Atmos Energy Corporation

1999 Annual Report

Financial Highlights

	Year ended September 30, 1999	1998	% change
	(Dollars in thousands, except per share amounts)		
Operating revenues	$ 690,196	$ 848,208	-18.6%
Gross profit	$ 299,794	$ 331,836	-9.7%
Utility net income	$ 10,800	$ 43,332	-75.1%
Non-utility net income	$ 6,944	$ 11,933	-41.8%
Total net income	$ 17,744	$ 55,265	-67.9%
Total assets	$ 1,230,537	$ 1,141,390	7.8%
Total capitalization	$ 755,146	$ 769,706	-1.9%
Net income per share – diluted	$ 0.58	$ 1.84	-68.5%
Cash dividends per share	$ 1.10	$ 1.06	3.8%
Book value per share at end of year	$ 12.09	$ 12.21	-1.0%
Total throughput (MMcf)	195,587	215,597	-9.3%
Heating degree days	3,374	3,799	-11.2%
Degree days as a % of normal	85%	95%	-10.5%
Total meters and propane customers at end of year	1,077,534	1,041,932	3.4%
Return on average shareholders' equity	4.7%	15.8%	-70.3%
Shareholders' equity as a % of total capitalization (including short-term debt) at end of year	40.1%	41.5%	-3.4%
Shareholders of record	35,179	36,949	-4.8%
Average shares outstanding – diluted (000's)	30,819	30,031	2.6%

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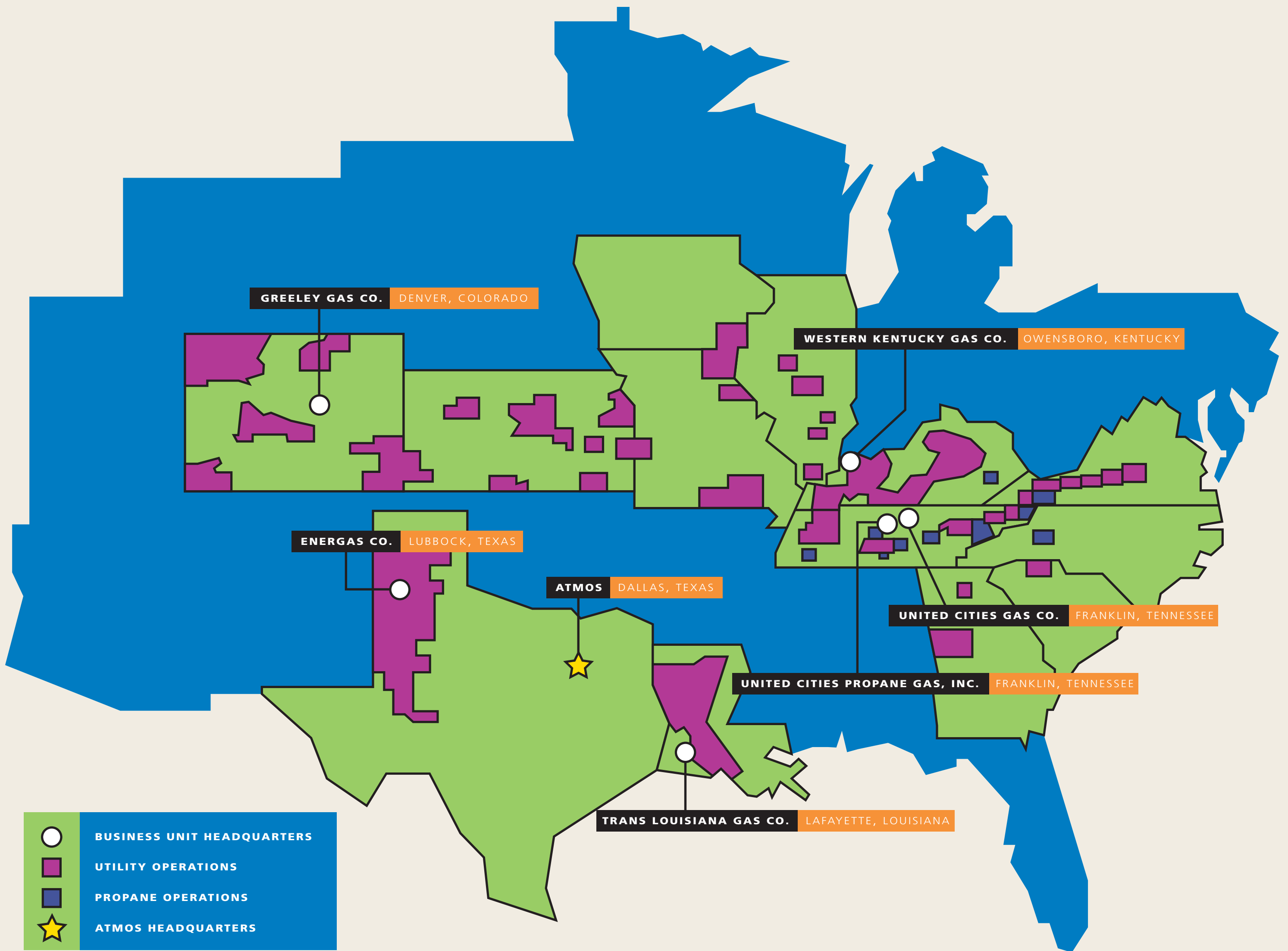
Atmos at a Glance

	Year ended September 30,		
	1999	1998	1997
Meters In Service			
Residential	919,012	889,074	870,747
Commercial	98,268	94,302	92,703
Industrial (including agricultural)	14,329	16,322	17,217
Public authority and other	6,386	4,834	4,781
Total meters	1,037,995	1,004,532	985,448
Propane customers	39,539	37,400	29,097
Total	1,077,534	1,041,932	1,014,545
Heating Degree Days			
Actual (weighted average)	3,374	3,799	3,909
Percent of normal	85%	95%	98%
Sales Volumes (MMcf)			
Residential	67,128	73,472	75,215
Commercial	31,457	36,083	37,382
Industrial (including agricultural)	35,741	44,881	46,416
Public authority and other	5,793	4,937	5,195
Total	140,119	159,373	164,208
Transportation Volumes (MMcf)	55,468	56,224	48,800
Total Throughput (MMcf)	195,587	215,597	213,008
Propane – Gallons (000's)	22,291	23,412	25,204
Operating Revenues (000's)			
Gas revenues			
Residential	$ 349,691	$ 410,538	$ 452,864
Commercial	144,836	184,046	193,302
Industrial (including agricultural)	117,382	161,382	168,386
Public authority and other	22,330	20,504	23,898
Total	634,239	776,470	838,450
Transportation revenues	23,101	23,971	19,885
Other gas revenues	4,500	8,121	6,385
Total gas revenues	661,840	808,562	864,720
Propane revenues	22,944	29,091	33,194
Other revenues	5,412	10,555	8,921
Total Operating Revenues (000's)	$ 690,196	$ 848,208	$ 906,835
Other Statistics			
Gross plant (000's)	$ 1,549,258	$ 1,446,420	$ 1,332,672
Net plant (000's)	$ 965,782	$ 917,860	$ 849,127
Miles of pipe	30,670	30,108	30,902
Employees	2,062	2,193	2,679



Headquartered in Dallas, Texas, Atmos Energy Corporation distributes natural gas and propane to more than one million customers in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia through its operating divisions – Energas Company, Greeley Gas Company, Trans Louisiana Gas Company, United Cities Gas Company, Western Kentucky Gas Company and United Cities Propane Gas, Inc.

Atmos is a strong company built on a firm foundation, with solid prospects for growth. We are aggressively executing strategies designed to serve us well in an increasingly competitive environment and to continue building value over the long-term. We're resourceful, implementing new technologies to improve efficiency and enhance customer convenience. We're building loyalty by providing superior customer service, shown by our high marks in customer satisfaction. We're growing our customer base through acquisitions, new construction and promoting new gas equipment. We're committed to the communities we serve and have established strong local brand identities. We're innovative, preparing to introduce new retail products and services through our unregulated businesses. We're creating a spirited team of dedicated employees whose productivity and innovation will ensure Atmos' continued success.

I am more optimistic about the prospects of Atmos Energy Corporation than I have been at any time since I joined the Company two and a half years ago.

Dear Fellow Shareholders:

Robert W. Best

Chairman of the Board, President and Chief Executive Officer

I am more optimistic about the prospects of Atmos Energy Corporation than I have been at any time since I joined the Company two and a half years ago. While that may seem odd given the disappointing earnings year we had in 1999, I want to use the majority of this letter to explain why I feel so confident about the future of Atmos.

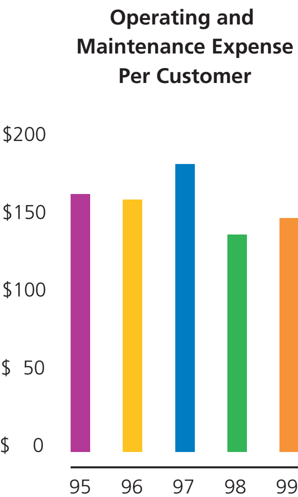
First, let me address 1999. While we are disappointed with our financial results, we do not believe they are a reflection of Atmos' true earnings power. Even with a diverse 13-state service area, Atmos was not immune to the worst possible combination of weather conditions in 1999. Winter weather in 1999 was the warmest in Atmos' history, about 15 percent warmer than normal across Atmos and about 11 percent warmer than last year, reducing heating sales to weather sensitive customers. The exceptionally warm winter was followed by a significant increase in rainfall in West Texas throughout the spring and summer, reducing gas sales to farmers for powering irrigation pumps in what normally is a strong off-season market for Atmos. Our results were further diminished by increased depreciation and interest expense related to assets placed in service but not yet included in rates. In addition, operating and maintenance expenses increased due to the first full year of operation for our Customer Support Center; costs for Year 2000 readiness; improvements in systems, processes and procedures related to the new customer information and billing system and the accounting and human resource systems placed in service; and the costs of a litigation settlement in Louisiana and associated legal fees. Finally, the impact of special items made a very bad year even worse.

Let me emphasize that one trying year does not undermine our optimism about the future or lessen our confidence in our ability to be successful. Atmos is a strong company built on a firm foundation, with solid prospects for growth.

Our focus and commitment to our vision and strategies for growth have not wavered. In fact, we remain convinced that we are headed in the right direction. In developing our strategies, we foresaw an operating environment characterized by unbundling, convergence of gas and electric providers, and industry mergers. We're pursuing four strategies designed to serve us well in this environment and to continue building value over the long-term: running our utilities exceptionally well, expanding our non-utility businesses, developing our retail strategy, and making acquisitions.

We had many accomplishments in 1999 that we believe will help us achieve our vision for growth and prepare us for future success.

Ensuring adequate returns through rate filings. We continually review our rates of return to make sure that we are earning our authorized rate of return in every jurisdiction. This year's review determined that we were under-earning in our Western Kentucky and Energas divisions. In 1999, Atmos filed for additional revenues totaling $27.3 million in Kentucky, West Texas, and Amarillo. We have proposed alternative rate designs in the filings to mitigate the effects of weather which will help stabilize both customer bills and the Company's earnings. We expect to have new rates in effect in Kentucky, West Texas and Amarillo during fiscal year 2000. In October 1999, Atmos received a final order from the Louisiana Public Service Commission related to a rate proceeding involving its Trans Louisiana Gas Company division. The favorable decision allowed Trans La to increase its monthly customer charge on November 1, 1999, from $6 to $9, which will help minimize the effects of warm weather on earnings. Trans La also received a three-year extension on a rate stabilization clause authorizing it to earn up to 11.5 percent before sharing benefits with customers. These combined rate proceedings will affect more than 50 percent of the Company's customer base.



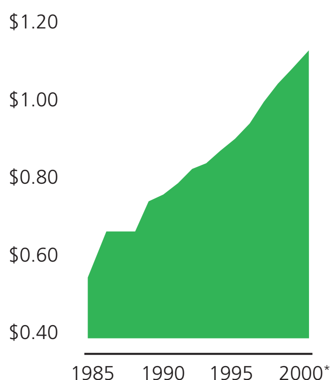
Investing in technology to improve efficiency and service. Atmos has been among the most efficient providers of natural gas in the industry, and we are using technology to enhance our efficiency. We are just as committed to providing superior customer satisfaction. Our goal is to balance the efficiencies gained through technology and our customers' desire for quality service with a human touch. We've made great strides in enhancing our efficiency with our Customer Support Center in Amarillo, Texas, that provides customer call support 24 hours a day, seven days a week. Having just completed the first full year of operation of the center, we believe our concept of serving all our customers from a central location is sound, although we are fine-tuning our execution. As with the implementation of any new technology, the transition has not always been as smooth as we would have liked. We made the investments in the center and an integrated state-of-the-art customer information system because our goal is to improve both customer service and efficiency.

We've also re-engineered our human resources and financial systems with the installation of Oracle-based software. The new customer information and Oracle software systems not only improved our productivity, but also addressed many of the Company's Year 2000 issues. Our Year 2000 planning began in 1996 to manage and minimize risks associated with Year 2000 issues, and we announced that the Company was Year 2000 ready on September 30, 1999.

Building customer loyalty. We believe the best way to retain existing customers and attract new ones is by providing unparalleled service at reasonable rates, and making it easy for customers to do business with us. Building customer loyalty grows ever more important as we move toward more customer choice. A utility customer satisfaction survey conducted in 1999 showed that our customers are considerably more satisfied and more loyal than the industry average. As exceptional as the survey results are, we continually seek ways to improve service and strive to exceed the expectations of our customers.

Creating a performance culture. Our vision of building value at Atmos and our strategies for growth will only come to life in the hands, hearts and minds of skilled, committed employees working every day as one team with a shared set of values and expectations. We are creating an atmosphere at Atmos that fosters, measures and rewards performance. Our Total Rewards program ties compensation for the Board, management and employees to company performance, and addresses ways to improve the workplace environment. By working from the inside out, we are creating a performance culture with employees who take pride in their work and convey that spirit of caring to our customers.

Acquisition strategy. Growth through acquisitions is a key component of our strategy for growing earnings and increasing the value of the Company. In October 1999, Atmos entered into a definitive agreement to acquire the Missouri natural gas distribution assets of Associated Natural Gas, part of a wholly-owned subsidiary of Southwestern Energy Company. Under the terms of the agreement, Atmos will purchase the Missouri gas system for $32 million in cash. The transaction will add 48,000 customers in Missouri, and is expected to be completed by mid-year 2000, subject to regulatory approvals. Atmos has a proven history of successfully making acquisitions and integrating the operations quickly and efficiently.



Track record of increasing the dividend. Nowhere is our confidence in the future shown more clearly than in Atmos' history of increasing its dividend. For the 12th consecutive year, Atmos has increased its quarterly dividend. A 3.6 percent increase was approved for fiscal 2000, bringing the regular quarterly dividend to $.285 per share, for an annual indicated dividend of $1.14 per share. The Company has paid 64 consecutive quarterly dividends.

Looking ahead. Our actions over the past two and one-half years have established a firm foundation for profitable growth in the more competitive environment we expect in the future. We will continue to be aggressive and proactive, focusing on profitably growing the market share of our utility and non-utility businesses, and making acquisitions to sustain our growth rate. The combined talents and energy of the Atmos Board of Directors, management and employees are dedicated to building the value of Atmos.

I'd like to close by recognizing the outstanding contribution of our employees this year in achieving many of our goals and helping to position Atmos for future success. They tirelessly devoted untold hours configuring and testing our new customer information and financial systems, often over nights, weekends and holidays away from home and family. The result is that the conversions were as seamless as possible for our customers. The added urgency of completing our Year 2000 plans required yet another level of dedication and planning by our employees. We counted on the best from them in a very demanding period, and they delivered with unwavering enthusiasm while continuing to provide excellent customer service. The high marks we received in our customer satisfaction survey are a testament to our employees. With this spirited team focused on building value, you can see why I am confident about the future of Atmos.

Robert W. Best

Robert W. Best
Chairman, President and Chief Executive Officer
November 10, 1999

Growth through acquisitions is a key component of Atmos' strategy for increasing earnings and building the value of the Company.

Atmos is continuing the acquisition strategy that has led to its position today of serving over one million customers in 13 states. The geographic, economic and regulatory diversity created through acquisitions is a strength that sets Atmos apart from other natural gas utilities.

In October 1999, Atmos entered into a definitive agreement to acquire the Missouri natural gas distribution assets of Associated Natural Gas, a division of Arkansas Western Gas, which is a wholly-owned subsidiary of Southwestern Energy Company. Under the terms of the agreement, Atmos will purchase the Missouri gas system for $32 million in cash. The transaction will add 48,000 customers in Missouri, increasing Atmos' presence in that state. The transaction is expected to be completed by mid-year 2000, subject to regulatory approvals.

Growth through acquisitions is a key component of Atmos' strategy for increasing earnings and building value for the Company. As a larger company, Atmos will have an even greater competitive advantage as the natural gas industry continues toward unbundling and becomes more competitive.

The Company continually evaluates acquisition opportunities. Atmos looks for ways through the combination of companies to be more efficient, share resources, eliminate duplications and create opportunities to increase earnings. The combination must create synergies so that the earnings per share of Atmos stock on an annual basis are greater with the combination than for Atmos before the combination.

Atmos has completed four major acquisitions since 1986, nearly tripling the number of customers served. The Company has achieved a track record of successfully making acquisitions, integrating companies quickly and efficiently with its shared services support functions, retaining local brand identities and creating value for its shareholders. This makes Atmos an attractive partner.

Atmos has re-engineered its human resources and financial systems with the installation of Oracle-based software. Atmos' new customer information and human resources and financial systems have not only improved productivity, but also addressed Year 2000 issues. Atmos announced it was Year 2000 ready on September 30, 1999.

Leveraging technology to enhance efficiency

Atmos has invested in technology that allows us to provide exceptional customer service while improving our operating efficiency. In 1999, we completed the implementation of a state-of-the-art customer information system that integrates our Customer Support Center with other technology used in the field, including automated dispatching of service orders to in-truck terminals and electronic meter reading devices. Customer support associates like Nina Soliz (right) handle calls at our Customer Support Center for all our utility customers 24 hours a day, seven days a week so that our customers can contact us at their convenience.

[Resourceful]

[Building Loyalty]

Serving our customers exceptionally well

Customers of all Atmos utility companies are more loyal than the industry average, according to a recent customer satisfaction survey. Building customer loyalty grows ever more important as we move toward more customer choice. We continually seek ways to improve service and strive to exceed the expectations of our customers.

Our customers believe that we care about satisfying their needs, according to a recent utility customer satisfaction survey. We continually look for new ways to make it easier to do business with our company, and go the extra step that makes every customer's experience a positive one. For example, George Teater, a 40-year veteran of Western Kentucky Gas Company, installed a thermostat specially designed for the visually impaired in the home of 94-year-old Hollis Young, a customer in Danville, Kentucky.

Utility Operations Snapshot: Atmos serves more than one million natural gas customers in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas, and Virginia through five utility business units with their own local brand identities – Energas Company, Greeley Gas Company, Trans Louisiana Gas Company, United Cities Gas Company, and Western Kentucky Gas Company.

Atmos' utility operations remain our core business. We are intensely focused on running our utility operations exceptionally well. We intend to grow earnings year over year by profitably growing our customer base, improving our efficiency and earning our allowed rates of return. We are dedicated to building customer loyalty through ensuring safe, reliable gas service; achieving exceptional customer satisfaction ratings; making it easy for customers to do business with us; providing competitive gas rates; and capitalizing on our strong local brand identities.

Financial performance. Utility operations reported net income of $10.8 million on revenues of $621.2 million in 1999, or about 89 percent of total revenues and about 61 percent of total net income. This compares with utility net income of $43.3 million on revenues of $739.9 million in 1998. Utility revenues and net income were lower in 1999 primarily because of winter weather that was about 15 percent warmer than normal and about 11 percent warmer than last year, reducing sales to weather sensitive customers.

Enhancing efficiency and convenience. Our 1999 utility operating and maintenance costs of $141 per meter remain among the best in the industry. We are ahead of many companies in having the technology that gives Atmos the foundation for exceptional customer service while improving our efficiency. In 1999, the Company completed the implementation of a new customer information system that integrates the Company's Customer Support Center with other technology used in the field, including automated dispatching of service orders to in-truck terminals and electronic meter reading devices.

To make it easy for customers to do business with Atmos, the Customer Support Center handles customer calls from all five utility business units 24 hours a day, seven days a week. A network of nearly 300 payment centers in convenience and grocery stores offers extended hours to customers. The implementation of the new customer information system included a new bill

format which provides more information to customers but also makes more information available at the fingertips of our customer support associates to handle customer inquiries.

Customer additions. We added new meters in 1999 through internal growth, with the greatest increases occurring in the Greeley Gas and United Cities Gas service areas. The Company's focus is on profitably adding new customers through new construction, conversion from other energy sources, and by marketing the advantages of additional gas products such as gas logs and gas lights to our residential customers and builders. Our marketing team has been successful in promoting the use of new natural gas applications such as gas-powered chilling technology for cooling large commercial buildings and dehumidification technology that reduces humidity and improves indoor air quality. Both these technologies increase summer sales of natural gas.

Earning allowed rates of return. Atmos is seeking $28.4 million in rate increases in Western Kentucky Gas and Energas. A Western Kentucky rate case filed in May 1999 requested $14.1 million in additional revenues. Energas is seeking a total of $14.3 million in additional revenues, filing in early August for $13.2 million, and will request an additional $1.1 million later in 1999 or early 2000. The rate filings incorporate the Company's strategy to stabilize the effects of weather on the Company's revenues and customer bills through weather normalization adjustment and rate design. New rates and rate structures are expected to be in effect during 2000.

In October 1999, Atmos received a final order from the Louisiana Public Service Commission regarding a rate proceeding involving its Trans Louisiana Gas Company division. The favorable decision allowed Trans La to increase its monthly customer charge on November 1, 1999, from $6 to $9, which will help minimize the effects of warm weather on earnings. Trans La also received a three-year extension on a rate stabilization clause authorizing it to earn up to 11.5 percent before sharing benefits with customers. These combined rate proceedings affect more than 50 percent of the Company's total customers.

Beyond customer satisfaction. One of the key measures of performance in our utility operations is achieving outstanding customer satisfaction ratings. A utility customer satisfaction survey conducted during 1999 shows that we are on the right track – all Atmos utility divisions received excellent satisfaction ratings. Our customer satisfaction ratings are significantly higher than the national average, with nearly 74 percent of our customers totally satisfied with our service, compared with less than 45 percent of customers who are satisfied industrywide. About half our customers feel very loyal toward the Company, an even more significant result as we look toward a more competitive marketplace in the future.

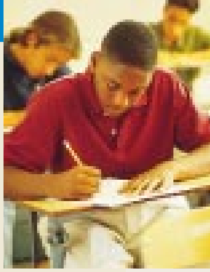
We continue to look for ways to enhance customer satisfaction by making sure that our utility divisions are easy to do business with, have reasonable rates, and that we follow up to make sure any problems are solved. We also expanded the information provided on our customer bills, including past usage history, with the implementation of our new customer information system.

[Growing]

Atmos has successfully promoted new gas cooling technologies for large customers. A Columbus, Georgia, hospital recently installed a natural gas chiller that handles 75 percent of the cooling requirements for the facility. The Company has also helped industrial customers whose processes are affected by humidity levels to install desiccant dehumidification systems that remove moisture from the air. The chillers and desiccant systems operate at full capacity during the summer months when gas usage typically declines.

Adding new customers

Atmos is adding customers through internal growth and acquisitions. Atmos recently announced an agreement to acquire distribution assets in Missouri that will increase our customer count by nearly 5 percent. The Company also has programs to target builders and new construction, convert customers from other energy sources, and assist commercial customers in implementing energy-efficient natural gas equipment. In addition to water and space heating, we are promoting gas logs and gas lights to residential customers. For example, the Company serves a suburban area of Kansas City, Kansas, one of the Company's fastest growing service areas, with many homes built with beautiful and environmentally-friendly gas logs as well as gas space heating, like the home shown at left.



Atmos focuses its resources so that we can make the most difference in our communities. We target funds and employee volunteer efforts toward community development and civic programs; health and welfare organizations that improve the well being of those in need; education targeted at kindergarten through 12th grade; and arts and culture organizations that support and improve the quality of life in the community.

Supporting our communities

We are a strong supporter of the communities we serve. Our employees serve on industrial development boards, in civic and community organizations, even as public officials. Joe Bishop (right), a Trans La service technician, serves on the City Council in Pineville, Louisiana, dedicated to attracting new business to the area and preservation of historical buildings. We believe that being a good corporate citizen builds goodwill and support in the communities we serve.

[Committed]

Non-Utility Operations Snapshot: Natural gas distribution to unregulated agricultural and industrial customers; providing natural gas services through an interest in Woodward Marketing, LLC of Houston; propane distribution to nearly 40,000 customers in four states through United Cities Propane Gas, Inc.; storage operations; and preparing to offer retail products and services to the Company's one million utility customers through Atmos Energy Services, Inc.

Our strategy is to expand the market share of our non-utility businesses, which includes propane, the sale of natural gas for agricultural and industrial customers in West Texas, a 45 percent interest in a natural gas services company, and natural gas storage. We are also developing strategies to offer retail products and services to our connected utility customers. In 1999, non-utility operations reported net income of $6.9 million or 39 percent of total net income.

Propane. Propane net income decreased in 1999 due to weather that was 15 percent warmer than normal and 9 percent warmer than last year. In 1999, the Company narrowed the focus of its propane operations to the more profitable retail and wholesale propane distribution activities, exiting propane appliance sales and service, the transport business and cylinder sales.

The Company serves nearly 40,000 propane customers in Tennessee, Kentucky, Virginia and North Carolina, up from 37,400 in 1998. To increase its market share in existing propane service areas, the Company began offering customers the option of purchasing their tanks instead of leasing them. United Cities Propane plans to continue making acquisitions that will create value for the Company by taking advantage of the economies of scale that can be achieved through consolidation of the fragmented propane industry.

Woodward Marketing, LLC. Woodward Marketing, LLC contributed $7.2 million pre-tax earnings in 1999, up from $3.9 million in 1998, due to increased sales to existing customers, adoption of EITF 98-10 in 1999 and new customer additions. Atmos owns a 45 percent interest in the natural gas services company, which serves the Company, industrial customers, municipalities and natural gas utilities in the Southeast, Midwest and California. Atmos expects Woodward's growth to continue through increased gas usage by existing customers and by the addition of new customers. Atmos is considering opportunities to market electricity as an added service through Woodward Marketing, LLC.

Enermart Energy Services, Inc. The Company serves a large agricultural market and also industrial customers in West Texas through Enermart Energy Services, Inc. The Company took significant steps in 1999 to restructure its industrial and agricultural marketing business and to separate it from the Company's utility operations.

Enermart markets natural gas to farmers for powering irrigation pumps during the spring and summer months. Irrigation revenues in West Texas decreased by 45 percent in 1999 compared with last year, due to rainfall that exceeded average rainfall levels for the region by more than 32 percent.

Industrial customers include feedlots and cotton gins, as well as other non-agricultural large natural gas users. Enermart also promotes new natural gas technologies, such as gas-powered electric generators. The Company sells the generators, performs the installation, assists with the startup and provides project financing. The generators significantly reduce electricity costs, require little maintenance and are portable. In 1999, Enermart opened three customer service centers to provide hands-on customer support, including analysis of customer needs and information about new gas equipment and technologies.

Atmos Energy Services, Inc. Atmos Energy Services, Inc. (AESI) is preparing to market new retail products and services to Atmos' approximately one million existing natural gas customers. AESI is evaluating a number of products and services to offer to customers by developing partnerships with experienced mass marketers. The Company conducted a pilot offering of a utility security product during 1999, and received a very favorable response to the offering. In addition, when unbundling does occur, AESI will offer customers the natural gas commodity, and possibly electricity, as well.

Natural gas storage. The Company's natural gas storage facilities contributed $1.3 million in net income in 1999, compared with $1.8 million in 1998. Underground storage facilities in Kansas and Kentucky allow the Company to purchase natural gas during the summer when prices are lower, and store it for use by the Company or to sell to others during the winter when natural gas prices are typically higher.

To increase its market share in existing propane service areas, United Cities Propane has begun offering customers the option of purchasing their tanks instead of leasing them. Customers also can pre-buy propane for even greater savings. New propane customers include an experimental farm at the University of Tennessee, above.

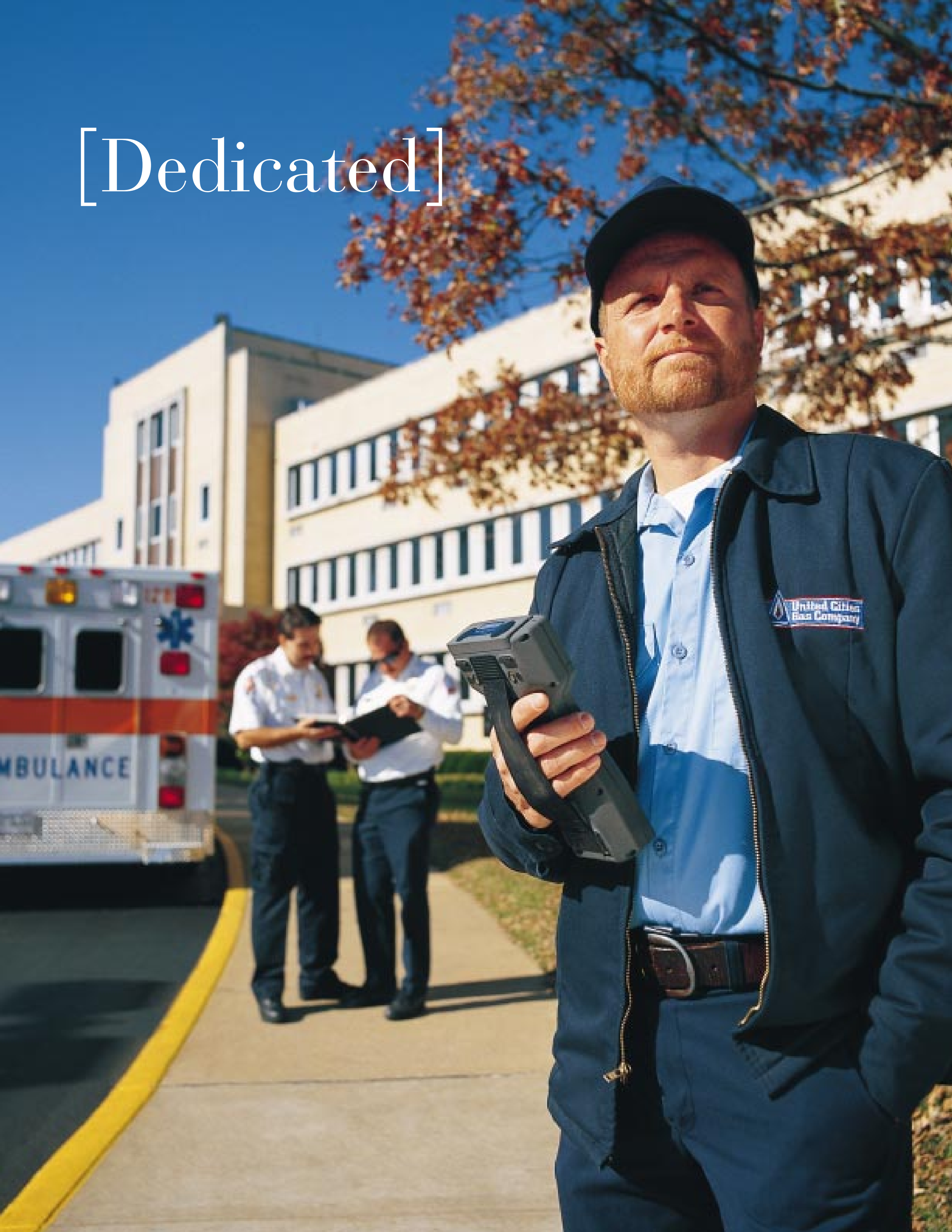
Pursuing new ways to serve customers through unregulated businesses

While utility operations remain our primary business, Atmos is developing its unregulated businesses and pursuing new ways to serve its customers. In West Texas, Enermart Energy Services markets natural gas to industrial customers, as well as agricultural customers who use natural gas to power irrigation pumps. Enermart has pioneered the use of natural gas-powered generators that allow farmers to produce their own electricity for irrigation pumps. Farmers like Freddy Bell of Plainview, Texas, shown with Enermart Vice President Kelley Grimes, are benefiting from lower energy costs and reduced maintenance.

[Innovative]

Creating a performance organization

Atmos' spirited employees are among the most productive in the industry. We are creating an atmosphere that fosters, measures and rewards performance. Our employees have been willing time and time again to go the extra mile to provide superior customer service, day or night, weekends and holidays, and this dedication has resulted in exceptional customer satisfaction ratings. For example, Troy Wilson (right), a United Cities Gas service technician, noted an increase in gas usage during his monthly meter reading at a Columbia, Tennessee, hospital and informed the facilities manager. The hospital quickly identified and repaired an equipment problem, praising Wilson for his attention to their account instead of just passing on a higher bill. Shown above (from left) are Russell Murph, Energas; Tina Ingrahm, Trans La; Jackie Madrid and Donald Eason, Shared Services.


[Dedicated]
United Cities
Gas Company
MBULANCE

Shared Services Snapshot: A central support group provides administrative and support services to Atmos' business units, including accounting, customer call support, customer billing, treasury, planning and budgeting, purchasing, legal, human resources, information technology, investor relations and corporate communications, and gas supply.

Atmos achieves efficiency and consistency in its day-to-day operations and gains significant economies of scale by having one unit perform primary support functions rather than duplicating them in each business unit. This "shared services" structure also enables the Company to quickly and efficiently integrate operations of acquired companies.

During 1999, Atmos further enhanced its internal efficiency by establishing new benchmarks for providing support services. By conducting interviews with over 150 highly regarded companies in America, Atmos gained new ideas on ways to provide support services at the optimum cost. Our business unit personnel are partners with shared services personnel, negotiating the services they want as well as appropriate pricing.

For example, Atmos' Purchasing group streamlined its operations by initiating and maintaining on-line supply contracts and managing supplier relationships. An electronic ordering process rests with the business units, while the Company still obtains economies of scale by negotiating with suppliers based on the total material requirements of the enterprise.

Providing best practices service to the business units at a lesser price creates value for the Company. By controlling our costs of operations, we create value for our customers and shareholders.

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Selected Financial Data

The following table sets forth selected financial data of the Company and should be read in conjunction with the consolidated financial statements included herein.

	Year ended September 30,				
	1999	1998	1997	1996	1995
	(In thousands, except per share data)				
Operating revenues	$ 690,196	$ 848,208	$ 906,835	$ 886,691	$ 749,555
Net income	$ 17,744	$ 55,265	$ 23,838	$ 41,151	$ 28,808
Diluted net income per share	$ .58	$ 1.84	$ .81	$ 1.42	$ 1.06
Cash dividends per share	$ 1.10	$ 1.06	$ 1.01	$ .98	$ .96
Total assets at end of year	$ 1,230,537	$ 1,141,390	$ 1,088,311	$ 1,010,610	$ 900,948
Long-term debt at end of year	$ 377,483	$ 398,548	$ 302,981	$ 276,162	$ 294,463

Market Price of Common Stock and Related Matters

The Company's stock trades on the New York Stock Exchange under the trading symbol "ATO". The high and low sale prices and dividends paid per share of the Company's common stock for fiscal 1999 and 1998 are listed below. The high and low prices listed are the actual closing NYSE quotes for Atmos shares.

	Fiscal year 1999			Fiscal year 1998		
	High	Low	Dividends Paid	High	Low	Dividends Paid
Quarter ended:						
December 31	$ 32 1/4	$ 28 3/8	$ .275	$ 30 7/16	$ 24 5/8	$ .265
March 31	32 11/16	23 1/16	.275	30 5/16	26 5/16	.265
June 30	26 5/16	24	.275	31 1/16	28 13/16	.265
September 30	26 3/8	23 7/8	.275	30 7/8	25 3/4	.265
			$ 1.10			$ 1.06

See Note 4 of notes to consolidated financial statements for restriction on payment of dividends. The number of record holders of the Company's common stock on September 30, 1999 was 35,179.

Introduction

This section provides management's discussion of Atmos Energy Corporation's (the "Company" or "Atmos") financial condition, cash flows and results of operations with specific information on liquidity, capital resources and results of operations. It includes management's interpretation of such financial results, the factors affecting these results, the major factors expected to affect future operating results, and future investment and financing plans. This discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto.

Cautionary Statement for the Purposes of the Safe Harbor under the Private Securities Litigation Reform Act of 1995

The matters discussed or incorporated by reference in this Annual Report may contain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the notes to consolidated financial statements, regarding the Company's financial position, business strategy and plans and objectives of management of the Company for future operations, are forward-looking statements made in good faith by the Company and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. When used in this Report or in any of the Company's other documents or oral presentations, the words "anticipate," "expect," "estimate," "plans," "believes," "objective," "forecast," "goal" or similar words are intended to identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements relating to the Company's operations, markets, services, rates, recovery of costs, availability of gas supply, and other factors. These risks and uncertainties include, but are not limited to, national, regional and local economic and competitive conditions, regulatory and business trends and decisions, technological developments, Year 2000 issues, inflation rates, weather conditions, and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the Company.

Accordingly, while the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will be realized or will approximate actual results.

Year 2000 Readiness

The Year 2000 issues arose because many computer systems and software applications, as well as embedded computer chips in plant and equipment currently in use, were constructed using an abbreviated date field that eliminates the first two digits of the year. On January 1, 2000, these systems, applications and embedded computer chips may incorrectly recognize the date as January 1, 1900. Accordingly, many computer systems and software applications, as well as embedded chips, may incorrectly process financial and operating information or fail to process such information completely. The Company has been aware of these issues and has continued to address their potential effects on its computer systems, software applications and plant and equipment.

State of Readiness In October 1996, the Company established its Year 2000 Project Team with the mission of ensuring that all critical systems, facilities and processes are identified, analyzed for Year 2000 readiness, corrected if necessary, and tested if changes are necessary. The Year 2000 Project Team is headed by an officer of the Company and consists of representatives from all business units and shared services units of the Company. The Company has a Year 2000 strategy in place and has continued to implement its Year 2000 plan to manage and minimize risks associated with the Year 2000 issues.

The Company also received comprehensive assessments in April and July 1999, updating an earlier assessment completed in June 1998, by an independent consulting firm, which specializes in such matters, of the risks posed for the Company and its business units by the Year 2000 issues, including assessments of the risks in each area of the Company involving the use of computer technology and assessments of the business and legal risks created for the Company by the Year 2000 issues. Such assessments also addressed the risks associated with the Company's embedded technologies such as micro-controllers or microchips embedded in non-information technology-related equipment.

With respect to information technology ("IT") systems, the Company has conducted an inventory and review of its application software on all platforms including the mainframe, H-P Unix, local area network and personal computers and has remediated Year 2000 issues relating to such operating environments. Concerning non-IT systems, including embedded technology, the Company has conducted an inventory and review of all of its telecommunications, security access and building control systems, forms, reports and other business processes and activities as well as the equipment and facilities utilized in the Company's gas distribution and storage systems and has remediated all Year 2000 issues identified.

The Company's Year 2000 plan includes specific timetables for the following categories of tasks for each of its shared services units and business units with respect to both IT systems and embedded technology as follows:

- Identification of Year 2000 issues—completed;
- Prioritization of Year 2000 issues—completed;
- Estimation of total Year 2000-related costs—completed;
- Implementation of Year 2000 solutions—completed;
- Testing of Year 2000 solutions—completed;
- Certification of Year 2000 readiness by third party vendors and suppliers—completed;
- Monitoring of all systems for changes in current systems that would require changes in Year 2000 plan—completed;
- Development of Year 2000 contingency plans—completed;
- Final Year 2000 tests—began October 1, 1999, and ongoing, including the Clean Management Program.

The Company has also conducted an inventory and review of mission critical computer systems provided by outside vendors and has contacted all major vendors to coordinate their Year 2000 readiness schedules with those of the Company. The Company has required vendors who provide mission critical goods or services to submit to the Company their readiness plans and to certify readiness in order to continue to do business with the Company. As discussed above, the Company has also tested vendor products that provide mission critical goods or services to ensure their Year 2000 readiness. In addition, the Company has identified its key suppliers, including gas suppliers and gas pipelines, and has communicated with them, including conducting on-site visits, for the purpose of evaluating the status of their solutions to their respective Year 2000 issues.

Costs to Address Year 2000 Issues As of September 30, 1999, the Company had incurred a total of over $900,000 in direct fees and expenses in connection with its Year 2000 efforts. The Company expects to spend approximately $1.0 million in direct fees and expenses on its Year 2000 efforts by December 31, 1999. In addition, as part of its normal systems upgrade in the ordinary course of business, the Company has replaced its customer information system, accounting and financial reporting system, and human resources system. Although these systems are Year 2000 ready, the replacement of these systems was not accelerated to 1999 solely in an attempt to address Year 2000 issues.

Risks of Year 2000 Issues and Contingency Plans As required by the United States Securities and Exchange Commission ("SEC"), the Company has identified what it believes are its "most reasonably likely worst case Year 2000 scenarios." These scenarios are (i) the temporary interference with the Company's ability to receive gas from upstream suppliers and deliver gas to customers; (ii) the temporary interference with the Company's ability to communicate with customers regarding any problems with service they may encounter; and (iii) the temporary inability to send invoices to and receive payments from customers.

The "most reasonably likely worst case scenario" associated with the Year 2000 issues would be the Company's temporary inability to continue to transport and distribute gas to its customers without interruption. In the event the Company and/or its suppliers and vendors were unable to remediate critical Year 2000 issues prior to January 1, 2000, the ability of the Company to deliver gas to its customers without interruption could be impacted. In order to address this scenario, the Company has developed contingency plans to continue to deliver gas primarily through manual intervention and other procedures should it become necessary to do so. Such procedures include back-up power supply for its critical distribution and storage operations, manual operation of the Company's gas distribution and storage systems, and, if necessary, curtailment of supply. The Company's storage capacity would be used to supplement system supply in the event its suppliers or gas pipelines are unable to make deliveries.

With respect to communications with customers, which is heavily reliant on services provided by third parties, the Company has evaluated Year 2000 readiness by such third parties and has continued to refine its contingency plans to address any worst case scenarios. Concerning the billing and payment systems, as previously discussed, the Company has replaced its customer information system, accounting and financial reporting system, and human resources system with systems that are Year 2000 ready, which should substantially diminish the risk of Year 2000 issues. Nevertheless, the Company has developed contingency plans and has continued to refine such plans in case the billing and payment systems prove not to be Year 2000 ready.

Despite the Company's efforts, there can be no assurance that all material risks associated with Year 2000 issues relating to systems and embedded technology within its control will have been adequately identified and corrected before the end of 1999. However, as the result of its Year 2000 plan and the replacement of the customer information system, accounting and financial reporting system, and human resources system in 1999, the Company does not believe that

in the aggregate, Year 2000 issues with respect to both its own IT and non-IT systems will be material to its business, operations or financial condition. On the other hand, while the Company has researched the Year 2000 readiness of its suppliers and vendors, the Company can make no representations regarding the Year 2000 readiness status of systems or parties outside its control, and cannot assess the effect on it of any non-readiness by such systems or parties.

Ratemaking Procedures

The Company's five utility divisions are regulated by various state or local public utility authorities. The method of determining regulated rates varies among the 12 states in which the Company has utility operations. It is the responsibility of the regulators to determine that utilities under their jurisdiction operate in the best interests of customers while providing the utilities the opportunity to earn a reasonable return on investment.

In a general rate case, the applicable regulatory authority, which is typically the state public utility commission, establishes a base margin, which is the amount of revenue authorized to be collected from customers to recover authorized operating expense (other than the cost of gas), depreciation, interest, taxes and return on rate base. The Company's utility divisions perform annual deficiency studies for each rate jurisdiction to determine when to file rate cases, which are typically filed every two to five years.

Substantially all of the sales rates charged by the Company to its customers fluctuate with the cost of gas purchased by the Company. Rates established by regulatory authorities are adjusted for increases and decreases in the Company's purchased gas cost through automatic purchased gas adjustment mechanisms. Therefore, while the Company's operating revenues may fluctuate, gross profit (which is defined as operating revenues less purchased gas cost) is generally not eroded or enhanced because of gas cost increases or decreases.

The overall reduction in net revenue from 1998 to 1999, other than the reduction resulting from the effects of warmer than normal weather, confirms the need for revised rates in certain jurisdictions. This is generally the result of depreciation, operating expenses and interest expense associated with assets placed in service but for which new rates have not been placed in effect to allow the Company to recover the costs associated with those assets and to provide a reasonable return on the investments made. In the regulatory environment, assets have to be placed in service and historical test periods established before rate cases can be filed. Once filed, regulatory bodies can suspend implementation of the new rates while studying the cases. All the while, as was the case for Atmos in 1999, the Company suffers the negative financial effects of having placed assets in service without the benefit of rate relief. In that regard, the Company engaged in three rate proceedings in 1999: a rate investigation in Trans Louisiana Gas Company ("Trans La Division") before the Louisiana Public Service Commission ("Louisiana Commission"); a rate case before the Kentucky Public Service Commission ("Kentucky Commission") in Western Kentucky Gas Company ("Western Kentucky Division"); and, two rate cases before the cities in Energas Company ("Energas Division").

In August 1998, the Trans La Division filed with the Louisiana Commission requesting a commodity performance mechanism and a rate freeze, and the Louisiana Commission responded by ordering a rate investigation. During the rate proceeding, the Trans La Division sought to:

- Preserve revenues;
- Maintain competitive rates and create a use-based billing method for the cost of service; and
- Restructure rates to be revenue neutral and reduce weather sensitivity.

In October 1999, a settlement was reached and the Louisiana Commission issued an order, effective November 1, 1999, addressing each of these issues as described in Note 3 of notes to the accompanying consolidated financial statements.

In May 1999, the Western Kentucky Division requested an increase in revenues of approximately $14.1 million from the Kentucky Public Service Commission. In this case the Western Kentucky Division sought:

- To support the Company's business plans with regulatory strategy;
- To apply marketing principles to develop rate proposals maximizing customer satisfaction and profitability;
- To eliminate revenue deficiency resulting from investments since the last rate case;
- To use Year 2000 projected costs to design future rates;
- To set rates to recover cost of each service; and
- To consistently earn authorized returns via long-term price stability proposals, such as weather normalization adjustment and industrial rate proposals designed to protect industrial margin losses resulting from potential bypass.

The hearing is scheduled to begin in December 1999, and the final order is required by statute by April 24, 2000.

In August 1999, the Energas Division filed rate cases with the cities served by its West Texas System and the City of Amarillo. The Company is seeking to:

- Eliminate revenue deficiency resulting from investments since the last rate case;
- Develop funding mechanisms for projects which maintain safety and reliability of the system;
- Differentiate customer rates and classes by true cost of service;
- Earn authorized return on equity in all Energas rate divisions;
- Eliminate or reduce the number of future rate filings;
- Prepare Energas for unbundling;
- Design rates that provide stable income regardless of weather; and
- Implement depreciation rates that reflect the actual retirements and replacements.

The City of Amarillo is required by statute to reach a decision on the case by the end of December 1999. The West Texas Cities must reach a decision by the end of January 2000. If a settlement is not reached in either case at the cities' level, the case will be appealed to the Railroad Commission of Texas.

The Company's rate activity for the last three fiscal years can be summarized as follows: no rate changes in 1999, rate reductions of $1.8 million in 1998, and rate increases of $9.4 million in 1997. For further information regarding rate activity, see Note 3, "Rates," in notes to consolidated financial statements.

Weather and Seasonality

The Company's natural gas and propane distribution businesses and irrigation sales business are seasonal and dependent upon weather conditions in the Company's service areas. Natural gas sales to residential, commercial, and public authority customers and propane sales are affected by winter heating season requirements. Sales to industrial customers are much less weather sensitive. Sales to agricultural customers, who typically use natural gas to power irrigation pumps during the period from March through September, are affected by rainfall amounts. These factors generally result in higher operating revenues and net income during the period from October through March of each year, and lower operating revenues and either net losses or lower net income during the period from April through September of each year. The effect of significantly warmer than normal winter weather in 1999 on the Company's consolidated volumes delivered is illustrated by the following degree day information.

	Year ended September 30,		
	1999	1998	1997
Sales volumes (Bcf)	140.1	159.4	164.2
Transportation volumes (Bcf)	55.5	56.2	48.8
Total	195.6	215.6	213.0
Degree days:			
Actual	3,374	3,799	3,909
% of normal	85%	95%	98%

The effects of weather that is above or below normal are offset in the Tennessee and Georgia jurisdictions served by the United Cities Gas Company Division ("United Cities Division") through Weather Normalization Adjustments ("WNA"). The Georgia Public Service Commission and the Tennessee Regulatory Authority have approved WNAs. The WNA, effective October through May each year in Georgia, and November through April each year in Tennessee, allow the United Cities Division to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal. The net effect of the WNA was an increase in revenues of $4.4 million, $.7 million and $2.6 million in 1999, 1998 and 1997, respectively. Approximately 186,000 or 18% of the Company's meters in service are located in Georgia and Tennessee.

The Company recognizes the benefits of mitigating the effects of weather where possible. In that regard, the Company is currently seeking a WNA in its rate case in Kentucky and is seeking to increase its customer charge in Texas to help offset some of the negative effects of weather. However, the Company cannot predict whether it will receive the WNA in Kentucky or the increased customer charges in Texas, or how much benefit might be achieved.

For further information regarding the impact of weather and seasonality on operating results, see Note 17, "Selected Quarterly Financial Data (unaudited)" in notes to consolidated financial statements herein.

Capital Resources and Liquidity

(See "Consolidated Statements of Cash Flows")

Fiscal 1999, like fiscal 1998, was a year in which total cash outflows exceeded total cash inflows. This was generally the result of the combination of lower than normal cash flows from operating activities as a result of warmer than normal weather, higher than normal capital expenditures and mandatory long-term debt retirement. This cash shortfall was financed with short-term debt and sales of common stock through the Company's Employee Stock Ownership Plan ("ESOP") and its Direct Stock Purchase Plan ("DSPP").

Cash Flows from Operating Activities Cash flows from operating activities as reported in the consolidated statement of cash flows totaled $84.7 million for 1999 compared with $91.7 million for 1998 and $68.7 million for 1997. The decrease in net cash provided by operating activities from 1998 to 1999 was the result of lower net income in 1999 primarily due to lower sales volumes because of 11% warmer winter weather, more rainfall in its agricultural service area and increased operating expenses. The increase in net cash provided by operating activities from 1997 to 1998 was the result of including a full 12 months of activity for the United Cities Division in the 1998 statement of cash flows for the combined companies. Using 1997 beginning balances for United Cities Gas Company ("UCGC") as of December 31, 1996 resulted in large swings in certain seasonal asset and liability accounts like accounts receivable and accounts payable. The changes in deferred charges and other assets and other current liabilities in 1997 and 1998 were related to merger and integration costs accrued and the related regulatory assets recorded in the fourth quarter of 1997. The $35.7 million increase in accounts receivable in 1999 was due to a change in over/under recovered gas costs from a credit (over-recovered) balance of $16.2 million at September 30, 1998 to a debit (under-recovered) balance of $7.6 million at September 30, 1999, and a temporary suspension in service cutoffs and normal efforts to collect past due receivables in connection with the Company's conversion to the new customer information and billing system. The over-recovered balance from 1998 was returned to customers through reductions in their 1999 bills. The $12.0 million increase in deferred charges and other assets net of non-cash amounts in 1999 was primarily due to increased pension assets. The $19.4 million increase in accounts payable in 1999 was primarily due to increased gas costs payable. The $11.9 million decrease in taxes payable in 1999 resulted from approximately 70% lower income tax expenses due to lower pretax income. See "Consolidated Statements of Cash Flows" for other changes in assets and liabilities.

Cash Flows from Investing Activities A substantial portion of the Company's cash resources is used to fund its ongoing construction program in order to provide natural gas services to a growing customer base. Net cash used in investing activities totaled $109.6 million in 1999 compared with $118.8 million in 1998 and $121.1 million in 1997. In 1998, the Company received $16.0 million from the sale of office buildings and an airplane. Capital expenditures in fiscal 1999 amounted to $110.4 million, compared with $135.0 million in 1998 and $122.3 million in 1997. Currently budgeted capital expenditures for fiscal 2000 total approximately $75 million and include funds for additional mains, services, meters, and equipment. Completion of technology infrastructure and business process changes, implementation of the Oracle enterprise resource planning system, and Year 2000 readiness in 1999 allowed the Company to significantly reduce its planned capital expenditures for fiscal 2000. Capital expenditures for fiscal 2000 are planned to be financed from internally generated funds and financing activities as discussed below.

The excess of cash outflows over inflows has resulted in an increase in debt as a percentage of total capitalization, including short-term debt, except for the portion related to current storage gas, as shown in the table below.

	September 30,			
	1999		1998	
	(In thousands)			
Working capital				
Short-term debt (1)	$ 44,653		$ 48,909	
Short-term debt	$123,651	13.8%	$ 17,491	2.1%
Long-term debt	395,331	44.1%	456,331	54.0%
Shareholders' equity	377,663	42.1%	371,158	43.9%
Total capitalization	$896,645	100.0%	$844,980	100.0%

(1) Includes short-term borrowings associated with working gas inventories.

The debt as a percentage of total capitalization was 57.9% and 56.1% at September 30, 1999 and 1998, respectively. The Company's longer term plans are to decrease the debt to capitalization ratio to nearer its target range of 50-52% through cash flow generated from operations, continued issuance of new common

stock under its DSPP and ESOP, and reduction of capital expenditures to the range of $75.0 million to $80.0 million from the range of $110.4 million to $135.0 million in 1999 and 1998.

Cash Flows from Financing Activities Net cash provided by financing activities totaled $28.7 million for 1999 compared with $25.9 million for 1998 and $47.3 million for 1997. Financing activities during these periods included issuance of common stock, dividend payments, short-term borrowings from banks under the Company's credit lines, and issuance and repayment of long-term debt.

Cash Dividends Paid The Company paid $33.9 million in cash dividends during 1999 compared with $31.8 million in 1998 and $26.4 million in 1997 (excluding dividends of $3.4 million paid by UCGC in the quarter ended December 31, 1996). Atmos raised the dividend rate a total of $.04 per share for both 1998 and 1999.

Short-Term Financing Activities At September 30, 1999, the Company had committed lines of credit for $250.0 million and $12.0 million to provide for short-term cash requirements. These credit facilities are negotiated at least annually. At September 30, 1999, the Company also had uncommitted short-term credit lines of $74.0 million, of which $70.4 million was unused. In October 1998, the Company began a commercial paper program under which it is authorized to issue up to $250.0 million. The commercial paper program is supported by a $250.0 million committed line of credit. At September 30, 1999, the Company had $152.7 million of commercial paper outstanding. During 1999, short-term debt increased $101.9 million due largely to lower net income and cash requirements of $61.0 million for repayments of long-term debt and capital expenditures of $110.4 million. Short-term debt decreased $100.9 million in 1998, due to the application of a portion of the $150.0 million proceeds from the issuance of 6.75% debentures. Short-term debt increased $38.8 million during 1997.

Long-Term Financing Activities No long-term debt was issued in fiscal 1999. In July 1998, the Company issued $150.0 million of 30-year 6.75% debentures. The debentures are rated A3 by Moody's and A- by Standard and Poor's. Long-term debt payments totaled $61.0 million, $16.3 million, and $14.7 million for the years ended September 30, 1999, 1998 and 1997, respectively. The amount for 1997 excludes repayments of $1.4 million by UCGC in the quarter ended December 31, 1996. Payments of long-term debt in 1999, 1998 and 1997 consisted of annual installments under the various loan documents.

The loan agreements pursuant to which the Company's Senior Notes and First Mortgage Bonds have been issued contain covenants by the Company with respect to the maintenance of certain debt-to-equity ratios and cash flows, and restrictions on the payment of dividends. See Note 4 of the accompanying notes to consolidated financial statements for more information on these covenants.

See Note 6 "Contingencies" for information regarding guarantees of certain accounts payable and short-term borrowings of Woodward Marketing, LLC ("WMLLC").

Issuance of Common Stock The Company issued a total of 849,481, 755,882 and 400,578 shares of common stock in 1999, 1998 and 1997, respectively, under its various plans. See the Consolidated Statements of Shareholders' Equity and Note 7 of the accompanying notes to consolidated financial statements for the number of shares previously issued and available for future issuance under each of the Company's plans.

Future Capital Requirements The Company believes that internally generated funds, its credit facilities, commercial paper program and access to the public debt and equity capital markets will provide necessary working capital and liquidity for capital expenditures and other cash needs for fiscal 2000. The Company has access to $262.0 million under its committed lines of credit and $74.0 million under its uncommitted lines. A committed line of credit of $250.0 million is used to support the Company's $250.0 million commercial paper program. In early fiscal 2000, the Company plans to seek regulatory approvals and register a shelf offering with the SEC for the issuance from time to time of up to $500 million in debt and equity securities for general corporate purposes.

Pro Forma Statement of Cash Flows for 1997 Because of the pooling of interests of Atmos, which has a September 30 fiscal year-end, with UCGC, which had a December 31 year-end, the activities of UCGC for the quarter ended December 31, 1996 were included in the restated 1996 consolidated statement of cash flows instead of the 1997 consolidated statement of cash flows. As a result, amounts in the 1997 consolidated statement of cash flows as reported are different than they would have been, had they included a full 12 month's activity for UCGC.

The following amounts summarize the pro forma condensed consolidated statement of cash flows of Atmos and UCGC for the full 12 months ended September 30, 1997.

	(In thousands)
Net cash provided by operating activities	$ 60,278
Net cash used in investing activities	(131,286)
Net cash provided by financing activities	68,267
Decrease in cash	(2,741)
Cash at beginning of year	8,757
Cash at end of year	$ 6,016

Results of Operations – Consolidated

Year Ended September 30, 1999 Compared with Year Ended September 30, 1998

To assist in management's discussion of results of operations, the following table presents the effects of certain special items and weather on reported consolidated net income. Earnings per share amounts presented in this discussion are on a diluted basis.

	Year ended September 30,					
	1999		1998		1997	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
	(In thousands, except per share data)					
Net income as reported	$ 17,744	$ .58	$ 55,265	$ 1.84	$ 23,838	$ .81
Special items:						
Management reorganization	—	—	—	—	2,800	.10
Reserve for integration costs	—	—	—	—	12,630	.43
Sale of assets	—	—	(2,244)	(.07)	—	—
Litigation settlement	2,070	.07	—	—	—	—
Normalized net income except for effects of weather	19,814	.65	53,021	1.77	39,268	1.34
Effects of weather	28,224	.91	3,485	.11	3,571	.12
Normalized net income	$ 48,038	$ 1.56	$ 56,506	$ 1.88	$ 42,839	$ 1.46

Net Income as Reported The Company reported net income of $17.7 million, or $.58 per diluted share, on operating revenues of $690.2 million for the fiscal year ended September 30, 1999. Net income for 1998 was $55.3 million, or $1.84 per diluted share, on operating revenues of $848.2 million, which included one-time gains totaling $2.2 million or $.07 per diluted share, from the sales of real estate and equipment owned by the United Cities Division.

Results for the year were negatively impacted by the warmest winter on record for Atmos. Across the Atmos system, weather was more than 15 percent warmer than normal and more than 11 percent warmer than last year. Rainfall in West Texas exceeded average rainfall levels for the region by more than 32% during the 1999 irrigation season, resulting in a 43% decrease in irrigation sales over last year. In addition, increased depreciation and interest expense related to assets placed in service in advance of recognition in rates adversely affected financial results. Earnings were also reduced by a charge in the second quarter of $.07 per share for settlement of litigation in Louisiana.

Net income for 1999 was also negatively impacted by operating and maintenance expenses that were higher than last year as a result of the first full year of operation of the Company's Customer Support Center in Amarillo; process improvement initiatives related to the new customer information and billing system and the accounting and human resource systems placed in service during the year; and Year 2000 readiness initiatives. Operation expenses also included increased reserves of $5.0 million for the possible write-off of accounts receivable resulting from a temporary suspension in service cutoffs and normal efforts to collect past due receivables in connection with the Company's conversion to the new customer information and billing system. In addition to lower gross profit resulting from adverse weather conditions, gross profit for the year was reduced $4.3 million by reserves established for deferred gas costs that are not expected to be recoverable.

Finally, 1999 results were positively impacted by a change in accounting principle adopted by WMLLC, a gas marketing and services company in which Atmos owns a 45% interest. WMLLC adopted Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" ("EITF 98-10"), the effect of which added $2.4 million to other income.

For fiscal year 1998, the Company reported net income of $55.3 million, or $1.84 per diluted share, on operating revenues of $848.2 million. The 1998 net income included one-time gains totaling $2.2 million or $.07 per diluted share, from the sales of real estate and equipment. Although revenues for 1998 were lower as a result of winter weather that was 5% warmer than normal, as well as warmer than 1997, earnings improved due to gains on asset sales, lower operation and maintenance expenses and increased irrigation sales. Operation and maintenance expenses were lower for 1998 due to a company-wide restructuring of the organization and Atmos' integration of the United Cities Division. Sales of gas in West Texas to farmers for

fueling irrigation pumps increased due to hot and dry summer weather in 1998. Irrigation volumes increased 34% in 1998 compared with 1997.

For fiscal year 1997, the Company reported net income of $23.8 million, or $.81 per share, on operating revenues of $906.8 million. The 1997 net income included the effects of special after-tax charges related to management reorganization ($2.8 million or $.10 per share) and reserves related to the UCGC merger and integration ($12.6 million or $.43 per share). Excluding the effect of these charges, the Company's net income would have been $39.3 million or $1.34 per share in 1997, compared with $41.2 million, or $1.42 per share for 1996. The 1997 results include UCGC, which merged with Atmos effective July 31, 1997.

Special Items The Company became successor in interest in connection with a lawsuit filed against a gas company it acquired in Louisiana in 1995. In 1999, the Company settled the lawsuit for $3.25 million or $2.07 million after-tax.

In 1998, the Company sold UCGC's former headquarters office building in Brentwood, Tennessee; two office buildings and a piece of land in Franklin, Tennessee that UCGC had held for investment; and an airplane. The Company realized a pre-tax gain on the sale of assets totaling $3.3 million or $2.2 million after-tax.

In 1997, the Company completed a management reorganization and recorded a charge of $4.4 million ($2.8 million after-tax) in related costs.

In connection with the UCGC merger and integration in 1997, the Company recorded approximately $17.0 million of transaction costs and $42.8 million for separation and other costs. The Company believes a significant amount of these costs will be recovered through rates and future operating efficiencies of the combined operations. Therefore, the Company recorded these costs as regulatory assets and established a reserve of $20.3 million ($12.6 million after-tax), to account for costs that may not be recovered. For further information regarding the merger, see Note 2 of notes to consolidated financial statements.

Consolidated Other Income, Interest Charges and Income Taxes

Other Income Equity in earnings of unconsolidated investment amounted to $7.2 million, $3.9 million and $3.3 million for 1999, 1998 and 1997, respectively. The increase for 1999 was primarily attributable to a change in accounting principle adopted by WMLLC. WMLLC adopted EITF 98-10, the effect of which added $2.4 million to equity in earnings of unconsolidated investment.

Interest income was $.8 million, $1.5 million and $2.2 million for 1999, 1998 and 1997, respectively. The decreases in 1998 and 1999 were due to maintaining lower overnight cash balances for short-term investing.

Other, net was $2.2 million, $4.3 million and $(.3) million for 1999, 1998 and 1997, respectively. The increase from 1997 to 1998 was primarily due to the $3.3 million gain from sale of certain assets obtained in the merger with UCGC. The $2.2 million in 1999 was primarily due to income from performance-based rates ("PBR") which were implemented in Kentucky in 1998.

Interest Charges Interest charges totaled $37.1 million, $35.6 million and $33.6 million in 1999, 1998 and 1997, respectively. The increases for 1998 and 1999 were related to increases in total debt outstanding for funding the infrastructure, technology, process changes and customer support investments made in 1997, 1998 and 1999.

Income Taxes The provision for income taxes was $9.6 million, $31.8 million and $14.3 million for 1999, 1998 and 1997, respectively. Changes in income taxes are primarily related to changes in pre-tax income. For further information regarding income taxes, see Note 5 of notes to consolidated financial statements.

Net Income by Segment The Company has three business segments: utility operations, propane operations and energy services, which includes the Company's 45% interest in WMLLC. The following table sets forth the net income (loss) of each of these segments for 1999, 1998 and 1997.

	Year ended September 30,		
	1999	1998	1997
	(In thousands)		
Utility	$10,800	$ 43,332	$19,739
Propane	(869)	(66)	(90)
Energy Services	7,813	11,999	4,189
Reported net income	$17,744	$ 55,265	$23,838

For additional financial information regarding the Company's segments, see Note 12 of notes to consolidated financial statements and the following discussion of the "Results of Operations" for each segment.

Results of Operations – Utility

Key financial and operating data for the Company's utility operations are highlighted in the following table.

	Year ended September 30, 1999	1998	1997
	(Dollars in thousands, except Mcf data)		
Financial			
Operating revenues	$ 621,211	$ 739,930	$ 807,428
Purchased gas cost	343,338	438,920	505,716
Gross profit	277,873	301,010	301,712
Operating expenses	225,623	200,345	240,499
Litigation settlement	3,250	—	—
Operating income	49,000	100,665	61,213
Other income	2,763	843	1,242
Interest charges	35,799	33,181	30,882
Income taxes	5,164	24,995	11,834
Net income	$ 10,800	$ 43,332	$ 19,739
Operating			
Sales volumes (MMcf):			
Residential	67,128	73,472	75,215
Commercial	31,457	36,083	37,382
Public authority and other	5,793	4,937	5,195
Industrial	20,901	22,256	27,545
Total	125,279	136,748	145,337
Transportation (MMcf)	55,468	56,224	48,800
Total volumes (MMcf)	180,747	192,972	194,137
Meters in service, end of year	1,037,995	1,004,532	985,448
Average gas sales price/Mcf	$ 4.71	$ 5.17	$ 5.36
Average cost of gas/Mcf	$ 2.74	$ 3.21	$ 3.48
Average margin per Mcf sold	$ 1.97	$ 1.96	$ 1.88
Average transportation revenue/Mcf	$ .42	$ .43	$ .41

Year Ended September 30, 1999 Compared with Year Ended September 30, 1998

Operating revenues decreased approximately 16% to $621.2 million in 1999 from $739.9 million in 1998 due to a decrease of 8% in sales volumes and a decrease of 9% in the average sales price per thousand cubic feet ("Mcf") of gas sold. The decrease in sales price reflects a decrease in the commodity cost of gas, which is passed through to end users, and rate decreases implemented in 1998. Sales to weather sensitive residential, commercial and public authority customers decreased approximately 10.1 billion cubic feet ("Bcf") in 1999 while sales and transportation volumes delivered to industrial and agricultural customers decreased approximately 2.1 Bcf. Total sales and transportation volumes delivered decreased 6% to 180.7 Bcf in 1999, as compared with 193.0 Bcf in 1998. The volume decrease was primarily due to lower demand as a result of weather that was 11% warmer in 1999 than in 1998.

Gross profit decreased by approximately 8% to $277.9 million in 1999 from $301.0 million in 1998. Factors contributing to the lower gross profit were a decrease in sales volumes of 11.5 Bcf or 8% due to the effect of 11% warmer weather than in 1998, rate decreases totaling approximately $1.8 million implemented in fiscal 1998 in Colorado and Virginia and a reserve of $4.3 million established for deferred gas costs that are not expected to be recoverable.

Operating expenses increased $25.3 million or 13% to $225.6 million in 1999. The increase in operating expenses was due to the first full year of operation of the Company's Customer Support Center in Amarillo; process improvement initiatives related to the new customer information and billing system and the accounting and human resource systems placed in service during the year; and Year 2000 readiness initiatives. Operation expenses also included increased reserves of $5.0 million for the possible write-off of accounts receivable resulting from a temporary suspension in service cutoffs and normal efforts to collect past due receivables in connection with the Company's conversion to the new customer information and billing system.

Year Ended September 30, 1998 Compared with Year Ended September 30, 1997

Utility operating revenues decreased approximately 8% to $739.9 million in 1998 from $807.4 million for 1997 due to a decrease of 6% in sales volumes and a decrease of 4% in the average sales price per Mcf. The decrease in sales volumes resulted from weather that was 3% warmer than 1997 and 5% warmer than 30-year normals. Sales volumes and revenues were also reduced by certain industrial customers switching from sales service to transportation service.

Gross profit was not significantly changed at $301.0 million for 1998 as compared with $301.7 million for 1997. The switching from sales to transportation service did not significantly affect gross profit for 1998.

Operating expenses decreased $40.2 million for 1998 as compared with 1997 primarily due to a $20.3 million reserve for integration included in 1997, a $4.4 million charge for a management reorganization in

1997, and a significant reduction in 1998 operating expenses due to the company-wide restructuring of the organization and the integration of the United Cities Division. Interest charges increased 7% to $33.2 million primarily due to an increased level of debt and slightly higher average short-term rates in 1998 as compared with 1997.

Results of Operations – Propane

Key financial and operating data for the propane operations are presented in the following table.

	Year ended September 30,		
	1999	1998	1997
	(Dollars in thousands, except per gallon data)		
Financial			
Operating revenues	$ 22,944	$ 29,091	$ 33,194
Purchased gas cost	11,155	17,709	21,193
Gross profit	11,789	11,382	12,001
Operating expenses	12,332	10,763	11,596
Operating income (loss)	(543)	619	405
Other income	482	174	159
Interest charges	1,231	897	744
Income tax benefit	(423)	(38)	(90)
Net income (loss)	$ (869)	$ (66)	$ (90)
Operating			
Propane heating degree days:			
Actual	3,440	3,799	3,847
% of normal	85%	94%	96%
Sales volumes (000 gallons):			
Retail	19,700	17,229	17,145
Wholesale	2,591	6,183	8,059
Total	22,291	23,412	25,204
Average selling price/gallon	$ .88	$ .88	$ .90
Average cost/gallon	$ .44	$ .53	$ .65
Customers, end of year	39,539	37,400	29,097

Year Ended September 30, 1999 Compared with Year Ended September 30, 1998

Propane revenues decreased $6.2 million from $29.1 million in 1998 to $22.9 million in 1999 primarily due to decreased wholesale volumes sold as a result of the implementation of the Company's plan to exit the wholesale propane supply and transportation business. Partially offsetting this decrease was an increase in the retail gallons sold as a result of the acquisitions of Ingas, Inc. in May, 1998; Harris Propane Gas Company, Inc. in July 1998; Massey Propane Gas Company and E-Con Gas, Inc. in August 1998; and Shaw LP Gas, Inc. in September 1998. The Company exited the less profitable propane transportation, cylinder exchange, and appliance sales and service businesses in 1999.

Purchased gas cost decreased $6.5 million from $17.7 million in 1998 to $11.2 million in 1999 due primarily to decreased wholesale volumes sold. Additionally, the average cost per gallon decreased $.09 per gallon from $.53 per gallon in 1998 to $.44 per gallon in 1999. This decrease was partially offset by the cost of increased retail gallons sold due to the acquisitions made during fiscal 1998.

Operating expenses increased $1.6 million from $10.8 million in 1998 to $12.3 million in 1999 due primarily to the acquisitions made during fiscal 1998.

Interest expense increased $.3 million due to increased debt related to the acquisitions in 1998 and slightly higher interest rates in 1999.

Year Ended September 30, 1998, Compared with Year Ended September 30, 1997

Revenues from propane operations decreased from $33.2 million in 1997 to $29.1 million in 1998 primarily due to the decreased selling price per gallon to retail and wholesale customers. This decreased selling price was the result of the lower demand because of warmer weather and increased competition for customers as compared to the prior year. Partially offsetting this decrease was an increase in retail gallon sales. The increase in retail volumes sold resulted from the acquisitions discussed above.

Purchased gas cost decreased from $21.2 million in 1997 to $17.7 million in 1998 primarily due to the decreased market cost of propane to the Company amounting to approximately $.12 per gallon. Partially offsetting this decrease was increased gas purchased for retail sales in 1998 as compared to 1997.

Operating expenses decreased from $11.6 million in 1997 to $10.8 million in 1998 primarily due to decreased administrative and general expenses due to decreased bad debt expense and a reduction of staff through attrition during 1998. Partially reducing this decrease was an increase in depreciation and amortization from $2.1 million in 1997 to $2.3 million in 1998 due to the acquisitions in 1997 and in 1998, and depreciation on additional plant placed in service.

Interest expense increased from $.7 million in 1997 to $.9 million in 1998 due to increased short-term borrowings and long-term debt associated with the acquisitions in 1998, as well as increased short-term borrowings to cover cash flow deficits from decreased sales.

Results of Operations – Energy Services

This segment is currently composed of four parts. Atmos Storage, Inc., owns underground storage fields in Kansas and Kentucky and provides storage services to the United Cities Division and the Greeley Gas Company ("Greeley Division") and other non-regulated customers. Atmos Energy Services, Inc., ("AESI") markets gas to irrigation and industrial customers in West Texas through Enermart Energy Services Trust ("Enermart") and to industrial customers in Louisiana, and is developing plans for marketing various non-regulated services and products. Atmos Energy Marketing, LLC, owns the Company's 45% investment in WMLLC, a gas marketing and energy management services business. Atmos Leasing, Inc., leases buildings and vehicles to the United Cities Division and gas appliances to residential customers.

Key financial data for the energy services segment are set forth below.

	Year ended September 30,		
	1999	1998	1997
	(Dollars in thousands)		
Operating revenues	$ 53,416	$ 80,672	$ 68,389
Purchased gas cost	43,284	61,228	52,448
Gross profit	10,132	19,444	15,941
Operating expenses	4,350	7,849	10,950
Operating income	5,782	11,595	4,991
Other income (loss)	(96)	4,834	467
Equity in earnings of unconsolidated investment	7,156	3,920	3,254
Interest charges	215	1,501	1,969
Income taxes	4,814	6,849	2,554
Net income	$ 7,813	$ 11,999	$ 4,189
Gas Sales (MMcf):			
Irrigation	9,655	17,018	12,743
Industrial	5,185	5,607	6,094
Total	14,840	22,625	18,837

Year Ended September 30, 1999 Compared with Year Ended September 30, 1998

Operating revenues decreased 34% from $80.7 million in 1998 to $53.4 million in 1999 due primarily to decreased West Texas non-regulated irrigation and industrial revenues. The decrease in irrigation revenues was due to increased rainfall and cooler summer temperatures in West Texas. Storage revenues also decreased due to decreased volumes withdrawn from underground storage as a result of warmer than normal winter weather in Kansas and Tennessee.

Operating expenses decreased $3.5 million in 1999 due primarily to Enermart entering into an all-inclusive gas transportation service agreement with the Energas Division which resulted in costs which Enermart had previously classified as operation expense being classified as cost of gas in 1999. Decreased irrigation volumes in West Texas and storage withdrawals in Kansas and Tennessee also reduced operating costs.

Other income decreased $4.9 million in 1999 from 1998 primarily due to a $3.3 million gain on sale of assets in 1998, as discussed below. Equity in earnings of unconsolidated investment increased $3.2 million in 1999 from 1998 primarily because of the $2.4 million of income resulting from WMLLC's adoption of EITF 98-10 in 1999. Interest charges decreased $1.3 million due primarily to decreased short-term debt in 1999 as compared with 1998.

Year Ended September 30, 1998 Compared with Year Ended September 30, 1997

Operating revenues increased 18% from $68.4 million for 1997 to $80.7 million for 1998 due to increases of $10.7 million in non-regulated West Texas irrigation and industrial revenues, and $1.6 million for gas storage operations. The increase in irrigation and industrial revenues was primarily due to hotter and drier than normal weather in West Texas in 1998. The increase in storage revenues was due to increased volumes withdrawn from underground storage in 1998 as compared with 1997. Like the utility and propane operations, gas storage volumes and revenues vary in relation to winter heating degree days.

Operating expenses decreased $3.1 million in 1998 as compared with 1997 due primarily to operating efficiencies and cost savings from restructuring irrigation and gas storage operations.

Other income increased to $4.8 million for 1998 as compared with $.5 million for 1997. The increase was primarily due to the sales of UCGC's former headquarters office, two office buildings and a piece of land in Franklin, Tennessee that UCGC had held for investment, and an airplane. Also contributing to the increase was gas brokering and utilization of storage capacity in excess of that dedicated to regulated markets to serve certain non-regulated markets.

Interest charges decreased $.5 million in 1998 as compared with 1997 due primarily to reduced debt balances in Enermart, AESI's wholly-owned trust that conducts non-regulated gas marketing operations in West Texas.

Equity in Earnings of WMLLC The Company accounts for its 45% investment in WMLLC using the equity method of accounting. Against the 45% of WMLLC's net income before tax, the Company records the amortization of the excess of the purchase price over the value of the net tangible assets, amounting to approximately $5.4 million which was allocated to intangible assets consisting of customer contracts and goodwill, and is being amortized over 10 and 20 years, respectively, as well as the provision for income taxes.

The following table presents the WMLLC financial results recorded by Atmos for the years ended September 30, 1999, 1998 and 1997. WMLLC has adopted the calendar year for financial reporting purposes.

	Twelve months ended September 30,		
	1999	1998	1997
		(In thousands)	
WMLLC net income before taxes	$ 15,902	$ 8,711	$ 7,231
Atmos share @ 45%	7,156	3,920	3,254
Less:			
Amortization of excess purchase price	407	400	359
Provision for taxes	2,362	1,337	1,100
Atmos equity in WMLLC earnings	$ 4,387	$ 2,183	$ 1,795

The net income before taxes of WMLLC increased from $7.2 million for 1997, to $8.7 million for 1998, to $15.9 million for 1999, due to growth in number of customers and gas marketing volumes and revenues each year. Additionally, WMLLC adopted EITF 98-10 in 1999, the effect of which added $2.4 million to the Company's equity in earnings of unconsolidated investment.

Factors Influencing Future Performance

Performance of the Company in the near future will primarily depend on the results of its utility operations since utility operations are expected to continue to be the substantial contributor to the Company's consolidated net income. Because of the changing energy marketplace, there are several factors that will influence Atmos' future financial performance. Some of these factors are described below.

Allowed Rate of Return The Company's utility business is subject to various regulated returns on its rate base in each of the 12 states in which it operates. The Company constantly monitors the allowed rates of return, its effectiveness in earning such rates, and initiates rate proceedings or operating changes as needed.

Outcome of Pending Rate Cases In the normal course of the regulatory environment, assets are placed in service and historical test periods are established before rate cases can be filed. Once rate cases are filed, regulatory bodies have the authority to suspend implementation of the new rates while studying the cases. Because of this process, the Company must suffer the negative financial effects of having placed assets in service without the benefit of rate relief. Management cannot predict the outcome of the approximately $28.4 million of revenue increases it is seeking in Texas and Kentucky.

Weather The Company's natural gas and propane sales volumes and related revenues are directly correlated with space heating requirements that result from cold winter weather. Its agricultural sales volumes are associated with the rainfall levels during the growing season in its West Texas irrigation market. Weather is a significant factor influencing the Company's performance.

Control of Expenses Historically, the Company has been able to budget and control operating expenses and investment within the amounts authorized to be collected in rates, and intends to continue to do so. The ability to control expenses is an important factor that will influence future results.

Environmental Matters The Company is involved in certain environmental matters and expenditures to comply with these laws and regulations are expected to be recovered through rates, insurance, or shared with other potentially responsible parties. These matters are not expected to materially affect the results of operations, financial condition or cash flows of the Company. See Note 6 of notes to consolidated financial statements for further information.

Performance-based Regulation Regulators in Georgia, Kentucky and Tennessee allow the Company and its customers to share in purchased gas cost savings when the Company can obtain gas supplies below certain benchmark indices. Acceptance of such incentives in other states would contribute to the profitability of the Company's utility operations.

Deregulation or Unbundling The Company is closely monitoring the development of unbundling initiatives in the natural gas industry. Because of its brand loyalty in its service areas, its enhanced technology and distribution system infrastructures, the Company believes that it is now positively positioned as unbundling evolves.

Growth through Acquisitions Achieving economies of scale, thereby spreading the fixed costs of the utility business over a large customer base is a basic tenet in the Company's plan to continue to be a low cost provider among its industry peers.

Inflation The Company believes that inflation has caused, and will continue to cause, increases in certain operating expenses and has required and will continue to require assets to be replaced at higher costs. The Company has a process in place to continually review the adequacy of its gas rates in relation to the increasing cost of providing service and the inherent regulatory lag in adjusting rates.

Management's Responsibility for Financial Statements

Management is responsible for the preparation, presentation and integrity of the financial statements and other financial information in this report. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles, and include estimates and judgments made by management that were necessary to prepare the statements in accordance with such accounting principles.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss and that transactions are executed and recorded in accordance with established procedures. The concept of reasonable assurance is based on the recognition that the cost of maintaining a system of internal accounting controls should not exceed related benefits. The system of internal accounting controls is supported by written policies and guidelines, internal auditing and the careful selection and training of qualified personnel.

The financial statements have been audited by the Company's independent auditors. Their audit was made in accordance with generally accepted auditing standards, as indicated in the Report of Independent Auditors, and included a review of the system of internal accounting controls and tests of transactions to the extent they considered necessary to carry out their responsibilities for the audit.

Management has considered the internal auditors' and the independent auditors' recommendations concerning the Company's system of internal accounting controls and has taken actions that are believed to be cost-effective in the circumstances to respond appropriately to these recommendations. The Audit Committee of the Board of Directors meets periodically with the internal auditors and the independent auditors to discuss the Company's internal accounting controls, auditing and financial reporting matters.

Report of Independent Auditors

Board of Directors
Atmos Energy Corporation

We have audited the accompanying consolidated balance sheets of Atmos Energy Corporation at September 30, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended September 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Atmos Energy Corporation at September 30, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 1999, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Dallas, Texas
November 9, 1999

Consolidated Balance Sheets

	September 30, 1999	September 30, 1998
	(In thousands, except share data)	
Assets		
Property, plant and equipment	$ 1,526,834	$ 1,333,556
Construction in progress	22,424	112,864
	1,549,258	1,446,420
Less accumulated depreciation and amortization	583,476	528,560
Net property, plant and equipment	965,782	917,860
Current assets		
Cash and cash equivalents	8,585	4,735
Accounts receivable, less allowance for doubtful accounts of $9,231 in 1999 and $1,969 in 1998	70,564	34,887
Inventories	8,209	15,219
Gas stored underground	44,653	48,909
Prepayments	3,142	3,630
Total current assets	135,153	107,380
Deferred charges and other assets	129,602	116,150
	$ 1,230,537	$ 1,141,390
Capitalization and Liabilities		
Shareholders' equity		
Common stock, no par value (stated at $.005 per share); 100,000,000 shares authorized; issued and outstanding: 1999 – 31,247,800 shares, 1998 – 30,398,319 shares	$ 156	$ 152
Additional paid-in capital	293,359	271,637
Retained earnings	83,231	99,369
Accumulated other comprehensive income	917	—
Total shareholders' equity	377,663	371,158
Long-term debt	377,483	398,548
Total capitalization	755,146	769,706
Current liabilities		
Current maturities of long-term debt	17,848	57,783
Short-term debt	168,304	66,400
Accounts payable	64,167	44,742
Taxes payable	848	12,736
Customers' deposits	9,657	12,029
Other current liabilities	25,951	30,369
Total current liabilities	286,775	224,059
Deferred income taxes	112,610	80,213
Deferred credits and other liabilities	76,006	67,412
	$ 1,230,537	$ 1,141,390

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Year ended September 30,		
	1999	1998	1997
	(In thousands, except per share data)		
Operating revenues	$ 690,196	$ 848,208	$ 906,835
Purchased gas cost	390,402	516,372	577,181
Gross profit	299,794	331,836	329,654
Operating expenses			
Operation	144,815	131,336	173,683
Maintenance	9,141	10,278	11,974
Litigation settlement	3,250	—	—
Depreciation and amortization	56,874	47,555	45,257
Taxes, other than income	31,475	29,788	32,131
Total operating expenses	245,555	218,957	263,045
Operating income	54,239	112,879	66,609
Other income (expense)			
Equity in earnings of unconsolidated investment	7,156	3,920	3,254
Interest income	765	1,510	2,156
Other, net	2,202	4,341	(288)
Total other income	10,123	9,771	5,122
Interest charges, net	37,063	35,579	33,595
Income before income taxes	27,299	87,071	38,136
Income taxes	9,555	31,806	14,298
Net income	$ 17,744	$ 55,265	$ 23,838
Basic net income per share	$ .58	$ 1.85	$ .81
Diluted net income per share	$ .58	$ 1.84	$ .81
Cash dividends per share	$ 1.10	$ 1.06	$ 1.01
Weighted average shares outstanding:			
Basic	30,566	29,822	29,409
Diluted	30,819	30,031	29,422

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Common stock					
	Number of shares	Stated value	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
	(In thousands, except share data)					
Balance, September 30, 1996	29,241,859	$ 146	$ 241,658	$ —	$ 87,778	$ 329,582
Net income	—	—	—	—	23,838	23,838
Cash dividends ($1.01 per share)	—	—	—	—	(26,415)	(26,415)
Common stock issued:						
Restricted stock grant plan	100,000	1	2,443	—	—	2,444
Direct stock purchase plans	85,243	—	1,888	—	—	1,888
Outside directors stock-for-fee plan	3,008	—	72	—	—	72
ESOP	212,327	1	5,113	—	—	5,114
Less: UCGC net income for the quarter ended December 31, 1996	—	—	—	—	(9,263)	(9,263)
Balance, September 30, 1997	29,642,437	148	251,174	—	75,938	327,260
Net income	—	—	—	—	55,265	55,265
Cash dividends ($1.06 per share)	—	—	—	—	(31,834)	(31,834)
Common stock issued:						
Restricted stock grant plan	114,250	1	2,898	—	—	2,899
Direct stock purchase plan	531,353	3	14,482	—	—	14,485
ESOP	52,473	—	1,485	—	—	1,485
Long-term stock plan for United Cities Division	55,500	—	1,533	—	—	1,533
Outside directors stock-for-fee plan	2,306	—	65	—	—	65
Balance, September 30, 1998	30,398,319	152	271,637	—	99,369	371,158
Comprehensive income:						
Net income	—	—	—	—	17,744	17,744
Unrealized holding gains on investments, net	—	—	—	917	—	917
Cash dividends ($1.10 per share)	—	—	—	—	(33,882)	(33,882)
Common stock issued:						
Restricted stock grant plan	56,850	—	1,732	—	—	1,732
Direct stock purchase plan	694,905	4	17,429	—	—	17,433
ESOP	89,435	—	2,362	—	—	2,362
Long-term stock plan for United Cities Division	6,450	—	150	—	—	150
Outside directors stock-for-fee plan	1,841	—	49	—	—	49
Balance, September 30, 1999	31,247,800	$ 156	$ 293,359	$ 917	$ 83,231	$ 377,663

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	1999	Year ended September 30, 1998	1997
		(In thousands)	
Cash Flows from Operating Activities			
Net income	$ 17,744	$ 55,265	$ 14,575
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization:			
Charged to depreciation and amortization	56,874	47,555	39,970
Charged to other accounts	4,800	5,861	2,237
Deferred income taxes	31,874	(3,968)	5,807
Gain on sales of non-utility assets	—	(3,335)	—
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(35,677)	36,330	32,198
(Increase) decrease in inventories	7,010	(2,886)	1,562
(Increase) decrease in gas stored underground	4,256	(787)	(4,772)
(Increase) decrease in prepayments	488	2,387	(3,208)
Increase in deferred charges and other assets	(12,012)	(20,671)	(29,683)
Increase (decrease) in accounts payable	19,425	(17,884)	(17,695)
Increase (decrease) in taxes payable	(11,888)	8,673	(837)
Decrease in customers' deposits	(2,372)	(3,069)	(1,714)
Increase (decrease) in other current liabilities	(4,418)	(22,213)	28,716
Increase in deferred credits and other liabilities	8,594	10,393	1,593
Net cash provided by operating activities	84,698	91,651	68,749
Cash Flows from Investing Activities			
Capital expenditures	(110,353)	(134,989)	(122,312)
Retirements of property, plant and equipment, net	757	178	1,189
Proceeds from sales of assets	—	15,997	—
Net cash used in investing activities	(109,596)	(118,814)	(121,123)
Cash Flows from Financing Activities			
Net increase (decrease) in short-term debt	101,904	(100,900)	38,812
Proceeds from issuance of long-term debt	—	154,445	40,000
Repayment of long-term debt	(61,000)	(16,296)	(14,659)
Cash dividends paid	(33,882)	(31,834)	(26,415)
Issuance of common stock	21,726	20,467	9,518
Net cash provided by financing activities	28,748	25,882	47,256
Net increase (decrease) in cash and cash equivalents	3,850	(1,281)	(5,118)
Cash and cash equivalents at beginning of year	4,735	6,016	11,134
Cash and cash equivalents at end of year	$ 8,585	$ 4,735	$ 6,016

See accompanying notes to consolidated financial statements.

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1) Summary of Significant Accounting Policies

Forward-Looking Statements These notes to consolidated financial statements, particularly notes 2, 3, 6, 7, 9, 14, and 16, may contain "forward-looking statements" as discussed herein in Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Cautionary Statement for the Purposes of the Safe Harbor under the Private Securities Litigation Reform Act of 1995" and should be read in conjunction with such discussion.

Description of Business Atmos Energy Corporation and its subsidiaries ("Atmos" or the "Company") are engaged primarily in the natural gas utility business as well as certain non-regulated businesses. The Company distributes through sales and transportation arrangements natural gas to approximately 1.0 million residential, commercial, public authority and industrial customers through its five regulated utility divisions: Energas Company ("Energas Division") in Texas; Trans Louisiana Gas Company ("Trans La Division") in Louisiana; Western Kentucky Gas Company ("Western Kentucky Division") in Kentucky; Greeley Gas Company ("Greeley Division") in Colorado and Kansas; and United Cities Gas Company ("United Cities Division") in Illinois, Tennessee, Iowa, Virginia, Georgia, South Carolina and Missouri. Such business is subject to federal and state regulation and/or regulation by local authorities in each of the twelve states in which the utility divisions operate. Its shared services unit is located in Dallas, Texas and its Customer Support Center is located in Amarillo, Texas. Its nonregulated businesses include propane sales and various energy services businesses as described below.

The Company is engaged in the retail and wholesale distribution of propane gas through United Cities Propane Gas, Inc. ("Propane"). It currently has operation and storage centers and storefront offices located in Tennessee, Kentucky, and North Carolina with a total company storage capacity of approximately 2.5 million gallons. As of September 30, 1999, Propane served approximately 40,000 customers in the states listed above as well as Virginia.

Through Atmos Storage, Inc. ("Storage"), the Company owns and operates natural gas storage fields in Kentucky and Kansas to supplement natural gas used by customers of the regulated utility divisions in Tennessee, Kansas and Illinois and to provide storage services to other customers that may be in other states.

Through Atmos Energy Services, Inc., the Company markets gas to industrial and irrigation customers primarily in West Texas through Enermart Energy Services Trust ("Enermart") and to industrial customers in Louisiana, and is developing plans for marketing various non-regulated services and products.

Through Atmos Energy Marketing, LLC's 45% interest in Woodward Marketing, LLC ("WMLLC"), a limited liability company formed in Delaware with headquarters in Houston, Texas, the Company is engaged in gas marketing and energy management services. WMLLC provides gas supply management services to industrial customers, municipalities and local distribution companies, including the Company's five regulated utility divisions.

Finally, the Company, through Atmos Leasing Inc. and Atmos Energy Marketing, LLC, leases real estate and vehicles to the United Cities Division and leases appliances to residential customers.

Principles of Consolidation The accompanying consolidated financial statements include the accounts of Atmos Energy Corporation and its subsidiaries. Each subsidiary is wholly owned and intercompany transactions have been eliminated.

Accounting for Unconsolidated Investments The Company accounts for its 45% interest in WMLLC using the equity method of accounting for investments. Equity in pre-tax earnings of WMLLC included in the consolidated statement of income was $7.2 million, $3.9 million and $3.3 million in 1999, 1998 and 1997, respectively. The Company amortizes the excess of the purchase price over the value of the net tangible assets, amounting to approximately $5.4 million, which was allocated to intangible assets consisting of customer contracts and goodwill over 10 and 20 years, respectively. WMLLC adopted Emerging Issues Task Force 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" ("EITF 98-10"). EITF 98-10 requires that energy trading contracts should be marked to market (that is, measured at fair value determined as of the balance sheet date) with the gains and losses included in earnings and separately disclosed. Atmos' 45% after-tax share of WMLLC's income from the adoption of EITF 98-10 was $2.4 million or $.08 per share.

Restatement for Pooling of Interests The consolidated financial statements for all periods prior to July 31, 1997 have been restated for the pooling of interests of the Company with United Cities Gas Company. Certain changes in account classifications have been made to conform United Cities Gas Company's classifications to Atmos' presentation.

Regulation The Company's utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the respective regulatory authorities in the states in which it operates. Atmos' accounting policies recognize the financial effects of the ratemaking and accounting practices and policies of the various regulatory commissions. Regulated utility operations are accounted for in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement requires cost-based rate regulated entities that meet certain criteria to reflect the authorized recovery of costs due to regulatory decisions in their financial statements.

The Company records regulatory assets which represent assets which are being recovered through customer rates or are probable of being recovered through customer rates. Significant regulatory assets as of September 30, 1999 included the following: merger and integration costs of $35.9 million, net of related reserve, environmental costs of $3.9 million, and deferred cost of purchased gas of $.5 million. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process. As of September 30, 1999, the Company had recorded a regulatory liability of $2.2 million for deferred income taxes.

Revenue Recognition Sales of natural gas are billed on a monthly cycle basis; however, the billing cycle periods for certain classes of customers do not necessarily coincide with accounting periods used for financial reporting purposes. The Company follows the revenue accrual method of accounting for natural gas revenues whereby revenues applicable to gas delivered to customers, but not yet billed under the cycle billing method, are estimated and accrued and the related costs are charged to expense. Estimated losses due to credit risk are reserved at the time revenue is recognized.

Utility Property, Plant and Equipment Utility property, plant and equipment is stated at original cost net of contributions in aid of construction. The cost of additions includes direct construction costs, payroll related costs (taxes, pensions and other fringe benefits), administrative and general costs, and the estimated cost of an allowance for funds used during construction (See AFUDC below). Major renewals and betterments are capitalized, while the costs of maintenance and repairs are charged to expense as incurred. The costs of large projects are accumulated in construction in progress until the project is completed. When the project is completed, tested and placed in service, the balance is transferred to the utility plant in service account, included in rate base and depreciation begins. Property, plant and equipment is depreciated at various rates on a straight-line basis over the estimated useful lives of the assets. The composite rates were 4.0%, 4.0% and 3.9% for 1999, 1998 and 1997, respectively. At the time property, plant and equipment is retired, the cost, plus removal expenses less salvage, is charged to accumulated depreciation.

Allowance for Funds Used During Construction ("AFUDC")
AFUDC represents the estimated cost of funds used to finance the construction of major projects. Under regulatory practices, the costs are capitalized and included in rate base for ratemaking purposes when the completed projects are placed in service. Interest expense of $3.7 million, $4.1 million and $1.2 million was capitalized in 1999, 1998 and 1997, respectively. The increased amounts in 1999 and 1998 were related to the Customer Support Center and customer information, accounting and human resource technology systems that were completed and placed in service in 1999.

Non-Utility Property, Plant and Equipment Balances are stated at cost and depreciation is computed generally on the straight-line method for financial reporting purposes.

Inventories Inventories consist primarily of materials and supplies and merchandise held for resale. These inventories are stated at the lower of average cost or market. Inventories also include propane inventories of $768,000 and $979,000 at September 30, 1999 and 1998, respectively. Propane is priced at average cost.

Gas Stored Underground Net additions of inventory gas to storage and withdrawals of inventory gas from storage are priced using the average cost method for all Atmos utility divisions, except for the United Cities Division, where it is priced on the first-in first-out method. Gas stored underground and owned by Storage is priced on the last-in first-out ("LIFO") method. In accordance with the United Cities Division's purchased gas adjustment ("PGA") clause, the liquidation of a LIFO layer would be reflected in subsequent gas adjustments in customer rates and does not affect the results of operations. Noncurrent gas in storage is classified as property, plant and equipment and is priced at cost.

Income Taxes Income taxes are provided based on the deferred method, resulting in income tax assets and liabilities due to temporary differences. Temporary differences are differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The deferred method requires the effect of tax rate changes on current and accumulated deferred income taxes to be reflected in the period in which the rate change was enacted. The deferred method also requires that deferred tax assets be reduced by a valuation allowance unless it is more likely than not that the assets will be realized.

Cash and Cash Equivalents The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Deferred Charges and Other Assets Deferred charges and other assets at September 30, 1999 and 1998 include merger and integration costs of $35.9 million and $39.5 million in 1999 and 1998, respectively, net of the related reserve for possible non-recovery; and the investment in WMLLC of $16.0 million and $11.9 million in 1999 and 1998, respectively. Also included in deferred charges and other assets are assets of the Company's qualified defined benefit retirement plans in excess of the plans' obligations, Company assets related to the non-qualified retirement plans, unamortized debt expense, and deferred compensation expense related to non-vested restricted stock grants.

Deferred Credits and Other Liabilities Deferred credits and other liabilities include customer advances for construction, obligations under capital leases, obligations under other postretirement benefits, and obligations under the Company's nonqualified retirement plans.

Earnings Per Share The calculation of basic earnings per share is based on net income divided by the weighted average number of common shares outstanding. The calculation of diluted earnings per share is based on net income divided by the weighted average number of shares outstanding plus the dilutive shares related to the United Cities Division's Long-term Stock Plan and Atmos' Restricted Stock Grant Plan.

Segment Information In 1999, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 supersedes Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach requires financial information to be disclosed for segments whose operating results are reviewed by the "chief operating decision maker." It also requires related disclosures about products and services. The adoption of SFAS No. 131 did not affect results of operations or financial position, but did affect the disclosure of segment information.

Comprehensive Income In 1999, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement requires reporting of comprehensive income and its components (revenues, expenses, gains and losses) in any complete presentation of general purpose financial statements. Comprehensive income describes all changes, except those resulting from investments by owners and distributions to owners, in the equity of a business enterprise from transactions and other events including, as applicable, foreign-currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. While the primary component of comprehensive income is the Company's reported net income, the other components of comprehensive income relate to unrealized gains and losses associated with certain investments held as available for sale.

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

Reclassifications Certain prior year amounts have been reclassified to conform with the current year presentation.

Recently Issued Accounting Standards Not Yet Adopted The Company has not yet adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement will be effective for the Company's fiscal year 2001. It establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This Statement does not allow retroactive application to financial statements of prior periods. The Company's management is currently in the process of evaluating the impact of adopting this Statement on its reported financial condition, results of operations and cash flows.

2) Business Combinations

On July 31, 1997, Atmos acquired by means of a merger all of the assets and liabilities of United Cities Gas Company ("UCGC") in accordance with the terms and provisions of an Agreement and Plan of Reorganization dated July 19, 1996 and amended October 3, 1996. A total of 13,320,221 shares of Atmos common stock was issued in a one-for-one exchange for all outstanding shares of UCGC common stock.

UCGC was merged with and into Atmos by means of a tax-free reorganization. The transaction was accounted for as a pooling of interests; therefore, historical financial statements for periods prior to the merger were restated.

Following the merger, UCGC's business began operating as United Cities Gas Company, a division of Atmos ("United Cities Division") and integration of the companies began. The United Cities Division is structured like other divisions of Atmos. To achieve this structure, approximately 560 utility positions in the United Cities Division were eliminated by September 1998. An additional 75 Atmos positions were eliminated as part of the integration, resulting in approximately 635 total position reductions in the combined Company by September 1998. Atmos also initiated plans to enhance its customer service in Texas, Louisiana, Kentucky, Colorado, Kansas and Missouri through business process changes which resulted in a net reduction of approximately 240 positions. These changes included restructuring business office operations, establishing a network of payment centers and creating a customer support center, and installing a new customer information center.

During fiscal 1997 and 1998, the Company recorded as regulatory assets the costs of the merger and integration of the United Cities Division. The Company believes there are substantial long term benefits to its customers and shareholders from the merger of the two companies. The Company believes a significant amount of the costs to achieve these benefits will be recovered through rates and future operating efficiencies of the combined operations. Therefore, the merger and integration costs are being charged to operations concurrent with the benefits received. However, in the fourth quarter of fiscal 1997 the Company established a general reserve of approximately $20.3 million ($12.6 million after-tax), to account for costs that may not be recovered through rates.

3) Rates

The following is a discussion of the Company's ratemaking activity for rate cases that are currently pending as of September 30, 1999 or rate proceedings completed during the three years ended September 30, 1999.

In August 1999, the Energas Division filed rate cases in its West Texas System cities and Amarillo, Texas, requesting rate increases totaling approximately $13.2 million. In addition to the rate increase to recover investments in technology and distribution plant expansion and maintenance, the proposed rate design would increase the customer charge, reducing the impact on earnings of warmer than normal winter weather. Pursuant to Texas law, municipalities have original jurisdiction in the establishment of rates. The City of Amarillo has until December 1999 to decide on the rate request and the West Texas Cities have until January 2000. If the Company and the cities cannot agree on the amount of a rate increase, the Company must appeal to the Railroad Commission of Texas and a final resolution could be expected in the summer of 2000. Later in 1999 or early 2000, the Company plans to request a rate increase of approximately $1.1 million in the environs areas outside the city limits of the West Texas System cities and Amarillo, Texas for total increases of $14.3 million being sought in Texas. Rates in areas outside the city limits in Texas are subject to the jurisdiction of the Railroad Commission of Texas. Management cannot predict the outcomes of these rate proceedings.

In June 1999, the Trans La Division appeared before the Louisiana Public Service Commission for a rate investigation and to redesign rates to mitigate the effects of warm winter weather. A decision was rendered by the Louisiana Commission in October 1999 that increased service charges associated with customer service calls, and increased the monthly customer charges from $6 to $9, both effective November 1, 1999. While these changes are revenue neutral, this will mitigate the impact of warmer than normal winter weather on earnings. The decision also included a three-year rate stabilization clause, which will allow the Trans La Division's rates to be adjusted annually to allow the Company to earn a minimum return on equity of 10.5%.

In May 1999, the Western Kentucky Division requested from the Kentucky Public Service Commission an increase in revenues of approximately $14.1 million, a weather normalization adjustment ("WNA") and changes in rate design to shift a portion of revenues from commodity charges to fixed rates. The WNA, if approved, would be similar to what the Company has in Georgia and Tennessee and would be in effect from November through April, beginning in November 2000. The Kentucky Commission suspended the proposed rates for six months in July 1999. It must, by statute, make a decision by April 2000. Management cannot predict the outcome of this rate proceeding.

In fiscal 1997, the Colorado Office of Consumer Counsel filed a complaint with the Colorado Public Utilities Commission ("Colorado Commission") requesting a $3.5 million reduction in the annual revenues in Colorado of the Greeley Division. On December 17, 1997, a hearing was held at the Colorado Commission presenting a Stipulation and Agreement reached by the Greeley Division and the Colorado Office of Consumer Counsel. It settled the Consumer Counsel's complaint against the Greeley Division for a $1.6 million reduction in annual revenues. The Stipulation and Agreement became effective in January 1998. The reduction decreased 1998 gross profit of the Greeley Division by approximately 4% and the gross profit of the Company by approximately .5%.

On June 9, 1998, the Kentucky Public Service Commission issued an Order approving an Experimental Performance-based Ratemaking ("PBR") mechanism related to gas procurement and gas transportation activities filed by the Western Kentucky Division. The PBR mechanism is incorporated into the Western Kentucky Division's Gas Cost Adjustment Clause. It provides for sharing of purchased gas cost savings between the consumers and the Company. The Company recognized other income of $2.0 million under the Kentucky PBR in fiscal 1999.

Effective April 1, 1999, the Tennessee Regulatory Authority approved the United Cities Division's request to continue its PBR mechanism related to gas procurement and gas transportation activities for a three-year period. The Authority revised the mechanism from the original two-year experimental period, by increasing the cap for incentive gains and/or losses to $1.25 million per year. Similar to Tennessee, the Georgia Public Service Commission renewed the Company's PBR program for an additional three years effective May 1, 1999. The gas purchase and capacity release mechanisms of the PBRs are designed to provide the Company incentives to find innovative methods to lower gas costs to its customers. The Company recognized other income of $176,000 in fiscal year 1999 for the Georgia and Tennessee PBRs.

The Georgia Public Service Commission and the Tennessee Regulatory Authority approved WNAs in fiscal 1991 and 1992, respectively. The WNAs, effective October through May each year in Georgia and November through April each year in Tennessee, allow the United Cities Division to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal. The net effect of the WNA was an increase in revenues of $4.4 million, $.7 million and $2.6 million in 1999, 1998 and 1997, respectively.

4) Long-Term Debt and Short-Term Debt

Long-term debt at September 30, 1999 and 1998 consisted of the following:

	1999	1998
	(In thousands)	
Unsecured 11.2% Senior Notes, due 2002, payable in annual installments of $2,000	$ 8,000	$ 10,000
Unsecured 9.76% Senior Notes, due 2004, payable in annual installments of $3,000	18,000	21,000
Unsecured 9.57% Senior Notes, due 2006, payable in annual installments of $2,000	14,000	16,000
Unsecured 7.95% Senior Notes, due 2006, payable in annual installments of $1,000	7,000	8,000
Unsecured 10% Notes, due 2011	2,303	2,303
Unsecured 8.07% Senior Notes, due 2006, payable in annual installments of $4,000 beginning 2002	20,000	20,000
Unsecured 8.26% Senior Notes, due 2014, payable in annual installments of $1,818 beginning 2004	20,000	20,000
Medium term notes		
Series A, 1995-1, 6.67%, due 2025	10,000	10,000
Series A, 1995-2, 6.27%, due 2010	10,000	10,000
Series A, 1995-3, 6.20%, due 2000	2,000	2,000
Unsecured 6.09% Note, due November 1998	—	40,000
Unsecured 6.75% Debentures, due 2028	150,000	150,000
First Mortgage Bonds		
Series J, 9.40% due 2021	17,000	17,000
Series N, 8.69% due 2000	1,000	3,000
Series P, 10.43% due 2017	22,500	25,000
Series Q, 9.75% due 2020	20,000	20,000
Series R, 11.32% due 2004	10,720	12,860
Series T, 9.32% due 2021	18,000	18,000
Series U, 8.77% due 2022	20,000	20,000
Series V, 7.50% due 2007	10,000	10,000
Rental property, propane and other term notes due in installments through 2013	14,808	21,168
Total long-term debt	395,331	456,331
Less current maturities	(17,848)	(57,783)
	$ 377,483	$ 398,548

Most of the Senior Notes and First Mortgage Bonds contain provisions that allow the Company to prepay the outstanding balance in whole at any time, subject to a prepayment premium. The Senior Note agreements and First Mortgage Bond indentures provide for certain cash flow requirements and restrictions on additional indebtedness, sale of assets and payment of dividends. Under the most restrictive of such covenants, cumulative cash dividends paid after December 31, 1988 may not exceed the sum of accumulated net income for periods after December 31, 1988 plus $15.0 million. At September 30, 1999, approximately $44.8 million of retained earnings was unrestricted.

As of September 30, 1999, all of the Greeley Division utility plant assets with a net book value of approximately $173.7 million are subject to a lien under the 9.4% Series J First Mortgage Bonds assumed by the Company in the acquisition of Greeley Gas Company. Also, substantially all of the United Cities Division utility plant assets, totaling approximately $293.0 million, are subject to a lien under the Indenture of Mortgage of the Series N through V First Mortgage Bonds.

Based on the borrowing rates currently available to the Company for debt with similar terms and remaining average maturities, the fair value of long-term debt at September 30, 1999 and 1998 is estimated, using discounted cash flow analysis, to be $387.7 million and $489.0 million, respectively. It is not currently advantageous for the Company to refinance its long-term debt because of costs of prepayment required in the various debt agreements.

Maturities of long-term debt at September 30, 1999 are as follows (in thousands):

2000	$ 17,848
2001	15,434
2002	15,323
2003	20,995
2004	17,656
Thereafter	308,075
	$ 395,331

Short-Term Debt At September 30, 1999, short-term debt was composed of $152.7 million of commercial paper and $15.6 million outstanding under bank credit facilities. At September 30, 1998, it was composed of $66.4 million outstanding under bank credit facilities. The weighted average interest rate on short-term borrowings outstanding was 5.7% and 6.2% at September 30, 1999 and 1998, respectively.

Committed Credit Facilities The Company has two short-term committed credit facilities. The committed lines are renewed or renegotiated at least annually. One short-term unsecured credit facility from a group of 10 banks is for $250.0 million. This facility expires in August 2000. No balance was outstanding under this facility at September 30, 1999 or 1998. This facility requires a commitment fee of .08% on the unused portion. A second facility is for $12.0 million with a single bank. This facility expires April 1, 2000. It requires a commitment fee of .05% on the unused portion. Borrowings totaling $12.0 million were outstanding under this facility at both September 30, 1999 and 1998.

Uncommitted Credit Facilities The Company also has unsecured short-term uncommitted credit lines from two banks totaling $74.0 million. Borrowings under uncommitted credit facilities totaled $3.6 million and $54.4 million at September 30, 1999 and 1998, respectively. These uncommitted lines expire in May and August 2000, and are renewed or renegotiated at least annually. The uncommitted lines have varying terms and the Company pays no fee for the availability of the lines. Borrowings under these lines are made on a when and as-available basis at the discretion of the banks.

Commercial Paper Program The Company implemented a $250.0 million commercial paper program in October 1998. It is supported by the $250.0 million committed line of credit described above. The Company's commercial paper was rated A-2 by Standard and Poor's and P-2 by Moody's. A total of $152.7 million of commercial paper was outstanding at September 30, 1999.

5) Income Taxes

The components of income tax expense for 1999, 1998 and 1997 are as follows:

	1999	1998	1997
		(In thousands)	
Current			
Federal	$ (18,761)	$ 31,694	$ 7,917
State	(4,081)	4,503	1,000
Deferred			
Federal	27,370	(3,352)	4,807
State	5,321	(616)	1,000
Investment tax credits	(294)	(423)	(426)
	$ 9,555	$ 31,806	$ 14,298

Deferred income taxes reflect the tax effect of differences between the basis of assets and liabilities for book and tax purposes. The tax effect of temporary differences that give rise to significant components of the deferred tax liabilities and deferred tax assets at September 30, 1999 and 1998 are presented below:

	1999	1998
	(In thousands)	
Deferred tax assets:		
Costs expensed for book purposes and capitalized for tax purposes	$ 629	$ 1,049
Accruals not currently deductible for tax purposes	12,657	7,189
Customer advances	4,535	3,730
Nonqualified benefit plans	7,947	11,297
Postretirement benefits	10,356	10,093
Unamortized investment tax credit	1,304	1,427
Regulatory liabilities	3,159	3,175
Tax net operating loss and credit carryforwards	12,504	—
Other, net	4,787	2,838
Total deferred tax assets	57,878	40,798
Deferred tax liabilities:		
Difference in net book value and net tax value of assets	(139,324)	(114,229)
Pension funding	(5,480)	(4,120)
Gas cost adjustments	3,997	8,943
Regulatory assets	(4,462)	(4,941)
Cost capitalized for book purposes and expensed for tax purposes	(19,112)	—
Other, net	(6,107)	(6,664)
Total deferred tax liabilities	(170,488)	(121,011)
Net deferred tax liabilities	$ (112,610)	$ (80,213)
SFAS No. 109 deferred accounts for rate regulated entities (included in other deferred credits)	$ 1,896	$ 1,548

Reconciliations of the provisions for income taxes computed at the statutory rate to the reported provisions for income taxes for 1999, 1998 and 1997 are set forth below:

	1999	1998	1997
		(In thousands)	
Tax at statutory rate of 35%	$ 9,555	$ 30,474	$ 13,348
Common stock dividends deductible for tax reporting	(701)	(695)	(706)
State taxes	841	2,526	1,300
Other, net	(140)	(499)	356
Provision for income taxes	$ 9,555	$ 31,806	$ 14,298

The Company has net operating loss carryforwards amounting to $23.9 million which will expire in the year 2019. The Company also has tax credit carryforwards amounting to $4.1 million, the majority of which represent alternative minimum tax credits which do not expire.

6) Contingencies

Litigation

Trans La Division In November 1997, a jury in Plaquemine, Louisiana awarded Brian L. Heard General Contractor, Inc., ("Heard") a total of approximately $178,000 in actual damages and $15 million in punitive damages resulting from a lawsuit by Heard against the Trans La Division, the successor in interest to Oceana Heights Gas Company, which the Company acquired in November 1995. The trial judge also awarded interest on the total judgment amount. The claims were for events that occurred prior to the time Atmos acquired Oceana Heights Gas Company. Heard filed the suit against the Trans La Division and two other defendants, alleging that gas leaks had caused delays in Heard's completion of a sewer project, resulting in lost business opportunities for the contractor during 1994. The Company immediately appealed the verdict. However, on March 24, 1999, the Company announced that it had reached a settlement of the case as a result of mediation discussions. The parties agreed to settle the case for $3.5 million. In the settlement, neither Atmos nor the Trans La Division conceded liability. Atmos paid $3.25 million and the remaining $.25 million was paid by Oceana Heights Gas Company's insurers. In exchange, the Company obtained a full release from Heard of all claims against Atmos and the Trans La Division.

Greeley Division In Colorado, the Greeley Division is a defendant in several lawsuits filed as a result of a fire in a building in Steamboat Springs, Colorado on February 3, 1994. The plaintiffs claimed that the fire resulted from a leak in a severed gas service line owned by the Greeley Division. On January 12, 1996, the jury awarded the plaintiffs approximately $2.5 million in compensatory damages and approximately $2.5 million in punitive damages. The jury assessed the Company with liability for all of the damages awarded. The Company appealed the judgment to the Colorado Court of Appeals, which reversed the trial court verdict and ordered a new trial. The Colorado Supreme Court upheld the Court of Appeals reversal and order for a new trial. As a result of mediation, a settlement was reached with five of the claimants, leaving only three remaining claimants with aggregate claims of approximately $2 million. The Company does not expect the final outcome of this case to have a material adverse effect on the financial condition, the results of operations or the cash flows of the Company because the Company believes it has adequate insurance and reserves to cover any damages that may ultimately be awarded.

On September 23, 1999, a suit was filed in the District Court of Stevens County, Kansas, by Quinque Operating Company, Tom Boles and Robert Ditto, against more than 200 companies in the natural gas industry, including the Company and the Greeley Gas Division. The plaintiffs, who purport to represent a class consisting of gas producers, royalty owners, overriding royalty owners, working interest owners and state taxing authorities, accuse the defendants of underpaying royalties on gas taken from wells situated on non-federal and non-Indian lands throughout the United States and offshore waters predicated upon allegations that the defendants' gas measurements are simply inaccurate and that the defendants failed to comply with applicable regulations and industry standards over the last 25 years. Although the plaintiffs do not specifically allege an amount of damages, they do contend that this suit is brought to recover billions of dollars in revenues that the defendants have allegedly unlawfully diverted from the plaintiffs to themselves. Since the filing of the petition, this case has been removed to the United States District Court in Wichita, Kansas, where there are numerous and various motions pending, including a request for remand by the plaintiffs as well as a notice filed to consolidate this case with other similar pending litigation in federal court in Wyoming in which the Company is also a defendant along with over 200 other defendants, the case of Jack J. Grynberg, on behalf of the United States of America.

The Company believes that the plaintiffs' claims are lacking in merit and intends to vigorously defend this action. However, the Company cannot assess, at this time, the likelihood of whether or not the plaintiffs may prevail on any one or more of their asserted claims. In any event, the Company does not expect the final outcome of this case to have a material adverse effect on the financial condition, the results of operations or the net cash flows of the Company because the Company believes that it has adequate reserves to cover any damages that may ultimately be awarded.

The Company is a party to other litigation matters and claims that arise out of the ordinary business of the Company. While the results of these litigation matters and claims cannot be predicted with certainty, the Company does not believe the final outcome of such litigation and claims will have a material adverse effect on the financial condition, the results of operations or the cash flows of the Company because the Company believes that it has adequate insurance and reserves to cover any damages that may ultimately be awarded.

Guarantees

The Company's wholly-owned subsidiary, Atmos Energy Marketing, LLC ("AEM"), and Woodward Marketing, Inc. ("WMI"), sole members of Woodward Marketing, LLC ("WMLLC"), act as guarantors of up to $12.5 million of balances outstanding under a $30.0 million bank credit facility for WMLLC. AEM guarantees the payment of up to $5.6 million of borrowings under this facility. No balance was outstanding under this credit facility at September 30, 1999. AEM and WMI also act as joint and several guarantors on payables of WMLLC up to $40.0 million of natural gas purchases and transportation services from suppliers. WMLLC payable balances outstanding that were subject to these guarantees amounted to $18.8 million at September 30, 1999.

Environmental Matters

The United Cities Division is the owner or previous owner of manufactured gas plant sites in Keokuk, Iowa; Johnson City and Bristol, Tennessee; and Hannibal, Missouri, which were used to supply gas prior to availability of natural gas. The gas manufacturing process resulted in certain by-products and residual materials including coal tar. The manufacturing process used by the Company was an acceptable and satisfactory process at the time such operations were being conducted. Under current environmental protection laws and regulations, the Company may be responsible for response actions with respect to such materials, if response actions are necessary.

As of September 30, 1999, the Company had accrued and deferred for recovery $1.1 million, including $258,000 that was incurred for an insurance recoverability study, and $750,000 for the investigations of the Johnson City and Bristol, Tennessee, and Hannibal, Missouri, sites. As of September 30, 1999, the Company has incurred costs of approximately $492,000 for these sites.

Iowa Sites In June 1995, UCGC entered into an agreement to pay $1.8 million to Union Electric Company, now Ameren, whereby Union Electric agreed to assume responsibility for UCGC's continuing investigation and environmental response action obligations as outlined in the feasibility study related to a former manufactured gas plant in Keokuk. The $1.8 million was paid in five annual installments, with the last installment being paid in July 1999. In a rate case effective June 1, 1996, UCGC began collecting increased rates which included a 10-year amortization of the $1.8 million payment to Union Electric.

Tennessee Sites UCGC and the Tennessee Department of Environment and Conservation entered into a consent order effective January 23, 1997, for the purpose of facilitating the investigation, removal and remediation of the Johnson City site. UCGC began the implementation of the consent order in the first quarter of 1997 which continued throughout fiscal year 1999.

The Company is unaware of any information which suggests that the Bristol site gives rise to a present health or environmental risk as a result of the manufactured gas process or that any response action will be necessary.

The Tennessee Regulatory Authority granted UCGC permission to defer, until its next rate case, all costs incurred in Tennessee in connection with state and federally mandated environmental control requirements.

Missouri Sites On July 22, 1998, Atmos entered into an Abatement Order on Consent with the Missouri Department of Natural Resources addressing the former manufactured gas plant located in Hannibal, Missouri. Atmos, through its United Cities Division, agreed in the order to perform a removal action, a subsequent site evaluation and to reimburse the response costs incurred by the state of Missouri in connection with the property. The removal action was conducted and completed in August 1998 and the site evaluation field work was conducted in August 1999. On March 9, 1999, the Missouri Public Service Commission issued an Order authorizing Atmos to defer the costs associated with this site until the next rate increase, which must be proposed before March 9, 2001.

Kansas Sites Atmos is currently conducting investigation and remediation activities pursuant to Consent Orders between the Kansas Department of Health and Environment ("KDHE") and UCGC. The Orders provide for the investigation and remediation of mercury contamination at gas pipeline sites which utilize or formerly utilized mercury meter equipment in Kansas. As of September 30, 1999, the Company had identified approximately 720 sites where mercury may have been used and had incurred $100,000 for recovery. In addition, based upon available current information, the Company accrued and deferred for recovery an additional $280,000 for the investigation of these sites. The Kansas Corporation Commission has authorized the Company to defer these costs and seek recovery in a future rate case.

The Company is a party to other environmental matters and claims that arise out of the ordinary business of the Company. While the ultimate results of response actions to these environmental matters and claims cannot be predicted with certainty, the Company does not believe the final outcome of such response actions will have a material adverse effect on the financial condition, the results of operations or the cash flows of the Company because the Company believes that the expenditures related to such response actions will either be recovered through rates, shared with other parties, or covered by adequate insurance or reserves.

7) Common Stock and Stock Options

Shareholders' Rights Plan On November 12, 1997, the Board of Directors approved a new Rights Agreement to become effective upon the expiration of the then existing Rights Agreement on May 10, 1998. Under the Rights Agreement, each right ("Right") will entitle the holder thereof, until May 10, 2008 or the date of redemption of the Rights, to buy one share of Common Stock of the Company at the exercise price of $80.00, subject to adjustment. At no time will the Rights have any voting rights. The exercise price payable and the number of shares of Common Stock or other securities or property issuable upon exercise of the Rights are subject to adjustment from time to time to prevent dilution. At the date upon which the rights become separate from the Company's Common Stock (the "Distribution Date"), the Company will issue one right with each share of Common Stock that becomes outstanding so that all shares of Common Stock will have attached Rights. After the Distribution Date, the Company may issue Rights when it issues Common Stock if the Board deems such issuance to be necessary or appropriate.

The Rights will separate from the Common Stock and a Distribution Date will occur upon the occurrence of certain events specified in the Agreement, including but not limited to, the acquisition by certain persons of at least 15% of the beneficial ownership of the Company's Common Stock. The Rights have certain anti-takeover effects and may cause substantial dilution to a person or entity that attempts to acquire the Company on terms not approved by the Board of Directors except pursuant to an offer conditioned upon a substantial number of Rights being acquired. The Rights should not interfere with any merger or other business combination approved by the Board of Directors because, prior to the time that the Rights become exercisable or transferable, the Rights may be redeemed by the Company at $.01 per Right.

Shares Issued Under Various Plans The following table presents the number of shares issued under various plans in 1999 and 1998, as well as the number of shares available for future issuance at September 30, 1999.

	Shares issued		Shares available for issuance at September 30,
	1999	1998	1999
Restricted Stock Grant Plan	56,850	114,250	731,400
Employee Stock Ownership Plan	89,435	52,473	370,963
Direct Stock Purchase Plan	694,905	531,353	273,312
Outside Directors Stock-For-Fee Plan	1,841	2,306	40,538
United Cities Long-Term Stock Plan	6,450	55,500	188,050
Long-Term Incentive Plan	—	—	1,175,000

Restricted Stock Grant Plan The Company's Restricted Stock Grant Plan ("Plan") for management and key employees of the Company, which became effective October 1, 1987 and was amended and restated in November 1997, provides for awards of common stock that are subject to certain restrictions. The Plan is administered by the Board of Directors. The members of the Board who are not employees of the Company make the final determinations regarding participation in the Plan, awards under the Plan, and restrictions on the restricted stock awarded. The restricted stock may consist of previously issued shares purchased on the open market or shares issued directly from the Company. During 1998, the Company increased the number of shares of its common stock that may be issued under the plan by 650,000 shares. Compensation expense of $1,595,000, $1,238,000 and $437,000 was recognized in 1999, 1998 and 1997, respectively, in connection with the vesting of shares awarded under the Plan.

Employee Stock Ownership Plan Prior to January 1, 1999, Atmos had an Employee Stock Ownership Plan ("ESOP") and the United Cities Division had a 401(k) savings plan. The ESOP was amended effective January 1, 1999, as is more fully discussed in Note 8.

Direct Stock Purchase Plan The Company also has a Direct Stock Purchase Plan ("DSPP"). Participants in the DSPP may have all or part of their dividends reinvested at a 3% discount from market prices. DSPP participants may purchase additional shares of Company common stock as often as weekly with voluntary cash payments of at least $25, up to an annual maximum of $100,000.

Outside Directors Stock-for-Fee Plan In November 1994, the Board adopted the Outside Directors Stock-for-Fee Plan, which was approved by the shareholders of the Company in February 1995 and was amended and restated in November 1997. The plan permits non-employee directors to receive all or part of their annual retainer and meeting fees in stock rather than in cash.

Stock-Based Compensation Plans The Company has two stock-based compensation plans that provide for the granting of stock options to officers, key employees and non-employee directors. The objectives of these plans include attracting and retaining the best personnel, providing for additional performance incentives, and promoting the success of the Company by providing employees the opportunity to acquire common stock.

United Cities Long-Term Stock Plan Prior to the merger with Atmos, certain United Cities Gas Company officers and key employees participated in the United Cities Long-Term Stock Plan implemented in 1989. At the time of the merger on July 31, 1997, Atmos adopted this plan by registering a total of 250,000 shares of Atmos stock to be issued under the Long-Term Stock Plan for the United Cities Division. Under this plan, incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock or any combination thereof may be granted to officers and key employees of the United Cities Division. Options granted under the plan become exercisable at a rate of 20% per year and expire 10 years after the date of grant. During 1999, 6,450 options were exercised under the plan. At September 30, 1999, there were 80,150 options outstanding, of which 56,850 options had vested. No incentive stock options, nonqualified stock options, stock appreciation rights, or restricted stock have been granted under the plan since 1996.

Long-Term Incentive Plan On August 12, 1998, the Board of Directors approved and adopted the 1998 Long-Term Incentive Plan (the "LTIP"), which became effective October 1, 1998. The LTIP represents a part of the Company's Total Rewards strategy, which the Company developed

as a result of a study it conducted of all employee, executive and non-employee director compensation and benefits. The LTIP is a comprehensive, long-term incentive compensation plan, providing for discretionary awards of incentive stock options, non-qualified stock options, stock appreciation rights, bonus stock, restricted stock and performance-based stock to help attract, retain, and reward employees and non-employee directors of the Company and its subsidiaries.

The Company is authorized to grant awards for up to a maximum of 1,500,000 shares of common stock under the LTIP, subject to certain adjustment provisions. The option price is equal to the market price of the Company's stock at the date of grant. The stock options expire in 10 years from the date of the grant, and options vest annually over a service period ranging from one to three years. During 1999, no options were exercised under the plan. At September 30, 1999, the Company had 325,000 options outstanding under the LTIP at an exercise price ranging from $24.41 to $25.66.

In October 1995, Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," was issued. This statement establishes a fair value-based method of accounting for employee stock options or similar equity instruments and encourages, but does not require, all companies to adopt that method of accounting for all of their employee stock compensation plans. SFAS 123 allows companies to continue to measure compensation cost for employee stock options or similar equity instruments using the intrinsic value method of accounting described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). The Company has elected to continue using the intrinsic value method as prescribed by APB 25. Under this method no compensation cost for stock options is recognized for stock option awards granted at or above fair market value.

Because of the limited nature of the Company's stock-based compensation plans, the pro forma effects of applying SFAS 123 would have less than a $.01 per diluted share effect on earnings per share or approximately $84,000 for 1999.

8) Employee Retirement and Stock Ownership Plans

Defined Benefit Plans Prior to January 1, 1999, the Company had four defined benefit pension plans, covering the Western Kentucky Division employees, the Greeley Division employees, the United Cities Division employees, and the fourth covering all other Atmos employees. The plans provided similar benefits to all employees, which were based upon years of service and the highest paid five consecutive calendar years of compensation within the last 10 years of employment.

Effective January 1, 1999, the plans were merged into the Western Kentucky Gas plan, which was amended and restated as the Atmos Pension Account Plan which covers all employees of the Company. Opening account balances were established for participants as of January 1, 1999 equal to the present value of their respective accrued benefits under the pension plans as of December 31, 1998. The Pension Account Plan credits an allocation to each participant's account at the end of each year according to a formula based on the participant's age, service and total pay (excluding incentive pay).

The Pension Account Plan provides for an additional annual allocation based upon a participant's age as of January 1, 1999 for those participants who were participants in the prior pension plans. The plan will credit this additional allocation each year through December 31, 2008. In addition, at the end of each year, a participant's account will be credited with interest on the employee's prior year account balance. A special grandfather benefit also applies through December 31, 2008, for participants who were at least age 50 as of January 1, 1999, and who were participants in one of the prior plans on December 31, 1998. Participants are fully vested in their account balances after five years of service and may choose to receive their account balances as a lump sum or an annuity. The obligations shown herein reflect the changes which were effective January 1, 1999.

The Company's funding policy is to contribute annually an amount in accordance with the requirements of the Employee Retirement Income Security Act of 1974. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

In the 1998 annual report the defined benefit plans were grouped with the Supplemental Executive Benefits Plans. In the 1999 annual report they are presented separately.

The Company records the accrued pension asset in deferred charges and other assets. The following table sets forth the total for the Pension Account Plan's funded status for 1999 and 1998:

	1999	1998
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 218,245	$ 217,152
Service cost	4,232	5,256
Interest cost	14,696	15,655
Curtailments/special termination benefits	—	(2,645)
Plan amendments	—	(14,605)
Actuarial (gain) loss	(21,390)	10,638
Benefits paid	(15,318)	(13,206)
Benefit obligation at end of year	200,465	218,245
Change in plan assets:		
Fair value of plan assets at beginning of year	286,708	259,851
Actual return on plan assets	11,108	40,063
Benefits paid	(15,318)	(13,206)
Fair value of plan assets at end of year	282,498	286,708
Funded status	82,033	68,463
Unrecognized transition asset	(625)	(873)
Unrecognized prior service cost	(9,680)	(10,382)
Unrecognized net gain	(48,780)	(45,616)
Accrued pension asset	$ 22,948	$ 11,592

	1999	1998	1997
Weighted average assumptions for end of year disclosure:			
Discount rate	7.5%	7.0%	7.5%
Rate of compensation increase	4.0%	4.0%	4.0%
Expected return on plan assets	10.0%	9.0%	9.0%

The plan assets consist primarily of investments in common stocks, interest bearing securities and interests in commingled pension trust funds.

Net periodic pension cost for the Pension Account Plan for 1999, 1998 and 1997 included the following components:

	1999	1998	1997
		(In thousands)	
Components of net periodic pension cost:			
Service cost	$ 4,232	$ 5,256	$ 6,640
Interest cost	14,696	15,655	15,301
Expected return on assets	(27,846)	(23,249)	(19,730)
Amortization of:			
Transition obligation (asset)	(248)	(241)	(431)
Prior service cost	(703)	851	921
Actuarial (gain)	(1,487)	(1,225)	—
Net periodic pension cost	(11,356)	(2,953)	2,701
Curtailment (gain) loss and special termination benefits	—	(1,840)	4,758
Total pension cost accruals	$ (11,356)	$ (4,793)	$ 7,459

Supplemental Executive Benefits Plans The Company has a non-qualified Supplemental Executive Benefits Plan ("Supplemental Plan") which provides additional pension, disability and death benefits to the officers and certain other employees of the Company. The Supplemental Plan was amended and restated in August 1998. In addition, in August 1998, the Company adopted the Performance-Based Supplemental Executive Benefits Plan, which will cover all employees who become officers or business unit presidents after August 12, 1998.

The Company records accrued pension cost in deferred credits and other liabilities. The following table sets forth the total for the Supplemental Plans' funded status for 1999 and 1998:

	1999	1998
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 36,770	$ 30,796
Service cost	1,151	505
Interest cost	2,488	2,246
Plan amendments	—	565
Actuarial (gain) loss	331	4,389
Benefits paid	(1,915)	(1,731)
Benefit obligation at end of year	38,825	36,770
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	1,915	1,731
Benefits paid	(1,915)	(1,731)
Fair value of plan assets at end of year	—	—
Funded status	(38,825)	(36,770)
Unrecognized transition asset	484	580
Unrecognized prior service cost	8,837	9,858
Unrecognized net loss	6,886	6,772
Accrued pension cost	$ (22,618)	$ (19,560)

	1999	1998	1997
Weighted average assumptions for end of year disclosure:			
Discount rate	7.5%	7.0%	7.5%
Rate of compensation increase	4.0%	4.0%	4.0%
Expected return on plan assets	10.0%	9.0%	9.0%

Assets for the Supplemental Plans are held in the Company's rabbi trusts (see Note 13) and consist primarily of investments in equity mutual funds. The market value of the rabbi trusts amounted to $26.1 million at September 30, 1999. The assets in the rabbi trusts are included on the Company's balance sheet under deferred charges and other assets and not presented above as plan assets.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the Supplemental Plans with accumulated benefit obligations in excess of plan assets were $38.8 million, $32.8 million, and none, respectively, as of September 30, 1999, and $36.8 million, $31.4 million, and none, respectively, as of September 30, 1998.

Net periodic pension cost for the Supplemental Plans for 1999, 1998 and 1997 included the following components:

	1999	1998	1997
		(In thousands)	
Components of net periodic pension cost:			
Service cost	$ 1,151	$ 505	$ 263
Interest cost	2,488	2,246	1,932
Expected return on assets	—	—	—
Amortization of:			
Transition obligation (asset)	96	96	96
Prior service cost	1,022	810	810
Actuarial (gain) loss	216	133	390
Net periodic pension cost	$ 4,973	$ 3,790	$ 3,491

Employee Stock Ownership Plan Atmos sponsors an ESOP for all employees of the Company. Effective January 1, 1999, the ESOP was amended to provide for deferral of a portion of a participant's salary of up to 21%. In addition, among other changes to the ESOP, participants are provided with automatic matching contributions of 100% of each participant's salary reduction up to 4% of the participant's salary, and are provided the option of taking out loans against their ESOP accounts, subject to certain restrictions. Each participant enters into a

salary reduction agreement with the Company pursuant to which the participant's salary is reduced by an amount not more than 21%. Taxes on the amount by which the participant's salary is reduced are deferred pursuant to Section 401(k) of the Internal Revenue Code. The amount of the salary reduction is contributed by the Company to the ESOP for the account of the participant. Matching contributions to the ESOP were expensed as incurred and amounted to $2.4 million, $1.8 million, and $2.1 million for 1999, 1998 and 1997, respectively. The directors may also approve discretionary contributions, subject to the provisions of the Internal Revenue Code of 1986 and applicable regulations of the Internal Revenue Service. No discretionary contributions were made for 1999 and 1998.

401(k) Savings Plan Prior to January 1, 1999, the Company sponsored a 401(k) savings plan for the United Cities Division employees. The Company made fixed matching contributions of $102,000 for the three months ended December 31, 1998, $648,000 for the nine months ended September 30, 1998, and $694,000 for the year ended December 31, 1997. In addition, a discretionary matching contribution of $227,000 was made for 1998. The 401(k) savings plan was merged into the ESOP effective January 1, 1999, and the United Cities Division employees subsequently receive the same benefits as other Atmos employees.

9) Other Postretirement Benefits

Prior to January 1, 1999, Atmos sponsored two postretirement plans other than pensions. Each provided health care benefits to retired employees. One provided benefits to the United Cities Division retirees and the other provided medical benefits to all other retired Atmos employees.

Effective January 1, 1999, the United Cities plan was merged into the Atmos plan and began providing benefits to future retirees that are essentially the same as provided to other Atmos employees. The obligations as of September 30, 1999 and 1998 reflect this plan change.

Substantially all of the Company's employees become eligible for these benefits if they reach retirement age while working for the Company and attain certain specified years of service. In addition, participant contributions are required under the plan.

The Company records the accrued postretirement cost primarily in deferred credits and other liabilities. The following table sets forth the total liability currently recognized for the postretirement plan other than pensions:

	1999	1998
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 64,494	$ 53,295
Service cost	2,150	1,659
Interest cost	4,360	3,809
Plan participants' contributions	763	382
Curtailments/special termination benefits	—	2,125
Plan amendments	—	1,888
Actuarial (gain) loss	(10,195)	6,210
Benefits paid	(4,740)	(4,874)
Benefit obligation at end of year	56,832	64,494
Change in plan assets:		
Fair value of plan assets at beginning of year	6,380	5,614
Actual return on plan assets	377	295
Employer contribution	7,184	4,963
Plan participants' contribution	763	382
Benefits paid	(4,740)	(4,874)
Fair value of plan assets at end of year	9,964	6,380
Funded status	(46,868)	(58,114)
Unrecognized transition obligation	21,732	23,243
Unrecognized prior service cost	3,094	3,614
Unrecognized net (gain) loss	(2,300)	8,571
Accrued postretirement cost	$ (24,342)	$ (22,686)

	1999	1998	1997
Weighted average assumptions for end of year disclosure:			
Discount rate	7.5%	7.0%	7.5%
Expected return on plan assets	5.3%	5.3%	5.3%
Initial trend rate	9.0%	9.0%	7.5%
Ultimate trend rate	5.0%	4.5%	5.0%
Number of years from initial to ultimate trend	5	6	3

Net periodic postretirement cost for the combined postretirement benefit plans for 1999, 1998 and 1997 included the following components:

	1999	1998	1997
		(In thousands)	
Components of net periodic postretirement cost:			
Service cost	$ 2,150	$ 1,659	$ 1,772
Interest cost	4,360	3,809	3,467
Expected return on assets	(349)	(235)	(225)
Amortization of:			
Transition obligation (asset)	1,511	1,862	1,994
Prior service cost	520	269	202
Actuarial (gain) loss	648	(58)	4
Net periodic postretirement cost	8,840	7,306	7,214
Curtailment (gain) loss and special termination benefits	—	5,915	3,043
Total postretirement cost accruals	$ 8,840	$ 13,221	$ 10,257

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

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In thousands)	
Effect on total of service and interest cost components	$ 603	$ (591)
Effect on postretirement benefit obligation	$ 6,361	$ (5,378)

The Company is currently recovering other postretirement benefits ("OPEB") costs through its regulated rates under SFAS No. 106 accrual accounting in Colorado, Kansas, the majority of its Texas service area and Kentucky. It receives rate treatment as a cost of service item for OPEB costs on the pay-as-you-go basis in Louisiana. OPEB costs have been specifically addressed in rate orders in each jurisdiction served by the United Cities Division or have been included in a rate case and not disallowed. However, the Company was required to recover the portion of the UCGC transition obligation applicable to Virginia operations over 40 years, rather than 20 years, as in other states. Management believes that accrual accounting in accordance with SFAS No. 106 is appropriate and will continue to seek rate recovery of accrual-based expenses in its ratemaking jurisdictions that have not yet approved the recovery of these expenses.

10) Earnings Per Share

Basic earnings per share has been computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share has been computed by dividing net income for the period by the weighted average number of common shares outstanding during the period adjusted for restricted stock and other contingently issuable shares of common stock. Net income for the years ended September 30, 1999, 1998 and 1997 for basic and diluted earnings per share are the same, as there were no contingently issuable shares of stock whose issuance would have impacted net income. A reconciliation between basic and diluted weighted average common shares outstanding at September 30 follows:

	1999	1998	1997
		(In thousands)	
Weighted average common shares – basic	30,566	29,822	29,409
Effect of dilutive securities:			
Restricted stock	238	199	13
Stock options	15	10	—
Weighted average common shares – diluted	30,819	30,031	29,422

11) Statement of Cash Flows Supplemental Disclosures

Supplemental disclosures of cash flow information for 1999, 1998 and 1997 are presented below.

	1999	1998	1997
		(In thousands)	
Cash paid (received) for			
Interest	$ 40,446	$ 29,980	$ 25,216
Income taxes	$ (7,184)	$ 25,598	$ 9,736

12) Segment Information

In fiscal 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 established standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. The determination of reportable segments under SFAS No. 131 differs from that required in previous years; therefore, business segment information for 1998 and 1997 has been restated to comply with the provisions of SFAS No. 131.

The Company's determination of reportable segments considers the strategic operating units under which the Company manages sales of various products and services to customers in differing regulatory environments. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. All intersegment sales prices are market based. The Company evaluates performance based on net income or loss of the respective operating units.

In accordance with SFAS No. 131, the Company has identified the Utility, Propane and Energy Services segments, as described in Note 1.

Summarized financial information concerning the Company's reportable segments is shown in the following table:

	Utility	Propane	Energy Services	Total
	(In thousands)			
As of and for the year ended September 30, 1999:				
Operating revenues	$ 621,211	$ 22,944	$ 53,416	$ 697,571
Intersegment revenues	3,898	—	3,477	7,375
Depreciation and amortization	52,503	2,954	1,417	56,874
Operating income (loss)	49,000	(543)	5,782	54,239
Equity in earnings of unconsolidated investment	—	—	7,156	7,156
Interest charges, net	35,799	1,231	33	37,063
Net income (loss)	10,800	(869)	7,813	17,744
Total assets	1,152,469	16,694	77,933	1,247,096
Equity investment in unconsolidated investee	—	—	15,973	15,973
Expenditures for additions to long-lived assets	108,454	1,550	349	110,353
As of and for the year ended September 30, 1998:				
Operating revenues	739,930	29,091	80,672	849,693
Intersegment revenues	1,485	—	—	1,485
Depreciation and amortization	43,324	2,324	1,907	47,555
Operating income	100,665	619	11,595	112,879
Equity in earnings of unconsolidated investment	—	—	3,920	3,920
Interest charges, net	33,181	897	1,501	35,579
Net income (loss)	43,332	(66)	11,999	55,265
Total assets	1,061,496	36,549	68,252	1,166,297
Equity investment in unconsolidated investee	—	—	11,914	11,914
Expenditures for additions to long-lived assets	125,741	8,408	840	134,989
As of and for the year ended September 30, 1997:				
Operating revenues	807,428	33,194	68,389	909,011
Intersegment revenues	2,176	—	—	2,176
Depreciation and amortization	40,750	2,117	2,390	45,257
Operating income	61,213	405	4,991	66,609
Equity in earnings of unconsolidated investment	—	—	3,254	3,254
Interest charges, net	30,882	744	1,969	33,595
Net income (loss)	19,739	(90)	4,189	23,838
Total assets	1,014,263	23,110	69,083	1,106,456
Equity investment in unconsolidated investee	—	—	9,962	9,962
Expenditures for additions to long-lived assets	117,496	3,271	1,545	122,312

The following table presents a reconciliation of the operating revenues to total consolidated revenues for the years ended September 30, 1999, 1998 and 1997.

	1999	1998	1997
		(In thousands)	
Total revenues for reportable segments	$697,571	$849,693	$909,011
Elimination of intersegment revenues	(7,375)	(1,485)	(2,176)
Total operating revenues	$690,196	$848,208	$906,835

A reconciliation of total assets for the reportable segments to total consolidated assets for September 30, 1999, 1998 and 1997 is presented below.

	1999	1998	1997
		(In thousands)	
Total assets for reportable segments	$1,247,096	$1,166,297	$1,106,456
Elimination of intercompany receivables	(16,559)	(24,907)	(18,145)
Total consolidated assets	$1,230,537	$1,141,390	$1,088,311

The following table summarizes the Company's revenues by products and services for the year ended September 30.

	1999	1998	1997
		(In thousands)	
Gas sales revenues:			
Residential	$349,691	$410,538	$452,864
Commercial	144,836	184,046	193,302
Public authority and other	22,330	20,504	23,898
Industrial	73,194	91,972	109,241
Total gas sales revenues	590,051	707,060	779,305
Transportation revenues	23,035	23,883	19,804
Other gas revenues	4,227	7,502	6,143
Total utility revenues	617,313	738,445	805,252
Propane revenues	22,944	29,091	33,194
Energy services revenues	49,939	80,672	68,389
Total operating revenues	$690,196	$848,208	$906,835

13) Marketable Securities

In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," all marketable securities are classified as available-for-sale and are reported at market value with unrealized gains and losses shown as a component of shareholders' equity labeled "unrealized holding gains (losses)." All marketable securities are held in rabbi trusts for the Supplemental Executive Benefit Plan ("SEBP").

The cost, unrealized holding gain (loss), and the market value of the marketable securities are:

	Cost	Unrealized Holding Gain (Loss)	Market Value
		(In thousands)	
As of September 30, 1999			
Available-for-sale securities:			
Domestic equity mutual funds	$ 22,265	$ 1,041	$ 23,306
Foreign equity mutual funds	2,359	399	2,758
	$ 24,624	$ 1,440	$ 26,064

14) Leases

The Company has entered into non-cancelable operating leases for office and warehouse space used in its operations. The remaining lease terms range from one to 20 years and generally provide for the payment of taxes, insurance and maintenance by the lessee. The Company has also entered into capital leases for division offices and operating facilities. Property, plant and equipment included amounts for capital leases of $4.6 million and $4.1 million at September 30, 1999 and 1998, respectively. Accumulated depreciation for these capital leases totaled $1.2 million and $.9 million at September 30, 1999 and 1998, respectively.

The related future minimum lease payments at September 30, 1999 were as follows:

	Capital Leases	Operating Leases
	(In thousands)	
2000	$ 735	$ 10,413
2001	735	10,010
2002	735	9,811
2003	735	9,262
2004	735	9,091
Thereafter	3,384	48,211
Total minimum lease payments	7,059	$ 96,798
Less amount representing interest	(3,671)	
Present value of net minimum lease payments	$ 3,388	

Consolidated lease and rental expense amounted to $10.6 million, $9.2 million and $10.5 million for fiscal 1999, 1998 and 1997, respectively. Rents for the regulated business are expensed and the Company receives rate treatment as a cost of service on a pay-as-you-go basis.

15) Related Party Transactions

Included in purchased gas cost were purchases from WMLLC of $117.4 million, $124.7 million and $103.0 million in 1999, 1998 and 1997, respectively. Volumes purchased were 50.9 billion cubic feet ("Bcf"), 53.4 Bcf and 38.6 Bcf in 1999, 1998 and 1997, respectively. These purchases were made in a competitive open bidding process and reflect market prices. Average prices per thousand cubic feet ("Mcf") for gas purchased from WMLLC were $2.31, $2.33 and $2.67 in 1999, 1998 and 1997, respectively.

16) Subsequent Event

Subsequent to September 30, 1999, the Company entered into a definitive agreement with Southwestern Energy Company ("Southwestern") to acquire the Missouri natural gas distribution assets of Associated Natural Gas, a division of Arkansas Western Gas, which is a wholly-owned subsidiary of Southwestern. Under the terms of the agreement, the Company will purchase the Missouri gas system for $32.0 million in cash plus working capital adjustments. This transaction, which will add approximately 48,000 customers, is expected to be completed by mid-year 2000, subject to approvals by the Missouri Public Service Commission and the Federal Energy Regulatory Commission.

17) Selected Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data are presented below. The sum of net income per share by quarter may not equal the net income per share for the year due to variations in the weighted average shares outstanding used in computing such amounts. The Company's natural gas and propane distribution businesses are seasonal due to weather conditions in the Company's service areas. For further information on its effects on quarterly results, please see the "Seasonality" discussion included in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section herein.

	Quarter ended			
	December 31	March 31	June 30	September 30
	(In thousands, except per share data)			
Fiscal year 1999				
Operating revenues	$ 210,227	$ 261,426	$ 109,590	$ 108,953
Gross profit	91,208	112,395	53,376	42,815
Operating income (loss)	31,688	50,843	412	(28,704)
Net income (loss)	15,380	28,795	(5,295)	(21,136)
Net income (loss) per share	.50	.94	(.17)	(.68)
Fiscal year 1998				
Operating revenues	$ 295,331	$ 288,550	$ 137,311	$ 127,016
Gross profit	99,601	123,971	57,366	50,898
Operating income (loss)	40,952	67,203	7,882	(3,158)
Net income (loss)	20,122	37,398	1,676	(3,931)
Net income (loss) per share	.68	1.25	.06	(.13)

Consolidated Five-Year Financial and Statistical Summary

	Year ended September 30,				
	1999	1998	1997 [1]	1996 [1]	1995 [1]
			(In thousands)		
Balance Sheet Data at September 30					
Capital expenditures	$ 110,353	$ 134,989	$ 122,312	$ 117,589	$ 103,904
Net property, plant and equipment	965,782	917,860	849,127	770,211	697,287
Working capital	(151,622)	(116,679)	(169,518)	(102,764)	(41,980)
Total assets	1,230,537	1,141,390	1,088,311	1,010,610	900,948
Shareholders' equity	377,663	371,158	327,260	329,582	304,349
Long-term debt, excluding current maturities	377,483	398,548	302,981	276,162	294,463
Total capitalization	755,146	769,706	630,241	605,744	598,812
			(In thousands, except per share data)		
Income Statement Data					
Operating revenues	$ 690,196	$ 848,208	$ 906,835	$ 886,691	$ 749,555
Gross profit	299,794	331,836	329,654	324,412	300,158
Net income	17,744	55,265	23,838	41,151	28,808
Net income per share – diluted	0.58	1.84	0.81	1.42	1.06
Common Stock Data					
Shares outstanding (in thousands)					
End of year	31,248	30,398	29,642	29,242	28,246
Average	30,819	30,031	29,422	28,994	27,208
Cash dividends per share	$ 1.10	$ 1.06	$ 1.01	$ .98	$ .96
Shareholders of record	35,179	36,949	29,867	36,472	31,782
Market price – High	$ 32 11/16	$ 31 1/16	$ 27 7/8	$ 31	$ 20 5/8
Low	$ 23 1/16	$ 24 5/8	$ 22 1/8	$ 18	$ 15 7/8
End of year	$ 24 1/8	$ 28 9/16	$ 24 7/8	$ 23 3/8	$ 19 3/8
Book value per share at end of year	$ 12.09	$ 12.21	$ 11.04	$ 11.27	$ 10.77
Price/Earnings ratio at end of year	41.59	15.52	30.71	16.46	18.28
Market/Book ratio at end of year	2.00	2.34	2.25	2.07	1.80
Annualized dividend yield at end of year	4.6%	3.7%	4.1%	4.2%	5.0%
Customers and Volumes (as metered)					
Gas sales volumes (MMcf)	140,119	159,373	164,208	178,293	166,656
Gas transportation volumes (MMcf)	55,468	56,224	48,800	44,146	47,647
Total throughput (MMcf)	195,587	215,597	213,008	222,439	214,303
Meters in service at end of year	1,037,995	1,004,532	985,448	976,308	949,213
Total meters and propane customers	1,077,534	1,041,932	1,014,545	1,002,416	972,572
Heating degree days	3,374	3,799	3,909	4,043	3,706
Degree days as a % of normal	85%	95%	98%	101%	93%
Average gas sales price per Mcf sold	$ 4.53	$ 4.87	$ 5.11	$ 4.51	$ 4.07
Average purchased gas cost per Mcf sold	$ 2.79	$ 3.24	$ 3.51	$ 3.15	$ 2.70
Average transportation fee per Mcf	$ .42	$ .43	$ .41	$ .43	$ .42
Statistics					
Return on average shareholders' equity	4.7%	15.8%	7.3%	13.0%	10.1%
Number of employees	2,062	2,193	2,679	2,863	2,944
Net plant per meter	$ 930	$ 914	$ 862	$ 789	$ 735
Operating, maintenance and administrative expense per meter	$ 146	$ 136	$ 183	$ 160	$ 163
Customers per employee	523	475	379	350	330
Times interest earned before income taxes	1.56	3.09	2.04	3.00	2.44

(1) Amounts have been restated for a pooling of interests with United Cities in July 1997.

Atmos Officers

Senior Management Team

Robert W. Best
Chairman, President and Chief Executive Officer

Larry J. Dagley
Executive Vice President and Chief Financial Officer

J. Charles Goodman
Executive Vice President, Utility Operations

Wynn D. McGregor
Vice President, Human Resources

Utility Business Units

Thomas R. Blose, Jr.
President, United Cities Gas Company

R. Earl Fischer
President, Energas Company

Conrad E. Gruber
President, Western Kentucky Gas Company

B.J. Hackler
President, Trans Louisiana Gas Company

Gary L. Schlessman
President, Greeley Gas Company

Non-Utility Business Units

Jack L. Mars
President, Enermart Energy Trust

Robert E. Mattingly
Vice President, New Business Ventures – Retail Services

Ron W. McDowell
Vice President, New Business Ventures

Anthony W. Slayden
President, United Cities Propane Gas, Inc.

Shared Services

Donald P. Burman
Assistant Controller

Cleaburne H. Fritz
Vice President, Information Technology

Tom S. Hawkins, Jr.
Vice President, Budget and Planning and Interim Controller

Lynn L. Hord
Vice President, Investor Relations and Corporate Communications

J. Patrick Reddy
Vice President, Corporate Development and Treasurer

Gordon J. Roy
Vice President, Gas Supply

Board of Directors

Top:
Front, from left
Dan Busbee, Vincent Lewis
Rear, from left
Travis Bain, Robert Best, Gene Koonce, Charles Vaughan, Thomas Garland

Bottom:
Front
Lee Schlessman (*Honorary Director*)
Rear, from left
Thomas Meredith, Carl Quinn, Richard Cardin, Phillip Nichol, Richard Ware

Travis W. Bain II
President, Bain Enterprises, Inc.
Plano, Texas
Board member since 1988
Committees: Work Session/Annual Meeting (Chairman), Audit, Human Resources

Robert W. Best
Chairman of the Board, President and Chief Executive Officer
Atmos Energy Corporation,
Dallas, Texas
Board member since 1997
Committee: Executive

Dan Busbee
Independent Business Consultant
Dallas, Texas
Board Member since 1988
Committees: Audit (Chairman), Human Resources

Richard W. Cardin
Consultant and retired partner of Arthur Andersen LLP
Nashville, Tennessee
Board Member since 1997
Committees: Audit, Nominating

Thomas J. Garland
Interim President of Tusculum College and Chairman of the Tusculum Institute for Public Leadership and Policy
Greeneville, Tennessee
Board Member since 1997
Committees: Human Resources, Work Session/Annual Meeting

Gene C. Koonce
Formerly Chairman of the Board, President and Chief Executive Officer
United Cities Gas Company
Brentwood, Tennessee
Board member since 1997
Committees: Executive, Nominating, Work Session/Annual Meeting

Vincent J. Lewis
Senior Vice President
Legg Mason Wood Walker Inc.
Rutherford, New Jersey
Board member since 1997
Committees: Audit, Nominating

Dr. Thomas C. Meredith
Chancellor of the University of Alabama System
Tuscaloosa, Alabama
Board member since 1995
Committees: Audit, Nominating

Phillip E. Nichol
Senior Vice President and Branch Manager
PaineWebber Incorporated
Dallas, Texas
Board member since 1985
Committees: Nominating (Chairman), Human Resources, Work Session/Annual Meeting

Carl S. Quinn
General Partner, Quinn Oil Company, Ltd.
East Hampton, New York
Board member since 1994
Committees: Human Resources (Chairman), Executive

Charles K. Vaughan
Formerly Chairman of the Board
Atmos Energy Corporation
Dallas, Texas
Board member since 1983
Committee: Executive (Chairman)

Richard Ware II
President, Amarillo National Bank
Amarillo, Texas
Board member since 1994
Committees: Audit, Work Session/Annual Meeting

Honorary Director
Lee E. Schlessman
President, Dolo Investment Company
Denver, Colorado
Retired from Board in 1998

Corporate Information Page

Common Stock Listing

New York Stock Exchange

Trading Symbol

ATO

Stock Transfer Agent and Registrar

Shareholder inquiries on stock transfers may be directed to Bank Boston, N.A., c/o EquiServe, P.O. Box 8040, Boston, MA 02266-8040. You may also call the Interactive Voice Response System 24 hours a day at 1-800-543-3038, or to speak to a customer service representative, call between 9 a.m. and 6 p.m. EST, Monday through Friday. You may also send an e-mail through our agent's website at http://www.equiserve.com and reference Atmos in your e-mail.

Independent Auditors

Ernst & Young LLP
2121 San Jacinto, Suite 1500
Dallas, Texas 75201
(214) 969-8000

Form 10-K

The Atmos Energy Corporation Annual Report on Form 10-K is available upon request from Investor Relations, Atmos Energy Corporation, P.O. Box 650205, Dallas, Texas 75265-0205, or by calling 1-800-38-ATMOS (382-8667) 7:30 a.m. – 4:30 p.m. CST. Form 10-K may also be viewed on Atmos' website: http://www.atmosenergy.com.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held at the Hotel Crescent Court, 400 Crescent Court, Dallas, Texas, at 11 a.m. CST on February 9, 2000.

Direct Stock Purchase Plan

Atmos Energy Corporation has a Direct Stock Purchase Plan that is available to all investors.

For an initial Investment Form or Enrollment Authorization Form and a Plan Prospectus, please call Atmos Shareholder Relations at 1-800-38-ATMOS (382-8667) 7:30 a.m. – 4:30 p.m. CST; or EquiServe at 1-800-543-3038. The Prospectus is also available on the Internet at http://www.atmosenergy.com. You may also obtain information by writing to Shareholder Relations, Atmos Energy Corporation, P.O. Box 650205, Dallas, Texas 75265-0205.

This is not an offer to sell nor a solicitation to buy any securities of Atmos. Shares of Atmos common stock purchased through the Direct Stock Purchase Plan will be offered only by Prospectus.

Atmos Information by Phone

Atmos Energy Corporation shareholder information is available by phone seven days a week, 24 hours a day through EquiServe, L.P.'s interactive voice response system. To perform stock transfers, listen to current company information and access daily stock quotes without the assistance of a customer service representative, call 1-800-543-3038 and have your Atmos Energy shareholder account number and Social Security or taxpayer ID number ready.

Atmos on the Internet

Information about Atmos and its business units may be accessed over the Internet. The Atmos home page, located at http://www.atmosenergy.com, includes current and historical financial reports and other investor information, management biographies, employment opportunities and information about the company's operations and service areas. Each business unit has its own home page, with details about products and services. You can reach the business units directly at the following web addresses:

http://www.energas.com

http://www.greeleygas.com

http://www.transla.com

http://www.westernkentuckygas.com

http://www.unitedcitiesgas.com

http://www.unitedcitiespropanegas.com

Please visit us on the worldwide web.

Atmos Energy Corporation Contacts:

Shareholder and Direct Stock Purchase Plan Information:
1-800-38-ATMOS (382-8667), 7:30 a.m. – 4:30 p.m. CST

Financial Information for Securities Analysts,
Investment Managers and General Information:
Lynn Hord
Vice President, Investor Relations
and Corporate Communications

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