



To Our Shareholders

Paula G. Rosput,
AGL Resources Inc.
President and
Chief Executive Officer

Nearly three years ago, we embarked on an ambitious goal to be the best gas company in the country. We believed that market forces would ultimately dictate new standards of performance for our industry. Remaining as we were was not an option. But more important, becoming the best was a necessary ambition because we were determined to generate a superior return for you, our shareholders. Only if we were willing to reshape and redirect the company in nearly every way would we achieve a sustainable path to earnings growth and material share price appreciation.

Becoming the best at anything is a noble goal, but it is rarely an easy one. When we adopted this goal, we knew it would demand difficult decisions that touched you and our employees. With little precedent for the issues we confronted, we have been learning and adapting. With no book to guide our efforts in becoming a new company, we are writing our own.

The story is not complete, nor may it ever end, but the first chapters we have written this past year are impressive:

- Net income of \$71.1 million and earnings per share of \$1.29;
- Core earnings (net income excluding one-time items) increased \$16.5 million, or 32 percent above last year;
- Core earnings per share of \$1.24, a boost of 36 percent over last fiscal year;
- Four straight quarters of earnings above analyst expectations;
- A stock price that finished the fiscal year at a 52-week high and 23 percent above the price at the same point last year; and
- Completion in record time of our purchase of Virginia Natural Gas, the largest and most promising acquisition in the company's history.

Outlining the Success Story

I served as president and chief operating officer of Atlanta Gas Light and had the privilege of working with Walt Higgins, your CEO for the last three years, on a vision of the company we sought to become. Walt left near the end of this fiscal year, but the course we had established is the right one. As the CEO of AGL Resources, I am determined to accelerate this course to capture even greater value for our owners.

By any measure, the story of this past year is one of a turnaround. The real success, however, is not this year's achievements. Rather, it is the resolve and focus the year has brought that equip us for the future. My philosophy is that if we run our core business well, our strengths will lead to new opportunities.

Our strength is that we develop and manage infrastructure and distribution systems. Our business practices are the most advanced in our industry and on par with those of contemporary industrial companies. Deregulation pushed us to be lean and efficient, to measure the performance of every employee and every business practice, and to have a financial toughness in managing and leveraging our assets. This mindset has imposed a rigid discipline on our operating practices, which explains this year's results and gives us great optimism about the future. This mindset has also introduced us to new opportunities in markets where our core construction and asset management skills can be applied. "Pipe" may not have the allure of novel concepts being tried in this industry, but it is a solid and profitable business to be in if you are good at it – and we are.

Focusing on this view of our business is helping us extract unrealized value from our current assets and has propelled us to approach new markets.

- *We are successful operators of gas distribution systems.* This proven competency means we can maintain a steady stream of earnings from our core business and have confidence of even greater earnings growth by applying these practices to gas companies we acquire.
- *We are innovators in transforming our most basic work practices.* By reducing the cost of installing meters and pipe, we can generate even greater returns from the population growth of our markets.
- *We have facilities and capabilities that are valuable to industry partners.* Our ability to install fiber optic conduit alongside gas mains, to recycle obsolete gas mains into fiber optic conduits, and leverage our experience in permitting and contracting are valuable to fiber network companies seeking to expand in our growing markets.
- *We have gas pipeline and storage assets in the right place.* Our gas pipelines and LNG storage assets can be optimized to reduce customers' costs and create greater shareholder value in the broader energy markets or used to support power generation development.

With this view of the inherent value of our business, we are writing a new set of rules and principles by which we believe we can capitalize on our core strengths and realize the full value of who we are becoming.



Our turnaround comes from a deep resolve to pursue new, promising courses for the company.

Rediscovering the Value in Our Core Business

The first chapter in our transformation begins with our core gas distribution business, Atlanta Gas Light Company. The deregulation of the gas market in Georgia – the fastest and most comprehensive in the industry – uncoupled our distribution business from marketing activities. While the challenges of creating a smoothly running deregulated environment remain with us, the Georgia model enabled us to take a fresh look at the value of our distribution operations. This concentration has led us to discover – or rediscover – the inherent value in our base business.

We are successfully applying new technology and business practices to our core utility processes to reduce the cost of routine tasks, freeing up human and financial capital to transform other areas of our business. This year, we deployed our Automated Dispatch system on time and under budget. This program puts computers in trucks and in the hands of field service representatives so they can connect with our work management systems, allowing them to start their day from home and more quickly respond to changing customer needs during the day. We also are quickly and successfully automating many of our mapping, engineering, and procurement systems so we can further enhance the accuracy, efficiency, and ultimate profitability of everything we do.

We can further enhance the accuracy, efficiency, and ultimate profitability of everything we do.

By serving customers well and supporting the growth interests in our states, we are confident we can enjoy steady returns from our utility businesses while leveraging our skills and market presence in other value-building ventures.

Our demonstrated success in profitably running utility businesses is what makes our acquisition of VNG particularly valuable to the continued growth of our core business. VNG's retail business is supported by a robust economy in the Hampton Roads region, but the real value is in the opportunity we have to deploy many proven operating practices from our Atlanta Gas Light utility business within VNG. By driving down VNG's cost of meter installations, customer service, and distribution system maintenance, we can leverage the economic growth in the region to generate very favorable returns.

Our Growth is Grounded in Our Skills

In operating utility systems for decades, we have gained an unparalleled depth of knowledge about the underground facilities in our communities, strong relationships with contractors, and experience in permitting and work scheduling. We have long recognized the value of these assets and skills in a traditional sense; but in rewriting the book on our core business, we have developed a new definition, a new context, around these assets and competencies.

Beginning late in the fiscal year, we launched a telecommunications development venture, AGL Networks, that is already proving to be an attractive partner for major fiber optic network companies. Telecom network developers face significant costs and practical obstacles in constructing fiber networks in dense urban areas. Now, gas, water or sewer mains that are no longer suitable for their original purposes can take on a new life as conduit if those mains can be recycled and

managed by skilled crews that understand underground infrastructure. As yet another example of taking our skills and ideas to a larger market, we are launching an on-line auction business where we will serve as a marketer of conduit capacity from municipalities or other utilities that have retired mains.

Launching a telecommunications venture would not have come, or come as quickly, had we not changed and improved everything we did in the core business. As a result, we are finding even more opportunities to extend our core competencies in developing and managing underground infrastructure systems. Our telecom venture is only one example of how the resilience and creativity we are developing through our transformation is now being unleashed on promising market opportunities.

Finding New Value in Traditional Assets

In redrafting the meaning of the term “gas company,” we are challenging ourselves to find new value in all of the assets that traditionally come with being a utility. In our utility operations, we have contracted for interstate storage and pipeline assets that can play an important role in supporting development within our service areas.

We are the largest liquefied natural gas supplier in the Southeast and one of the five largest in the U.S. We expect to pursue acquisitions that will strengthen our market share and position us well to supply utility and municipal needs in the region.

We also have great potential in the array of intrastate pipelines laced throughout Georgia, Tennessee, and now Virginia. By prudently marketing this capacity at the right times, we can provide greater certainty and reliability, as well

Decisions must be rooted in discipline around building shareholder value.

AGL Resources

as cost savings, for our customers while gaining the greatest value for our shareholders. With our acquisition of VNG, we now have sufficient scale in gas resources and capacity to allow us to support the growth of our region and participate more fully in new market opportunities in the broader energy markets. For example, our assets throughout Georgia, Tennessee, and Virginia put us in a strong position to supply clean-burning natural gas to new electric generating units being built to meet growing power demand.

Keeping Shareholder Value at the Heart of Our Business

A key chapter in our rewrite of this business is driving a shareholder value mentality through every aspect of our decision-making and management. As a leadership team, we are deeply resolved to keep our commitments to you as owners and restore your confidence in the potential of this company. The strong rebound in our stock price is evidence we are fulfilling that purpose. However, we know that such confidence must be earned again and again in the decisions we make in the future, and those decisions must be rooted in a discipline around building shareholder value. We have a new generation of leaders at all levels of the company whose conviction around building shareholder value has been forged in the crucible of deregulation and the urgencies imposed by a rapidly changing marketplace. Accustomed to creating success out of difficult

circumstances, they are now equally relentless in making something out of the many opportunities we see ahead.

To support this conviction, we have exercised strict standards for our use of capital, driven costs and inefficiencies out of our core business practice, and applied business case regimens to all major operational initiatives. The restructuring of our propane business in the last fiscal year is an example of this financial discipline. Strong focus on optimizing the deployment of capital gives us more predictability in our core business and builds capacity for earnings growth.

Our rewrite of the business will always be refreshed and edited by what we see as emerging trends in our industry. Just as an example, most utilities believed that sweeping regulatory reform would usher in promising market opportunities in competitive energy retailing. We directed some of our resources toward these prospects in the last two years in energy billing and retail marketing ventures. Georgia Natural Gas Services captured a dominant share of the competitive Georgia market for direct gas sales. As the ground swell favoring more deregulation has waned in many states, the prospects for further near-term growth in energy marketing are limited. However, these same trends have affirmed our sustained confidence and concentration in regulated distribution operations.

This business will continue to change. We will aggressively pursue new business opportunities within our core competencies that promise superior returns. We will also make crisp and timely decisions to restructure or shed any businesses that do not. We owe that to you.

There are many contributors to the book we are writing – our board of directors, our leadership team, and, most importantly, our employees. Many companies say that their employees are their most valuable resource. At AGL Resources, the employees who accomplished the turnaround of fiscal 2000 truly are a shareholder asset. I could not write this letter if our employees had faltered in their belief in what we could become. We simply would not be where we are today if our employees had not reached deep within themselves to find a way. I thank them.

I believe this is a great business to be in today, but success comes only when you make it happen.

We are proving that we have both the attitude and the aptitude to excel. By sharing with you what we expect of ourselves, you can know what to expect from us.

The best.

**Success comes
only when you
make it happen.**



Sincerely,

A handwritten signature in black ink that reads "Paula G. Rosput". The signature is written in a cursive, flowing style.

Paula G. Rosput,
AGL Resources Inc.
President and Chief Executive Officer

November 28, 2000