on the Condensed Consolidated Balance Sheets (unaudited).

7. Regulatory Matters

Cost Recovery and Trackers

Comparability of our line item operating results is impacted by regulatory trackers that allow for the recovery in rates of certain costs such as those described below. Increases in the expenses that are the subject of trackers generally result in a corresponding increase in operating revenues and therefore have essentially no impact on total operating income results.

Certain costs of our operating companies are significant, recurring in nature and generally outside the control of the operating companies. Some states allow the recovery of such costs through cost tracking mechanisms. Such tracking mechanisms allow for abbreviated regulatory proceedings in order for the operating companies to implement charges and recover appropriate costs. Tracking mechanisms allow for more timely recovery of such costs as compared with more traditional cost recovery mechanisms. Examples of such mechanisms include GCR adjustment mechanisms, tax riders, bad debt recovery mechanisms, electric energy efficiency programs, MISO non-fuel costs and revenues, resource capacity charges, federally-mandated costs and environmental-related costs.

A portion of the Gas Distribution revenue is related to the recovery of gas costs, the review and recovery of which occurs through standard regulatory proceedings. All states in our operating area require periodic review of actual gas procurement activity to determine prudence and to permit the recovery of prudently incurred costs related to the supply of gas for customers. Our distribution companies have historically been found prudent in the procurement of gas supplies to serve customers.

A portion of the Electric Operations revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a quarterly regulatory proceeding in Indiana.

Infrastructure Replacement and Federally-Mandated Compliance Programs

Certain of our operating companies have completed rate proceedings involving infrastructure replacement or enhancement or are embarking upon regulatory initiatives to replace significant portions of their operating systems that are nearing the end of their useful lives. Each operating company's approach to cost recovery may be unique, given the different laws, regulations and precedent that exist in each jurisdiction.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

The following table describes regulatory programs to recover infrastructure replacement and other federally-mandated compliance investments currently in rates and those pending commission approval:

(in millions)

Company	Program	Incremental Revenue	Incremental Capital Investment	Investment Period	Filed	Status	Rates Effective
Columbia of Ohio	IRP - 2018[1]	$ (1.6)	$ 207.3	1/17-12/17	February 27, 2018	Approved April 25, 2018	May 2018
Columbia of Ohio	IRP - 2019[1]	18.2	199.6	1/18-12/18	February 28, 2019	Approved April 24, 2019	May 2019
Columbia of Ohio	CEP - 2018[1]	74.5	659.9	1/11-12/17	December 1, 2017	Approved November 28, 2018	December 2018
Columbia of Ohio	CEP - 2019	16.1	122.1	1/18-12/18	February 28, 2019	Order Expected August 2019	September 2019
NIPSCO - Gas	TDSIC 9[1][2]	(10.6)	54.4	1/18 - 6/18	August 28, 2018	Approved December 27, 2018	January 2019
NIPSCO - Gas	FMCA 1[3]	9.9	1.5	11/17-9/18	November 30, 2018	Approved March 27, 2019	April 2019
Columbia of Massachusetts	GSEP - 2019	10.7	64.0	1/19-12/19	October 31, 2018	Approved April 30, 2019	May 2019
Columbia of Virginia	SAVE - 2019	2.4	36.0	1/19-12/19	August 17, 2018	Approved October 26, 2018	January 2019
Columbia of Kentucky	AMRP - 2019	3.6	30.1	1/19-12/19	October 15, 2018	Approved December 5, 2018	January 2019
Columbia of Maryland	STRIDE - 2019	1.2	15.9	1/19-12/19	November 1, 2018	Approved December 12, 2018	January 2019
NIPSCO - Electric	TDSIC - 4[1]	(11.8)	72.2	12/17-5/18	July 31, 2018	Approved November 28, 2018	December 2018
NIPSCO - Electric	TDSIC - 5[1]	15.9	58.8	6/18-11/18	January 29, 2019	Order Expected Q2 2019	June 2019
NIPSCO - Electric	ECRM - 32	1.0	—	1/18-6/18	July 31, 2018	Approved October 31, 2018	November 2018
NIPSCO - Electric	FMCA - 9[3]	4.1	90.2	10/17-3/18	April 27, 2018	Approved July 25, 2018	August 2018
NIPSCO - Electric	FMCA - 10[3]	2.2	45.7	4/18-8/18	October 18, 2018	Approved January 29, 2019	February 2019
NIPSCO - Electric	FMCA - 11[3]	0.9	22.4	9/18-2/19	April 17, 2019	Order Expected July, 2019	August 2019

[1]Incremental revenue is net of amounts due back to customers as a result of the TCJA.

[2]Incremental revenue is net of $5.2 million of adjustments in the TDSIC-9 settlement.

[3]Incremental revenue is inclusive of tracker eligible operations and maintenance expense.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Rate Case Actions

The following table describes current rate case actions as applicable in each of our jurisdictions net of tracker impacts:

(in millions)

Company	Requested Incremental Revenue	Approved or Settled Incremental Revenue	Filed	Status	Rates Effective
NIPSCO - Gas[1]	$ 138.1	$ 107.3	September 27, 2017	Approved September 19, 2018	October 2018
Columbia of Virginia[2]	$ 14.2	$ 1.3	August 28, 2018	Settlement filed April 19, 2019, Order expected Second half of 2019	February 2019
NIPSCO - Electric[3]	$ 21.4	$ (45.0)	October 31, 2018	Partial settlement filed April 26, 2019, Order expected Second half of 2019	Second half of 2019

[1]Rates will be implemented in three steps, with implementation of step 1 rates effective October 1, 2018. Step 2 rates were effective on March 1, 2019, and step 3 rates will be effective on January 1, 2020. The IURC's order also dismissed NIPSCO from phase 2 of the IURC's TCJA investigation.

[2]Rates implemented subject to refund. An order of the settlement agreement, including refunds to be issued and resolution of outstanding TCJA impacts to rates, is currently pending before the VSCC.

[3]An order on the partial settlement agreement, including the resolution of outstanding TCJA impacts to rates is currently pending before the IURC. The as-filed request and partial settlement agreement also includes $83.6 million and $85.3 million, respectively, of reductions to the fuel component of base rates related to a proposed change in service structure.

Additional Regulatory Matters

Columbia of Massachusetts. On December 21, 2018, the Massachusetts DPU issued an order approving the pass back of approximately $95.8 million in excess deferred taxes associated with TCJA with new rates effective on February 1, 2019.

NIPSCO Electric. On March 29, 2018, WCE, which is currently owned by BP p.l.c ("BP") and BP Products North America, which operates the BP Refinery, filed a petition at the IURC asking that the combined operations of WCE and BP be treated as a single premise, and the WCE generation be dedicated primarily to BP Refinery operations beginning in May 2019 as WCE has self-certified as a qualifying facility at FERC. BP Refinery planned to continue to purchase electric service from NIPSCO at a reduced demand level beginning in May 2019; however, a settlement agreement was filed on November 2, 2018 agreeing that BP and WCE would not move forward with construction of a private transmission line to serve BP until conclusion of NIPSCO's pending electric rate case. The IURC approved the settlement agreement as filed on February 20, 2019.

8. Risk Management Activities

We are exposed to certain risks relating to our ongoing business operations, namely commodity price risk and interest rate risk. We recognize that the prudent and selective use of derivatives may help to lower our cost of debt capital, manage our interest rate exposure and limit volatility in the price of natural gas.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Risk management assets and liabilities on our derivatives are presented on the Condensed Consolidated Balance Sheets (unaudited) as shown below:

(in millions)	**March 31, 2019**	December 31, 2018
Risk Management Assets - Current[1]		
Interest rate risk programs	**$ 5.6**	$ —
Commodity price risk programs	**0.9**	1.1
Total	**$ 6.5**	$ 1.1
Risk Management Assets - Noncurrent[2]		
Interest rate risk programs	**$ —**	$ 18.5
Commodity price risk programs	**6.9**	4.4
Total	**$ 6.9**	$ 22.9
Risk Management Liabilities - Current[3]		
Interest rate risk programs	**$ —**	$ —
Commodity price risk programs	**4.4**	5.0
Total	**$ 4.4**	$ 5.0
Risk Management Liabilities - Noncurrent		
Interest rate risk programs	**$ 22.4**	$ 9.5
Commodity price risk programs	**33.4**	37.2
Total	**$ 55.8**	$ 46.7

(1)Presented in "Prepayments and other" on the Condensed Consolidated Balance Sheets (unaudited).
(2)Presented in "Deferred charges and other" on the Condensed Consolidated Balance Sheets (unaudited).
(3)Presented in "Other accruals" on the Condensed Consolidated Balance Sheets (unaudited).

Commodity Price Risk Management

We, along with our utility customers, are exposed to variability in cash flows associated with natural gas purchases and volatility in natural gas prices. We purchase natural gas for sale and delivery to our retail, commercial and industrial customers, and for most customers the variability in the market price of gas is passed through in their rates. Some of our utility subsidiaries offer programs whereby variability in the market price of gas is assumed by the respective utility. The objective of our commodity price risk programs is to mitigate the gas cost variability, for us or on behalf of our customers, associated with natural gas purchases or sales by economically hedging the various gas cost components using a combination of futures, options, forwards or other derivative contracts.

NIPSCO received IURC approval to lock in a fixed price for its natural gas customers using long-term forward purchase instruments. The term of these instruments may range from five to ten years and is limited to 20 percent of NIPSCO’s average annual GCA purchase volume. Gains and losses on these derivative contracts are deferred as regulatory liabilities or assets and are remitted to or collected from customers through NIPSCO’s quarterly GCA mechanism. These instruments are not designated as accounting hedges.

Interest Rate Risk Management

As of March 31, 2019, we have forward-starting interest rate swaps with an aggregate notional value totaling $500.0 million to hedge the variability in cash flows attributable to changes in the benchmark interest rate during the periods from the effective dates of the swaps to the anticipated dates of forecasted debt issuances, which are expected to take place by 2024. These interest rate swaps are designated as cash flow hedges. The effective portions of the gains and losses related to these swaps are recorded to AOCI and are recognized in "Interest expense, net" concurrently with the recognition of interest expense on the associated debt, once issued. If it becomes probable that a hedged forecasted transaction will no longer occur, the accumulated gains or losses on the derivative will be recognized currently in "Other, net" in the Condensed Statements of Consolidated Income (unaudited).

There were no amounts excluded from effectiveness testing for derivatives in cash flow hedging relationships at March 31, 2019 and December 31, 2018.

Our derivative instruments measured at fair value as of March 31, 2019 and December 31, 2018 do not contain any credit-risk-related contingent features.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

9. Fair Value

A. Fair Value Measurements

Recurring Fair Value Measurements. The following tables present financial assets and liabilities measured and recorded at fair value on our Condensed Consolidated Balance Sheets (unaudited) on a recurring basis and their level within the fair value hierarchy as of March 31, 2019 and December 31, 2018:

Recurring Fair Value Measurements March 31, 2019 *(in millions)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2019
Assets				
Risk management assets	$ —	$ 13.4	$ —	$ 13.4
Available-for-sale securities	—	138.2	—	138.2
Total	**$ —**	**$ 151.6**	**$ —**	**$ 151.6**
Liabilities				
Risk management liabilities	$ —	$ 60.2	$ —	$ 60.2
Total	**$ —**	**$ 60.2**	**$ —**	**$ 60.2**

Recurring Fair Value Measurements December 31, 2018 *(in millions)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2018
Assets				
Risk management assets	$ —	$ 24.0	$ —	$ 24.0
Available-for-sale securities	—	138.3	—	138.3
Total	**$ —**	**$ 162.3**	**$ —**	**$ 162.3**
Liabilities				
Risk management liabilities	$ —	$ 51.7	$ —	$ 51.7
Total	**$ —**	**$ 51.7**	**$ —**	**$ 51.7**

Risk management assets and liabilities include interest rate swaps, exchange-traded NYMEX futures and NYMEX options and non-exchange-based forward purchase contracts. When utilized, exchange-traded derivative contracts are based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore, nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments include swaps, forwards, and options. In certain instances, these instruments may utilize models to measure fair value. We use a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability and market-corroborated inputs, (i.e., inputs derived principally from or corroborated by observable market data by correlation or other means). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized within Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized within Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures. As of March 31, 2019 and December 31, 2018, there were no material transfers between fair value hierarchies. Additionally, there were no changes in the method or significant assumptions used to estimate the fair value of our financial instruments.

We have entered into forward-starting interest rate swaps to hedge the interest rate risk on coupon payments of forecasted issuances of long-term debt. These derivatives are designated as cash flow hedges. Credit risk is considered in the fair value calculation of each agreement. As they are based on observable data and valuations of similar instruments, the hedges are categorized within

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Level 2 of the fair value hierarchy. There was no exchange of premium at the initial date of the swaps, and we can settle the contracts at any time. For additional information, see Note 8, "Risk Management Activities."

NIPSCO has entered into long-term forward natural gas purchase instruments that range from five to ten years to lock in a fixed price for its natural gas customers. We value these contracts using a pricing model that incorporates market-based information when available, as these instruments trade less frequently and are classified within Level 2 of the fair value hierarchy. For additional information, see Note 8, “Risk Management Activities.”

Available-for-sale securities are investments pledged as collateral for trust accounts related to our wholly-owned insurance company. Available-for-sale securities are included within “Other investments” in the Condensed Consolidated Balance Sheets (unaudited). We value U.S. Treasury, corporate debt and mortgage-backed securities using a matrix pricing model that incorporates market-based information. These securities trade less frequently and are classified within Level 2. Total unrealized gains and losses from available-for-sale securities are included in other comprehensive income. The amortized cost, gross unrealized gains and losses and fair value of available-for-sale securities at March 31, 2019 and December 31, 2018 were:

March 31, 2019 *(in millions)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale securities				
U.S. Treasury debt securities	$ 22.0	$ —	$ —	$22.0
Corporate/Other debt securities	115.7	1.4	(0.9)	116.2
Total	**$ 137.7**	**$ 1.4**	**$ (0.9)**	**$138.2**

December 31, 2018 *(in millions)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale securities				
U.S. Treasury debt securities	$ 23.6	$ 0.1	$ (0.1)	$23.6
Corporate/Other debt securities	117.7	0.4	(3.4)	114.7
Total	**$ 141.3**	**$ 0.5**	**$ (3.5)**	**$138.3**

Realized gains and losses on available-for-sale securities were immaterial for the three months ended March 31, 2019 and 2018.

The cost of maturities sold is based upon specific identification. At March 31, 2019, approximately $5.6 million of U.S. Treasury debt securities and approximately $3.6 million of Corporate/Other debt securities have maturities of less than a year.

There are no material items in the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2019 and 2018.

Non-recurring Fair Value Measurements. There were no significant non-recurring fair value measurements recorded during the three months ended March 31, 2019.

B. Other Fair Value Disclosures for Financial Instruments. The carrying amount of cash and cash equivalents, restricted cash, customer deposits and short-term borrowings is a reasonable estimate of fair value due to their liquid or short-term nature. Our long-term borrowings are recorded at historical amounts.

The following method and assumptions were used to estimate the fair value of each class of financial instruments.

Long-term Debt. The fair value of outstanding long-term debt is estimated based on the quoted market prices for the same or similar securities. Certain premium costs associated with the early settlement of long-term debt are not taken into consideration in determining fair value. These fair value measurements are classified within Level 2 of the fair value hierarchy. For the three months ended March 31, 2019, there was no change in the method or significant assumptions used to estimate the fair value of long-term debt.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

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

(in millions)	**Carrying Amount as of March 31, 2019**	**Estimated Fair Value as of March 31, 2019**	Carrying Amount as of Dec. 31, 2018	Estimated Fair Value as of Dec. 31, 2018
Long-term debt (including current portion)	**$ 7,161.5**	**$ 7,533.6**	$ 7,155.4	$ 7,228.3

10. Transfers of Financial Assets

Columbia of Ohio, NIPSCO and Columbia of Pennsylvania each maintain a receivables agreement whereby they transfer their customer accounts receivables to third-party financial institutions through wholly-owned and consolidated special purpose entities. The three agreements expire between May 2019 and October 2019 and may be further extended if mutually agreed to by the parties thereto.

All receivables transferred to third parties are valued at face value, which approximates fair value due to their short-term nature. The amount of the undivided percentage ownership interest in the accounts receivables transferred is determined in part by required loss reserves under the agreements.

Transfers of accounts receivable are accounted for as secured borrowings resulting in the recognition of short-term borrowings on the Condensed Consolidated Balance Sheets (unaudited). As of March 31, 2019, the maximum amount of debt that could be recognized related to our accounts receivable programs is $500.0 million.

The following table reflects the gross receivables balance and net receivables transferred as well as short-term borrowings related to the securitization transactions as of March 31, 2019 and December 31, 2018:

(in millions)	**March 31, 2019**	December 31, 2018
Gross Receivables	**$ 742.7**	$ 694.4
Less: Receivables not transferred	**242.7**	295.2
Net receivables transferred	**$ 500.0**	$ 399.2
Short-term debt due to asset securitization	**$ 500.0**	$ 399.2

For the three months ended March 31, 2019 and 2018, $100.8 million and $176.7 million, respectively, was recorded as cash flows from financing activities related to the change in short-term borrowings due to securitization transactions. Fees associated with the securitization transactions were $0.8 million for the three months ended March 31, 2019 and 2018. We remain responsible for collecting on the receivables securitized, and the receivables cannot be transferred to another party.

11. Goodwill

The following presents our goodwill balance allocated by segment as of March 31, 2019:

(in millions)	Gas Distribution Operations	Electric Operations	Corporate and Other	**Total**
Goodwill	$ 1,690.7	$ —	$ —	**$1,690.7**

We applied the qualitative "step 0" analysis to our reporting units for the annual impairment test performed as of May 1, 2018. For this test, we assessed various assumptions, events and circumstances that would have affected the estimated fair value of the reporting units as compared to their base line May 1, 2016 "step 1" fair value measurement. The results of this assessment indicated that it was not more likely than not that our reporting unit fair values were less than the reporting unit carrying values, accordingly, no "step 1" analysis was required.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

12. Income Taxes

Our interim effective tax rates reflect the estimated annual effective tax rates for 2019 and 2018, adjusted for tax expense associated with certain discrete items. The effective tax rates for the three months ended March 31, 2019 and 2018 were 21.2% and 18.5%, respectively. These effective tax rates differ from the federal statutory tax rate of 21% primarily due to the effects of tax credits, state income taxes, the amortization of excess deferred federal income tax liabilities, as specified in the TCJA and in utility ratemaking proceedings and other permanent book-to-tax differences.

The increase in the three month effective tax rate of 2.7% in 2019 compared to 2018 is primarily due to the relative impact of permanent differences on higher estimated pre-tax income in 2019 compared to 2018.

There were no material changes recorded in 2019 to our uncertain tax positions as of December 31, 2018.

13. Pension and Other Postretirement Benefits

We provide defined contribution plans and noncontributory defined benefit retirement plans that cover certain of our employees. Benefits under the defined benefit retirement plans reflect the employees' compensation, years of service and age at retirement. Additionally, we provide 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 us. The expected cost of such benefits is accrued during the employees' years of service. For most plans, cash contributions are remitted to grantor trusts.

For the three months ended March 31, 2019, we contributed $0.6 million to our pension plans and $5.7 million to our other postretirement benefit plans.

The following table provides the components of the plans' actuarially determined net periodic benefit cost for the three months ended March 31, 2019 and 2018:

	Pension Benefits		**Other Postretirement Benefits**	
Three Months Ended March 31, (in millions)	**2019**	2018	**2019**	2018
Components of Net Periodic Benefit (Income) Cost[1]				
Service cost	**$ 7.3**	$ 7.9	**$ 1.3**	$ 1.3
Interest cost	**18.2**	16.6	**4.8**	4.4
Expected return on assets	**(27.2)**	(36.3)	**(3.3)**	(3.7)
Amortization of prior service credit	**—**	(0.1)	**(0.8)**	(1.0)
Recognized actuarial loss	**11.4**	10.2	**0.5**	0.9
Total Net Periodic Benefit (Income) Cost	**$ 9.7**	$ (1.7)	**$ 2.5**	$ 1.9

(1)The service cost component, and all non-service cost components, of net periodic benefit cost are presented in "Operation and maintenance" and "Other, net", respectively, on the Condensed Statements of Consolidated Income (unaudited).

14. Long-Term Debt

On April 1, 2019, NIPSCO redeemed $41.0 million of 5.85% pollution control bonds at maturity.

15. Short-Term Borrowings

We generate short-term borrowings from our revolving credit facility, commercial paper program, accounts receivable transfer programs and term loan borrowings. Each of these borrowing sources is described further below.

We maintain a revolving credit facility to fund ongoing working capital requirements, including the provision of liquidity support for our commercial paper program, provide for issuance of letters of credit and also for general corporate purposes. Our revolving credit facility has a program limit of $1.85 billion and is comprised of a syndicate of banks led by Barclays. On February 20, 2019, we extended the termination date of our revolving credit facility to February 20, 2024. At March 31, 2019 and December 31, 2018, we had no outstanding borrowings under this facility.

Our commercial paper program has a program limit of up to $1.5 billion with a dealer group comprised of Barclays, Citigroup, Credit Suisse and Wells Fargo. We had $980.0 million and $978.0 million of commercial paper outstanding as of March 31, 2019 and December 31, 2018, respectively.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Transfers of accounts receivable are accounted for as secured borrowings resulting in the recognition of short-term borrowings on the Condensed Consolidated Balance Sheets (unaudited). We had $500.0 million in transfers as of March 31, 2019 and $399.2 million as of December 31, 2018. Refer to Note 10, "Transfers of Financial Assets," for additional information.

Short-term borrowings were as follows:

(in millions)	**March 31, 2019**	December 31, 2018
Commercial paper weighted-average interest rate of 2.90% and 2.96% at March 31, 2019 and December 31, 2018, respectively	**$ 980.0**	$ 978.0
Accounts receivable securitization facility borrowings	**500.0**	399.2
Term loan weighted-average interest rate of 3.00% and 3.07% at March 31, 2019 and December 31, 2018, respectively	**600.0**	600.0
Total Short-Term Borrowings	**$ 2,080.0**	$ 1,977.2

Other than for the term loan and certain commercial paper borrowings, cash flows related to the borrowings and repayments of the items listed above are presented net in the Condensed Statements of Consolidated Cash Flows (unaudited) as their maturities are less than 90 days.

On April 17, 2019, we amended our existing term loan agreement with a syndicate of banks, with MUFG Bank Ltd. as the Administrative Agent, Sole Lead Arranger and Sole Bookrunner. The amendment increased the amount of our term loan from $600.0 million to$850.0 million and extended the maturity date to April 16, 2020. Interest charged on borrowings depends on the variable rate structure we elect at the time of each borrowing. The available variable rate structures from which we may choose are defined in the term loan agreement. Under the agreement, we borrowed $850.0 million on April 17, 2019 with an interest rate of LIBOR plus 60 basis points.

16. Leases

ASC 842 Adoption. In February 2016, the FASB issued ASU 2016-02, Leases (ASC 842). ASU 2016-02 introduces a lessee model that brings most leases onto the balance sheet. The standard requires that lessees recognize the following for all leases (with the exception of short-term leases, as that term is defined in the standard) at the lease commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. In 2018, the FASB issued ASU 2018-01, Leases (ASC 842): Land Easement Practical Expedient for Transition to ASC 842, which allows us to not evaluate existing land easements under ASC 842, and ASU 2018-11, Leases (ASC 842): Targeted Improvements, which allows calendar year entities to initially apply ASC 842 prospectively from January 1, 2019.

We adopted the provisions of ASC 842 beginning on January 1, 2019, using the transition method provided in ASU 2018-11, which was applied to all existing leases at that date. As such, results for reporting periods beginning after January 1, 2019 will be presented under ASC 842, while prior period amounts will continue to be reported in accordance with ASC 840. We elected a number of practical expedients, including the "practical expedient package" described in ASC 842-10-65-1 and the provisions of ASU 2018-01, which allows us to not evaluate existing land easements under ASC 842. Further, ASC 842 provides lessees the option of electing an accounting policy, by class of underlying asset, in which the lessee may choose not to separate nonlease components from lease components. We elected this practical expedient for our leases of fleet vehicles, IT assets and railcars. We elected to use a practical expedient that allows the use of hindsight in determining lease terms when evaluating leases that existed at the implementation date. We also elected the short-term lease recognition exemption, allowing us to not recognize ROU assets or lease liabilities for all leases that qualify.

Adoption of the new standard resulted in the recording of additional lease liabilities and corresponding ROU assets of $57.0 million on our Condensed Consolidated Balance Sheets (unaudited) as of January 1, 2019. The standard had no material impact on our Condensed Statements of Consolidated Income (unaudited) or our Condensed Statements of Consolidated Cash Flows (unaudited).

Lease Descriptions. We are the lessee for substantially all of our leasing activity, which includes operating and finance leases for corporate and field offices, railcars, fleet vehicles and certain IT assets. Our corporate and field office leases have remaining lease terms between 1 and 25 years with options to renew the leases for up to 25 years. We lease railcars to transport coal to and from our electric generation facilities in Indiana. Our railcars are specifically identified in the lease agreements and have lease terms between 1 and 3 years with options to renew for 1 year. Our fleet vehicles include trucks, trailers and equipment that have been

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

customized specifically for use in the utility industry. We lease fleet vehicles on 1 year terms, after which we have the option to extend on a month-to-month basis or terminate with written notice. ROU assets and liabilities on our Condensed Consolidated Balance Sheets (unaudited) do not include obligations for possible fleet vehicle lease renewals beyond the initial lease term. While we have the ability to renew these leases beyond the initial term, we are not reasonably certain to do so.

We lease the majority of our IT assets under 4 year lease terms. Ownership of leased IT assets is transferred to us at the end of the lease term. We have not provided material residual value guarantees for our leases, nor do our leases contain material restrictions or covenants. Lease contracts containing renewal and termination options are mostly exercisable at our sole discretion. Certain of our real estate and railcar leases include renewal periods in the measurement of the lease obligation if we have deemed the renewals reasonably certain to be exercised.

With respect to service contracts involving the use of assets, if we have the right to direct the use of the asset and obtain substantially all economic benefits from the use of an asset, we account for the service contract as a lease.

Unless specifically provided to us by the lessor, we utilize NiSource's collateralized incremental borrowing rate commensurate to the lease term as the discount rate for all of our leases.

The components of lease expense are presented in the following lines on the Condensed Statements of Consolidated Income (unaudited):

Three Months Ended March 31, *(in millions)*	Income Statement Classification	**2019**
Finance lease cost		
Amortization of right-of-use assets	Depreciation and amortization	**$3.7**
Interest on lease liabilities	Interest expense, net	**2.9**
Total finance lease cost(1)		**6.6**
Operating lease cost(2)	Operation and maintenance	**3.7**
Short-term lease cost	Operation and maintenance	**0.7**
Total lease cost		**$11.0**

(1)Total finance lease cost includes $0.6 million in costs that have been capitalized into Net Property, Plant and Equipment.

(2)Operating lease cost includes $0.3 million in costs that have been capitalized into Net Property, Plant and Equipment.

Our right-of-use assets and liabilities are presented in the following lines on the Condensed Consolidated Balance Sheets (unaudited):

Three Months Ended March 31, *(in millions)*	Balance Sheet Classification	**2019**
Assets		
Finance leases	Net Property, Plant and Equipment	**$179.8**
Operating leases	Deferred charges and other	**53.8**
Total leased assets		**233.6**
Liabilities		
Current		
Finance leases	Current portion of long-term debt	**10.4**
Operating leases	Other accruals	**9.3**
Noncurrent		
Finance leases	Long-term debt, excluding amounts due within one year	**188.5**
Operating leases	Other noncurrent liabilities	**44.5**
Total lease liabilities		**$252.7**

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Other pertinent information related to leases was as follows:

Three Months Ended March 31, *(in millions)*	**2019**
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	**$ 3.0**
Operating cash flows from operating leases	**3.7**
Financing cash flows from finance leases	**2.4**
Right-of-use assets obtained in exchange for lease obligations	
Finance leases	**6.6**
Operating leases	**$ 0.1**

	March 31, 2019
Weighted-average remaining lease term (years)	
Finance leases	**15.8**
Operating leases	**10.1**
Weighted-average discount rate	
Finance leases	**5.8 %**
Operating leases	**4.4 %**

Maturities of our lease liabilities presented on a rolling 12-month basis were as follows:

As of March 31, 2019, *(in millions)*	Total	Finance Leases	Operating Leases
Year 1	$35.5	$24.0	$ 11.5
Year 2	31.8	23.7	8.1
Year 3	31.0	23.9	7.1
Year 4	28.8	22.7	6.1
Year 5	25.8	20.1	5.7
Thereafter	246.7	217.7	29.0
Total lease payments	399.6	332.1	67.5
Less: Imputed interest	(125.2)	(111.5)	(13.7)
Less: Leases not yet commenced[(1)]	(21.7)	(21.7)	—
Total	252.7	198.9	53.8
Reported as of March 31, 2019			
Short-term lease liabilities	19.7	10.4	9.3
Long-term lease liabilities	233.0	188.5	44.5
Total lease liabilities	$252.7	$198.9	$ 53.8

[(1)] Expected payments include obligations for leases not yet commenced of approximately $21.7 million for interconnection facilities. The facilities will have a lease term of 10 years, with an estimated commencement in the second quarter of 2019.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Disclosures Related to Periods Prior to Adoption of ASC 842.

As of December 31, 2018, total contractual obligations for capital and operating leases were as follows:

As of December 31, 2018, *(in millions)*	Total	Capital Leases[1]	Operating Leases[2]
2019	$34.0	$ 23.0	$ 11.0
2020	29.8	22.5	7.3
2021	28.7	22.6	6.1
2022	26.3	22.1	4.2
2023	22.6	19.8	2.8
Thereafter	226.9	212.4	14.5
Total lease payments	$368.3	$ 322.4	$ 45.9

[1]Capital lease payments shown above are inclusive of interest totaling $114.6 million.

[2]Operating lease balances do not include obligations for possible fleet vehicle lease renewals beyond the initial lease term. While we have the ability to renew these leases beyond the initial term, we are not reasonably certain to do so. Expected payments are $26.7 million in 2019, $22.4 million in 2020, $16.6 million in 2021, $12.3 million in 2022, $9.3 million in 2023 and $8.8 million thereafter.

17. Other Commitments and Contingencies

A. Guarantees and Indemnities. We and certain of our subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries as a part of normal business. 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. As of March 31, 2019 and December 31, 2018, we had issued stand-by letters of credit of $10.2 million.

B. Legal Proceedings. On September 13, 2018, a series of fires and explosions occurred in Lawrence, Andover and North Andover, Massachusetts related to the delivery of natural gas by Columbia of Massachusetts (the "Greater Lawrence Incident"). The Greater Lawrence Incident resulted in one fatality and a number of injuries, damaged multiple homes and businesses, and caused the temporary evacuation of significant portions of each municipality. The Massachusetts Governor's Office declared a state of emergency, authorizing the Massachusetts DPU to order another utility company to coordinate the restoration of utility services in Lawrence, Andover and North Andover. The incident resulted in the interruption of gas service for approximately 7,500 gas meters, the majority of which serve residences and approximately 700 of which serve businesses, and the interruption of other utility service more broadly in the area. Columbia of Massachusetts has replaced the cast iron and bare steel gas pipeline system in the affected area and restored service to nearly all of the gas meters. See " - D. Other Matters - Greater Lawrence Pipeline Replacement" below for more information.

We are subject to inquiries by federal and state government authorities and regulatory agencies regarding the Greater Lawrence Incident. The NTSB, the U.S Attorney's office and the SEC have pending investigations related to the Greater Lawrence Incident, as described below. We are also subject to inquiries from the Massachusetts DPU and the Massachusetts Attorney General's Office. We are cooperating with all inquiries and investigations. The outcomes and impacts of the current investigations and any future investigations that may be commenced related to such inquiries are uncertain at this time.

NTSB Investigation. As noted above, the NTSB is investigating the Greater Lawrence Incident. The parties to the investigation include the PHMSA, the Massachusetts DPU, Columbia of Massachusetts, and the Massachusetts State Police. We are cooperating with the NTSB and have provided information to assist in its ongoing investigation into relevant facts related to the event, the probable cause, and its development of safety recommendations.

According to the preliminary public report that the NTSB issued on October 11, 2018, an over-pressurization of a low-pressure gas distribution system occurred that was related to work being done on behalf of Columbia of

Massachusetts on a pipeline replacement project in Lawrence. According to the report, sensing lines detected a drop in pressure in a portion of mainline that was being abandoned, causing a regulator to open up and increase pressure in the system to a level that exceeded the maximum allowable operating pressure of the distribution system.

On November 14, 2018, the NTSB issued an urgent safety recommendation report regarding natural gas distribution system project development and review. In its report, the NTSB identified certain factors that it believes contributed to the Greater Lawrence Incident and made safety recommendations. The NTSB recommended that the Commonwealth of Massachusetts eliminate the

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

professional engineer licensure exemption for public utility work and require a professional engineer's seal on public utility engineering drawings, which is now law in Massachusetts. The NTSB also made recommendations to us related to engineering plan and constructability review processes, records and documentation, management of change processes, and control procedures during modifications to gas mains. We are in the process of implementing these recommendations. The NTSB investigation is ongoing. While the NTSB investigation is pending, we are prohibited from disclosing information related to the investigation without approval from the NTSB.

Since the Greater Lawrence Incident, we have identified, and moved ahead with, new steps to enhance system safety and reliability and to safeguard against over-pressurization. Some of these measures have already been completed and others are in process. These Company-wide safety measures will include enhanced measures as called for in the NTSB's recommendations. We have committed to a program to install over-pressurization protection devices on all of our low-pressure systems, which is described in " - D. Other Matters."

Massachusetts Regulatory and Legislative Matters. Under Massachusetts law, the DPU is authorized to investigate potential violations of pipeline safety regulations and to assess a civil penalty of up to $209,000 for a violation of federal pipeline safety regulations. A separate violation occurs for each day of violation up to $2.1 million for a related series of violations. The Massachusetts DPU also is authorized to investigate potential violations of the Columbia of Massachusetts emergency response plan and to assess penalties of up to $250,000 per violation, or up to $20 million per related series of violations. Further, as a result of the declaration of emergency by the Governor, the DPU is authorized to investigate potential violations of the DPU's operational directives during the restoration efforts and assess penalties of up to $1 million per violation. The timing and outcome of any such investigations are uncertain at this time.

The Massachusetts DPU has retained an independent evaluator to conduct a statewide examination of the safety of the natural gas distribution system and the operational and maintenance functions of natural gas companies in the Commonwealth of Massachusetts. Through authority granted by the Massachusetts Governor under the state of emergency, the Chair of the Massachusetts DPU will direct all natural gas distribution companies operating in the Commonwealth to fund the statewide examination. The statewide examination is underway and we have responded to the evaluator's information requests. The independent evaluator is expected to produce a report with recommendations. The examination is expected to complement, but not duplicate, the NTSB's investigation.

On November 30, 2018, Columbia of Massachusetts entered into a consent order with the Massachusetts DPU in connection with a notice of probable violation issued in March 2018, stemming from a 2016 report. The Division found that Columbia of Massachusetts violated certain pipeline safety regulations related to pressure limiting and regulating stations in Taunton, Massachusetts. As part of the consent order, Columbia of Massachusetts was fined $75,000 and entered into a compliance agreement under which it agreed to take several actions related to its pressure regulator stations within various timeframes, including the adoption of a Pipeline Safety Management System ("SMS"), the American Petroleum Institute's (API) Recommended Practice 1173. Columbia of Massachusetts is complying with the order.

On December 18, 2018, the Massachusetts DPU issued an order requiring Columbia of Massachusetts to enter into an agreement with a Massachusetts-based engineering firm to monitor Columbia of Massachusetts' remaining restoration and recovery work in the Greater Lawrence area. The order requires Columbia of Massachusetts to take measures to ensure that adequate heat and hot water and gas appliances are provided to all affected properties, repave all affected streets, roadways, sidewalks and other areas in accordance with applicable DPU standards and precedents, consult with the affected communities and discuss plans for restoring affected hard or soft surfaces, and replace all gas boilers and furnaces and other gas-fired equipment at affected residences. Under the order, all restoration work beginning in 2019 is required to be completed no later than October 31, 2019, unless an earlier or later date is agreed to with any of the affected communities. We have agreed to complete the work by September 15, 2019. Also, under the order, Columbia of Massachusetts will be required to maintain quantitative measures, which must be verified by officials of the affected communities, to track its progress in completing all of the remaining work. Estimates for the cost of this work are included in the estimated ranges of loss noted below, which is discussed in “- D. Other Matters - Greater Lawrence Incident Restoration" and " - Greater Lawrence Pipeline Replacement” below. Our failure to adhere to any of the requirements in the order may result in penalties of up to $1 million per violation.

In December 2018, the President of Columbia of Massachusetts testified before a joint state legislative committee on telecommunications, utilities and energy with other industry officials about gas system safety in Massachusetts and regulatory oversight. Increased scrutiny related to these matters, including additional legislative oversight hearings and new legislative proposals, is expected to continue during the current two-year legislative session.

On December 31, 2018, the Massachusetts Governor signed into law legislation requiring a certified professional engineer to review and approve gas pipeline work that could pose a “material risk” to public safety, consistent with the NTSB’s recommendation.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

The Massachusetts DPU has issued interim guidelines and the existing moratorium has been lifted. The DPU issued an Order Opening Inquiry (Notice of Inquiry) on March 18, 2019, and Columbia of Massachusetts has submitted comments.

U.S. Department of Justice Investigation. The Company and Columbia of Massachusetts are subject to a criminal investigation related to the Greater Lawrence Incident that is being conducted under the supervision of the U.S. Attorney's Office for the District of Massachusetts. The initial grand jury subpoenas were served on the Company and Columbia of Massachusetts on September 24, 2018. The Company and Columbia of Massachusetts are cooperating with the investigation. We are unable to estimate the amount (or range of amounts) of reasonably possible losses associated with any civil or criminal penalties that could be imposed on the Company or Columbia of Massachusetts.

U.S. Congressional Hearing. In November 2018, executives of the Company and Columbia of Massachusetts testified at a U.S. Senate hearing regarding the Greater Lawrence Incident and natural gas pipeline safety. Increased scrutiny related to these matters, including additional federal congressional hearings and new legislative proposals, is expected to continue through 2019.

SEC Investigation. On February 11, 2019, the SEC notified the Company that it is conducting an investigation of the Company related to disclosures made prior to the Greater Lawrence Incident. We are cooperating with the investigation.

Private Actions. Various lawsuits, including several purported class action lawsuits, have been filed by various affected residents or businesses in Massachusetts state courts against the Company and/or Columbia of Massachusetts in connection with the Greater Lawrence Incident. A special judge has been appointed to hear all pending and future cases and the class actions will be consolidated into one class action. On January 14, 2019, the special judge granted the parties' joint motion to stay all cases until April 30, 2019 to allow mediation, and the parties subsequently agreed to extend the stay until May 13. The class action lawsuits allege varying causes of action, including those for strict liability for ultra-hazardous activity, negligence, private nuisance, public nuisance, premises liability, trespass, breach of warranty, breach of contract, failure to warn, unjust enrichment, consumer protection act claims, negligent, reckless and intentional infliction of emotional distress and gross negligence, and seek actual compensatory damages, plus treble damages, and punitive damages. Many residents and business owners have submitted individual damage claims to Columbia of Massachusetts. We also have received notice from three parties indicating an intent to assert wrongful death claims. In Massachusetts, punitive damages are available in a wrongful death action upon proof of gross negligence or willful or reckless conduct causing the death. In addition, the Commonwealth of Massachusetts and the municipalities of Lawrence, Andover and North Andover are seeking reimbursement from Columbia of Massachusetts for their respective expenses incurred in connection with the Greater Lawrence Incident. The outcomes and impacts of the private actions are uncertain at this time. We are discussing potential settlements with the affected municipalities and certain of the wrongful death and bodily injury plaintiffs. On April 25, 2019, we entered into a settlement agreement with certain of these plaintiffs involving bodily injury claims, subject to certain conditions, including court approval.

Financial Impact. During the quarter ended March 31, 2019, we expensed approximately $204 million for estimated third-party claims related to the Greater Lawrence Incident, including, but not limited to, personal injury and property damage claims, damage to infrastructure and mutual aid payments to other utilities assisting with the restoration effort. Including the $757 million recorded during 2018, we estimate that total costs related to third-party claims resulting from the incident will range from $961 million to $1,010 million, depending on the final outcome of ongoing reviews and the number, nature, and value of third-party claims. The amounts set forth above do not include costs of certain third party claims that we are not able to estimate, non-claims related expenses resulting from the incident or the estimated capital cost of the pipeline replacement, which is set forth in " - D. Other Matters - Greater Lawrence Incident Restoration" and " - Greater Lawrence Pipeline Replacement," respectively, below.

The process for estimating costs associated with third-party claims relating to the Greater Lawrence Incident requires management to exercise significant judgment based on a number of assumptions and subjective factors. As more information becomes known, including additional information resulting from the NTSB investigation and private actions, management's estimates and assumptions regarding the financial impact of the Greater Lawrence Incident may change. The increase in estimated total costs related to third-party claims from those disclosed in our Form 10-K for the year ended December 31, 2018 resulted primarily from receiving additional information regarding legal claims and the required scope of the restoration work inside the affected homes.

Expenses described above are presented within "Operation and maintenance" in our Statements of Consolidated Income.

We believe that it is reasonably possible that the total amount of the financial loss will be greater than the amount recorded, but we are unable to reasonably estimate the additional loss and the upper end of the range for the class action lawsuits and certain other private action claims because there are a number of unknown facts and legal considerations that may impact the amount of any potential liability, including the total scope and nature of claims that may be asserted against NiSource and Columbia of Massachusetts, whether certain claims can be brought as a class action, and the number of plaintiffs who may bring such claims.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

We will continue to review the available information and other information as it becomes available, including evidence from or held by other parties, claims that have not yet been submitted, and additional information about the nature and extent of personal and business property damage and losses, the nature, number and severity of personal injuries, and information made available through the discovery process.

In addition, it is not possible at this timesub to reasonably estimate the total amount of any expenses associated with government investigations and fines, penalties or settlements with certain governmental authorities, including the Massachusetts DPU and other regulators, that we may incur in connection with the Greater Lawrence Incident. Therefore, the foregoing amounts do not include estimates of the total amount that we may incur for any such fines, penalties or settlements.

We maintain liability insurance for damages in the approximate amount of $800 million and property insurance for gas pipelines and other applicable property in the approximate amount of $300 million. Total expenses related to the incident have exceeded the total amount of insurance coverage available under our policies. While we believe that a substantial amount of expenses related to the Greater Lawrence Incident will be covered by insurance, insurers providing property and liability insurance to the Company or Columbia of Massachusetts are raising defenses to coverage under the terms and conditions of the respective insurance policies which contain various exclusions and conditions that could limit the amount of insurance proceeds to the Company or Columbia of Massachusetts. We are not able to estimate the amount of expenses that will not be covered by insurance, but these amounts are material to our financial statements. Certain types of damages, expenses or claimed costs, such as fines or penalties, may be excluded under the policies. An amount of $100 million for insurance recoveries was recorded during the quarter ended March 31, 2019 in addition to the $135 million of insurance recoveries that were recorded during 2018. As of March 31, 2019, $113 million had been collected, of which $108 million was collected during the three months ended March 31, 2019. Additional collections of insurance proceeds in the amount of $22 million were received subsequent to the March 31, 2019 balance sheet date. The remaining insurance receivable balance of $122 million as of March 31, 2019 is presented within "Accounts receivable." To the extent that we are not successful in obtaining insurance recoveries in the amount recorded for such recoveries as of March 31, 2019, it could result in a charge against "Operation and maintenance" expense. We are currently unable to predict the timing of additional future insurance recoveries.

In addition, we are party to certain other claims and legal proceedings arising in the ordinary course of business, none of which is deemed to be individually material at this time.

Due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding related to the Greater Lawrence Incident or otherwise would not have a material adverse effect on our results of operations, financial position or liquidity. If one or more of such matters were decided against us, the effects could be material to our results of operations in the period in which we would be required to record or adjust the related liability and could also be material to our cash flows in the periods that we would be required to pay such liability.

C. Environmental Matters. Our operations are subject to environmental statutes and regulations related to air quality, water quality, hazardous waste and solid waste. We believe that we are in substantial compliance with the environmental regulations currently applicable to our operations.

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 a significant portion of environmental assessment and remediation costs to be recoverable through rates for certain of our companies.

As of March 31, 2019 and December 31, 2018, we had recorded a liability of $99.7 million and $101.2 million, respectively, to cover environmental remediation at various sites. The current portion of this liability is included in "Legal and environmental" in the Condensed Consolidated Balance Sheets (unaudited). The noncurrent portion is included in "Other noncurrent liabilities". We recognize costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated. The original estimates for remediation activities may differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including currently enacted laws and regulations, the nature and extent of impact and the method of remediation. These expenditures are not currently estimable at some sites. We periodically adjust our liability as information is collected and estimates become more refined.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Electric Operations' compliance estimates disclosed below are reflective of NIPSCO's Integrated Resource Plan submitted to the IURC on October 31, 2018. See section D, "Other Matters NIPSCO 2018 Integrated Resource Plan," below for additional information.

Air

Future legislative and regulatory programs could significantly limit allowed GHG emissions or impose a cost or tax on GHG emissions. Additionally, rules that increase methane leak detection, require emission reductions or impose additional requirements for natural gas facilities could restrict GHG emissions and impose additional costs. We carefully monitor all GHG reduction proposals and regulations.

CPP and ACE Rules. On October 23, 2015, the EPA issued the CPP to regulate CO_2 emissions from existing fossil-fuel EGUs under section 111(d) of the CAA. The U.S. Supreme Court has stayed implementation of the CPP until litigation is decided on its merits, and the EPA under the current administration has proposed to repeal the CPP. On August 31, 2018, the EPA published a proposal to replace the CPP with the ACE rule, which establishes guidelines for states to use when developing plans to reduce CO_2 emissions from existing coal-fired EGUs. The proposal would provide states three years after a final rule is issued to develop state-specific plans, and the EPA would have 12 months to act on a complete state plan submittal. Within two years after a finding of failure to submit a complete plan, or disapproval of a state plan, the EPA would issue a federal plan. NIPSCO will continue to monitor this matter and cannot estimate its impact at this time.

Waste

CERCLA. Our subsidiaries are potentially responsible parties at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws. Under CERCLA, each potentially responsible party can be held jointly, severally and strictly liable for the remediation costs as the EPA, or state, can allow the parties to pay for remedial action or perform remedial action themselves and request reimbursement from the potentially responsible parties. Our affiliates have retained CERCLA environmental liabilities, including remediation liabilities, associated with certain current and former operations. These liabilities are not material to the Condensed Consolidated Financial Statements (*unaudited*).

MGP. A program has been instituted to identify and investigate former MGP sites where Gas Distribution Operations subsidiaries or predecessors may have liability. The program has identified 63 such sites where liability is probable. Remedial actions at many of these sites are being overseen by state or federal environmental agencies through consent agreements or voluntary remediation agreements.

We utilize a probabilistic model to estimate our future remediation costs related to MGP sites. The model was prepared with the assistance of a third party and incorporates our experience and general industry experience with remediating MGP sites. We complete an annual refresh of the model in the second quarter of each fiscal year. No material changes to the estimated future remediation costs were noted as a result of the refresh completed as of June 30, 2018. Our total estimated liability related to the facilities subject to remediation was $96.4 million and $97.5 million at March 31, 2019 and December 31, 2018, respectively. The liability represents our best estimate of the probable cost to remediate the facilities. We believe that it is reasonably possible that remediation costs could vary by as much as $20 million in addition to the costs noted above. Remediation costs are estimated based on the best available information, applicable remediation standards at the balance sheet date and experience with similar facilities.

CCRs. On April 17, 2015, the EPA issued a final rule for regulation of CCRs. The rule regulates CCRs under the RCRA Subtitle D, which determines them to be nonhazardous. The rule is implemented in phases and requires increased groundwater monitoring, reporting, recordkeeping and posting of related information to the Internet. The rule also establishes requirements related to CCR management and disposal. The rule will allow NIPSCO to continue its byproduct beneficial use program.

The publication of the CCR rule resulted in revisions to previously recorded legal obligations associated with the retirement of certain NIPSCO facilities. The actual asset retirement costs related to the CCR rule may vary substantially from the estimates used to record the increased asset retirement obligation due to the uncertainty about the compliance strategies that will be used and the preliminary nature of available data used to estimate costs. In addition, to comply with the rule, NIPSCO incurred capital expenditures to modify its infrastructure and manage CCRs. As allowed by the EPA, NIPSCO will continue to collect data over time to determine the specific compliance solutions and associated costs and, as a result, the actual costs may vary.

NIPSCO filed a petition on November 1, 2016 with the IURC seeking approval of the projects and recovery of the costs associated with CCR compliance. On June 9, 2017, NIPSCO filed with the IURC a settlement reached with certain parties regarding the CCR projects and treatment of associated costs. The IURC approved the settlement in an order on December 13, 2017. Capital compliance costs totaled approximately $193 million, with the projects being substantially complete and in service as of March 31, 2019.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Water

ELG. On November 3, 2015, the EPA issued a final rule to amend the ELG and standards for the Steam Electric Power Generating category. The final rule became effective January 4, 2016. Based upon a preliminary study of the November 3, 2015 final rule, capital compliance costs were expected to be approximately $170 million. The EPA is expected to release a draft ELG reconsideration rule in 2019. However, NIPSCO does not anticipate material ELG compliance costs based on the preferred option announced as part of NIPSCO's 2018 Integrated Resource Plan (discussed below).

D**. Other Matters.**

NIPSCO 2018 Integrated Resource Plan. Multiple factors, but primarily economic ones, including low natural gas prices, advancing cost effective renewable technology and increasing capital and operating costs associated with existing coal plants, have led NIPSCO to conclude in its October 2018 Integrated Resource Plan submission that NIPSCO's current fleet of coal generation facilities will be retired earlier than previous Integrated Resource Plan's had indicated.

The Integrated Resource Plan evaluated demand-side and supply-side resource alternatives to reliably and cost effectively meet NIPSCO customers' future energy requirements over the ensuing 20 years. The preferred option within the Integrated Resource Plan retires R.M. Schahfer Generating Station (Units 14, 15, 17, and 18) by 2023 and Michigan City Generating Station (Unit 12) by 2028. These units represent 2,080 MW of generating capacity, equal to 72% of NIPSCO's remaining generating capacity (and 100% of NIPSCO's remaining coal-fired generating capacity) after the retirement of Bailly Units 7 and 8 on May 31, 2018.

The current replacement plan includes renewable sources of energy, including wind, solar, and battery storage to be obtained through a combination of NIPSCO ownership and PPAs.

In January 2019, NIPSCO executed two 20 year PPAs to purchase 100% of the output from renewable generation facilities at a fixed price per MW. The facilities supplying the energy will have a combined nameplate capacity of approximately 700 MW. NIPSCO's purchase requirement under the PPAs is dependent on satisfactory approval of the PPAs by the IURC. NIPSCO submitted the PPAs to the IURC for approval in February 2019. An IURC order is anticipated in the third quarter of 2019. If approved by the IURC, payments under the PPAs will not begin until the associated generation facilities are constructed by the owner / seller which is expected to be complete by the end of 2020.

Also in January 2019, NIPSCO executed a BTA with a developer to construct a renewable generation facility with a nameplate capacity of approximately 100 MW. Once complete, ownership of the facility would be transferred to a partnership owned by NIPSCO, the developer and an unrelated tax equity partner. The aforementioned partnership structure will result in full NIPSCO ownership after the PTC are monetized from the project (approximately 10 years after the facility goes into service). NIPSCO's purchase requirement under the BTA is dependent on satisfactory approval of the BTA by the IURC and timely completion of construction. The estimated procedural timeline for receiving an IURC order is the same as the aforementioned PPAs with required FERC filings occurring after receiving the IURC order. Construction of the facility is expected to be complete by the end of 2020.

Greater Lawrence Incident Restoration. In addition to the amounts recorded for third-party claims (described above in " - B. Legal Proceedings"), we expensed approximately $32 million for other incident-related costs during the three months ended March 31, 2019. These expenses include certain consulting costs, claims center costs and labor and related expenses incurred in connection with the incident. Including the $266 million recorded during 2018, we expect to incur a total of $360 million to $370 million in such incident-related costs, depending on the incurrence of future restoration work. The amounts set forth above do not include the estimated capital cost of the pipeline replacement, which is set forth below. The increase in estimated total incident-related expenses from those disclosed in our Form 10-K for the year ended December 31, 2018 resulted primarily from receiving additional information regarding the extended period of time over which the restoration work would take place, higher than anticipated costs from vendors and increased estimates for consultants and claim center costs.

We maintain liability insurance for damages in the approximate amount of $800 million and property insurance for gas pipelines and other applicable property in the approximate amount of $300 million. Total expenses related to the incident have exceeded the total amount of insurance coverage available under our policies. While we believe that a substantial amount of expenses related to the Greater Lawrence Incident will be covered by insurance, insurers providing property and liability insurance to the Company or Columbia of Massachusetts are raising defenses to coverage under the terms and conditions of the respective insurance policies which contain various exclusions and conditions that could limit the amount of insurance proceeds to the Company or Columbia of Massachusetts. We are not able to estimate the amount of expenses that will not be covered by insurance, but these amounts are material to our financial statements. Certain types of damages, expenses or claimed costs, such as fines or penalties, may be excluded under the policies. As discussed above in "- B. Legal Proceedings," $100 million for insurance recoveries was recorded during the quarter ended March 31, 2019 in addition to the $135 million of insurance recoveries that were recorded during 2018.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

As of March 31, 2019, $113 million had been collected, of which $108 million was collected during the three months ended March 31, 2019. Additional collections of insurance proceeds in the amount of $22 million were received subsequent to the March 31, 2019 balance sheet date. We are currently unable to predict the timing of future insurance recoveries. To the extent that we are not successful in obtaining insurance recoveries in the amount recorded for such recoveries as of March 31, 2019, it could result in a charge against “Operation and maintenance” expense.

Substantially all of the $346 million liability for third-party claims and other incident-related costs remaining as of March 31, 2019 is presented within "Current liabilities" in our Condensed Consolidated Balance Sheets (unaudited). The remaining insurance receivable balance of $122 million as of March 31, 2019 is presented within “Accounts receivable.”

Greater Lawrence Pipeline Replacement. In connection with the Greater Lawrence Incident, Columbia of Massachusetts, in cooperation with the Massachusetts Governor’s office, replaced the entire affected 45-mile cast iron and bare steel pipeline system that delivers gas to approximately 7,500 gas meters, the majority of which serve residences and approximately 700 of which serve businesses impacted in the Greater Lawrence Incident. This system was replaced with plastic distribution mains and service lines, as well as enhanced safety features such as pressure regulation and excess flow valves at each premise. At the request of the Massachusetts DPU, which was instructed by the Massachusetts Governor through his executive authority under a state of emergency, Columbia of Massachusetts hired an outside contractor to serve as the Chief Recovery Officer for the Greater Lawrence Incident, responsible for command, control and communications. Columbia of Massachusetts restored gas service to nearly all homes and workplaces in December 2018. With the restoration and recovery efforts now substantially complete, the service of the Chief Recovery Officer is complete and the next phase of the effort is being managed by Columbia of Massachusetts under the third party oversight of a Massachusetts-based engineering firm as set forth above under “ - B. Legal Proceedings.”

Since the Greater Lawrence Incident and through March 31, 2019, we have incurred approximately $177 million of capital spend for the pipeline replacement, of which approximately $10 million was incurred in 2019. We estimate this replacement work will cost between $240 million and $250 million in total. Columbia of Massachusetts has provided notice to its property insurer of the Greater Lawrence Incident and discussions around the claim and recovery have commenced. The recovery of any capital investment not reimbursed through insurance will be addressed in a future regulatory proceeding. The outcome of such a proceeding is uncertain. In accordance with ASC 980-360, if it becomes probable that a portion of the pipeline replacement cost will not be recoverable through customer rates and an amount can be reasonably estimated, we will reduce our regulated plant balance for the amount of the probable disallowance and record an associated charge to earnings. This could result in a material adverse effect to our financial condition, results of operations and cash flows. Additionally, if a rate order is received allowing recovery of the investment with no or reduced return on investment, a loss on disallowance may be required.

In addition, we have committed to a capital investment program to install over-pressurization protection devices on all of our low-pressure systems as described above in “-B. Legal Proceedings.” These devices operate like circuit-breakers, so that if operating pressure is too high or too low, regardless of the cause, they are designed to immediately shut down the supply of gas to the system. The program also includes installing remote monitoring devices on all low-pressure systems, enabling gas control centers to continuously monitor pressure at regulator stations. In addition, we have conducted a field survey of all regulator stations and initiated an engineering review of those regulator stations; we are verifying and enhancing our maps and records of low-pressure regulator stations; and we initiated a process so that our personnel will be present whenever excavation work is being done in close proximity to a regulator station.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

18. Accumulated Other Comprehensive Loss

The following tables display the components of Accumulated Other Comprehensive Loss:

	Gains and Losses on Securities[1]	Gains and Losses on Cash Flow Hedges[1]	Pension and OPEB Items[1]	Accumulated Other Comprehensive Loss[1]
Balance as of January 1, 2019	$ (2.4)	$ (13.0)	$ (21.8)	$ (37.2)
Other comprehensive income (loss) before reclassifications	2.7	(19.3)	0.5	(16.1)
Amounts reclassified from accumulated other comprehensive loss	0.1	—	0.4	0.5
Net current-period other comprehensive income (loss)	2.8	(19.3)	0.9	(15.6)
Balance as of March 31, 2019	**$ 0.4**	**$ (32.3)**	**$ (20.9)**	**$ (52.8)**

	Gains and Losses on Securities[1]	Gains and Losses on Cash Flow Hedges[1]	Pension and OPEB Items[1]	Accumulated Other Comprehensive Loss[1]
Balance as of January 1, 2018	$ 0.2	$ (29.4)	$ (14.2)	$ (43.4)
Other comprehensive income (loss) before reclassifications	(1.9)	51.1	(0.6)	48.6
Amounts reclassified from accumulated other comprehensive loss	0.2	(15.7)	0.8	(14.7)
Net current-period other comprehensive income (loss)	(1.7)	35.4	0.2	33.9
Reclassification due to adoption of ASU 2018-02	—	(6.3)	(3.2)	(9.5)
Balance as of March 31, 2018	$ (1.5)	$ (0.3)	$ (17.2)	$ (19.0)

[1]All amounts are net of tax. Amounts in parentheses indicate debits.

19. Other, Net

Three Months Ended March 31, *(in millions)*	**2019**	2018
Interest Income	**$2.1**	$1.7
AFUDC Equity	**1.7**	3.7
Pension and other postretirement non-service cost	**(2.8)**	6.2
Interest rate swap settlement gain	**—**	21.2
Miscellaneous	**(1.7)**	(1.5)
Total Other, net	**$(0.7)**	$31.3

20. Business Segment Information

At March 31, 2019, our operations are divided into two primary reportable segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

The following table provides information about our business segments. We use operating income as our primary measurement for each of the reported segments and make 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.

	Three Months Ended March 31,	
(in millions)	**2019**	2018
Operating Revenues		
Gas Distribution Operations		
Unaffiliated	**$1,438.8**	$1,327.3
Intersegment	**3.3**	3.3
Total	**1,442.1**	1,330.6
Electric Operations		
Unaffiliated	**430.8**	423.3
Intersegment	**0.2**	0.2
Total	**431.0**	423.5
Corporate and Other		
Unaffiliated	**0.2**	0.2
Intersegment	**111.1**	114.1
Total	**111.3**	114.3
Eliminations	**(114.6)**	(117.6)
Consolidated Operating Revenues	**$1,869.8**	$1,750.8
Operating Income		
Gas Distribution Operations	**$275.4**	$321.7
Electric Operations	**95.0**	83.1
Corporate and Other	**3.8**	(4.2)
Consolidated Operating Income	**$374.2**	$400.6

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NiSource Inc.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

EXECUTIVE SUMMARY

This Management's Discussion and Analysis of Financial Condition and Results of Operations (Management's Discussion) analyzes our financial condition, results of operations and cash flows and those of our subsidiaries. It also includes management's analysis of past financial results and certain potential factors that may affect future results, potential future risks and approaches that may be used to manage those risks. See "Note regarding forward-looking statements" at the beginning of this report for a list of factors that may cause results to differ materially.

Management's Discussion is designed to provide an understanding of our operations and financial performance and should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

We are an energy holding company under the Public Utility Holding Company Act of 2005 whose subsidiaries are fully regulated natural gas and electric utility companies serving customers in seven states. We generate substantially all of our operating income through these rate-regulated businesses which are summarized for financial reporting purposes into two primary reportable segments: Gas Distribution Operations and Electric Operations.

Refer to the "Business" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 for further discussion of our regulated utility business segments.

Our goal is to develop strategies that benefit all stakeholders as we address changing customer conservation patterns, develop more contemporary pricing structures and embark on long-term investment programs. These strategies are intended to improve reliability and safety, enhance customer service and reduce emissions while generating sustainable returns. Additionally, we continue to pursue regulatory and legislative initiatives that will allow residential customers not currently on our system to obtain gas service in a cost effective manner.

Greater Lawrence Incident: The Greater Lawrence Incident occurred on September 13, 2018. During the quarter ended March 31, 2019, we recorded a loss of approximately $204 million for third-party claims and approximately $32 million for other incident-related expenses in connection with the Greater Lawrence Incident. The amounts set forth above do not include the estimated capital cost of the pipeline replacement described below and as set forth in Note 17- D, "Other Matters - Greater Lawrence Pipeline Replacement," in the Notes to Condensed Consolidated Financial Statements (unaudited).

Including the $757 million recorded during 2018, we estimate that total costs related to third-party claims as set forth in Note 17, "Other Commitments and Contingencies - B. Legal Proceedings," will range from $961 million to $1,010 million, depending on the final outcome of ongoing reviews and the number, nature and value of third-party claims. We expect to incur a total of $360 million to $370 million in other incident-related costs, inclusive of the $266 million recorded during 2018.

We also expect to incur expenses for which we cannot estimate the amounts of or the timing at this time, including expenses associated with government investigations and fines, penalties or settlements with governmental authorities in connection with the Greater Lawrence Incident.

Columbia of Massachusetts recorded $100 million to accounts receivable for insurance recoveries during the first quarter of 2019 in addition to the $135 million recorded during 2018. As of March 31, 2019, $113 million had been collected, of which $108 million was collected during the three months ended March 31, 2019. Additional collections of insurance proceeds in the amount of $22 million were received subsequent to the March 31, 2019 balance sheet date. We are currently unable to predict the amount and timing of future insurance recoveries. To the extent that we are not successful in collecting reimbursement in the amount recorded for such recoveries as of March 31, 2019, it could result in a charge to earnings.

Since the Greater Lawrence Incident and through March 31, 2019, we have incurred approximately $177 million of capital spend for the pipeline replacement, of which approximately $10 million was incurred in 2019. We estimate this replacement work will cost between $240 million and $250 million in total. Columbia of Massachusetts has provided notice to its property insurer of the Greater Lawrence Incident and discussions around the claim and recovery have commenced. The recovery of any capital investment not reimbursed through insurance will be addressed in a future regulatory proceeding. The outcome of such a proceeding is uncertain. If at any point Columbia of Massachusetts concludes it is probable that any portion of this capital investment is not recoverable through customer rates, that portion of the capital investment, if estimable, would be immediately charged to earnings.

Refer to Note 17-B and D, "Legal Proceedings" and "Other Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited), "Summary of Consolidated Financial Results," "Results and Discussion of Segment Operation - Gas Distribution

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Operations," and "Liquidity and Capital Resources" in this Management's Discussion for additional information related to the Greater Lawrence Incident.

Summary of Consolidated Financial Results

Our operations are affected by the cost of sales. Cost of sales for the Gas Distribution Operations segment is principally comprised of the cost of natural gas used while providing transportation and distribution services to customers. Cost of sales for the Electric Operations segment is comprised of the cost of coal, related handling costs, natural gas purchased for the internal generation of electricity at NIPSCO and the cost of power purchased from third-party generators of electricity.

The majority of the cost of sales are tracked costs that are passed through directly to the customer, resulting in an equal and offsetting amount reflected in operating revenues. As a result, we believe net revenues, a non-GAAP financial measure defined as operating revenues less cost of sales (excluding depreciation and amortization), provides management and investors a useful measure to analyze profitability. The presentation of net revenues herein is intended to provide supplemental information for investors regarding operating performance. Net revenues do not intend to represent operating income, the most comparable GAAP measure, as an indicator of operating performance and are not necessarily comparable to similarly titled measures reported by other companies.

For the three months ended March 31, 2019 and 2018, operating income and a reconciliation of net revenues to the most directly comparable GAAP measure, operating income, was as follows:

	Three Months Ended March 31,		
(in millions)	**2019**	2018	2019 vs. 2018
Operating Income	**$374.2**	$400.6	$(26.4)

	Three Months Ended March 31,		
(in millions, except per share amounts)	**2019**	2018	2019 vs. 2018
Operating Revenues	**$1,869.8**	$1,750.8	$119.0
Cost of Sales (excluding depreciation and amortization)	**680.3**	724.4	(44.1)
Total Net Revenues	**1,189.5**	1,026.4	163.1
Other Operating Expenses	**815.3**	625.8	189.5
Operating Income	**374.2**	400.6	(26.4)
Total Other Deductions, net	**(96.3)**	(61.8)	(34.5)
Income Taxes	**59.0**	62.7	(3.7)
Net Income	**218.9**	276.1	(57.2)
Preferred dividends	**(13.8)**	—	(13.8)
Net Income Available to Common Shareholders	**205.1**	276.1	(71.0)
Basic Earnings Per Share	**$0.55**	$0.82	$(0.27)
Basic Average Common Shares Outstanding	**373.4**	338.0	35.4

On a consolidated basis, we reported net income available to common shareholders of $205.1 million, or $0.55 per basic share for the three months ended March 31, 2019, compared to net income available to common shareholders of $276.1 million, or $0.82 per basic share for the same period in 2018. The decrease in income available to common shareholders during 2019 was primarily due to greater operating expenses related to the Greater Lawrence Incident, an interest rate swap settlement gain in 2018 and dilution resulting from preferred stock dividend commitments, partially offset by new rates from base rate proceedings and infrastructure replacement programs.

Operating Income

For the three months ended March 31, 2019, we reported operating income of $374.2 million compared to operating income of $400.6 million for the same period in 2018. The decrease in operating income was primarily due to expenses related to the Greater Lawrence Incident and increased depreciation and amortization expense. These decreases were partially offset by new rates from base rate proceedings and infrastructure replacement programs along with favorable effects on revenue from year-over-year weather variations.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Other Deductions, net

Other deductions, net reduced income by $96.3 million in the first quarter of 2019 compared to a reduction in income of $61.8 million in the prior year. This change is primarily due to an interest rate swap settlement gain of $21.2 million recognized in the first quarter of 2018.

Income Taxes

The decrease in income tax expense from 2018 to 2019 is primarily attributable to the decreased income before income taxes in the first quarter of 2019, partially offset by a higher effective tax rate in 2019 due to the relative impact of permanent differences on higher estimated pre-tax income in 2019 compared to 2018.

Refer to Note 12, "Income Taxes," in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on income taxes and the change in the effective tax rate.

Capital Investment

For the three months ended March 31, 2019, we invested $353.7 million in capital expenditures across our gas and electric utilities. These expenditures were primarily aimed at furthering the safety and reliability of our gas distribution system and maintaining our existing electric generation fleet.

We continue to execute on an estimated $30 billion in total projected long-term regulated utility infrastructure investments and expect to invest a total of approximately $1.6 to $1.7 billion in capital during 2019 to continue to modernize and improve our system across all seven states.

Liquidity

The enactment of the TCJA has and will continue to have an unfavorable impact on our liquidity in 2019; however, through income generated from operating activities, amounts available under our short-term revolving credit facility, commercial paper program, accounts receivable securitization facilities, term loan borrowings, long-term debt agreements and our ability to access the capital markets, we believe there is adequate capital available to fund our operating activities, capital expenditures and the effects of the Greater Lawrence Incident in 2019 and beyond. As of March 31, 2019 and December 31, 2018, we had $1,010.8 million and $974.6 million, respectively, of net liquidity available, consisting of cash and available capacity under credit facilities.

These factors and other impacts to the financial results are discussed in more detail within the following discussions of "Results and Discussion of Segment Operations" and "Liquidity and Capital Resources."

Regulatory Developments

During the quarter ended March 31, 2019, we continued to move forward on core infrastructure and environmental investment programs supported by complementary regulatory and customer initiatives across all seven states of our operating area. Refer to Note 7, "Regulatory Matters" and Note 17-D "Other Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for a complete discussion of key regulatory developments that have transpired during 2019.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

Our operations are divided into two primary reportable segments: Gas Distribution Operations and Electric Operations.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Gas Distribution Operations

For the three months ended March 31, 2019 and 2018, operating income and a reconciliation of net revenues to the most directly comparable GAAP measure, operating income, was as follows:

	Three Months Ended March 31,		
(in millions)	**2019**	2018	2019 vs. 2018
Operating Income	**$275.4**	321.7	$(46.3)

	Three Months Ended March 31,		
(in millions)	**2019**	2018	2019 vs. 2018
Net Revenues			
Operating Revenues	**$1,442.1**	$1,330.6	$111.5
Less: Cost of sales (excluding depreciation and amortization)	**550.1**	591.8	(41.7)
Net Revenues	**892.0**	738.8	153.2
Operating Expenses			
Operation and maintenance	**451.3**	287.2	164.1
Depreciation and amortization	**97.4**	70.7	26.7
Other taxes	**67.9**	59.2	8.7
Total Operating Expenses	**616.6**	417.1	199.5
Operating Income	**$275.4**	$321.7	$(46.3)
Revenues			
Residential	**$976.0**	$893.0	$83.0
Commercial	**331.6**	308.9	22.7
Industrial	**83.0**	74.7	8.3
Off-System	**20.1**	22.3	(2.2)
Other	**31.4**	31.7	(0.3)
Total	**$1,442.1**	$1,330.6	$111.5
Sales and Transportation (MMDth)			
Residential	**140.7**	135.1	5.6
Commercial	**86.0**	82.2	3.8
Industrial	**148.1**	145.5	2.6
Off-System	**7.2**	7.6	(0.4)
Other	**0.2**	0.1	0.1
Total	**382.2**	370.5	11.7
Heating Degree Days	**2,897**	2,823	74
Normal Heating Degree Days	**2,864**	2,892	(28)
% Colder (Warmer) than Normal	**1%**	(2)%	
Gas Distribution Customers			
Residential	**3,206,016**	3,179,647	26,369
Commercial	**282,616**	281,503	1,113
Industrial	**6,035**	6,244	(209)
Other	**3**	5	(2)

Total	**3,494,670**	3,467,399	27,271

Comparability of line item operating results may be impacted by regulatory, tax and depreciation trackers (other than those for cost of sales) that allow for the recovery in rates of certain costs. Therefore, increases in these tracked operating expenses are generally offset by increases in net revenues and have essentially no impact on net income.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Gas Distribution Operations

Three Months Ended March 31, 2019 vs. March 31, 2018 Operating Income

For the three months ended March 31, 2019, Gas Distribution Operations reported operating income of $275.4 million, a decrease of $46.3 million from the comparable 2018 period.

Net revenues for the three months ended March 31, 2019 were $892.0 million, an increase of $153.2 million from the same period in 2018. The change in net revenues was primarily driven by:

- New rates from base rate proceedings and infrastructure replacement programs of $100.1 million.
- Higher regulatory, tax and depreciation trackers, which are offset in operating expense, of $25.2 million.
- Higher revenues of $5.1 million from the effects of colder weather in 2019 as well as a decrease in the weather-related normal heating degree day methodology resulting in an favorable variance of $4.7 million, as discussed below.
- Increased customer growth and usage of $6.6 million.
- Adjustments to the revenue reserve for the probable future refund of certain collections from customers as a result of the lower income tax rate from the TCJA of $6.1 million.

Operating expenses were $199.5 million higher for the three months ended March 31, 2019 compared to the same period in 2018. This change was primarily driven by:

- Expenses related to third-party claims and other costs following the Greater Lawrence Incident of $135.6 million, net of insurance recoveries recorded.
- Increased depreciation of $26.7 million due to regulatory outcomes of NIPSCO's gas rate case and higher capital expenditures placed in service.
- Higher regulatory, tax and depreciation trackers, which are offset in net revenues, of $25.2 million.
- Increased property taxes of $5.9 million due to higher capital expenditures placed in service and increased amortization of property taxes previously deferred as a regulatory asset.

Weather

In general, we calculate the weather-related revenue variance based on changing customer demand driven by weather variance from normal heating degree days. Our composite heating degree days reported do not directly correlate to the weather-related dollar impact on the results of Gas Distribution Operations. Heating degree days experienced during different times of the year or in different operating locations may have more or less impact on volume and dollars depending on when and where they occur. When the detailed results are combined for reporting, there may be weather-related dollar impacts on operations when there is not an apparent or significant change in our aggregated composite heating degree day comparison.

The definition of "normal" weather was updated during the first quarter of 2019 to reflect more current weather pattern data and more closely align with the regulators' jurisdictional definitions of "normal" weather. Impacts of the change in methodology will be reflected prospectively and disclosed to the extent it results in notable year-over-year variances in net revenues.

Weather in the Gas Distribution Operations service territories for the first quarter of 2019 was about 1% colder than normal and about 3% colder than 2018, leading to increased net revenues of $9.8 million for the quarter ended March 31, 2019 compared to the same period in 2018 in total. The change in weather-related net revenues was primarily driven by:

- The effects of colder weather in 2019 of $5.1 million.
- A decrease in the weather-related normal heating degree day methodology resulting in a favorable variance of $4.7 million, as discussed above.

Throughput

Total volumes sold and transported for the three months ended March 31, 2019 were 382.2 MMDth, compared to 370.5 MMDth for the same period in 2018. This 3% increase is primarily attributable to the effects of colder weather and increased industrial usage due to energy production from electric generating customers in 2019.

Economic Conditions

All of our Gas Distribution Operations companies have state-approved recovery mechanisms that provide a means for full recovery of prudently incurred gas costs. Gas costs are treated as pass-through costs and have no impact on the net revenues recorded in the period. The gas costs included in revenues are matched with the gas cost expense recorded in the period and the difference is

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Gas Distribution Operations

recorded on the Condensed Consolidated Balance Sheets (unaudited) as under-recovered or over-recovered gas cost to be included in future customer billings.

Certain Gas Distribution Operations companies continue to offer choice opportunities, where customers can choose to purchase gas from a third-party supplier, through regulatory initiatives in their respective jurisdictions. These programs serve to further reduce our exposure to gas prices.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Electric Operations

For the three months ended March 31, 2019 and 2018, operating income and a reconciliation of net revenues to the most directly comparable GAAP measure, operating income, was as follows:

	Three Months Ended March 31,		
(in millions)	**2019**	2018	2019 vs. 2018
Operating Income	**$95.0**	$83.1	$11.9

	Three Months Ended March 31,		
(in millions)	**2019**	2018	2019 vs. 2018
Net Revenues			
Operating revenues	**$431.0**	$423.5	$7.5
Less: Cost of sales (excluding depreciation and amortization)	**130.1**	132.7	(2.6)
Net Revenues	**300.9**	290.8	10.1
Operating Expenses			
Operation and maintenance	**121.7**	126.2	(4.5)
Depreciation and amortization	**68.2**	65.5	2.7
Other taxes	**16.0**	16.0	—
Total Operating Expenses	**205.9**	207.7	(1.8)
Operating Income	**$95.0**	$83.1	$11.9
Revenues			
Residential	**$118.8**	$114.5	$4.3
Commercial	**119.3**	116.9	2.4
Industrial	**163.5**	162.7	0.8
Wholesale	**2.7**	4.7	(2.0)
Other	**26.7**	24.7	2.0
Total	**$431.0**	$423.5	$7.5
Sales (Gigawatt Hours)			
Residential	**792.4**	788.4	4.0
Commercial	**894.4**	905.7	(11.3)
Industrial	**2,215.7**	2,333.8	(118.1)
Wholesale	**6.5**	50.8	(44.3)
Other	**34.5**	33.2	1.3
Total	**3,943.5**	4,111.9	(168.4)
Electric Customers			
Residential	**412,739**	409,962	2,777
Commercial	**56,703**	56,175	528
Industrial	**2,281**	2,300	(19)
Wholesale	**732**	739	(7)
Other	**2**	2	—
Total	**472,457**	469,178	3,279

Comparability of line item operating results may be impacted by regulatory and depreciation trackers (other than those for cost of sales) that allow for the recovery in rates of certain costs. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on net income.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Electric Operations

Three Months Ended March 31, 2019 vs. March 31, 2018 Operating Income

For the three months ended March 31, 2019, Electric Operations reported operating income of $95.0 million, an increase of $11.9 million from the comparable 2018 period.

Net revenues for the three months ended March 31, 2019 were $300.9 million, an increase of $10.1 million from the same period in 2018. The change in net revenues was primarily driven by:

- Higher rates driven by incremental capital spend on infrastructure replacement of $4.3 million.
- Decreased fuel handling costs of $3.4 million.
- Higher regulatory and depreciation trackers, which are offset in operating expense, of $2.7 million.
- The effects of colder weather of $2.5 million.

Partially offset by:

- Decreased residential and industrial usage of $4.4 million.

Operating expenses were $1.8 million lower for the three months ended March 31, 2019 compared to the same period in 2018. This change was primarily driven by:

- Decreased employee and administrative costs of $4.9 million.
- Lower outside service costs of $3.5 million primarily related to the retirement of Bailly Generating Station Units 7 and 8 on May 31, 2018.

Partially offset by:

- Higher regulatory and depreciation trackers, which are offset in net revenues, of $2.7 million.
- Increased depreciation of $1.4 million due to higher capital expenditures placed in service.

Weather

In general, we calculate the weather-related revenue variance based on changing customer demand driven by weather variance from normal heating or cooling degree days. Our composite heating or cooling degree days reported do not directly correlate to the weather-related dollar impact on the results of Electric Operations. Heating or cooling degree days experienced during different times of the year may have more or less impact on volume and dollars depending on when they occur. When the detailed results are combined for reporting, there may be weather-related dollar impacts on operations when there is not an apparent or significant change in our aggregated composite heating or cooling degree day comparison.

The definition of "normal" weather was updated during the first quarter of 2019 to reflect more current weather pattern data and more closely align with the regulators' jurisdictional definitions of "normal" weather. Impacts of the change in methodology will be reflected prospectively and disclosed to the extent it results in notable year-over-year variances in net revenues.

Weather in the Electric Operations' territories for the first quarter of 2019 was about 2% colder than normal and about 4% colder than in 2018, resulting in increased net revenues of $2.5 million for the quarter ended March 31, 2019 compared to the same period in 2018.

Sales

Electric Operations sales for the first quarter of 2019 were 3943.5 gwh, a decrease of 168.4 gwh compared to the same period in 2018. This decrease was primarily attributable to higher internal generation from large industrial customers during the first quarter of 2019.

BP Products North America. On March 29, 2018, WCE, which is currently owned by BP p.l.c ("BP") and BP Products North America, which operates the BP Refinery, filed a petition at the IURC asking that the combined operations of WCE and BP be treated as a single premise, and the WCE generation be dedicated primarily to BP Refinery operations beginning in May 2019 as WCE has self-certified as a qualifying facility at FERC. BP Refinery planned to continue to purchase electric service from NIPSCO at a reduced demand level beginning in May 2019, however a settlement agreement was filed on November 2, 2018 agreeing that BP and WCE would not move forward with construction of a private transmission line to serve BP until conclusion of NIPSCO's pending electric rate case.

The IURC approved the settlement agreement as filed on February 20,

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Electric Operations

2019. Refer to Note **7**, "Regulatory Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information.

Economic Conditions

NIPSCO has a state-approved recovery mechanism that provides a means for full recovery of prudently incurred fuel costs. Fuel costs are treated as pass-through costs and have no impact on the net revenues recorded in the period. The fuel costs included in revenues are matched with the fuel cost expense recorded in the period and the difference is recorded on the Condensed Consolidated Balance Sheets (unaudited) as under-recovered or over-recovered fuel cost to be included in future customer billings.

Electric Supply

NIPSCO 2018 Integrated Resource Plan. Multiple factors, but primarily economic ones, including low natural gas prices, advancing cost effective renewable technology and increasing capital and operating costs associated with existing coal plants, have led NIPSCO to conclude in its October 2018 Integrated Resource Plan submission that NIPSCO’s current fleet of coal generation facilities will be retired earlier than previous Integrated Resource Plan’s had indicated.

The Integrated Resource Plan evaluated demand-side and supply-side resource alternatives to reliably and cost effectively meet NIPSCO customers' future energy requirements over the ensuing 20 years. The preferred option within the Integrated Resource Plan retires R.M. Schahfer Generating Station (Units 14, 15, 17, and 18) by 2023 and Michigan City Generating Station (Unit 12) by 2028. These units represent 2,080 MW of generating capacity, equal to 72% of NIPSCO’s remaining capacity after the retirement of Bailly Units 7 and 8 in May of 2018.

The current replacement plan includes renewable sources of energy, including wind, solar, and battery storage to be obtained through a combination of NIPSCO ownership and PPAs Refer to Note 17-D, "Other Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information on the NIPSCO Integrated Resource Plan.

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Liquidity and Capital Resources

Greater Lawrence Incident: As discussed in "Executive Summary" and Note 17, "Other Commitments and Contingencies," we have recorded losses associated with the Greater Lawrence Incident and have invested capital to replace the entire affected 45-mile cast iron and bare steel pipeline system that delivers gas to the impacted area. As discussed in the Executive Summary and Note 17 referenced earlier in this paragraph we may incur additional expenses and liabilities in excess of our recorded liabilities and estimated additional costs associated with the Greater Lawrence Incident. The timing and amount of future financing needs, if any, will depend on the ultimate timing and amount of payments made to third parties in connection with the Greater Lawrence Incident and the timing and amount of associated insurance recoveries. Through income generated from operating activities, amounts available under our short-term revolving credit facility, commercial paper program, accounts receivable securitization facilities, term loan borrowings, long-term debt agreements and our ability to access the capital markets, we believe there is adequate capital available to fund these expenditures.

Operating Activities

Net cash from operating activities for the three months ended March 31, 2019 was $399.1 million, an increase of $10.9 million compared to the three months ended March 31, 2018. This increase was driven by decreased compensation and employee benefit payments as well as decreased debt interest payments. The increase was also a result of higher revenue due to colder weather during the 2019 winter heating season compared to 2018 and increased rates from infrastructure replacement programs. Offsetting these cash inflows are a year-over-year increase in net payments made related to the Greater Lawrence Incident. During 2019, we paid approximately $73 million, net of insurance recoveries, in operating cash flow related to the Greater Lawrence Incident. Refer to Note 17-D "Other Matters" in the Notes to Condensed Consolidated Financial Statements (unaudited) for further information.

Investing Activities

Net cash used for investing activities for the three months ended March 31, 2019 was $375.4 million, a decrease of $23.5 million compared to the three months ended March 31, 2018. This decrease was mostly attributable to lower capital expenditures in 2019.

Our capital expenditures for the three months ended March 31, 2019 were $353.7 million compared to $370.0 million for the comparable period in 2018. The decrease was driven by a decrease in planned capital expenditures in the current year and the timing of payments through March 2019 compared to March 2018. We project total 2019 capital expenditures to be approximately $1.6 to $1.7 billion.

Financing Activities

Common Stock and Preferred Stock. Refer to Note 5, "Equity," in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on common and preferred stock activity.

Long-term Debt. Refer to Note 14, "Long-Term Debt," in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on long-term debt activity.

Short-term Debt. Refer to Note 15, "Short-Term Borrowings," in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on short-term debt activity.

Net Available Liquidity. As of March 31, 2019, an aggregate of $1,010.8 million of net liquidity was available, including cash and credit available under the revolving credit facility and accounts receivable securitization programs.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

The following table displays our liquidity position as of March 31, 2019 and December 31, 2018:

(in millions)	**March 31, 2019**	December 31, 2018
Current Liquidity		
Revolving Credit Facility	**$ 1,850.0**	$ 1,850.0
Accounts Receivable Program(1)	**500.0**	399.2
Less:		
Commercial Paper	**980.0**	978.0
Accounts Receivable Program Utilized	**500.0**	399.2
Letters of Credit Outstanding Under Credit Facility	**10.2**	10.2
Add:		
Cash and Cash Equivalents	**151.0**	112.8
Net Available Liquidity	**$ 1,010.8**	$ 974.6

(1)Represents the lesser of the seasonal limit or maximum borrowings supportable by the underlying receivables.

Debt Covenants. We are subject to financial covenants under our revolving credit facility and term loan agreement, which require us to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in a 2005 private placement note purchase agreement requires us to maintain a debt to capitalization ratio that does not exceed 75%. As of March 31, 2019, the ratio was 61.5%.

Sale of Trade Accounts Receivables. Refer to Note 10, “Transfers of Financial Assets,” in the Notes to Condensed Consolidated Financial Statements (unaudited) for information on the sale of trade accounts receivable.

Credit Ratings. The credit rating agencies periodically review our ratings, taking into account factors such as our capital structure and earnings profile. The following table includes our and certain of our subsidiaries' credit ratings and ratings outlook as of March 31, 2019. There were no changes to the below credit ratings or outlooks since December 31, 2018.

A credit rating is not a recommendation to buy, sell, or hold securities, and may be subject to revision or withdrawal at any time by the assigning rating organization.

	S&P		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
NiSource	BBB+	Negative	Baa2	Stable	BBB	Stable
NIPSCO	BBB+	Negative	Baa1	Stable	BBB	Stable
Columbia of Massachusetts	BBB+	Negative	Baa2	Stable	Not rated	Not rated
Commercial Paper	A-2	Negative	P-2	Stable	F2	Stable

Certain of our subsidiaries have agreements that contain “ratings triggers” that require increased collateral if our credit rating or the credit ratings of certain of our subsidiaries are below investment grade. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. As of March 31, 2019, the collateral requirement that would be required in the event of a downgrade below the ratings trigger levels would amount to approximately $59.8 million. In addition to agreements with ratings triggers, there are other agreements that contain “adequate assurance” or “material adverse change” provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business.

Equity. Our authorized capital stock consists of 420,000,000 shares, $0.01 par value, of which 400,000,000 are common stock and 20,000,000 are preferred stock. As of March 31, 2019, 373,002,671 shares of common stock and 440,000 shares of preferred stock were outstanding.

Contractual Obligations. Aside from the previously referenced repayments of long-term debt and payments associated with the Greater Lawrence Incident, there were no material changes recorded during the three months ended March 31, 2019 to our contractual obligations as of December 31, 2018.

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Off Balance Sheet Arrangements

We, along with certain of our 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. Refer to Note 17, "Other Commitments and Contingencies," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information about such arrangements.

With the adoption of ASC 842, Leases, on January 1, 2019, all operating leases with terms greater than one year are now recorded on the balance sheet. Refer to Note 2, "Recent Accounting Pronouncements," for additional information.

Market Risk Disclosures

Risk is an inherent part of our businesses. The extent to which we properly and effectively identify, assess, monitor and manage each of the various types of risk involved in our businesses is critical to our profitability. We seek to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal market risks that are involved in our businesses: commodity price risk, interest rate risk and credit risk. Risk management for us is a multi-faceted process with oversight by the Risk Management Committee that requires constant communication, judgment and knowledge of specialized products and markets. Our senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. These may include, but are not limited to market, operational, financial, compliance and strategic risk types. In recognition of the increasingly varied and complex nature of the energy business, our risk management process, policies and procedures continue to evolve and are subject to ongoing review and modification.

Commodity Price Risk

We are exposed to commodity price risk as a result of our subsidiaries' operations involving natural gas and power. To manage this market risk, our subsidiaries use derivatives, including commodity futures contracts, swaps, forwards and options. We do not participate in speculative energy trading activity.

Commodity price risk resulting from derivative activities at our rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the ratemaking process, including gains or losses on these derivative instruments. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional ratemaking process and may be more exposed to commodity price risk.

Our subsidiaries are required to make cash margin deposits with their brokers to cover actual and potential losses in the value of outstanding exchange traded derivative contracts. The amount of these deposits, some of which is reflected in our restricted cash balance, may fluctuate significantly during periods of high volatility in the energy commodity markets.

Refer to Note 8, "Risk Management Activities," in the Notes to Condensed Consolidated Financial Statements (unaudited) for further information on our commodity price risk assets and liabilities as of March 31, 2019 or December 31, 2018.

Interest Rate Risk

We are exposed to interest rate risk as a result of changes in interest rates on borrowings under our revolving credit agreement, commercial paper program, accounts receivable programs and term loan, which have interest rates that are indexed to short-term market interest rates. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase (or decrease) in short-term interest rates of 100 basis points (1%) would have increased (or decreased) interest expense by $4.9 million and $3.0 million for the three months ended March 31, 2019, and 2018, respectively. We are also exposed to interest rate risk as a result of changes in benchmark rates that can influence the interest rates of future debt issuances.

Refer to Note 8, "Risk Management Activities," in the Notes to Condensed Consolidated Financial Statements (unaudited) for further information on our interest rate risk assets and liabilities as of March 31, 2019 and December 31, 2018.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Credit Risk

Due to the nature of the industry, credit risk is embedded in many of our business activities. Our extension of credit is governed by a Corporate Credit Risk Policy. In addition, Risk Management Committee guidelines are in place which document management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation efforts. Exposures to credit risks are monitored by the risk management function which is independent of commercial operations. Credit risk arises due to the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative-related contracts, credit risk arises when counterparties are obligated to deliver or purchase defined commodity units of gas or power to us at a future date per execution of contractual terms and conditions. Exposure to credit risk is measured in terms of both current obligations and the market value of forward positions net of any posted collateral such as cash and letters of credit.

We closely monitor the financial status of our banking credit providers. We evaluate the financial status of our banking partners through the use of market-based metrics such as credit default swap pricing levels, and also through traditional credit ratings provided by major credit rating agencies.

Other Information

Critical Accounting Estimates

Refer to Note 17, "Other Commitments and Contingencies," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information about management judgment used in the development of estimates related to the Greater Lawrence Incident.

Recently Issued Accounting Pronouncements

Refer to Note 2, "Recent Accounting Pronouncements," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information about recently issued and adopted accounting pronouncements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NiSource Inc.

For a discussion regarding quantitative and qualitative disclosures about market risk see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Disclosures.”

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and our chief financial officer are responsible for evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that financial information was processed, recorded and reported accurately.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS
NiSource Inc.

For a description of our legal proceedings, see Note 17-B, "Legal Proceedings," in the Notes to Condensed Consolidated Financial Statements (unaudited).

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those disclosed in our most recent Annual Report on Form 10-K for the year ended December 31, 2018. There have been no material changes to such risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS
NiSource Inc.

(10.1)	Fifth Amended and Restated Revolving Credit Agreement, dated as of February 20, 2019, among NiSource Inc., as Borrower, the Lenders party thereto, Barclays Bank PLC, as Administrative Agent, Citibank, N.A. and MUFG Bank, Ltd., as Co-Syndication Agents, Credit Suisse AG, Cayman Islands Branch, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as Co-Documentation Agents, and Barclays Bank PLC, Citibank, N.A., MUFG Bank, Ltd., Credit Suisse Loan Funding LLC, JPMorgan Chase Bank, N.A. and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.1 of the NiSource Inc. Form 8-K filed on February 20, 2019).
(10.2)	Amended and Restated NiSource Inc. Employee Stock Purchase Plan adopted as of February 1, 2019 (incorporated by reference to Exhibit C to the NiSource Inc. Definitive Proxy Statement to Stockholders for the Annual Meeting to be held on May 7, 2019, filed on April 1, 2019).
(10.3)	Amended and Restated Term Loan Agreement, dated as of April 17, 2019, among NiSource Inc., as Borrower, the Lenders party thereto, and MUFG Bank Ltd., as Administrative Agent and Sole Lead Arranger and Sole Bookrunner (incorporated by reference to Exhibit 10.1 of the NiSource Inc. Form 8-k filed on April 17, 2019).
(31.1)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
(31.2)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
(32.1)	Certification of Chief Executive Officer pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).*
(32.2)	Certification of Chief Financial Officer pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).*
(101.INS)	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
(101.SCH)	XBRL Schema Document
(101.CAL)	XBRL Calculation Linkbase Document
(101.LAB)	XBRL Labels Linkbase Document
(101.PRE)	XBRL Presentation Linkbase Document
(101.DEF)	XBRL Definition Linkbase Document
*	Exhibit filed herewith.

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SIGNATURE

NiSource Inc.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			NiSource Inc. (Registrant)
Date:	May 1, 2019	By:	/s/ Joseph W. Mulpas Joseph W. Mulpas Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)