COLUMBIA GAS SYSTEM ANNUAL REPORT 1979

1979 HIGHLIGHTS

	1979	1978*	% Change
Operating Revenue ($000)	**2,851,733**	2,444,171	+16.7
Operating Income ($000)	**221,407**	189,296	+17.0
Earnings on Common Stock ($000)	**143,113**	121,096	+18.2
Earnings Per Share of Common Stock ($)	**4.39**	3.72	+18.0
Dividends Per Share of Common Stock ($)	**2.44**	2.34	+ 4.3
Capital Expenditures for Year ($000)	**368,535**	337,963	+ 9.0
Property, Plant and Equipment ($000)	**4,334,900**	4,078,740	+ 6.3
Capitalization ($000)	**2,322,482**	2,196,907	+ 5.7
Gas Sales (Million Cubic Feet)	**1,193,399**	1,117,850	+ 6.8
Gas Customers	**1,826,486**	1,819,612	—
Degree Days (Calendar Basis)	**5,678**	5,958	− 4.7

*Restated for wholesale rate order.

CONTENTS

Units of the Columbia Gas System are engaged in exploration, production, purchase, transmission, and distribution operations in many parts of North America, as shown on this map. Details of activities indicated here are provided inside the report.

Service Area
Supply Development Activities
Wholly-owned Pipeline
Proposed Pipelines

LETTER TO STOCKHOLDERS

Financial Summary—Earnings on Columbia's common stock in 1979 were $143.1 million or $4.39 per share, as compared with restated earnings of $121.1 million or $3.72 per share, in the previous year.

Prior period earnings have been restated to reflect a rate order issued by the Federal Energy Regulatory Commission (FERC) on February 12, 1980, which overturns a 1977 Administrative Law Judge's initial decision and denies, retroactive to December 15, 1975, the Company's request to price certain Appalachian production on a cost-of-service basis. Under the order, such Appalachian production will be priced at qualifying Natural Gas Policy Act or nationwide/area rates as applicable. Whenever the order becomes final, refunds will be made to wholesale transmission customers. As a result, 1976 and 1977 earnings have been reduced by $17.2 million, 1978 earnings have been reduced by $7.0 million or $0.21 per share and 1979 earnings have been reduced by $5.4 million or $0.17 per share. Higher gas prices allowed under the Natural Gas Policy Act of 1978 should have a positive effect on earnings of future years.

The 1979 earnings were increased by $0.36 per share because of the sale by Columbia Gas Development of Canada Ltd., to Dome Petroleum, Ltd., of most of the working interest it held in Canadian Beaufort Sea lands operated by Dome. Columbia retains a right to purchase 21.5% of the gas found on these lands.

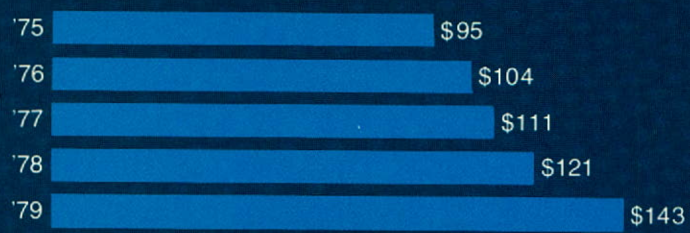
On January 16, 1980, the Board of Directors declared a quarterly dividend of 64 cents per share on the common stock of the Corporation, bringing the indicated annual dividend rate to $2.56 per share from the $2.44 paid in 1979. This is the 18th consecutive year that Columbia's common stock dividend has been increased. Over that period, the dividend rate has risen $1.46 per share. Columbia has paid regular quarterly dividends on common stock for more than 33 years.

The System's capital expenditures in 1979 totaled approximately $368.5 million, an increase of roughly 9 percent from the expenditures of $338 million in 1978. Of the 1979 total, approximately 46 percent involved expenditures to develop additional gas supplies. Capital expenditures in 1980 are projected to total $450 million, the major share of which will continue to be budgeted for gas supply development.

The System sold $175 million principal amount of long-term debentures in 1979, and retired $50 million, Series A preferred stock on November 1, 1979. Additional financing will be required in 1980, the amount and timing to be determined later in the year.

The Financial Review Section and Financial Statements and Notes thereto provide more detailed information on the above matters. Financial information has been expanded in this year's report to include data relative to System oil and gas producing operations and the impact of inflation on reported earnings and assets.

EARNINGS ON
COMMON STOCK
(Millions of Dollars)



DIVIDENDS PAID PER
COMMON SHARE
(Dollars)

TOTAL GAS SALES
(Billions of Cubic Feet)

Plastic pipe is widely used by Columbia Distribution Companies to bring service to new customers, holding down investment needed to extend or replace lines. In 1979, 95% of all pipe purchased by CDC was plastic.

Business Outlook—The System progress detailed on the following pages of this report was highlighted by several significant developments in 1979:

• For the first time since 1972, Columbia Gas Transmission Corporation was able to meet all the requirements of its seven affiliated and 68 non-affiliated distribution customers.

• All Columbia Distribution Companies received authorization from their state regulatory agencies to take on new customers for the first time in seven years.

• Columbia Gas Transmission received Federal authorization to complete the final phase of a major storage project in central Ohio. The Crawford Field will be Columbia's largest storage field, increasing total System storage capacity from 590 billion cubic feet to 705 billion cubic feet.

• The impact of the Natural Gas Policy Act, passed late in 1978, was evidenced during 1979 by an increase in total U.S. drilling efforts to develop new gas reserves and in greater supplies of gas available to the interstate market. This trend is expected to continue in 1980. Such developments will enhance Columbia's ability to serve a growing market.

The nation will rely more and more on natural gas as its predominant domestic source of energy, since it is the most efficient, most economical and cleanest form of energy.

Board of Directors—Mrs. Ernesta G. Procope, an experienced businesswoman and president of the largest black-owned insurance brokerage firm in the country, was elected to the Board of Directors in June 1979.

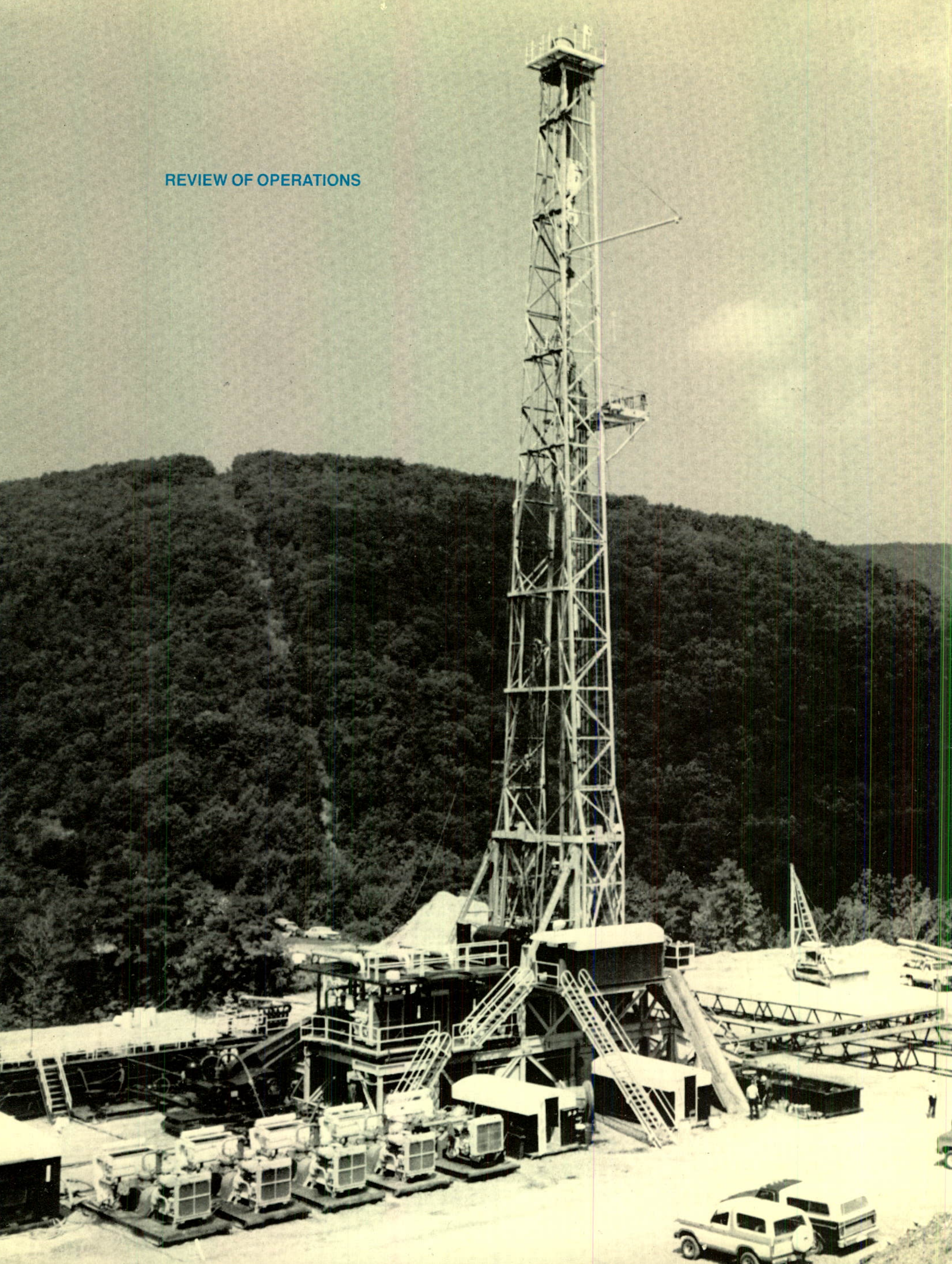
The Columbia System's objectives are to provide dependable energy supplies at a reasonable cost to more than four million customers and to realize a fair return on its property for the benefit of those who have invested in the Corporation. The continued support of its stockholders and the efforts of its 11,000 employees are essential to meeting these goals in the future.

B. J. Clarke
B. J. CLARKE
Chairman and
Chief Executive Officer

W. F. Laird
W. F. LAIRD
President and
Chief Operating Officer

February 12, 1980

REVIEW OF OPERATIONS



GAS SUPPLY DEVELOPMENT

Columbia utilizes a diversity of sources for gas supplies. It works continuously to expand the range of available sources, both by its own drilling efforts and by purchasing gas from reserves developed by others. Highlights of these supply development activities are reported below:

Gas reserves available to Columbia as of January 1, 1980 have been estimated by Ralph E. Davis Associates, independent consultants, to be 13,798 billion cubic feet. This is 11 times the volumes needed to meet System 1979 sales of 1,193 billion cubic feet. These reserves are exclusive of a right to purchase up to 5,600 billion cubic feet of gas from the Alaskan North Slope under agreements with Sohio and BP Alaska, Inc.

Southwest and Rocky Mountain Activities—Columbia Gas Development Corporation (Development) is expanding its gas purchasing activities in major U.S. gas production areas, and is participating in drilling programs both onshore and in the Gulf of Mexico.

Development owns varying interests in 58 oil and gas leases offshore Louisiana and Texas, consisting of 244,745 gross acres and 83,610 net acres. In the Gulf of Mexico, Development participated during 1979 in 39 wells drilled on 20 tracts in which it holds interests. Of these wells, 23 contained commercial quantities of hydrocarbons, 13 were dry holes and 3 were drilling at year-end. On Gulf of Mexico leases in which Development holds an interest, drilling was completed and production begun from five new platforms in 1979. Two additional platforms were set in 1979 to develop proven reserves. Four platforms were ordered for installation in 1980.

In its onshore program at the end of 1979, Development owned an interest in 2.3 million gross acres and 611,000 net acres in Arkansas, Texas, Louisiana, Mississippi, Wyoming, Colorado and Utah. Development participated in 47 exploratory wells and 2 development wells on this acreage, a program that resulted in 29 productive wells and 12 dry holes with 8 wells still being drilled at the end of the year.

Proven gas reserves owned by Development (before royalty interest) are estimated at 338 billion cubic feet onshore and offshore at year-end. Development's production in 1979 totaled 58 billion cubic feet (before royalty interest).

In 1979, Development's activities resulted in the dedication of 505 billion cubic feet of new reserves to future System supply. The volume of new reserves dedicated in 1979 to future supply exceeded the volume of annual supply provided for the System's needs through Development's purchasing and drilling activities.

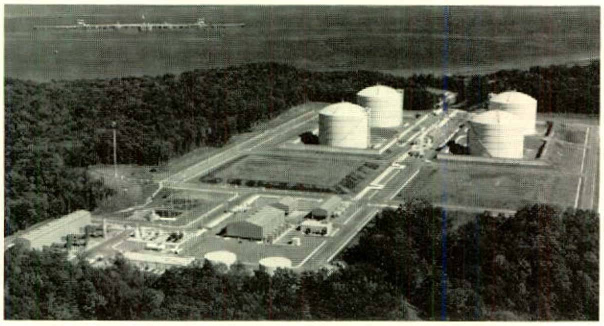
Appalachian Exploration—Columbia Gas Transmission Corporation (Transmission) which conducts the System's gas development operations in the Appalachian area, drilled 63 wells in 1979, 46 of which were productive and 17 of which were dry holes.

Two wells drilled in Mineral County, West Virginia resulted in what Columbia believes to be a significant gas discovery in the heart of an extensive geologic area known as the Eastern Overthrust Belt. The wells were the first real indication of the presence of commercial reserves in this belt. Extensive testing will be conducted to determine recoverable reserves in the field.

Working in conjunction with independent producers, Transmission launched in 1979 a gas supply development program on more than 500,000 acres in northwestern Pennsylvania and western New York. At year-end, 42 wells were already delivering into Transmission's lines, and facilities to connect approximately 200 existing wells are scheduled for completion early in 1980. Production is expected to reach 60 million cubic feet daily by 1984.

Exploration well drilled by Columbia Gas Transmission Corporation in Mineral County, W. Va. resulted in a significant natural gas discovery in the Eastern Overthrust Belt

Cove Point, Md. liquefied natural gas receiving terminal completed its first year of operation in 1979, importing LNG from Algeria to help supply System customers.



In addition to this program, Transmission has arranged for the drilling by independent producers of 175 wells in Ohio, Kentucky and West Virginia.

A new pipeline link built by Transmission in Trumbull County, Ohio added to the System's supply production from 170 new gas wells drilled by independent producers.

Transmission's lease holdings in the Appalachian region total 4.2 million acres, exclusive of storage fields.

System-owned proven reserves in the Appalachian area totaled 460 billion cubic feet at the end of 1979. Columbia's Appalachian production was 48 billion cubic feet in 1979.

Southwest Pipeline Suppliers—The five non-affiliated Southwest pipelines from which Transmission obtains about 41% of its total gas supply are adding new reserves and improving deliverability. In 1979, for the second consecutive year, the deliveries to Columbia from these pipelines reflected an increase over deliveries during the prior year. These companies have major supply development programs similar to those of Columbia. Three of these five pipelines have begun importing natural gas from Mexico. Thus, Columbia will indirectly be the recipient of gas from the new source.

Liquefied Natural Gas—Columbia LNG Corporation's Cove Point, Maryland terminal completed its first full year of operations in mid-1979. The terminal received 56 shiploads of LNG during 1979. The total contribution of Cove Point to the System's gas supply was 75.4 billion cubic feet, approximately 45.9 billion cubic feet more than in 1978. At full contract volume, deliveries to the System from Cove Point will equal 110.9 billion cubic feet annually over the 25-year initial term of an agreement with a subsidiary of the El Paso Company.

Deliveries from Cove Point were interrupted in early October by an explosion in an electrical substation, but operations were resumed on a limited basis in a matter of days and no problems developed in meeting winter supply needs. The terminal is expected to be capable of providing full service in mid-1980.

In December 1979, the Economic Regulatory Administration (ERA), an agency of the Department of Energy (DOE) approved a contract amendment increasing the price that Columbia pays for LNG and providing for escalation tied to fuel oil prices. Columbia is paying the ERA approved price for LNG. Those costs are being recovered through purchased gas adjustment tariffs. In January 1980 three intervenors filed for rehearing of the ERA order and thus approval is still subject to the appeal process. Also, the contract amendment has not yet received the required Algerian governmental approvals. Columbia has been advised that the Algerian government has directed Sonatrach, the Algerian governmental corporation which provides the LNG, to review the price approved by ERA in the light of the current world energy situation. Any further modification of the price for LNG is subject to U.S. and Algerian approval.

Synthetic Gas—During 1979, Columbia LNG Corporation's plant at Green Springs, Ohio produced 69 billion cubic feet of synthetic gas, representing approximately 6% of the System's total supply for the year. Feedstock for the plant comes from western Canada by pipeline.

New Pipeline Projects—Columbia, in conjunction with other companies, is continuing efforts to secure regulatory approval for construction of two major gas pipelines which will provide access to areas of significant natural gas potential expected to be developed as a result of drilling stimulated by the Natural Gas Policy Act of 1978.

One pipeline, the 800-mile Trailblazer System, will connect new gas supplies being developed in the promising Rocky Mountain Region to Midwest and Eastern markets. The supplies made available by the $500 million venture would represent an important contribution to the nation's energy needs.

110-foot tower that will separate natural gas and carbon dioxide recovered from a field in West Virginia is lowered into position. Columbia Hydrocarbon Corporation will process carbon dioxide into raw material for the food industry.

If timely regulatory approvals are received, gas could be flowing by late 1981. Columbia's share of initial deliveries is expected to be 175 million cubic feet daily, eventually reaching 500 million a day when the line is operating at capacity. Columbia will receive its gas volumes through exchange with other project participants.

In support of the Trailblazer System and to provide new gas supplies, Columbia acquired from the Anschutz Corporation, Denver, Colorado, the preferential rights to purchase gas produced from approximately eight million gross acres in Idaho, Utah, Nevada, Arizona and New Mexico. None of the lands under the agreement presently have gas production.

The other pipeline, the 265-mile Ozark Gas Transmission System, will provide access to new gas supplies developed in southeastern Oklahoma and Arkansas. Estimated cost of the line is $104 million.

Alaskan Gas—Columbia is not an active participant in the group developing plans for a transportation system to carry gas from the North Slope of Alaska. Columbia chose not to participate in the preconstruction phase of the system when the Federal Energy Regulatory Commission denied its application to recover preconstruction costs on a current basis. Columbia retains its right to purchase up to 5,600 billion cubic feet of gas from Sohio and BP Alaska, Inc.

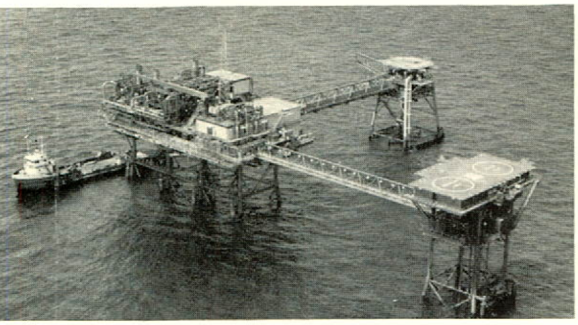
Canadian Gas—In 1979, Columbia Gas Development of Canada Ltd. (Columbia-Canada) participated in the drilling of 63 exploratory and 44 development wells. Thirty-eight of the exploratory and 37 of the development wells are considered to be commercial.

Columbia-Canada owns 105 billion cubic feet of proven Canadian gas reserves. In addition, it has a call (subject to Canadian export approval) on 2,125 billion cubic feet of additional reserves primarily in the Arctic Islands. The company holds an interest in approximately 37 million gross acres and 4.4 million net acres of oil and gas leases in Canada.

Short-term sales to Westcoast Transmission Company, Ltd. began in 1979 from the Kotaneelee field operated by Columbia-Canada in the Yukon Territory (see map). Approval has been received from the National Energy Board of Canada for the export of up to 84.5 billion cubic feet over an eight year period beginning in 1980. Columbia-Canada has a 22% ownership interest in the field. Columbia Gas Transmission has filed an application with the Department of Energy to import this gas, which it will receive by displacement. This application was pending at year-end.

Exploratory drilling off the Canadian East Coast under a joint program in which Chevron Standard, Ltd. is the operator resulted in a potentially significant oil discovery about 200 miles east of St. Johns, Newfoundland (see map). Chevron has estimated the Hibernia P-15 well can produce over 20,000 barrels of oil daily, making it one of the largest single wells in North America. Further drilling will be required to determine the full significance of the discovery. Columbia's interest in the Hibernia well and the 524,758 gross acres surrounding it will be 6.09% if the land is determined to be within the jurisdiction of the province of Newfoundland. If the Canadian Federal government has jurisdiction, Columbia's interest will be 5.47%. The first step-out well was spudded on January 1, 1980. The well is located approximately three miles southwest of the discovery well. A second step-out well is planned to be drilled three to four miles north of the discovery well early in 1980.

During 1979, Columbia-Canada entered into an agreement to sell for $50 million (Canadian) most of the 3.75% working interest which it held in acreage being operated by Dome Petroleum, Ltd. in the Beaufort Sea. The sale to Dome was completed on January 15, 1980. Columbia-Canada retained a 0.25% interest in the land involved as well as the right to purchase 21.5% of any gas found on 2.9 million net acres.



City at sea, a compressor platform 75 miles from the Louisiana coast, is operated by Columbia Gulf Transmission Company to move production from Gulf of Mexico wells to lines ashore.

Petroleum liquids imported from Canada are converted to synthetic natural gas at Columbia's plant in Green Springs, Ohio. SNG plant provided 6% of total System supply in 1979.

DISTRIBUTION OPERATIONS

Columbia's seven affiliated retail distribution companies received authorization from their respective state regulatory agencies to add new residential, commercial and high priority industrial customers. Columbia's distribution companies had not been able to take on new business since 1972.

By the end of 1979, industrial sales volumes had increased by about 16% over 1978, and more than 17,000 new residential and commercial customers had been connected. These results following the resumption of sales activity were an encouraging indication of the potential market awaiting the availability of gas service.

As natural gas costs have risen, the distribution companies have stepped up their program to aid customers in dealing with winter heating bills. Special informational activities are being utilized to advise customers of Columbia's budget payment program and payment extension policy. Approximately 38% of Columbia's 1,680,000 residential customers now participate in the budget payment plan.

RESEARCH AND DEVELOPMENT

Columbia conducts a broad research and development program, directly through projects in the System's laboratories at Columbus, Ohio and indirectly through support of work by outside organizations. Funding for this program is provided by Columbia, the U.S. Department of Energy (DOE), the Gas Research Institute (GRI), and other organizations.

Gas Research Institute—In 1979, the Gas Research Institute completed its first full year as a cooperative industry research funding organization. GRI-generated funds of $40 million were combined with $65 million from the DOE and equipment manufacturers' contributions of $5 million, to support a GRI-administered program totaling approximately $110 million. GRI-generated funds for 1980 are expected to be about $60 million, in combination with $85 million from the DOE and $15 million from manufacturers.

These outlays will support a wide scope of long and short-range research programs that will touch upon almost all areas of technology of interest to the gas industry. Among GRI research areas of note are: emphasis on more efficient utilization, development of unconventional gas resources, basic research, protection of the environment and operational safety. Columbia participates actively in the direction of GRI research through membership on its Board of Directors, the Industry Technical Advisory Committee, and project advisory groups.

Devonian Shale Stimulation Studies—While notable progress has been made in shale stimulations, much work remains to be done to identify the best stimulation/fracturing treatments needed to overcome the low permeability of the Devonian shale formations so the gas flow is increased to commercial levels. Potential gas reserves contained in the Devonian shale formation of the Appalachian Basin are many trillion cubic feet.

Columbia is conducting cooperative programs with the DOE, GRI and others to evaluate a number of stimulation techniques. Two programs supported by DOE funding were begun in 1979 in conjunction with a major independent producer. One involved 11 wells in southern Ohio and the other, 10 wells in northeastern Ohio. Fifteen of the wells were drilled in 1979, with all drilling scheduled to be completed and all wells stimulated in 1980.

Coal Gasification—Columbia and four other gas companies have received FERC approval to construct in North Dakota the nation's first commercial-scale coal gasification plant to produce pipeline quality gas. The plant capacity will be 125 million cubic feet daily. The approval permits costs of the project to be passed through to consumers in the rates of the sponsoring

Columbia Distribution Companies connected more than 17,000 new residential and commercial customers in 1979, the first new customers in seven years.

pipelines. The order is subject to appeal. The start of plant construction is planned for mid-1980.

Columbia is also conducting studies in its laboratories which seek to reduce the capital and operating costs involved in coal gasification. The primary project involves the study of catalytic coal gasification as a means to increase gas production directly from coal at higher levels and lower temperature and pressure. The DOE began to co-fund these studies in 1979.

Solar Energy—In 1979 a solar collector system was installed on a Columbia office building in Columbus, Ohio to evaluate the potential of a combination gas/solar energy system for commercial buildings. The solar unit provides a portion of the building's heating, cooling, and hot water requirements. The project is being co-funded by the DOE.

Columbia is also a participant in a DOE-funded project to design an industrial process steam solar energy system for a petrochemical plant at Haverhill, Ohio. The design phase will be completed by mid-1980, and could lead to a contract award by DOE for the installation of a solar energy system at the plant.

Overall, Columbia continues to monitor and evaluate solar energy developments to determine how this source might provide a portion of the energy needs of Columbia's market area.

Utilization—The GRI is helping to sponsor a Columbia project to develop a gas-fired residential heat pump. It is believed that such a unit would be more efficient than other heat pumps now on the market. Columbia also has a number of other studies underway in its Columbus research center looking toward improved gas utilization. Strong emphasis is directed toward more efficient use of gas for industrial process heat.

COAL OPERATIONS

Construction of the first West Virginia coal mine, jointly owned by Columbia Coal Gasification Corporation and Monterey Coal Company (an Exxon affiliate) was nearing completion at the end of 1979 and commercial production is expected to start in the fourth quarter of 1980.

Because of unsatisfactory coal prices, no contract has been made for sale of the coal from the first mine and start of a second mine has been deferred.

Over and above reserves dedicated to the mining venture, Columbia owns an additional 550 million tons of low-sulfur coal reserves in the same area in West Virginia. Approximately 300 million tons of these reserves are being offered to interested parties on a lease-royalty basis. Several small tracts are already under lease to coal operators.

COLUMBIA HYDROCARBON OPERATIONS

Subject to approval by the Securities and Exchange Commission, Columbia Hydrocarbon Corporation (Hydrocarbon) plans a project to process and market carbon dioxide which will be recovered from a West Virginia gas field being developed by Columbia Gas Transmission. The field will produce a mixture that is approximately two-thirds carbon dioxide and one-third natural gas.

Hydrocarbon plans to construct a plant in West Virginia which will purify and liquefy the carbon dioxide into a food grade material. A ready market exists for the approximately 600 tons daily of food grade carbon dioxide which the plant will produce. Hydrocarbon also expects to market approximately 400 tons a day of unprocessed carbon dioxide for use by oil producers to enhance oil recovery. It is anticipated that the plant will be built and in operation by the third quarter of 1981.

Through Columbia Hydrocarbon Corporation, the System has offered propane service to secure more potential customers for the Columbia distribution companies when those units have gas available. During 1979, a number of residential areas and commercial customers which had been utilizing propane were converted to natural gas after new sales were authorized. Several new residential areas were piped for propane.

While industrial use of propane as a standby fuel declined with the increased availability of natural gas, new accounts were added in areas where gas is not available and where industries wish to convert from fuel oil.

Propane sales for the year totaled approximately 72 million gallons, as compared with 78 million gallons in 1978.


CUBIC
FEET

1979 FINANCIAL REVIEW

Earnings on common stock for 1979 were $143.1 million, or $4.39 per share, as compared with the restated 1978 earnings of $121.1 million, or $3.72 per share.

The primary factors affecting the year's results were:

• An increase in retail and wholesale sales volumes of 7 percent to 1.2 trillion cubic feet;

• Higher retail and wholesale rates, as detailed in "Rate Activity" below;

• The sale of most of Columbia's working interest in Canadian Beaufort Sea lands, which increased earnings by $11.6 million or 36 cents a share;

• A reduction in investment tax credits which reduced earnings by about $5.6 million or 17 cents a share as a result of less qualifying construction expenditures; and

• An order by the Federal Energy Regulatory Commission on February 12, 1980 which reversed a 1977 Administrative Law Judge's decision and denied, retroactively to December 15, 1975, Columbia's request to price certain of its Appalachian production on a cost-of-service basis. As a result of the order, 1979 earnings on common stock were reduced by $5.4 million or $0.17 per share. Earnings for 1978 have been restated to reflect a reduction of $7.0 million, or $0.21 per share, and earnings for the years 1976 and 1977 have been reduced $17.2 million. The order directs Columbia to use prices under the Natural Gas Policy Act of 1978 or nationwide/area rates as applicable in lieu of cost-of-service.

Details on various factors affecting earnings are included in the "Management's Discussion and Analysis of the Summary of Operations" section on page 35.

Rate Activity

During 1979, the System's distribution subsidiaries have received approvals for general rate increases amounting to approximately $33 million annually. In addition, a $10 million annual general rate increase is being collected, subject to refund, and similar increases of approximately $9 million annually were awaiting action by various state commissions at year-end.

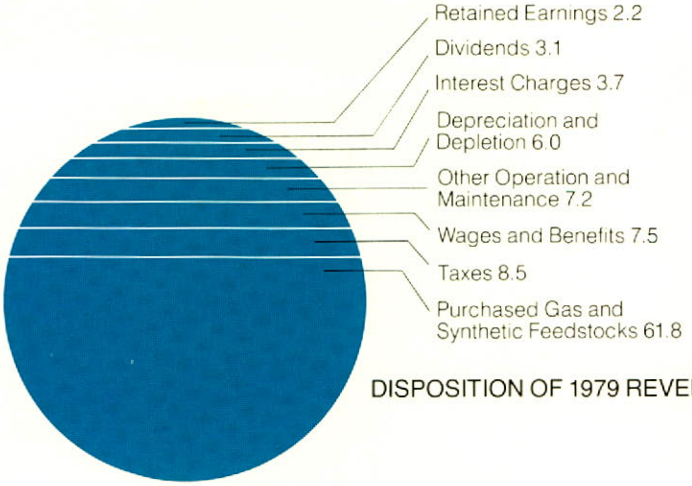
As part of the settlement of Columbia's last wholesale rate case, its transmission companies are expecting recovery of their cost of service including a 10.01% overall rate of return for a two-year period ending May 31, 1980. This settlement also provides for future rate redetermination at the end of this period in accordance with the principles of the settlement agreement.

In addition, the System's rate regulated companies, both wholesale and retail, are at present able to pass along to their customers increases in the cost of purchased gas through purchased gas adjustment clauses or similar provisions of the tariffs under which they operate.

Financing

The long-term financing program in 1979 consisted of the sale, at competitive bidding, on May 16 of $75 million principal amount of 10¼% debentures and on October 17 of $100 million principal amount of 11¾% debentures. A portion of the proceeds from the October sale was used to refund on November 1 all of the Corporation's 11¼% Series A Preferred Stock.

Additional capital was provided during 1979 from the proceeds of the issuance of 159,000 shares of common stock to the Tax Reduction Employee Stock Ownership Plan. Commencing with the August 15, 1979 dividend, common stock was also issued in connection with the Dividend Reinvestment Plan. Through December 31, 1979, 68,000 shares of common stock were issued to participants in the Dividend Reinvestment Plan. Prior to August 15, 1979, shares were purchased in the open market for the Plan. The issuance of authorized but



DISPOSITION OF 1979 REVENUE DOLLAR

unissued shares to these two plans generated almost $8 million of additional equity capital.

Short-term financing requirements were met solely through the issuance of the Corporation's commercial paper. Interest rates on this commercial paper ranged from 10.1% to 14.4%, but at all times were lower than the prevailing bank prime lending rate. The maximum amount of commercial paper outstanding at any one time during 1979 was $133 million.

Revenues

The System's operating revenues in 1979 totaled $2.9 billion compared with those of $2.4 billion in 1978 as restated. The chart above reflects the disposition of Columbia's revenue dollar in 1979.

Common Stock Prices and Dividends

Dividends paid and the price range of the Corporation's common stock by quarters for the last two years are provided below.

	Market Price			Quarterly Dividends
Quarter Ended	High	Low	Close	Paid
	$	$	$	¢
1979				
March 31	28	25¼	26¼	61
June 30	28⅞	26	28⅜	61
September 30	40	28⅜	36⅜	61
December 31	40¾	30	37¾	61
1978				
March 31	29⅛	27⅝	28	58½
June 30	29⅛	25⅝	27¾	58½
September 30	29½	26⅝	27¾	58½
December 31	28¼	25⅛	25½	58½

MANAGEMENT'S STATEMENT ON RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and related notes have been prepared by the Corporation based on the appropriate generally accepted accounting principles, and are considered by management to present fairly and consistently the Corporation's financial position and results of operations. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year-end, are the responsibility of management as is all other information included in the Annual Report, unless otherwise indicated.

To meet its responsibilities with respect to financial information, management maintains an accounting system and related controls to reasonably assure the integrity of financial records and the protection of assets. The effectiveness of this system is enhanced by the selection and training of qualified personnel, an organizational structure that provides an appropriate division of responsibility, a strong budgetary control system, and a comprehensive program of internal audits designed to reasonably assure the adequacy of internal controls and implementation of company policies and procedures. The internal audit staff is under the direction of the General Auditor who reports directly to the Chairman of the Board.

An audit committee assists the board of directors in its oversight role and is composed of six directors who are not officers or employees of the Corporation. This audit committee meets with the General Auditor periodically to review his work and to monitor the discharge of his responsibilities. The audit committee also meets periodically with the independent public accountants, who have free access to the audit committee of the board, to discuss internal accounting controls, auditing and financial reporting matters.

Statements of Consolidated Income
Year Ended December 31,
The Columbia Gas System, Inc. and Subsidiaries

	1979	1978*
	(Thousands)	
Operating Revenues (Note 2)		
Gas	**$2,771,096**	$2,371,202
Other	**80,637**	72,969
Total operating revenues	**2,851,733**	2,444,171
Operating Expenses		
Gas purchased for resale	**1,513,362**	1,225,953
Synthetic gas feedstocks	**266,794**	261,702
Other operation	**364,903**	317,962
Maintenance	**60,194**	55,250
Provision for depreciation and depletion	**171,690**	178,949
Provision for income taxes (See Statements of Consolidated Taxes)	**121,396**	115,608
Other taxes (See Statements of Consolidated Taxes)	**131,987**	99,451
Total operating expenses	**2,630,326**	2,254,875
Operating income	**221,407**	189,296
Other Income		
Investment credits, including amortization (See Statements of Consolidated Taxes)	**10,523**	15,655
Allowance for equity funds used during construction	**693**	7,033
Gain on sale of Canadian properties, less deferred income taxes of $2,060,000 (Note 3)	**11,590**	—
Interest and other—net	**15,124**	6,759
Total other income	**37,930**	29,447
Income before interest charges	**259,337**	218,743
Interest Charges		
Long-term debt	**89,045**	88,325
Other—net	**20,960**	8,396
Less allowance for borrowed funds used during construction	**(3,949)**	(10,179)
Total interest charges	**106,056**	86,542
Net Income	**153,281**	132,201
Preferred stock dividend accrual	**10,168**	11,105
Earnings on Common Stock	**$ 143,113**	$ 121,096
Earnings Per Share of Common Stock (based on average shares outstanding)	**$4.39**	$3.72
Dividends Per Share of Common Stock	**$2.44**	$2.34
Average Common Shares Outstanding (thousands)	**32,634**	32,519

*Restated to reflect wholesale rate case order as discussed in Note 2(A).

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

Statements of Consolidated Funds Used for Capital Expenditures
Year Ended December 31,
The Columbia Gas System, Inc. and Subsidiaries

	1979	1978*
	(Thousands)	
Funds from Internal Sources		
Operations		
Earnings on common stock	**$143,113**	$121,096
Less dividends on common stock	**(79,567)**	(76,078)
	63,546	45,018
Items not requiring (providing) funds:		
Depreciation and depletion—		
Charged to income	**171,690**	178,949
Charged to other accounts	**808**	711
Deferred income taxes—net	**110,340**	70,870
Deferred investment credits—net	**6,070**	3,771
Allowance for equity funds used during construction	**(693)**	(7,033)
Total operations	**351,761**	292,286
Other		
Cash and temporary cash investments	**34,954**	(31,160)
Accounts receivable	**(125,697)**	(10,776)
Gas in underground storage	**8,571**	(16,760)
Accounts and drafts payable	**72,909**	61,850
Accrued taxes	**(23,195)**	21,126
Rate refunds—current and deferred	**(65,198)**	37,019
Unrecovered/over-recovered gas costs—net	**(100,079)**	45,128
Repayments of gas supply advances and investments	**57,152**	179,580
Miscellaneous—net	**44,688**	45,306
Total other	**(95,895)**	331,313
Total funds from internal sources	**255,866**	623,599
Funds from Financing		
Issuance of capital stock	**7,840**	2,591
Retirement of capital stock	**(50,000)**	—
Issuance of long-term debt	**175,000**	—
Retirement of long-term debt	**(67,811)**	(222,145)
Short-term bank loans and commercial paper—		
Borrowed	**465,110**	253,725
Repaid	**(417,470)**	(319,807)
Total funds from financing (repaid)	**112,669**	(285,636)
Funds Used for Capital Expenditures**	**$368,535**	$337,963

*Restated to reflect wholesale rate case order as discussed in Note 2(A), and reclassified to conform to 1979 presentation.

**Includes gas supply advances and investments and allowances for funds used during construction.

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

Consolidated Balance Sheets
As of December 31,

The Columbia Gas System, Inc. and Subsidiaries

Assets	1979	1978*
	(Thousands)	
Property, Plant and Equipment, at original cost—		
Gas utility and other plant	$3,608,464	$3,414,847
Less accumulated provision for depreciation and depletion	(1,541,796)	(1,441,373)
	2,066,668	1,973,474
Oil and gas producing properties, full cost method—		
United States cost center	647,967	575,423
Canadian cost center ($34,050,000 and $49,879,000, respectively, not being amortized) (Note 3)	78,469	88,470
Less accumulated provision for depreciation and depletion	(174,166)	(153,531)
	552,270	510,362
Net property, plant and equipment	2,618,938	2,483,836
Gas Supply Advances and Investments	149,838	152,218
Current Assets		
Cash	32,729	35,877
Temporary cash investments, at cost which approximates market	196	32,002
Accounts receivable—		
Gas	281,299	226,594
Other	109,188	38,728
Less accumulated provision for doubtful accounts	(3,654)	(4,186)
Gas supply advances—current (including accrued interest)	21,376	61,675
Gas in underground storage—current inventory, at cost	219,113	227,684
Materials and supplies, at average cost	38,383	35,954
Unrecovered gas costs—net	53,502	—
Current deferred taxes—net	—	45,865
Other	62,559	54,551
Total current assets	814,691	754,744
Deferred Charges	42,569	36,424
	$3,626,036	$3,427,222

*Restated to reflect wholesale rate case order as discussed in Note 2(A), and reclassified to conform to 1979 presentation.

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

Capitalization and Liabilities	1979	1978*
	(Thousands)	
Capitalization (See Statements of Consolidated Capitalization)		
Common stock equity	**$1,097,886**	$1,026,500
Redeemable preferred stock	**50,000**	100,000
Long-term debt	**1,174,596**	1,070,407
Total capitalization	**2,322,482**	2,196,907
Current Liabilities		
Commercial paper	**133,140**	85,500
Current maturities of long-term debt (excluding sinking fund requirements of $39,503,000 and $32,257,000, respectively, previously satisfied)	**29,013**	27,709
Accounts and drafts payable	**312,320**	239,411
Accrued taxes	**82,065**	105,260
Accrued interest	**33,591**	25,027
Estimated rate refunds	**220,553**	268,801
Over-recovered gas costs—net	**—**	46,577
Current deferred taxes—net	**30,911**	—
Other	**59,173**	47,318
Total current liabilities	**900,766**	845,603
Deferred Credits		
Accumulated provision for deferred income taxes—net	**324,766**	291,056
Accumulated deferred investment credits, being amortized	**34,144**	31,984
Other	**43,878**	61,672
Total deferred credits	**402,788**	384,712
Commitments and Contingencies (Notes 2, 6 and 7)		
	$3,626,036	$3,427,222

Statements of Consolidated Capitalization
As of December 31,
The Columbia Gas System, Inc. and Subsidiaries

	1979		1978*	
	(Thousands)			
Common Stock Equity				
Common stock, $10 par value, authorized 50,000,000 shares, outstanding 32,807,246 and 32,580,226 shares, respectively	**$ 328,072**		$ 325,802	
Balance of amounts paid in in excess of par value	**126,275**		120,705	
Retained earnings, $464,993,000 not available for cash dividends at December 31, 1979	**643,539**		579,993	
Total common stock equity	**1,097,886**	**47.3%**	1,026,500	46.7%
Redeemable Preferred Stock, $50 par value, authorized 10,000,000 shares, outstanding (Note 4)—				
11.25% Series A, 1,000,000 shares—redeemed on November 1, 1979	**—**		50,000	
10.96% Series B, 1,000,000 shares—(a)	**50,000**		50,000	
Total redeemable preferred stock	**50,000**	**2.1**	100,000	4.6
Long-Term Debt				
The Columbia Gas System, Inc.				
Debentures—				
Series — Interest Rates				
1980-1983 — 3⅝%- 5 %	**46,159**		60,409	
1985-1989 — 4⅜%- 9⅝%	**194,532**		210,670	
1990-1994 — 4⅝%- 9 %	**193,202**		203,089	
1995-1999 — 7½%-11¾%	**728,861**		577,507	
	1,162,754		1,051,675	
Less unamortized debt discount, less premium	**(7,948)**		(6,252)	
	1,154,806		1,045,423	
Term bank loans (b)	**15,000**		20,000	
Miscellaneous debt of subsidiaries	**4,790**		4,984	
Total long-term debt (c)	**1,174,596**	**50.6**	1,070,407	48.7
Total Capitalization	**$2,322,482**	**100.0%**	$2,196,907	100.0%

(a) Redeemable, on at least 30 days notice, (i) for the sinking fund, in 1981 and thereafter, at a price of $50 per share or (ii) otherwise at the optional redemption price of $56.69 per share on or before May 31, 1980, $55.32 on or before May 31, 1985, and $53.95 thereafter.
(b) The term bank loans are due in semi-annual installments through 1983 and bear interest at the prime bank rate through October 1, 1981 and at the rate of 105% of the prime bank rate thereafter, with no compensating balance requirements.
(c) The composite annual interest rate on long-term debt outstanding as of December 31, 1979 is 8.13% and the current annual interest requirement on such long-term debt is $98,558,000.
*Restated to reflect wholesale rate case order as discussed in Note 2(A).

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

Statements of Consolidated Common Stock Equity

The Columbia Gas System, Inc. and Subsidiaries

	Common Stock			
	Number of Shares	Par Value	Balance of Amounts Paid In in Excess of Par Value	Retained* Earnings
			(Thousands)	
Balance at January 1, 1978	32,489	$324,885	$119,031	$534,975
Sale of common stock**	91	917	1,674	—
Net income for 1978	—	—	—	132,201
Cash dividends:				
Common stock	—	—	—	(76,078)
Redeemable preferred stock—				
11.25% Series A	—	—	—	(5,625)
10.96% Series B	—	—	—	(5,480)
Balance at December 31, 1978	**32,580**	**325,802**	**120,705**	**579,993**
Sale of common stock**	**227**	**2,270**	**5,570**	**—**
Net income for 1979	**—**	**—**	**—**	**153,281**
Cash dividends:				
Common stock	**—**	**—**	**—**	**(79,567)**
Redeemable preferred stock—				
11.25% Series A	**—**	**—**	**—**	**(4,688)**
10.96% Series B	**—**	**—**	**—**	**(5,480)**
Balance at December 31, 1979	**32,807**	**$328,072**	**$126,275**	**$643,539*******

*Restated to reflect wholesale rate case order as discussed in Note 2(A).

**In 1979 and 1978, the Corporation sold 159,313 and 91,657 shares, respectively, of common stock to the trustee of the Tax Reduction Employee Stock Ownership Plan. In addition, during 1979 the Corporation issued 67,707 shares of common stock in connection with the Dividend Reinvestment Plan.

***$464,993,000 not available for cash dividends.

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

Statements of Consolidated Taxes
Year Ended December 31,
The Columbia Gas System, Inc. and Subsidiaries

Tax Expense	1979	1978*
	(Thousands)	
Provision for Income Taxes		
Included in operating expenses		
Currently payable—		
Federal	$ (4,173)	$ 17,029
State	696	8,283
Total	(3,477)	25,312
Deferred, net—		
Federal	99,279	68,665
State	9,001	2,205
Total	108,280	70,870
Investment credits—		
Provision	18,304	21,557
Provision not deferred	(989)	(1,542)
Amortization	(722)	(589)
Total	16,593	19,426
Total included in operating expenses	121,396	115,608
Included in other income		
Deferred—		
Federal	(2,168)	—
Foreign	4,228	—
Total	2,060	—
Investment credits—		
Provision not deferred	(8,623)	(13,741)
Amortization	(1,900)	(1,914)
Total	(10,523)	(15,655)
Total included in other income	(8,463)	(15,655)
Total provision for income taxes	112,933	99,953
Other Taxes		
Property	37,605	33,467
Gross receipts	79,908	53,307
Payroll	10,763	8,402
Other	3,711	4,275
Total other taxes	131,987	99,451
Total Tax Expense	$244,920	$199,404

*Restated to reflect wholesale rate case order as discussed in Note 2(A).

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

	1979		1978*	
	(Thousands)			
Computation of Income Taxes—The total provision for income taxes is less than the amount which would be computed by applying the statutory Federal income tax rate to book income before income tax. The major reasons for this difference are as follows:				
Book income before provision for income taxes	**$266,214**		$232,154	
Tax expense at statutory Federal income tax rate	**$122,458**	**46.0%**	$111,434	48.0%
Increases (reductions) in taxes resulting from—				
State income taxes, net of Federal income tax benefit	**5,195**	**1.9**	5,606	2.4
Investment credits not deferred and amortization of credits deferred in prior years	**(12,234)**	**(4.6)**	(17,786)	(7.7)
Depreciation and depletion expenses for accounting purposes over amounts claimed for income tax purposes—net	**4,452**	**1.7**	6,073	2.6
Gain on sale of Canadian properties taxed at less than the statutory rate	**(4,220)**	**(1.6)**	—	—
Other—net	**(2,718)**	**(1.0)**	(5,374)	(2.2)
Total provision for income taxes	**$112,933**	**42.4%**	$ 99,953	43.1%

	1979	1978*
Deferred Income Taxes—Result from timing differences in the recognition of revenues and expenses for tax and accounting purposes. The source of these differences and tax effect of each is as follows:		
Intangible drilling, abandoned leases and certain other exploration costs	**$ 26,445**	$ 34,015
Other depreciation and depletion	**11,846**	9,306
Unrecovered/over-recovered gas costs—net	**27,386**	(17,579)
Provision for estimated rate refunds	**39,754**	35,380
Other—net	**4,909**	9,748
Total provision for deferred income taxes	**$110,340**	$ 70,870

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(A) Principles of Consolidation. The Consolidated Financial Statements include the accounts of the Corporation and all subsidiaries. Intercompany transactions have been eliminated.

(B) Property, Plant and Equipment and Related Depreciation and Depletion. Property, plant and equipment of the Corporation's rate regulated subsidiaries is stated at the historical cost of construction. Such costs include payroll and related costs, administrative and general costs and allowance for funds used during construction.

Allowance for funds used during construction is defined in the applicable regulatory system of accounts as the net cost, during the period of construction, of borrowed funds used and a reasonable rate upon other funds when so used. The rate for such allowance was 11.25% in 1979 and 10.5% in 1978.

Allowance for borrowed funds is also capitalized in connection with certain non-rate regulated mineral resource projects prior to the commencement of production, as an integral component of the total project cost, at a rate of 5.0% in 1979 and 4.65% in 1978. If the allowance for borrowed funds had not been capitalized on these projects, earnings on common stock would have been reduced by approximately $200,000 in 1979 and $1,600,000 in 1978.

The Corporation's subsidiaries provide for depreciation on a composite straight-line basis. The annual provisions for depreciation as related to the average of depreciable property at the beginning and end of each year result in composite rates of 2.9% in 1979 and 3.0% in 1978 for distribution properties and 3.8% in 1979 and 5.3% in 1978 for other properties.

The Corporation's subsidiaries engaged in exploring for and developing reserves of hydrocarbons (principally natural gas) follow the full cost method of accounting. Under this method of accounting, all productive and non-productive costs directly identified with acquisition, exploration and development activities are capitalized in country-wide cost centers.

Provisions for depreciation and depletion related to costs capitalized in the United States cost center are based upon gross revenues. Such depreciation and depletion amounted to $56,000,000 or $0.58 per dollar of gross revenues in 1979 and $40,600,000 or $0.63 per dollar of gross revenues as restated in 1978.

Provisions for depreciation and depletion related to costs capitalized in the Canadian cost center, exclusive of Canadian frontier areas as described in Note 3, are based upon physical units produced. Such depreciation and depletion amounted to $600,000 or $0.31 per Mcf in 1979 and $300,000 or $0.27 per Mcf in 1978.

(C) Gas in Underground Storage. Current inventory is carried at cost on a last-in, first-out basis (LIFO). The excess of current cost over carrying value was approximately $132,300,000 and $112,100,000 at December 31, 1979 and 1978, respectively. Under present regulatory practice, liquidation of the LIFO layers would be reflected in future purchased gas adjustments in customer rates.

(D) Income Taxes and Investment Tax Credits. The Corporation's subsidiaries generally follow interperiod tax allocation with respect to timing differences in the recognition of revenues and expenses for tax and accounting purposes except when regulatory commissions do not recognize interperiod tax allocation for rate purposes.

Investment tax credits are being recorded in income currently except for credits of the gas distribution subsidiaries, which are being deferred and amortized generally over the life of the related property.

Reference is made to Statements of Consolidated Taxes for the components of and additional information relating to taxes.

(E) Provisions for Estimated Rate Refunds. Provisions for estimated rate refunds are based upon management's current judgement as to the ultimate disposition of pending rate proceedings, except in instances where a reasonable estimate of the ultimate outcome cannot be made.

(F) Unbilled Revenue. The Corporation's gas distribution subsidiaries recognize revenue from meters read or calculated on a monthly cycle basis, thereby resulting in unbilled revenue from the cycle date through month end. The effect of not recording unbilled revenue is offset in part by the policy of a gas wholesale subsidiary of expensing gas withdrawn from underground storage only through the 20th of each month and gas cost recovery clauses of certain retail state jurisdictions.

(G) Unrecovered Gas Costs. The Corporation's gas wholesale and distribution subsidiaries defer differences between gas purchased costs and the recovery of such costs in revenues, and adjust future billings for such deferrals through purchased gas adjustment clauses or similar tariff provisions.

During 1979, The Public Utilities Commission of Ohio modified its rules to provide for a Gas Cost Recovery clause in rate tariffs, replacing the former Purchased Gas Adjustment and Actual Cost Adjustment clauses. In December 1979, the Corporation's Ohio retail subsidiary adopted deferral accounting consistent with the new rule, which results in gas purchased costs being expensed in an amount equal to gas purchased costs recovered in revenues. Consequently, revenues and gas purchased expenses are now matched on a monthly basis rather than on an annual basis resulting in a redistribution of purchased gas expense among the various quarters, with no significant effect on annual earnings in 1980 and thereafter. Adoption of accounting consistent with the new rule increased fourth quarter earnings on common stock by $4,700,000 or $0.14 per share.

(H) Pension Costs. The Corporation has a trusteed, non-contributory Retirement Income Plan which, with certain minor exceptions, covers all regular employees 25 years of age and over. The Corporation's policy is to fund pension costs accrued which amounted to $19,600,000 in 1979 and $16,800,000 in 1978 including amortization of unfunded prior service costs. As of December 31, 1979, the current value of vested benefits exceeded the market value of the Retirement Income Fund by $25,700,000. The unfunded prior service liability was approximately $67,500,000 and is being amortized over a 20 year period.

Effective January 1, 1980, the Corporation authorized supplemental payments to retired employees and surviving beneficiaries of employees who retired prior to January 1, 1980. These payments will be made from the general funds of the Corporation. The total actuarial liability of approximately $9,700,000 will be amortized over a 10 year period.

(2) Regulatory Matters

(A) Wholesale Rate Order. On February 12, 1980, the Federal Energy Regulatory Commission (FERC) issued an order which reversed the 1977 Administrative Law Judge's decision approving the wholesale transmission company's request to price new Appalachian production on a cost-of-service basis beginning December 15, 1975. In accordance with the order, a portion of the Appalachian production is to be priced at qualifying Natural Gas Policy Act or nationwide/area rates as applicable. Prior period financial statements have been restated to reflect the effects of this order. Consequently, earnings on common stock were decreased by $17,200,000 for the years 1976 and 1977, $7,000,000 or $0.21 per share in 1978 and $5,400,000 or $0.17 per share in 1979. The decreases in earnings reflect the anticipated refund associated with the order, the effect of including related properties and revenues in the U.S. cost center for depletion purposes and the recording of associated tax adjustments.

(B) Other Rate Matters. In July 1979, the FERC issued an order which confirmed existing FERC policy that, in determining wholesale rates, statutory income tax rates should be used to compute cost-of-service. The order also found that the income tax allowance in rates collected by the Corporation's wholesale subsidiaries since December 15, 1975, was just and reasonable. The order has no effect on previously reported earnings. As a result of this order, the Corporation's independent public accountants have removed their opinion qualification, as previously contained in the 1978 annual report to stockholders. An application for rehearing requested by an opposing intervenor was denied by the FERC. A petition for review was filed by the opposing intervenor on February 12, 1980, in the United States Court of Appeals for the District of Columbia circuit. In the opinion of management, the favorable decision of the FERC will be upheld by the court.

On July 3, 1979, the FERC issued an order approving a settlement agreement in connection with a rate increase collected subject to refund since June 1, 1978, by the Corporation's gas wholesale subsidiaries and reserving certain issues for further hearing. The order also required refunds of $87,800,000 but had no effect on reported earnings since adequate refund provisions were previously recorded. It also finally disposed of certain contingent depreciation matters which resulted in a reduction in the provision for depreciation in 1979, of which approximately $8,000,000 was applicable to 1978. In addition, the order eliminated a contingent refund obligation relating to a Show Cause Order regarding the removal of certain gas supply advance payments from the rate base retroactive to the date of such advances and approved Columbia's method of distributing to its customers approximately $82,200,000 of interest earned on such advances. Both refunds were made in August 1979.

(C) Rate Increase Filings. Certain subsidiaries have increased their rates and are collecting the increase in revenue subject to refund. In the opinion of management, the provisions for estimated rate refunds charged to income are adequate to cover the ultimate disposition of pending rate proceedings.

Reference is made to the heading "1979 Financial Review—Rate Activity" for additional information.

(3) Investment in Canadian Frontier Areas

Costs capitalized in the Canadian cost center, net of accumulated provision for depreciation and depletion, amounted to $77,600,000 and $87,700,000 at December 31, 1979 and 1978 respectively. Investments by Columbia Gas Development of Canada Ltd. (Columbia-Canada) in certain Canadian frontier areas, as shown in the accompanying table, have been excluded from this cost center for purposes of calculating depreciation and depletion pending determination of proved reserves and/or valuation attributable to the properties. Such properties are subject to periodic assessment (at least annually) and any impairment below cost is included in costs being amortized.

At December 31,	**1979** (Thousands)	1978
Beaufort Sea	**$ —**	$18,200
Arctic Islands and Northwest Territories	**21,800**	22,500
Offshore East Coast	**12,300**	9,200
	$34,100	$49,900

Beaufort Sea: The sale of most of Columbia-Canada's working interest in the Beaufort Sea was recorded in the fourth quarter of 1979 resulting in a gain of $11,600,000 or $0.36 per share. Columbia-Canada's remaining investment in the Beaufort Sea is now included in the Canadian cost center for purposes of calculating depreciation and depletion.

Arctic Islands and Northwest Territories: Columbia-Canada owns varying interests in 13.9 million gross acres (1.6 million net acres). Costs were initially incurred in 1971 and consist principally of exploration costs accumulated since that time. Exploration drilling by Columbia-Canada and others is proceeding to evaluate lands in which Columbia-Canada has interests. Management estimates that development of gas reserves attributable to these properties will occur in the mid to late 1980's.

Offshore East Coast: Columbia-Canada owns varying interests in 14.1 million gross acres (2.4 million net acres) offshore Labrador and Newfoundland and 490,000 gross acres (245,000 net acres) offshore Baffin Island. Costs were initially incurred in 1972 and consist principally of exploration costs. Gas discoveries have been made offshore along the eastern coasts of Newfoundland and Baffin Island. The Chevron Hibernia well 200 miles east of St. Johns, Newfoundland, in which Columbia-Canada has an interest, is a potentially significant discovery. Follow-up drilling, additional exploration activities and development feasibility studies are underway or planned for the immediate future. Development of the east coast offshore area is estimated by management for the mid-1980's.

(4) Redeemable Preferred Stock

As of December 31, 1979, the Corporation had outstanding 1,000,000 shares of 10.96% Series B Preferred Stock. This preferred stock is subject to a mandatory sinking fund which requires that the Corporation redeem 100,000 shares per year beginning May 31, 1981, creating a maximum aggregate cash requirement of $20,000,000 over the next five years. Shares are redeemable for other than sinking fund purposes commencing June 1, 1980.

Dividends on this stock are cumulative. If four quarterly dividends remain unpaid, the holders of the preferred stock have the right to elect a majority of the Board of Directors. In addition, for the protection of the preferred stockholders, the Corporation's Certificate of Incorporation limits the ability of the Corporation to create a class of stock ranking equal to or higher in preference than the preferred stock.

(5) Compensating Balances and Short-Term Borrowings

Short-term requirements are met through the use of bank loans and/or commercial paper. Typically, these obligations remain outstanding for periods of one to seven months. The Corporation maintains compensating balances in connection with certain bank lines of credit in accordance with a formula calling for the greater of 10% of such lines of credit or 20% of the annual average borrowings. There are no legal restrictions regarding the withdrawal of these compensating balances.

Certain information relating to such bank loans and/or commercial paper is set forth as follows:

Year ended December 31,	**1979** (Thousands)	1978
Maximum amount outstanding	**$133,100**	$164,200
Daily average outstanding	**$ 34,400**	$ 35,400
Range of interest rates	**10.1%-14.4%**	6.6%-10.6%
Weighted average interest rate	**12.6%**	8.3%
Credit lines at year end	**$195,000**	$200,000
Less outstanding commercial paper	**(133,100)**	(85,500)
Unused credit lines	**$ 61,900**	$114,500
Weighted average interest rate at year end	**13.8%**	10.6%
Approximate compensating balance at year end	**$ 15,600**	$ 16,300

(6) Lease Rentals

In accordance with the current ratemaking practice of the regulatory commissions having jurisdiction over the Corporation's rate regulated subsidiaries, payments made in connection with non-capitalized financing and operating leases are charged to expense or clearing accounts, which are substantially charged to expense, as incurred. Such amounts were $25,900,000 in 1979 and $22,700,000 in 1978. If the Corporation had capitalized financing leases, the effect on total assets, liabilities and expenses would not be material.

Minimum rental commitments under "non-cancellable" leases are as follows:

Period	(Thousands)
1980	$13,500
1981	10,800
1982	7,500
1983	4,700
1984	3,300
After 1984	15,500

(7) Commitments

Capital expenditures for 1980 are estimated at $450,000,000 of which $435,000,000 is for construction. Reference is made to the foregoing report to stockholders for additional information relating to capital expenditures and commitments including those applicable to gas supply.

(8) Oil and Gas Producing Activities

(A) Introduction. Although constituting only a portion of the Corporation's business, new requirements promulgated by the Securities and Exchange Commission (SEC) require the reporting of certain data on oil and gas production activities. Reserve information contained in the following tables was supplied by the independent consulting firms of Ralph E. Davis Associates, Inc. for U.S. properties and by John R. Lacey International, Ltd. for the Canadian properties. The Corporation's oil and gas producing properties subject to cost-of-service rate regulation by the FERC are excluded from the disclosures in the accompanying tables.

Additional information related to Reserve Recognition Accounting is contained in the Corporation's annual report to the SEC (Form 10-K).

Notes to Consolidated Financial Statements (Continued)

(B) Production Revenues, Costs and Statistics.

	U.S.		Canada	
	1979	1978*	**1979**	1978
	(Thousands)			
Capitalized Costs at Year End				
Proved Properties	**$524,648**	$482,532	**$27,329**	$21,495
Unproved properties	**123,319**	92,891	**51,140**	66,975
Total capitalized costs	**647,967**	575,423	**78,469**	88,470
Less accumulated depreciation and depletion	**(173,249)**	(152,809)	**(917)**	(722)
Net capitalized costs	**$474,718**	$422,614	**$77,552**	$87,748
Net Production Revenues				
Inter-company sales and transfers	**$ 73,625**	$ 49,386	**$ —**	$ —
Unaffiliated sales	**21,817**	11,212	**2,114**	980
Gross revenues	**95,442**	60,598	**2,114**	980
Less production (lifting) costs	**(16,371)**	(9,724)	**(564)**	(301)
Net revenues	**$ 79,071**	$ 50,874	**$ 1,550**	$ 679
Costs Capitalized During Year				
Property acquisitions	**$ 7,643**	$ 18,030	**$ 1,730**	$ 2,784
Exploration	**44,114**	38,676	**8,925**	7,352
Development	**57,643**	65,203	**7,882**	7,146
Costs capitalized	**$109,400**	$121,909	**$18,537**	$17,282
Other Oil and Gas Production Data				
Provision for depreciation and depletion (000)	**$ 55,968**	$ 40,604	**$ 557**	$ 270
Average sales price per Mcf of gas produced	**$ 1.27**	$ 0.93	**$ 1.53**	$ 0.92
Average sales price per barrel of oil and other liquids produced	**$ 15.30**	$ 11.82	**$ 10.35**	$ 7.57
Average production (lifting) cost per revenue dollar	**$ 0.17**	$ 0.16	**$ —**	$ —
Average production (lifting) cost per unit of production	**$ —**	$ —	**$ 0.42**	$ 0.37

*Restated to reflect wholesale rate case order as discussed in Note 2(A).

(C) Company-Owned Proved Reserves (Unaudited).

As of December 31,	1979		1978	
	Total	Developed	Total	Developed
Gas (MMcf @ 14.73 psia)				
U.S.	**390,342**	**268,532**	441,393	311,294
Canada	**105,298**	**89,624**	101,686	88,304
Total	**495,640**	**358,156**	543,079	399,598
Oil and Other Liquids (000 Bbls.)				
U.S.	**6,089**	**4,021**	6,957	4,635
Canada	**1,114**	**1,019**	866	771
Total	**7,203**	**5,040**	7,823	5,406

(D) Changes in Company-Owned Proved Reserves (Unaudited).

	U.S. Gas @14.73 psia (MMcf)	U.S. Oil and Other Liquids (000 Bbls.)	Canada* Gas @14.73 psia (MMcf)	Canada* Oil and Other Liquids (000 Bbls.)
Reserves as of December 31, 1977	426,140	6,748	105,610	625
Revisions of previous estimate	15,668	144	(3,107)	44
Extensions, discoveries, and other additions	53,709	954	—	227
Production	(54,124)	(889)	(817)	(30)
Reserves as of December 31, 1978	**441,393**	**6,957**	**101,686**	**866**
Revisions of previous estimate	**(45,117)**	**(981)**	**(5,527)**	**59**
Extensions, discoveries, and other additions	**52,913**	**1,480**	**10,574**	**253**
Production	**(58,847)**	**(1,367)**	**(1,435)**	**(64)**
Reserves as of December 31, 1979	**390,342**	**6,089**	**105,298**	**1,114**

*Canadian reserves displayed in the above table are included before deduction of royalties because the leases for such reserves generally provide for payment of royalty on a basis other than a percent of production.

(E) Estimated Future Net Revenues Applicable to Proved Reserves As of December 31, 1979 (Unaudited).

Year	U.S. Total	U.S. Developed	Canada Total	Canada Developed
		(Thousands)		
1980	$ 65,054	$ 84,683	$ 6,297	$ 6,532
1981	86,346	74,744	8,541	8,284
1982	96,064	61,517	8,767	8,019
After 1982	518,864	252,569	92,725	79,676
Total	$766,328	$473,513	$116,330	$102,511

(F) Information Related to Excluded Cost-of-Service Properties. As of December 31, 1979, net capitalized costs of the Corporation's cost-of-service rate regulated gas properties amounted to $8,900,000. Total expenditures applicable to such properties for the year 1979 were $1,400,000.

Proved gas reserves related to the cost-of-service properties at December 31, 1979, as supplied by Ralph E. Davis Associates, Inc., amounted to 337,000 MMcf. Changes in reserves principally attributable to revisions of prior estimates, new discoveries and production amounted to a net increase of 9,000 MMcf. Production for the year 1979 amounted to 37,000 MMcf. and the related provision for depreciation and depletion totaled $3,400,000.

(9) Effects of General Inflation and Other Price Changes (Unaudited)

(A) Introduction. The accompanying consolidated financial statements have been prepared on the basis of historical cost in accordance with applicable generally accepted accounting principles. Recent worldwide inflationary trends have caused some to raise questions as to whether earnings as conventionally measured using historical cost could be made more meaningful and whether inflation adjusted financial data would, in fact, provide useful information to investors and other readers of financial data. Although the debate continues as to the usefulness of such data and the appropriate methodology to be applied, the Financial Accounting Standards Board (FASB) has issued Statement No. 33 requiring supplementary disclosures related to the effects of inflation by major corporations. The statement prescribes two supplementary income computations, one dealing with the effects of general inflation (constant dollars) and the other dealing with the effects of changes in the specific prices of resources used by an enterprise (current cost). Since management believes that certain refinements to the current cost approach are necessary, including the application to oil and gas producing activities, the option provided by the statement to delay current cost reporting until 1980 is being used.

(B) Replacement Cost Data. Inflation has been a significant factor affecting the Corporation's cost of replacements. Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a substantially greater capital investment than was required to purchase the assets which are being replaced. The additional capital investment principally reflects the cumulative impact of inflation on the long-lived nature of these assets. In a similar way, the Corporation's cost of operations has also been affected by changes in the general price level which influences the cost of gas purchases, labor, materials and other items. However, as increased costs are incurred, the Corporation's rate regulated subsidiaries are allowed to recover such increased costs. A quantitative analysis of replacement cost information is included in the Corporation's Annual Report to the SEC (Form 10K).

(C) Constant Dollar Data. The following supplementary data, consistent with Statement No. 33 of the FASB, is intended to set forth the effect of general inflation on the Corporation. It should be viewed as an approximation of the effect of inflation rather than as a precise measure.

Statement of Income From Operations Adjusted For General Inflation

Year Ended December 31, 1979	Conventional Historical Cost	(Thousands)	Constant Dollar Average 1979 Dollars
Operating revenues	$2,851,733		$2,869,176
Purchased gas and feedstocks	1,780,156		1,780,156
Other operating expenses	557,084		557,084
Depreciation and depletion	171,690		317,258
Income taxes	121,396		121,396
Other income (deductions)—net, after preferred stock dividend	(78,294)		(78,294)
Income from operations (excluding reduction to net recoverable cost)	$ 143,113		$ 14,988
Reduction to net recoverable cost	—		(133,186)
Reduction in purchasing power loss through debt financing	—		204,836
Income after above inflation adjustments	$ 143,113		$ 86,638

Five-Year Comparison of Selected Supplementary Financial Data

Adjusted For Effects of General Inflation
(In Thousands of Average 1979 Dollars)

Years Ended December 31,	1975	1976	1977	1978	**1979**
Operating revenues	$1,937,169	$2,263,260	$2,432,141	$2,739,564	**$2,869,176**
Income from operations (excluding reductions to net recoverable cost)					**$ 14,988**
Income per common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost)					**$ 0.46**
Income after inflation adjustments					**$ 86,638**
Income per common share after inflation adjustments					**$ 2.65**
Net assets at year-end at net recoverable cost					**$1,247,560**
Reduction in purchasing power loss through debt financing					**$ 204,836**
Cash dividend declared per common share	$ 2.78	$ 2.73	$ 2.68	$ 2.60	**$ 2.44**
Market price per common share at year-end	$ 30⅞	$ 38¾	$ 34¾	$ 28⅜	**$ 37¾**
Average consumer price index	161.2	170.5	181.5	195.4	**217.4**

Constant dollar amounts above represent dollars recorded in actual transactions (historical cost) at different times adjusted to represent the same purchasing power. As required by the FASB, the adjustment is made by using the Consumer Price Index for all Urban Consumers, a broad-based measure of the general inflation rate.

Operating revenues have been adjusted in terms of average 1979 dollars to reflect the seasonal effect on collections.

Depreciation is determined by applying the Corporation's depreciation rates to the related indexed plant amount.

Under the rate making prescribed by the regulatory commissions to which the Corporation's subsidiaries are subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of average 1979 dollars over the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost.

The Corporation defers increases in purchased gas and feedstock costs and recovers such increases in future revenues in accordance with applicable gas cost adjustment clauses. Therefore, the effects of these deferrals are not considered as adjustments to income from operations stated in constant dollars above but instead are treated as monetary assets (defined as money or a claim to receive a sum of money the amount of which is fixed without reference to future prices).

In accordance with FASB Statement No. 33, no adjustment has been made to income taxes.

Since only the historical cost of depreciation is presently recoverable in rates, present and future depreciation provisions are inadequate for purposes of maintaining the purchasing power invested by the common stockholders. The impact of this rate making limitation on the common stockholders along with the purchasing power loss on monetary assets is mitigated to the extent that depreciable property and other non-monetary assets are financed with debt which can be repaid with dollars of less purchasing power.

Notes to Consolidated Financial Statements (Continued)

(10) Quarterly Financial Data (Unaudited)

Quarter Ended	Operating Revenues	Operating Income	Earnings on Common Stock	Earnings Per Share
	(Thousands except per share data)			
March 31, 1978	$935,419	$87,592	$72,846	$2.24
June 30, 1978	481,430	35,678	21,086	.65
September 30, 1978	370,973	18,937	(4,451)	(.14)
December 31, 1978	656,349	47,089	31,615	.97
March 31, 1979	992,432	95,415	77,649	2.38
June 30, 1979	532,483	46,964	27,230	.84
September 30, 1979	454,129	15,846	(4,217)	(.13)
December 31, 1979	872,689	63,182	42,451	1.30

The quarterly financial information for 1978 and the first three quarters of 1979 has been restated to reflect the effect of the wholesale rate case order discussed in Note 2(A).

Comparison of results of operations among quarters during the year may be misleading in obtaining an understanding of the trend of the Corporation's business operations since gas sales are predominantly influenced by seasonal weather patterns which in turn affect earnings and related components of operating revenues and operating expenses.

Auditors' Report

Arthur Andersen & Co.
1345 Avenue of the Americas
New York, New York 10019

To the Stockholders of The Columbia Gas System, Inc.:

We have examined the consolidated balance sheets and statements of consolidated capitalization of The Columbia Gas System, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1979 and 1978 and the related statements of consolidated income, taxes, common stock equity and funds used for capital expenditures for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position and capitalization of The Columbia Gas System, Inc. and subsidiaries as of December 31, 1979 and 1978, and the results of their operations and funds used for capital expenditures for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

February 12, 1980.

Comparative Gas Operations Data
The Columbia Gas System, Inc. and Subsidiaries

	1979	1978*	1977*	1976*	1975
Revenues (thousands)					
Residential	**$ 731,908**	$ 690,907	$ 610,076	$ 524,803	$ 434,842
Commercial	**302,183**	274,158	226,497	209,006	168,748
Industrial	**624,799**	488,901	365,656	367,921	270,647
Wholesale	**1,111,708**	916,789	741,424	633,088	515,675
Other	**498**	447	12,546	616	748
Total revenues	**$2,771,096**	$2,371,202	$1,956,199	$1,735,434	$1,390,660
Sales (million cu. ft.)					
Residential	**248,384**	259,890	255,698	267,467	260,162
Commercial	**111,792**	112,725	103,491	119,241	115,600
Industrial	**265,035**	228,795	191,325	244,075	225,890
Wholesale	**568,005**	516,210	465,103	537,234	486,202
Other	**183**	230	4,211	577	651
Total sales	**1,193,399**	1,117,850	1,019,828	1,168,594	1,088,505
Customers at Year End					
Residential	**1,680,349**	1,674,016	1,682,875	1,693,226	1,698,512
Commercial	**143,660**	143,059	145,361	147,358	147,822
Industrial	**2,298**	2,329	2,383	2,443	3,042
Wholesale	**84**	85	84	84	84
Other	**95**	123	135	119	120
Total customers at year end	**1,826,486**	1,819,612	1,830,838	1,843,230	1,849,580
Degree Days (calendar basis)	**5,678**	5,958	5,588	5,769	5,138
Gas Available for Sale (million cu. ft.)					
Purchased—southwest	**944,881**	938,730	933,145	916,845	988,564
appalachian	**70,186**	68,167	65,283	65,882	65,749
LNG	**75,432**	29,523	—	—	—
Total gas purchased	**1,090,499**	1,036,420	998,428	982,727	1,054,313
Produced—natural	**97,517**	94,514	94,242	95,532	88,231
synthetic and LPG	**68,951**	75,553	63,869	57,440	44,219
Total gas produced	**166,468**	170,067	158,111	152,972	132,450
Exchange gas—net	**2,979**	(2,548)	6,102	7,486	10,464
Gas withdrawn from (delivered to) storage—net	**(6,492)**	(13,127)	(76,358)	77,456	(65,185)
Used in operations and other	**(60,055)**	(72,962)	(66,455)	(52,047)	(43,537)
Total gas available for sale	**1,193,399**	1,117,850	1,019,828	1,168,594	1,088,505

*Restated to reflect wholesale rate case order as discussed in Note 2(A).

Comparative Financial Data

The Columbia Gas System, Inc. and Subsidiaries

	1979	1978*	1977*	1976*	1975
Summary of Operations (thousands)					
Operating revenues	**$2,851,733**	$2,444,171	$2,023,077	$1,770,586	$1,430,858
Purchased gas and feedstocks	**1,780,156**	1,487,655	1,189,234	945,926	693,665
Other operating expenses	**728,774**	651,612	595,217	528,824	481,383
Income taxes	**121,396**	115,608	54,935	97,921	83,014
Operating income	**221,407**	189,296	183,691	197,915	172,796
Other income—net	**37,930**	29,447	36,715	22,765	23,535
Interest charges—net	**106,056**	86,542	98,514	105,823	92,130
Net Income	**153,281**	132,201	121,892	114,857	104,201
Preferred stock dividend accrual	**10,168**	11,105	11,105	11,105	8,791
Earnings on Common Stock	**$ 143,113**	$ 121,096	$ 110,787	$ 103,752	$ 95,410
Per share	**$4.39**	$3.72	$3.41	$3.20	$2.94
Average common shares (thousands)	**32,634**	32,519	32,467	32,437	32,431
Dividends on Common Stock					
Per share	**$2.44**	$2.34	$2.24	$2.14	$2.06
Payout ratio (%)	**55.6**	62.9	65.7	66.9	70.1
Capitalization (thousands)					
Common stock equity	**$1,097,886**	$1,026,500	$ 978,891	$ 939,844	$ 904,876
Cumulative preferred stock	**50,000**	100,000	100,000	100,000	100,000
Long-term debt, excluding current maturities	**1,174,596**	1,070,407	1,134,177	1,359,765	1,352,064
Total capitalization	**$2,322,482**	$2,196,907	$2,213,068	$2,399,609	$2,356,940
Book Value Per Common Share	**$33.46**	$31.51	$30.13	$28.96	$27.90
Property, Plant & Equipment (thousands)	**$4,334,900**	$4,078,740	$3,785,919	$3,583,056	$3,304,613
Less accumulated provision for depreciation and depletion	**1,715,962**	1,594,904	1,449,030	1,342,425	1,201,128
Net property, plant & equipment	**$2,618,938**	$2,483,836	$2,336,889	$2,240,631	$2,103,485
Capital Expenditures for Year (thousands)	**$ 368,535**	$ 337,963	$ 284,034	$ 261,880	$ 333,404

*Restated to reflect a wholesale rate case order as discussed in Note 2(A) of Notes to Consolidated Financial Statements. The effect of this order was to decrease earnings on common stock by $7,000,000 ($0.21 per share) in 1978, $7,300,000 ($0.22 per share) in 1977 and $9,900,000 ($0.31 per share) in 1976.

Management's Discussion and Analysis of The Summary of Operations

1979 Compared to 1978. Operating revenues increased $408 million due to higher average rates (up 9%) and greater sales volumes (up 7%). The increase in rates is primarily to recover the increased purchased gas and feedstock costs. Increased volumes were attributable to the industrial and wholesale categories, up 16% and 10% respectively. The increase in industrial sales reflects reduced curtailments and the substitution of gas for other higher priced fuel. Residential and commercial sales were down reflecting 5% warmer weather partially offset by an increase in customers and reduced commercial curtailments. Wholesale sales were influenced by similar factors.

Purchased gas and feedstock expense increased $293 million. The increase (20%) was attributable to the greater volumes sold and higher average rates for gas purchase expense.

Other operating expenses, excluding income taxes, increased approximately $77 million reflecting a full year of operations at the LNG facility at Cove Point, Md., and the continued impact of inflation on labor, materials, compressor station power, and other expenses. Gross receipts taxes rose $27 million or 50% reflecting greater sales and the effects of the contested Louisiana first-use tax. Depreciation and depletion decreased $7 million due to lower depreciation rates ordered by the FERC, as discussed in Note 2(B) of Notes to Consolidated Financial Statements, partially offset by the effect of a full year's depreciation on the LNG facility and the effect of higher depletion applicable to southwest production.

The provision for income taxes included in operating expenses increased $6 million principally due to an increase of $20 million in pre-tax book income offset, in part, by the reduction in the statutory Federal income tax rate from 48% to 46%.

Other income increased $8.5 million due largely to the gain on the sale of the Canadian properties, greater interest income on temporary cash investments and an increase in carrying charges associated with unrecovered purchased gas costs. These increases were partially offset by a reduction in investment credits due to reduced qualifying construction expenditures during 1979 and a decrease in allowance for equity funds recorded in 1979 reflecting the start-up of the LNG terminal on July 1, 1978.

Interest charges were up $19.5 million principally due to increased interest on rate refunds and contingent obligations and a reduction in allowance for borrowed funds resulting from the start-up of operations at the LNG terminal on July 1, 1978.

1978 Compared to 1977 Operating revenues increased $421 million, reflecting higher average rates (up 11%) and increased sales volumes (up 10%). Although average rates increased uniformly for all classes of customers, retail volume increases were primarily attributable to the industrial category which recovered from curtailed 1977 levels. Wholesale sales also increased (up 11%) for the most part tracking retail sales increases.

Purchased gas and feedstock expense increased $298 million, reflecting the increase in volumes sold and higher prices. The average rate for gas purchases expensed increased approximately 17%.

Other operating expenses, excluding income taxes, increased approximately $56 million. Major contributing factors to the increase were the mid-year start-up of LNG operations at Cove Point, Md., together with the inflationary impact on labor, materials, compressor station power and other expenses. In addition, gross receipts and property taxes increased $8 million. Depreciation expense increased approximately $13.5 million primarily due to the start of LNG operations and offshore pipeline facilities in the Gulf of Mexico. Offsetting this increase was a decline ($10 million) in depletion expense largely as a result of increases in estimated future net revenues from oil and gas producing activities.

The provision for income taxes included in operating expense increased $61 million but, exclusive of the effect of a refund to customers of deferred taxes recorded in 1977 in connection with the settlement of a rate case, the provision only increased $20 million. This increase reflects an increase of $36 million in pre-tax book income together with a decrease in allowance for funds capitalized on which no taxes are provided.

Other income declined $7 million reflecting substantial investment credits and allowance for equity funds recorded in 1977 related to the construction of LNG terminal and Gulf of Mexico offshore gathering facilities.

The decline in interest charges resulted from the repayment of the balance ($165 million) of subordinated bank loans in early 1978.

Directors and Officers—Parent Company

DIRECTORS

Thomas S. Blair
President, Blair Strip
Steel Company
New Castle, Pa.

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Chairman of the Board and
Chief Executive Officer

Warren W. Clute, Jr.
Chairman, Glen Bank and
Trust Company
Watkins Glen, New York

John P. Cornell
Senior Vice President and
Chief Financial Officer

Frank J. Durzo
Former Chairman and
Special Assistant
Jeffrey Galion Operating Units
Dresser Industries, Inc.
Industrial Equipment, Supplies
and Services
Columbus, Ohio

J. Robert Fletcher
Chairman
J. H. Fletcher & Co.
Manufacturer of Mining
Equipment
Huntington, W.Va.

Elizabeth V. Hallanan
Associate,
Dodson, Deutsch and Hallanan
Attorneys-at-Law
Charleston, W.Va.

Robert H. Hillenmeyer
Chairman, Hillenmeyer
Nurseries, Inc.
Lexington, Kentucky

W. Frederick Laird
President and Chief
Operating Officer

George P. MacNichol, III
Private Investor
Former Vice President, Libbey-
Owens-Ford Company,
glass and plastics business
Toledo, Ohio

John W. Partridge
Former Chairman of the Board

Ernesta G. Procope
President
E. G. Bowman Co., Inc.
Insurance Brokerage Firm
New York, N.Y.

John P. Roche
Of Counsel, Reed Smith Shaw
& McClay
Attorneys-at-Law
Washington, D.C.

Arch A. Sproul
President, Virginia
International Co.
Foreign Investments
Staunton, Va.

John N. Stauffer
President Emeritus,
Juniata College
Huntingdon, Pennsylvania

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Chairman of the Board and
Chief Executive Officer

W. Frederick Laird
President and Chief
Operating Officer

John P. Cornell
Senior Vice President and
Chief Financial Officer

Philip W. Frick
Secretary and Treasurer

Hart T. Mankin
Michael J. Prylucki
Assistant Secretaries

Alexander P. McCann
Assistant Treasurer

Operating Company Executives

Joseph A. Brake
President
Ashland Group Companies

Marvin E. White
Chairman

John D. Daly
President
Columbia Distribution
Companies

William W. Ferrell
Chairman

James D. Little
President
Columbia Gas
Transmission Corporation

Charles W. Morrow
President
Columbia Gulf
Transmission Company

S. Orlofsky
President
Columbia Supply
Companies

Columbia Gas System Service Corporation

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Chairman of the Board and
Chief Executive Officer

W. Frederick Laird
President and Chief
Operating Officer

Daniel L. Bell
John P. Cornell
John H. Croom
S. Orlofsky
Robert P. Rowen
Senior Vice Presidents

Philip W. Frick
Vice President and Secretary

Hart T. Mankin
Vice President and
General Counsel

Robert C. Austin
William C. Hart
William T. Lynam
George P. Marquis
Bruce Quayle

C. Ronald Tilley
Charles W. Uhlinger
Robert W. Welch
Vice Presidents

Alexander P. McCann
Treasurer

Stanley C. Kauffman
Controller

Leslie A. Field, Jr.
Assistant Secretary and
Assistant Treasurer

Michael J. Prylucki
Assistant Secretary

Larry J. Bainter
Lawrence J. Doyle
Assistant Treasurers

James T. Connors
William J. Forsythe
Robert G. Smith
Assistant Controllers

George E. Crawford
General Auditor

ADDITIONAL INFORMATION

A supplementary report containing more detailed operating, financial, and statistical data on the Columbia Gas System is prepared each year for stockholders and others interested in such information. A copy of Form 10K filed annually with the Securities and Exchange Commission is also available. A copy of either document may be obtained by writing to: Secretary, The Columbia Gas System, Inc., 20 Montchanin Road, Wilmington, Delaware 19807.

Columbia Gas System Companies

The Columbia Gas System, Inc.
20 Montchanin Road,
Wilmington, DE 19807

Columbia Gas System Service Corporation

Ashland Group Companies
340-17th Street, Ashland,
KY 41101

Columbia Coal Gasification Corporation

Columbia Hydrocarbon Corporation

The Inland Gas Company, Inc.

Columbia Distribution Companies
99 North Front Street,
Columbus, OH 43215

Columbia Gas of Kentucky, Inc.

Columbia Gas of Maryland, Inc.

Columbia Gas of New York, Inc.

Columbia Gas of Ohio, Inc.

Columbia Gas of Pennsylvania, Inc.

Columbia Gas of Virginia, Inc.

Columbia Gas of West Virginia, Inc.

Columbia Gas Transmission Corporation
1700 MacCorkle Ave., SE,
Charleston, WV 25314

Big Marsh Oil Company

Columbia Gulf Transmission Company
3805 West Alabama Avenue,
Houston, TX 77027

Columbia Supply Companies
20 Montchanin Road,
Wilmington, DE 19807

Columbia Gas Development Corporation

Columbia Gas Development of Canada Ltd.

Columbia LNG Corporation

Columbia Alaskan Gas Transmission Corporation

Dividend Disbursement and Certificate Inquiries
Corporate Secretary
The Columbia Gas System, Inc.
20 Montchanin Road
Wilmington, DE 19807

Common Stock Listed:
New York Stock Exchange
Philadelphia Stock Exchange
Toronto Stock Exchange

Ticker Symbol: CG

Preferred Stock Listed:
New York Stock Exchange

Dividend Reinvestment Plan
P.O. Box 4020
Wilmington, DE 19807

Transfer Agents—Common Stock
Chemical Bank
55 Water Street
New York, NY 10041

Mellon Bank, N.A.
P.O. Box 926
Pittsburgh, PA 15320

Continental Illinois National Bank and Trust Company of Chicago
231 South LaSalle Street
Chicago, IL 60690

Bank of America National Trust and Savings Association
P.O. Box 37002
San Francisco, CA

National Trust Company, Ltd.
21 King Street East
Toronto, Canada M5C 1B3

Registrars—Common Stock
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, NY 10015

Pittsburgh National Bank
P.O. Box 340746P
Pittsburgh, PA 15230

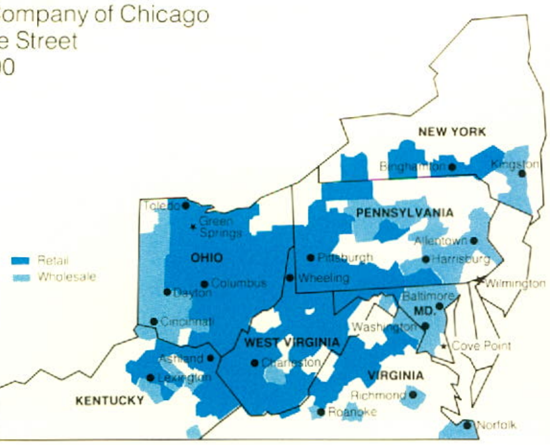
The First National Bank of Chicago
One First National Plaza
Chicago, IL 60670

Wells Fargo Bank N.A.
475 Sansome Street
San Francisco, CA 94120

Crown Trust Company
302 Bay Street
Toronto, Canada

Transfer Agent and Registrar—Preferred Stock
Chemical Bank
55 Water Street
New York, NY 10041

Trustee for Debentures
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, NY 10015



Market Areas Served

Columbia supplies through affiliated and non-affiliated retail companies the gas requirements of over 4,000,000 customers, roughly 10 percent of the gas customers in the United States. Its service area includes large parts of Ohio, Pennsylvania, West Virginia, Maryland, Virginia, Kentucky and New York and the District of Columbia.

THE COLUMBIA GAS SYSTEM, INC.
20 MONTCHANIN ROAD, WILMINGTON, DE 19807