a super-regional
energy services and
delivery company
in the northeast

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Energy East is a super-regional energy services and delivery company in the Northeast. By promoting **competition**, providing **superior customer service** and offering an array of competitive **products and services**, we will **profitably grow** our energy infrastructure. We have the people and assets to succeed in an increasingly competitive energy marketplace and will continue to **build value** for our shareholders.

vision

Energy East is a super-regional energy services and delivery company in the Northeast. By promoting **competition**, providing **superior customer service** and offering an array of competitive **products and services**, we will **profitably grow** our energy infrastructure. We have the people and assets to succeed in an increasingly competitive energy marketplace and will continue to **build value** for our shareholders.

vision

Fellow Shareholders:

In 1999 we witnessed dramatic changes in our industry. Facing increased competition, companies were forced to reevaluate their strategies. Asset sales continued, merger activity accelerated and the competitive landscape in the Northeast was reshaped as energy providers continued to grow in size, but shrink in numbers.

We view these evolutionary changes as an opportunity to redefine ourselves. In that context, 1999 was an excellent year for Energy East as we took major steps to transform your company into a super-regional energy services and delivery company. In particular, we identified four merger opportunities that will strengthen our delivery business and provide future revenue growth and increased profitability: Connecticut Energy Corporation, CMP Group, CTG Resources, and Berkshire Energy Resources. Upon completion of these mergers, our customer base will double to a total of 2 million customers across upstate New York and New England, providing new opportunities to increase electricity and natural gas sales and to offer complementary non-utility products and services to our expanded customer base.

We continue to promote the development of a competitive energy marketplace in the Northeast. In August we offered all of our customers an electric retail choice program that is one of the most progressive in the country. As we expand in neighboring states, we intend to actively promote competition and increased customer choice in our new markets. Our ability to succeed in a competitive environment is premised on operational excellence and superior customer service. We continually seek new and better ways to serve our customers and to improve the efficiency of our operations.

We are extremely proud of our superior customer service. In 1999 we were recognized by the American Gas Association and the Edison Electric Institute for our "best practices" in resolving customer inquiries at our call center. In a competitive marketplace, we must earn our customers' respect and loyalty daily. Our people are among the best in the business. Their skill, dedication and leadership allow us to exceed industry benchmarks year after year.

While we have been concentrating on transforming Energy East over the past year, our number one priority remains delivering value to our shareholders. In 1999 utility industry stock performance – including ours – was disappointing. This poor performance was a result of rising interest rates and the market's focus on other industry sectors such as high-tech companies. However, we continued to grow earnings and dividends. Earnings per share were $1.88, an increase of 25% over the prior year. In January of 2000, your dividend was once again raised – to 88 cents per share from 84 cents per share. And our total three-year return was 119%, significantly better than the S&P Utility Index (up 31%). This performance reflects the market's recognition of our strategy to change from a vertically integrated upstate New York utility to a super-regional energy services and delivery company in the Northeast.

evolutionary changes as an

to redefine ourselves.

As we look ahead, we expect the coming year to bring more customer choice and more market opportunities. We are confident that the foundation we laid in 1999 will position us to effectively compete in the new energy marketplace. Our philosophy is simple: A clear strategic vision, financial discipline, state of the art technology and the operational talent to be among the best at what we do.

David T. Flanagan, president and CEO, CMP Group, will become president of Energy East upon completion of the merger this year. He has done an outstanding job of turning CMP into a customer driven and well respected company. His experience and insight will be important to us as we implement our strategic vision.

We look forward with excitement and energy to the new millennium.

On behalf of the Board of Directors,

Wes von Schack

Wesley W. von Schack
Chairman, President and Chief Executive Officer
February 1, 2000

Since August, all of our electric customers in New York State have been eligible to choose their supplier. This is one of the most progressive customer choice programs in the country.

In addition, all of our natural gas customers have had retail choice since 1996.

Customer choice

Among those businesses that have chosen another electricity supplier is the Howard Johnson's Hotel in Norwich, New York. General Manager Brian Burton said the transition was smooth and that he is saving money while still relying on us for safe, reliable electricity delivery.

Promoting competition and providing customer choice

Promoting competition is integral to our strategy. As we grow in the Northeast, we will use our experience in upstate New York to bring increased choice to Connecticut, Maine, Massachusetts, New Hampshire, and Vermont.

The sale of our coal-fired power plants and pending sale of our nuclear generating interest directly support competition.

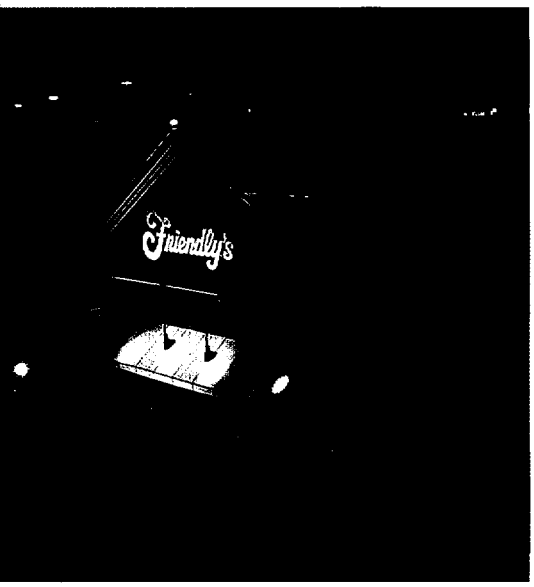
Energy East Solutions is proving that competition benefits customers, by providing a low-cost alternative for energy supply to retail customers. In just over a year they have brought cost savings and enhanced service to 55,000 electricity and natural gas customers in the Northeast and mid-Atlantic regions.

Since August, all of our electricity customers in New York State have been eligible to choose their supplier. This is one of the most progressive customer choice programs in the country. In addition, all of our natural gas customers have had retail choice since 1996.

Promoting competition and providing customer choice

Pending mergers

Our pending mergers with Connecticut Energy Corporation, CMP Group, CTG Resources and Berkshire Energy Resources will double our customer base to 2 million customers in upstate New York and New England. This demonstrates our commitment to growing our



energy infrastructure. These mergers will provide excellent opportunities to increase sales using existing natural gas systems and to add attractive new electricity and natural gas franchises and customers.

First natural gas customer in the state of Maine

In May, the Friendly's Restaurant in Windham became our first natural gas customer in Maine. We intend to provide clean, economical natural gas to more than 35 cities and towns in southern and central Maine, taking supply from two new natural gas transmission lines that run through the state.

Opportunities for growth

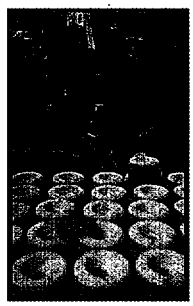
In addition to expansion across the Northeast, we continue to look for growth opportunities in New York. In 1999 NYSEG added 8,000 new electricity customers and 3,000 new natural gas customers in New York. In addition, retail deliveries of electricity increased 4% while retail natural gas deliveries climbed 9%. Our sales and economic development teams assisted 35 businesses that invested $280 million within our service area in 1999. Prominent among these projects were American Axle & Manufacturing's $40 million expansion, ALSTOM Transportation Inc.'s siting of its new base of U.S operations, Refractron Technologies Corporation's decision to remain in New York and expand, and Luminescent Systems Inc.'s decision to build a new facility in New York rather than centralize operations in New Hampshire.

Fiber optic communications

Energy East Telecommunications, in a joint venture with Telergy Inc., a Syracuse, New York-based firm, has completed a fiber optic communications network linking Binghamton, Ithaca and Auburn. We have secured our first major customer, a competitive local exchange carrier that will add to the options available to telephone customers in upstate New York.

Business expansion

Our economic development team assisted Refractron Technologies Corporation with its decision to remain in New York and expand operations. Refractron is a world leader in advanced porous ceramics for applications such as filtration, diffusion and shielding.



growth of our energy infrastructure

superior products and serv

As competition unfolds, one of the ways we are differentiating ourselves from our competitors is by providing superior customer service. We are already highly regarded by our customers for safe, reliable energy delivery. Our quick, efficient restoration of power following storms has been applauded by customers, community leaders and regulators.

Providing innovative solutions

Our customers can count on us for solutions to their problems. Penguin Putnam Inc. relies on a complex conveyor system in its book distribution warehouse. When that conveyor system failed, we were able to apply our skills to identify the problem and help get the system back in operation.

Our non-utility businesses provide competitive products and services to consumers throughout the Northeast. By offering these products and services to our residential, commercial and industrial customers, we add to the total value we deliver to customers.

Research and development

Our active research and development team, working with our sales team, is opening up new business opportunities for our customers. We have contributed to the development of new products such as controlled environment agriculture for growing vegetables and aquaculture for raising fish. We are also testing microturbines, a technology that provides both steam and power to smaller commercial customers.

ces

Earning praise for service

We continue to have the lowest customer complaint rate of any electricity and natural gas company in New York State. And our call center, which handled more than two million customer calls in 1999, is among the best in the industry.

In September, the American Gas Association and the Edison Electric Institute presented us with a "best practices" award. It recognizes our call center customer representatives for excellence in resolving customer inquiries during the initial contact. By taking care of questions and concerns at the initial point of contact, we efficiently meet our customers' needs.

Enhancing shareholder value

Earnings increased in 1999 to $1.88 per share, a 25% increase. Earnings were $1.51 in 1998 and $1.29 in 1997, adjusted for the two-for-one stock split in April 1999.

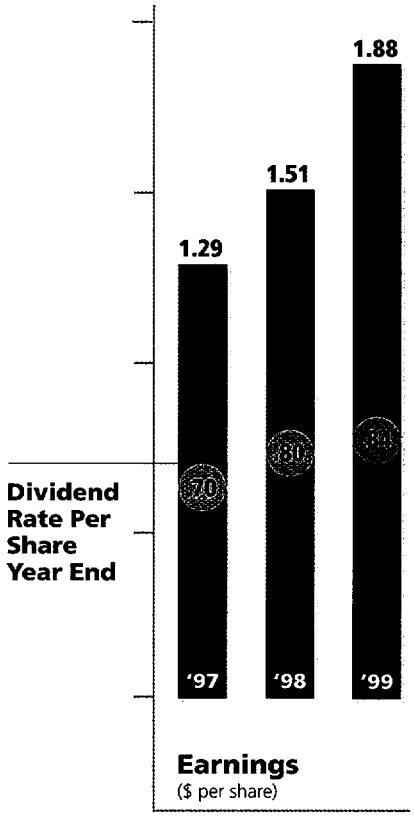
We also increased the dividend in January 2000 to a new annual rate of 88 cents per share, a 5% increase.

The utility industry performed poorly in 1999 as a result of rising interest rates and the market's focus on other industry sectors, such as high-tech companies.

Our total three-year return was 119%, significantly better than the S&P Utility Index (up 31%).

This performance reflects the market's recognition of our strategy to change from a vertically integrated, upstate New York utility to a super-regional energy services and delivery company in the Northeast.

We believe we can compete effectively in the new energy marketplace and continue to enhance shareholder value.



shareholder

Our partnership with Energy East creates an entity with the size and stature necessary for success in a competitive marketplace. It will provide benefits that were simply not attainable on a stand-alone basis."

David T. Flanagan
President and CEO
CMP Group

merger

"I am enthusiastic and thrilled by the opportunities our merger with Energy East presents for our employees, customers and shareholders. This will bring a strong, dynamic company into Connecticut and the region."

J. R. Crespo
Chairman, President and CEO
Connecticut Energy

Our shareholders will have the opportunity to participate in the upside potential of Energy East while our employees will continue to provide the same safe, reliable service our customers have come to expect."

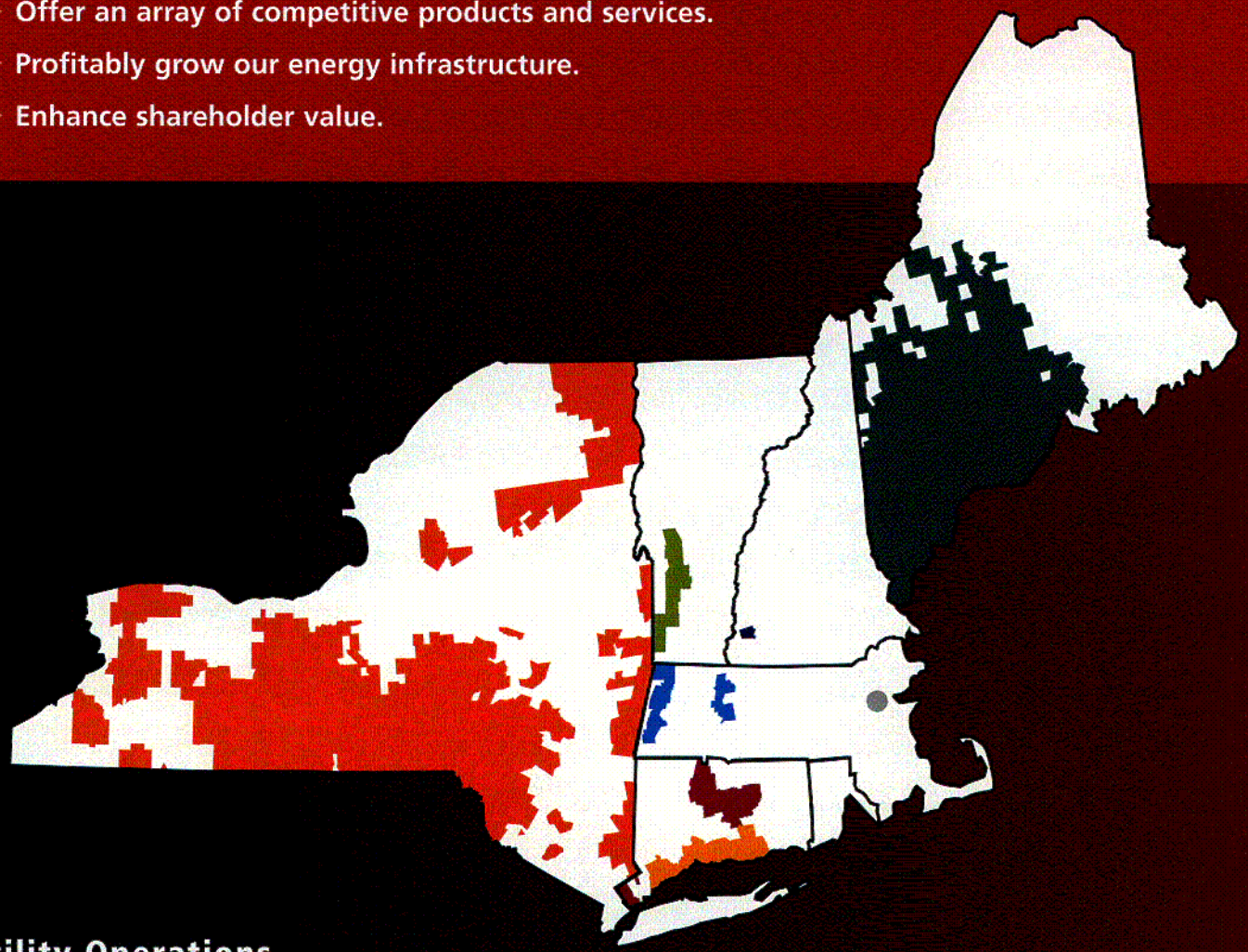
Arthur C. Marquardt
Chairman, President and CEO
CTG Resources

"Energy East brings to Massachusetts a demonstrated commitment to outstanding customer service, competition and economic development. This combination will benefit our customers, employees and communities."

Scott Robinson
President and CEO
Berkshire Energy Resources

Strategies

- Promote competition.
- Provide superior customer service.
- Offer an array of competitive products and services.
- Profitably grow our energy infrastructure.
- Enhance shareholder value.

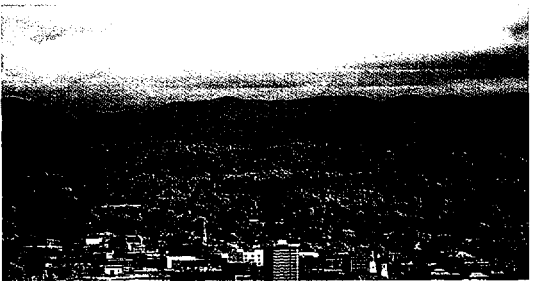


Utility Operations

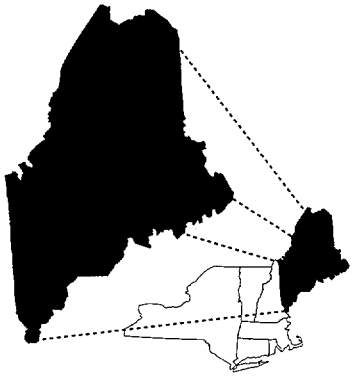
	Number of customers[1]	Electricity Delivered (gwh)	Natural Gas Delivered (000 dth)	Revenue ($ million)	Assets ($ million)
NYSEG	825,000 (E) 246,000 (G)	24,821	67,866	1,889.3 (E) 330.8 (G)	2,943.8
The Southern Connecticut Gas Company	162,000 (G)		44,188	228.8	465.8
Central Maine Power Company	540,000 (E)	10,013		954.5	1,968.9
Connecticut Natural Gas Company	146,000 (G)		43,859	268.3	394.6
Berkshire Gas Company	34,000 (G)		8,087	45.5	111.9
Total	**1,396,000 (E)** **612,000 (G)**	**34,834**	**164,000**	**2,843.8 (E)** **873.4 (G)**	**5,885.0**

Notes: Based on 1999 information. (1) Totals include non-utility customers. Key: (E) = electricity, (G) = natural gas, gwh = gigawatt-hours, dth = dekatherms.

Also shown on the map: New Hampshire Gas Corporation | Southern Vermont Natural Gas Corporation | XENERGY

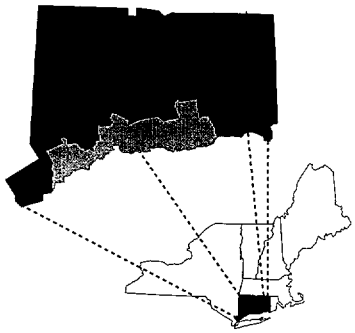


Upon completion of these mergers Energy East will double its customer base to 2 million (1.4 million electricity and 600,000 natural gas) in upstate New York and New England.



CMP Group

CMP Group shareholders overwhelmingly approved the merger on October 7. The Maine Public Utilities Commission's order approving the merger was issued on January 4, 2000.

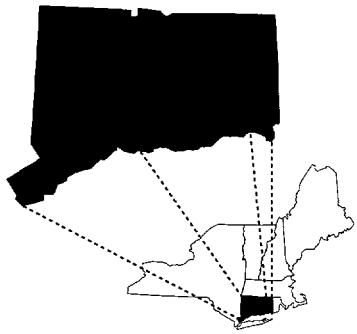


Connecticut Energy Corporation

Connecticut Energy Corporation shareholders overwhelmingly approved the merger on September 14. The Connecticut Department of Public Utility Control approved the merger on December 16, 1999.

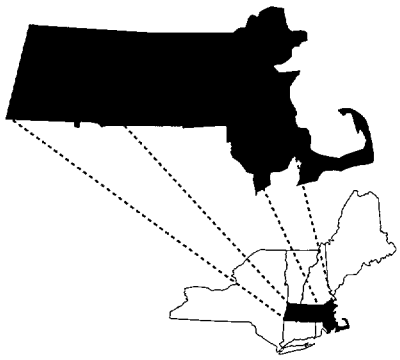
CTG Resources

CTG Resources shareholders overwhelmingly approved the merger on October 18. The Connecticut Department of Public Utility Control approved the merger on January 19, 2000.



Berkshire Energy Resources

The meeting of Berkshire Energy Resources shareholders for approval of the merger will be held on February 29, 2000.



We expect to complete these mergers by the end of the second quarter of 2000, at which time each company will become a wholly-owned subsidiary of Energy East.

pective

The Energy East Companies

New York State Electric & Gas Corporation — www.nyseg.com

Utility operations	**NYSEG** Delivers electricity to 825,000 customers and natural gas to 246,000 customers across more than 40% of upstate New York.

Connecticut Energy Corporation* — www.connenergy.com

Utility operations	**The Southern Connecticut Gas Company** Delivers natural gas to 162,000 customers in southern Connecticut.
Non-utility operations	CNE Energy Services Group, Inc. provides energy commodities and services to business customers throughout New England. CNE Development Corporation participates in a natural gas purchasing cooperative. CNE Venture-Tech, Inc. invests in technologically advanced energy-related products.

CMP Group, Inc.* — www.cmpgroup.com

Utility operations	**Central Maine Power Company** Delivers electricity to 540,000 customers in central and southern Maine.
Non-utility operations	Union Water-Power Company provides energy management, real estate and utility services, and energy-efficiency contracting. TeleSmart provides accounts receivable services. New England Gas Development Corporation holds CMP Group's interest in CMP Natural Gas, a venture with Energy East Enterprises. MaineCom Services provides telecommunications services. CNEX provides consulting services to utilities and government agencies.

CTG Resources, Inc.* — www.ctgcorp.com

Utility operations	**Connecticut Natural Gas Company (CNG)** Delivers natural gas to 146,000 customers in central Connecticut.
Non-utility operations	The Energy Network provides energy products and services, including district heating and cooling.

Berkshire Energy Resources* — www.berkshireenergy.com

Utility operations	**Berkshire Gas Company** Delivers natural gas to 34,000 customers in western Massachusetts.
Non-utility operations	Berkshire Propane delivers propane to 6,000 customers in western Massachusetts, southern Vermont and eastern New York. Berkshire Service Solutions sells energy and energy-related services.

XENERGY Enterprises, Inc.

XENERGY Enterprises, Inc. — www.engyeast.com

Non-utility operations	XENERGY provides energy services, information systems and energy consulting nationwide. Energy East Solutions sells electricity and natural gas in wholesale and retail markets in the Northeast and mid-Atlantic regions. Cayuga Energy generates and sells electricity in the wholesale market at times of high demand. Energy East Telecommunications operates a fiber optic network in Central New York.

Energy East Enterprises, Inc.

Energy East Enterprises, Inc. — www.engyeast.com

Utility operations	CMP Natural Gas delivers natural gas in southern and central Maine. New Hampshire Gas delivers propane gas in Keene, New Hampshire. Southern Vermont Natural Gas has proposed a natural gas distribution system. Seneca Lake Storage, Inc. is developing high deliverability gas storage in New York State.

*Mergers pending

Financial Highlights

Per Common Share	1999	1998	% Change
Common Stock Price at Year End	**$20.81**	$28.25	(26)
Earnings	**$1.88**	$1.51	25
Dividends Paid	**$.84**	$.78	8
Book Value at Year End	**$12.84**	$13.61	(6)
Other Common Stock Information (Thousands)			
Average Common Shares Outstanding	**116,316**	128,742	(10)
Common Shares Outstanding at Year End	**109,343**	125,894	(13)
Operating Results (Thousands)			
Total Operating Revenues	**$2,278,608**	$2,499,568	(9)
Total Operating Expenses	**$1,731,397**	$2,026,190	(15)
Income Before Extraordinary Item	**$236,317**	$194,205	22
Net Income	**$218,751**	$194,205	13
Energy Distribution:			
Megawatt-hours –			
Retail Deliveries	**13,843**	13,277	4
Wholesale Deliveries	**10,978**	22,711	(52)
Dekatherms –			
Retail Deliveries	**59,249**	54,162	9
Wholesale Deliveries	**8,617**	7,527	14
Total Assets at Year End (Thousands)	**$3,769,397**	$4,898,210	(23)

All per share amounts and shares outstanding throughout this Annual Report have been restated to reflect the two-for-one common stock split effective April 1, 1999.

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The company has implemented a series of strategies to profitably grow its energy infrastructure in the Northeast. During 1999 the company successfully completed the sale of its coal-fired generation assets, announced merger agreements with four energy companies in the Northeast and entered into an agreement to sell its 18% interest in Nine Mile Point 2.

The company's major focus remains on promoting competition, providing superior customer service, offering an array of competitive products and services, profitably growing its energy infrastructure and building shareholder value.

Liquidity and Capital Resources

MERGER AGREEMENTS

The company signed definitive merger agreements with four energy companies during 1999: Connecticut Energy Corporation (CNE) on April 23, CMP Group, Inc. on June 14, CTG Resources, Inc. on June 29, and Berkshire Energy Resources (Berkshire Energy) on November 9. Each of the four companies will become a wholly-owned subsidiary of the company. The four transactions will be accounted for using the purchase method and are expected to close by the end of the second quarter of 2000. In connection with the mergers the company intends to register as a holding company with the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935.

Connecticut Energy Merger: This transaction is valued at $617 million, including the assumption of approximately $181 million of debt. Under the agreement 50% of the common stock of CNE will be converted into the company's common stock with a value of $42.00 per CNE share, and 50% will be converted into $42.00 in cash per CNE share, subject to restrictions on the minimum and maximum number of shares to be issued. Shareholders will be able to specify the percentage of the consideration they wish to receive in stock and in cash, subject to proration.

On September 14, 1999, CNE shareholders approved the merger agreement. The Connecticut Department of Public Utility Control (DPUC) issued an order approving the merger on December 16, 1999. The merger is subject to, among other things, the approvals of various regulatory agencies, including the SEC. All necessary filings have been made.

CMP Group Merger: The company will acquire all of the common stock of CMP Group for $29.50 per share in cash. The transaction has an equity market value of approximately $957 million. The company will also assume approximately $113 million of CMP Group preferred stock and long-term debt.

On October 7, 1999, CMP Group shareholders approved the merger agreement. The Maine Public Utilities Commission issued an order approving the merger on January 4, 2000. The merger is subject to, among other things, the approvals of various regulatory agencies, including the SEC, Federal Energy Regulatory Commission (FERC) and Nuclear Regulatory Commission. All necessary filings have been made.

CTG Resources Merger: This transaction values CTG Resources' common equity at approximately $355 million, and the company will assume approximately $220 million of CTG Resources' long-term debt.

Under the agreement, 45% of the common stock of CTG Resources will be converted into the company's common stock with a value of $41.00 per CTG Resources share, and 55% will be converted into $41.00 in cash per CTG Resources share, subject to restrictions on the minimum and maximum number of shares to be issued. Shareholders will be able to specify the percentage of the consideration they wish to receive in stock and in cash, subject to proration.

On October 18, 1999, CTG Resources shareholders approved the merger agreement. The Connecticut DPUC issued an order approving the merger on January 19, 2000. The merger is subject to, among other things, the approvals of various regulatory agencies, including the SEC. All necessary filings have been made.

Berkshire Energy Resources Merger: The company will acquire all of the common stock of Berkshire Energy for $38.00 per share in cash. The transaction has an equity market value of approximately $96 million. The company will also assume approximately $40 million of Berkshire Energy preferred stock and long-term debt. The merger is subject to, among other things, the approvals of Berkshire Energy shareholders and the SEC. A meeting of Berkshire Energy shareholders for approval of the merger will be held on February 29, 2000. Filings with the SEC have been made.

ENERGY DISTRIBUTION BUSINESS

The company's energy distribution business consists of its electricity distribution, transmission and generation operations and its natural gas distribution, transportation and storage operations in New York.

Sale of Coal-fired Generation Assets: The company accepted offers totaling $1.85 billion from The AES Corporation and Edison Mission Energy in August 1998 for its seven coal-fired stations and associated assets and liabilities, which were placed up for auction earlier in 1998. The company completed the sale of its Homer City generation assets to Edison Mission Energy in March 1999, and the sale of its remaining coal-fired generation assets to AES in May 1999.

The proceeds from the sale of those assets – net of taxes and transaction costs – in excess of the net book value of the generation assets, less funded deferred taxes, were used to write down the company's 18% investment in Nine Mile Point 2 by $374 million. This treatment is in accordance with the company's restructuring plan approved by the Public Service Commission of the State of New York (PSC) in January 1998. The company wrote down its 18% investment by an additional $102 million due to the required writeoff of funded deferred taxes related to Nine Mile Point 2. Both writedowns are reflected in depreciation and amortization for 1999.

Now that the sale of its coal-fired generation assets is complete, approximately 60% of the company's power requirements are satisfied through generation from its nuclear and hydroelectric stations and by purchases under long-term contracts from non-utility generators (NUGs) and the New York Power Authority. At year-end the company has electricity contracts for calendar year 2000 for half of its remaining power requirements. For the remainder, the company has assumed the risk of market prices that fluctuate, since it has capped the prices it can charge customers.

The company uses electricity contracts, both physical and financial, to manage its exposure to fluctuations in the market price of electricity. These contracts allow the company to fix the cost of physical electricity purchases. The cost or benefit of electricity contracts is included in the cost of electricity purchased when the electricity is sold.

Nine Mile Point 2: The company announced in June 1999 that it has agreed to sell its 18% interest in Nine Mile Point 2 to AmerGen Energy Company, a joint venture of PECO Energy Company and British Energy. In the same announcement, Niagara Mohawk Power Corporation announced the sale of Nine Mile Point 1 and its 41% interest in Nine Mile Point 2 to AmerGen. At closing, the company will receive $27.9 million in proceeds, subject to adjustments, based on its 18% ownership share. The company may be entitled to additional payments through 2012 under a financial sharing agreement. A power purchase agreement with AmerGen requires the company to purchase 17.1% of all electricity from Nine Mile Point 2 at negotiated prices for three years.

AmerGen will assume full responsibility for the decommissioning of its ownership share of Nine Mile Point 2. The decommissioning fund will be pre-funded to a fixed amount by the sellers, with all potential costs above the fixed amount paid by AmerGen.

In December 1999 Rochester Gas and Electric Corporation (RG&E), a Nine Mile Point 2 cotenant, exercised its right of first refusal in connection with the sale of the plants, and stated that it would match AmerGen's offer and accept the terms and conditions of the AmerGen agreements. RG&E has contracted with a subsidiary of Entergy Corporation to lease, operate and maintain the plants. The PSC began settlement negotiations in January 2000 seeking modifications to the proposed terms of the sale of the company's and Niagara Mohawk's interests in the Nine Mile Point units, whether to AmerGen or RG&E. The company cannot predict the effect of this event on the sale of Nine Mile Point 2.

Issues have been raised regarding worsening performance at the Nine Mile Point units, which are operated by Niagara Mohawk. On September 30, 1999, the Nuclear Regulatory Commission issued a Plant Performance Review on the Nine Mile Point units. The NRC stated that it would increase its scrutiny of the operation of the Nine Mile Point nuclear units over the next six months as a result of the worsening performance of those units and weaknesses in areas such as plant maintenance, work planning and scheduling and engineering support.

Niagara Mohawk has made significant management changes at Nine Mile Point, including the hiring of PECO Energy for managerial advice, because performance of the units has not reached expected levels. The company supports these efforts to improve performance at Nine Mile Point 2 and continues to believe that the sale of the plants is in the best interests of customers and the company's shareholders.

If the operating performance of Nine Mile Point 2 continues to deteriorate and it becomes apparent that significant expenditures would be required to improve performance, the company intends to take whatever actions it believes are appropriate to protect the interests of its customers and shareholders, including support for the potential shut down of the unit.

Based on its agreement to sell Nine Mile Point 2 to AmerGen the company wrote off $82 million, its remaining nuclear generation investment after the writedowns discussed earlier, in accordance with Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. (See Sale of Coal-fired Generation Assets.)

New York Independent System Operator: The New York Independent System Operator (ISO) began operating on November 18, 1999. The ISO and the New York State Reliability Council were formed to restructure the New York Power Pool in response to FERC Order 888. FERC Orders 888 and 889 were issued to foster the development of competitive wholesale electricity markets by opening up transmission services and to address the resulting stranded costs. The ISO administers a new, centralized energy and ancillary services market. The company is unable to predict the effect of the restructuring on its financial position or results of operations.

Electric Retail Access Program: Since August 1, 1999, all of the company's electricity customers have been able to choose their electricity supplier. Already approximately 31,000 customers have chosen another supplier, a strong indication of the company's commitment to promote competition.

The company is responsible for delivering customers' electricity on its transmission and distribution system. Rates charged for use of the company's transmission system are subject to FERC approval, while rates for the use of its distribution system are subject to PSC approval. The PSC approved the company's distribution rates in January 1998. The company's transmission rate case, which was filed with the FERC in March 1997, has not yet been approved. The company charges its filed rate, which was accepted by the FERC subject to refund based on the FERC final order.

Competitive Electric Metering: On June 16, 1999, the PSC issued an Order Providing for Competitive Metering, which calls for opening up competition for electric metering services among a limited number of large customers (50 kilowatts or more) in New York State. The services include installation and maintenance of electric meters, meter reading and meter data retrieval and storage. The PSC has

delayed the effective date of the tariffs filed by the company to April 1, 2000. The company does not anticipate that this order will have a material effect on its financial position or results of operations.

NUG Initiatives: The company continues to seek ways to provide relief to its customers from onerous NUG contracts that the company was ordered to sign by the PSC. The company expensed approximately $354 million in 1999 for NUG power, and estimates that its purchases will total $349 million in 2000, $359 million in 2001 and $387 million in 2002, unless it is able to change the NUG contracts or it is successful in its current efforts to sell certain entitlements under the contracts.

Petition to the FERC on NUGs: The company petitioned the FERC in 1995, asking for relief from having to pay approximately $2 billion more than its avoided costs for power purchased over the term of two NUG contracts. The FERC denied that petition and the company's subsequent request for a rehearing. The company believes that the overpayments under the two contracts violate the Public Utility Regulatory Policies Act of 1978.

The company commenced an action in the United States District Court for the Northern District of New York in August 1997. The complaint asks the District Court to either reform the two NUG contracts by reducing the price the company must pay for electricity under the contracts, or send the matter back to the FERC or to the PSC with direction that they modify such contracts. The complaint also seeks repayment of all monies paid above the company's avoided costs. The case is still pending before the District Court.

Auction of NUG Contract Rights: On November 4, 1999, the company announced that it intends to sell – through competitive bidding – entitlements to 470 megawatts (mw) of natural gas-fired energy, capacity and certain other benefits under three of its power purchase agreements with NUGs.

The contracts are with Saranac Power Partners (240 mw) in Plattsburgh, New York, Lockport Energy Associates (175 mw) in Lockport, New York, and Indeck Energy Services of Silver Springs, New York (55 mw). The agreements expire on June 21, 2009, October 8, 2007, and April 11, 2006, respectively. Over the remaining terms of the contracts it is estimated that the company's customers will pay over $2 billion dollars above the competitive market price. The sale, expected to be completed by March 1, 2000, will be conditioned on obtaining assurance from the PSC of full cost recovery.

Allegheny Hydros: On December 18, 1999, the company sent a letter to Allegheny Hydro No. 8 and Allegheny Hydro No. 9 demanding that they each provide adequate assurance that they will perform their individual contractual obligations under two power purchase agreements with the company, including the obligation to pay back overpayments made by the company over the course of the agreements. Such overpayments are the cumulative difference between the rate the company pays for power under the agreements and the company's actual avoided costs. At the end of 1999, this cumulative overpayment was more than $111 million and is expected to grow to approximately $2.7 billion by 2030 when both agreements expire.

In a letter dated January 17, 2000, Allegheny responded to the company's demand letter and argued against the company's right to demand assurances. On January 18, 2000, Allegheny filed a complaint in the United States District Court for the Southern District of New York asking for declaratory relief, including a declaration that the company is not entitled to demand adequate assurances of Allegheny's performance under the agreements. Allegheny's deadline for providing adequate assurances expired on January 19, 2000. In a letter dated January 20, 2000, the company notified Allegheny's lenders that Allegheny's failure to provide adequate assurances amounted to a repudiation of the agreements and advised that the company would terminate the agreements at the end of 15 days after the lenders received the notice dated January 20, 2000.

Electric Restructuring Plan: The company's restructuring plan, which included a five-year electric rate price cap, was approved by the PSC, with minor modifications, in January 1998.

The restructuring plan will save customers an estimated $725 million over five years. Specifically the plan:

- Eliminated a 7% increase in electricity prices previously approved by the PSC.
- Reduces prices 5% each year in the five years of the plan for eligible industrial, commercial and public authority customers who are heavy users of electricity.
- Caps the overall average prices for all other customers for four years and reduces their prices 5% at the beginning of the fifth year.
- Allowed all of the company's retail customers to choose their electricity supplier by August 1, 1999.

The company submitted a tariff filing in compliance with the restructuring plan in January 1999. On July 15, 1999, and September 17, 1999, the PSC issued orders relating to the compliance filing. Those orders addressed issues related to the company's retail access credit (the amount backed out of a customer's bill when that customer participates in retail access), suppliers' obligations and customer identification.

As a result of the orders, the company's retail access credit was maintained at its current value. It was determined that retail access suppliers are responsible for energy, capacity and some ancillary services for their own customers and the company may require a deposit from residential customer applicants who fail to provide adequate identification. The PSC also concluded that costs for line losses, installed reserves and certain ancillary services are being recovered through the company's delivery charge and are not part of the retail access credit. The company submitted filings in compliance with the orders on July 29, 1999, and October 7, 1999. The company is currently unable to predict the effect of the orders on its financial position or results of operations.

Natural Gas Franchises: The company continues to grow its natural gas business in New York by expanding natural gas service in existing franchise areas and by pursuing new franchises. During the last five years, the company added 26 new franchises to its natural gas service area.

Natural Gas Rate Agreement: The company's natural gas rate agreement filed with the PSC cut prices for most customers by reducing natural gas revenues by $25.6 million, or 2.1%, over the four years ending September 30, 2002. The PSC issued an order in December 1998 that includes certain modifications made by the PSC, which were accepted by the company after clarifications from the PSC Staff, and one modification by the company that maintains present rates for certain areas. The PSC accepted the company's clarifications and modification.

Role of Natural Gas Local Distribution Companies: The PSC, on November 3, 1998, issued a "Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment." The policy statement includes the PSC's vision for furthering competition in the natural gas industry in New York State. The PSC believes the most effective way to establish a competitive gas market is for natural gas utilities to exit the merchant function over a period of three to seven years. The PSC also established guidelines and began several proceedings related to implementing its policy statement. The company is participating in each of the proceedings and continues to believe the competitive marketplace should decide who will be the suppliers of natural gas.

In compliance with the PSC's Order, effective April 1, 1999, the company ceased assigning certain capacity costs to customers who switch from fully bundled sales service to transportation service. Any

capacity costs that may be stranded as a result of terminating capacity assignment are being recovered from all applicable customers via a surcharge.

Natural Gas Commodity Prices: The company uses risk management techniques such as natural gas futures and options contracts to manage its exposure to fluctuations in natural gas commodity prices. Such contracts allow the company to fix margins on sales of natural gas generally expected to occur over the next 18 months. The cost or benefit of natural gas futures and options contracts is included in the commodity cost when the related sales commitments are fulfilled. Gains and losses resulting from the use of those contracts for 1999, 1998 and 1997 were not material to the company's financial position or results of operations.

OTHER MATTERS

Accounting Issues

Statement 71: Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, allows companies that meet certain criteria to capitalize as regulatory assets incurred costs that are probable of recovery in future periods. Those companies record as regulatory liabilities obligations to refund previously collected revenue or obligations to spend revenue collected from customers on future costs.

Although the company believes it will continue to meet the criteria of Statement 71 for its regulated electricity and natural gas operations in New York State, the company cannot predict what effect a competitive market or future PSC actions will have on its ability to continue to do so. If the company can no longer meet the criteria of Statement 71 for all or a separable part of its regulated operations, it may have to record as expense or revenue certain regulatory assets and liabilities. The company may also have to record as a loss an estimated $1.4 billion, on a present value basis at December 31, 1999, of above-market costs on its power purchase contracts with NUGs. These items are currently recovered in rates.

Statement 133: The FASB issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, in June 1998 and No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, in June 1999. Statement 133 establishes standards for the accounting and reporting for derivative instruments and for hedging activities. Statement 133 requires that all derivatives be recognized as either assets or liabilities on a company's balance sheet at their fair value. Statement 137 delayed for one year the effective date for implementing Statement 133, to fiscal years beginning after June 15, 2000. The company will adopt Statement 133 as of January 1, 2001. Based on the company's current risk management strategies, this adoption is not expected to have a material effect on its financial position or results of operations.

YEAR 2000 READINESS DISCLOSURE

Many of the company's computer systems, which include mainframe systems and special-purpose systems, refer to years in terms of their final two digits only. Such systems, if not corrected, may interpret the year 2000 as the year 1900 and could cause the company to, among other things, experience energy delivery problems, report inaccurate data or issue inaccurate bills.

The company worked diligently to address this problem by reviewing its mainframe and special-purpose systems; identifying potentially affected software, hardware, and date-sensitive components, often referred to as embedded chips, of various equipment; determining and taking appropriate corrective action; and, when appropriate, testing its systems.

The company's mainframe systems consist of the hardware and software components of NYSEG's information technology systems. The company believes it identified, took appropriate corrective action and tested its mainframe systems and that those systems are now able to process year 2000 and beyond transactions.

The company's special-purpose systems consist of its non-information technology systems and the information technology systems of its subsidiaries other than NYSEG. The company identified approximately 6,000 items in its special-purpose systems that may have been affected by the Year 2000 problem. Items identified include software, hardware and embedded chips in systems such as those that control the acquisition and the delivery of electricity and natural gas to customers and those in its communication systems. The company believes it fixed, eliminated, replaced or found no problem with all of the special-purpose items it identified that affect its electricity and natural gas delivery systems and its communication systems.

Even though the company's computer systems did not experience problems on January 1, 2000, and the company believes it has taken corrective action with respect to its own Year 2000 issues, the Year 2000 issue could adversely affect it if there are items in its mainframe or special-purpose systems that may be affected by the Year 2000 problem, that were not identified in its review of those systems and that have not been put into application to date.

Through December 31, 1999, the company spent approximately $12.4 million on Year 2000 readiness including contingency plan preparations, and believes that amount was adequate to address its Year 2000 issues. The amount was expensed as incurred and was financed entirely with internally generated funds. Addressing the Year 2000 issue has not caused the company to delay any significant information system projects.

INVESTING AND FINANCING ACTIVITIES

The company's financial strength provides the flexibility required to compete in the emerging competitive energy market and continue expanding its products and services, including its energy infrastructure, in the Northeast.

Investing Activities: The company sold its seven coal-fired generating stations and associated assets and liabilities for $1.85 billion. (See Energy Distribution Business – Sale of Coal-fired Generation Assets.)

Capital spending, including nuclear fuel, totaled $83 million in 1999, $137 million in 1998 and $130 million in 1997. Capital spending in all three years was financed entirely with internally generated funds and was primarily for the extension of energy distribution service, necessary improvements to existing facilities and compliance with environmental requirements.

Capital spending, excluding the pending merger transactions, is projected to be $88 million in 2000. It is expected to be paid for entirely with internally generated funds and will be primarily for the same purposes described above.

Financing Activities: The company's financing-related activities during 1999 consisted of:

- The redemption, at par, of $25 million of NYSEG's 7.40% Series preferred stock and $50 million of NYSEG's adjustable rate preferred stock.
- The purchase, at a discount, of the following amounts of these series of NYSEG's preferred stock: $7.2 million of 3.75%, $2.8 million of 4 1/2% (Series 1949), $1.4 million of 4.15%, $4.8 million of 4.40%, and $3.1 million of 4.15% (Series 1954).
- The redemption, at a premium, of $25 million of NYSEG's 6.30% Series preferred stock.

- The redemption, at a premium, of $50 million of NYSEG's 7 5/8% Series first mortgage bonds due November 1, 2001.
- The purchase, on the open market, at premiums, of $77 million of NYSEG's 9 7/8% Series first mortgage bonds due May 1, 2020 and $77 million of NYSEG's 9 7/8% Series first mortgage bonds due November 1, 2020. Those purchases were financed with the issuance of $163 million of Floating-rate Unsecured Notes, due November 14, 2000, Series A. The company incurred a $27 million charge in the fourth quarter of 1999, including premiums of $9 million for early redemption and the writeoff of $18 million of unamortized debt expense and debt issuance costs, as a result of the purchase of the bonds. That amount is reflected as an extraordinary loss on early extinguishment of debt on the income statement. The Floating-rate Unsecured Notes were redeemed in January 2000 with cash and commercial paper.
- The repurchase of 16.6 million shares of the company's common stock.

The company raised its common stock dividend in January 2000 to a new annual rate of 88 cents per share. The dividend had been raised to an annual rate of 84 cents per share in January 1999.

A two-for-one stock split on common stock outstanding was effective April 1, 1999.

On April 1, 1999, the holders of a majority of the votes of shares of NYSEG's serial preferred stock consented to increase the amount of unsecured debt NYSEG may issue by up to an additional $1.2 billion.

The company uses short-term, unsecured notes to finance certain refundings and for other corporate purposes. The company had $163 million of short-term debt outstanding at December 31, 1999, and $78 million outstanding at December 31, 1998, all of which was issued by NYSEG. The weighted average interest rate on short-term debt was 7.2% at December 31, 1999, and 6.2% at December 31, 1998.

NYSEG also has a revolving credit agreement with certain banks that provides for borrowing of up to $200 million until December 31, 2001. There were no amounts outstanding under this agreement during 1999 or 1998.

The company uses interest rate swap agreements to manage the risk of increases in variable interest rates. It records amounts paid and received under the agreements as adjustments to the interest expense of the specific debt issues.

The company expects to issue long-term debt prior to the completion of the CNE, CMP Group, CTG Resources and Berkshire Energy merger transactions. The proceeds from the debt issuance, along with the proceeds from the sale of its generation assets and internally generated funds, will be used to fund the cash portion of the consideration for the merger transactions and to fund the company's ongoing share repurchase program. (See Merger Agreements and Energy Distribution Business – Sale of Coal-fired Generation Assets.) In anticipation of this debt issuance, in June 1999 the company entered into a $500 million, one-year interest rate hedge on the benchmark 30-year Treasury Bond.

FORWARD-LOOKING STATEMENTS

This Annual Report to Shareholders contains certain forward-looking statements that are based upon management's current expectations and information that is currently available. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Whenever used in this report, the words "estimate," "expect," "believe," or similar expressions are intended to identify such forward-looking statements.

In addition to the assumptions and other factors referred to specifically in connection with such statements, factors that could cause actual results to differ materially from those contemplated in any forward-looking statements include, among others, unanticipated Year 2000 issues, the deregulation and unbundling of energy services; the company's ability to compete in the rapidly changing and increasingly competitive electricity and natural gas utility markets; its ability to control non-utility generator and other costs; changes in fuel supply or cost and the success of its strategies to satisfy its power requirements now that all of its coal-fired generation assets have been sold; its ability to expand its products and services, including its energy infrastructure in the Northeast; its ability to integrate the operations of CNE, CMP Group, CTG Resources and Berkshire Energy with its operations; the ability to obtain adequate and timely rate relief; nuclear or environmental incidents; legal or administrative proceedings; changes in the cost or availability of capital; growth in the areas in which it is doing business; weather variations affecting customer energy usage; and other considerations that may be disclosed from time to time in its publicly disseminated documents and filings. The company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Results of Operations

(Thousands, except per share amounts)	1999	1998	1997	1999 over 1998 Change	1998 over 1997 Change
Operating Revenues	**$2,278,608**	$2,499,568	$2,170,102	(9%)	15%
Operating Income	**$547,211**	$473,378	$436,961	16%	8%
Income before Extraordinary Item	**$236,317**	$194,205	$175,211	22%	11%
Extraordinary Loss, Net of Tax	**$17,566**	–	–	*	–
Net Income	**$218,751**	$194,205	$175,211	13%	11%
Average Common Shares Outstanding	**116,316**	128,742	136,306	(10%)	(6%)
Earnings Per Share Before Extraordinary Loss, basic and diluted	**$2.03**	$1.51	$1.29	34%	17%
Earnings Per Share, basic and diluted	**$1.88**	$1.51	$1.29	25%	17%
Dividends Paid Per Share	**$.84**	$.78	$.70	8%	11%

*Percent change is not meaningful.

EARNINGS PER SHARE

In 1999 the company's earnings per share increased 37 cents, including 15 cents from the extraordinary loss related to the early extinguishment of debt and a nonrecurring benefit of 12 cents from the sale of the company's coal-fired generation assets net of the writeoff of Nine Mile Point 2.

Earnings per share for 1999 increased primarily due to investment income realized on the net proceeds from the sale of the generation assets, fewer shares outstanding as a result of the share repurchase program, higher transmission wheeling revenues, higher pension income, cost control efforts and higher retail electricity deliveries (a record high for the company) and natural gas deliveries caused by an improved economy and weather. Those increases were partially offset by lower wholesale electricity deliveries as a result of the sale of the company's coal-fired generation plants and lower retail prices.

The company's earnings per share increased in 1998 primarily due to higher wholesale electricity prices and deliveries, higher pension income, cost control efforts and fewer shares outstanding as a result of the share repurchase program. Those increases were partially offset by lower retail natural gas deliveries, primarily because of unusually warm winter weather, and lower retail electricity prices. The 1997 earnings per share include the effect of a nonrecurring charge of 12 cents per share.

OTHER ITEMS

Other income and deductions increased in 1999 primarily due to interest income realized on the net proceeds from the sale of the generation assets.

Preferred stock dividends decreased in 1999 due to redemptions and repurchases of preferred stock.

OPERATING RESULTS FOR THE ENERGY DISTRIBUTION BUSINESS

(Thousands)	1999	1998	1997	1999 over 1998 Change	1998 over 1997 Change
Retail Deliveries –					
Megawatt-hours	**13,843**	13,277	13,238	4%	–
Dekatherms	**59,249**	54,162	59,324	9%	(9%)
Wholesale Deliveries –					
Megawatt-hours	**10,978**	22,711	10,406	(52%)	118%
Dekatherms	**8,617**	7,527	3,027	14%	149%
Operating Revenues	**$2,220,167**	$2,465,749	$2,129,989	(10%)	16%
Operating Expenses	**$1,655,737**	$1,979,647	$1,687,321	(16%)	17%
Operating Income	**$564,430**	$486,102	$442,668	16%	10%

Operating Revenues: Operating revenues for 1999 decreased $246 million primarily due to lower wholesale electricity deliveries because, without its coal-fired generation plants, the company had less power to sell. Lower retail electricity and natural gas prices also reduced revenues. Those decreases were partially offset by higher transmission wheeling revenues and higher retail electricity and natural gas deliveries caused by an improved economy and weather.

The 1998 operating revenues increased $336 million. Revenues increased due to higher wholesale electricity and natural gas deliveries and higher wholesale electricity prices. Those increases were partially offset by lower natural gas retail deliveries, primarily due to warmer weather, and lower retail electricity prices.

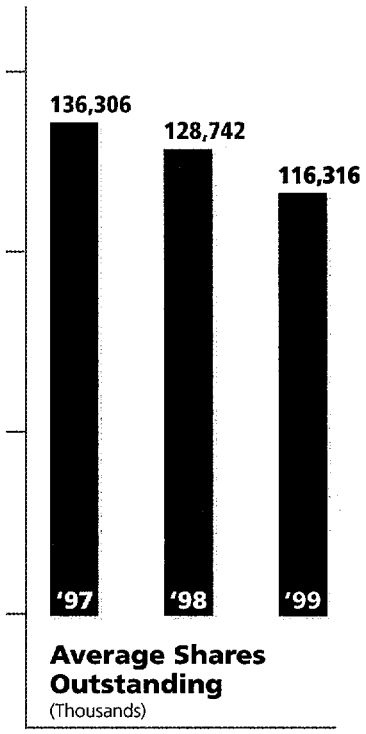
Operating Expenses: Operating expenses for 1999 decreased $220 million, excluding the nonrecurring benefit from the sale of the company's coal-fired generation assets, which includes the related accelerated amortization of Nine Mile Point 2, net of the writeoff of Nine Mile Point 2. That decrease was primarily due to lower fuel and other costs associated with the generation assets that were sold, higher pension income and cost control efforts. Those decreases were partially offset by increased purchases of electricity to meet retail customers' needs.

The 1998 operating expenses increased $292 million due to an increase in electricity purchased for wholesale deliveries, partially offset by a decrease in other operating and maintenance costs, primarily due to higher pension income, cost control efforts and the effect of a 1997 nonrecurring charge, and a decrease in the cost of natural gas purchased.

Consolidated Statements of Income

Year Ended December 31	1999	1998	1997
(Thousands, except per share amounts)			
Operating Revenues			
Sales and services	**$2,278,608**	$2,499,568	$2,170,102
Operating Expenses			
Electricity purchased and fuel used in generation	**905,367**	992,236	643,063
Natural gas purchased	**186,722**	158,757	164,661
Other operating expenses	**312,129**	367,897	406,830
Maintenance	**85,849**	111,503	110,373
Depreciation and amortization	**639,069**	191,079	201,768
Other taxes	**194,783**	204,718	206,446
Gain on sale of generation assets	**(674,572)**	–	–
Writeoff of Nine Mile Point 2	**82,050**	–	–
Total Operating Expenses	**1,731,397**	2,026,190	1,733,141
Operating Income	**547,211**	473,378	436,961
Other (Income) and Deductions	**(39,214)**	7,857	11,496
Interest Charges, Net	**132,908**	125,557	123,199
Preferred Stock Dividends of Subsidiary	**2,706**	8,583	9,342
Income Before Federal Income Taxes	**450,811**	331,381	292,924
Federal Income Taxes	**214,494**	137,176	117,713
Income Before Extraordinary Item	**236,317**	194,205	175,211
Extraordinary Loss on Early Extinguishment of Debt, Net of Income Tax Benefit of $9,458	**17,566**	–	–
Net Income	**$218,751**	$194,205	$175,211
Earnings Per Share, basic and diluted	**$1.88**	$1.51	$1.29
Average Common Shares Outstanding	**116,316**	128,742	136,306

The notes on pages 28 through 41 are an integral part of the financial statements.



Consolidated Balance Sheets

December 31	1999	1998
(Thousands)		
Assets		
Current Assets		
Cash and cash equivalents	**$116,806**	$48,068
Special deposits	**1,232**	4,729
Temporary investments	**760,996**	–
Accounts receivable, net	**157,383**	148,712
Fuel, at average cost	**16,055**	44,643
Materials and supplies, at average cost	**8,124**	38,040
Prepayments	**34,377**	39,575
Total Current Assets	**1,094,973**	323,767
Utility Plant, at Original Cost		
Electric	**3,393,135**	5,299,604
Natural gas	**628,282**	602,904
Common	**140,035**	144,043
	4,161,452	6,046,551
Less accumulated depreciation	**2,034,312**	2,211,608
Net Utility Plant in Service	**2,127,140**	3,834,943
Construction work in progress	**12,689**	27,741
Total Utility Plant	**2,139,829**	3,862,684
Other Property and Investments, Net	**121,969**	129,088
Regulatory and Other Assets		
Regulatory assets		
Unfunded future federal income taxes	**27,655**	136,404
Unamortized loss on debt reacquisitions	**52,671**	71,530
Demand-side management program costs	**52,649**	64,466
Environmental remediation costs	**58,400**	60,600
Other	**25,516**	125,604
Total regulatory assets	**216,891**	458,604
Other assets		
Prepaid pension benefit	**174,741**	86,334
Other	**20,994**	37,733
Total other assets	**195,735**	124,067
Total Regulatory and Other Assets	**412,626**	582,671
Total Assets	**$3,769,397**	$4,898,210

The notes on pages 28 through 41 are an integral part of the financial statements.

Consolidated Balance Sheets

December 31	1999	1998
(Thousands)		
Liabilities		
Current Liabilities		
Current portion of long-term debt	**$2,606**	$31,077
Current portion of preferred stock of subsidiary	**–**	75,000
Notes payable	**163,240**	78,300
Accounts payable and accrued liabilities	**133,777**	116,582
Interest accrued	**16,535**	19,556
Taxes accrued	**14,732**	587
Accumulated deferred federal income tax, net	**48,607**	10,029
Other	**98,575**	97,016
Total Current Liabilities	**478,072**	428,147
Regulatory and Other Liabilities		
Regulatory liabilities		
Deferred income taxes	**58,923**	98,038
Deferred income taxes, unfunded future federal income taxes	**13,024**	60,896
Other	**20,817**	42,182
Total regulatory liabilities	**92,764**	201,116
Other liabilities		
Deferred income taxes	**213,006**	765,592
Other postretirement benefits	**161,370**	137,681
Environmental remediation costs	**78,400**	80,600
Other	**96,583**	82,028
Total other liabilities	**549,359**	1,065,901
Long-term debt	**1,235,089**	1,435,120
Total Liabilities	**2,355,284**	3,130,284
Commitments	**–**	–
Preferred Stock of Subsidiary		
Preferred stock redeemable solely at the option of subsidiary	**10,159**	29,440
Preferred stock subject to mandatory redemption requirements	**–**	25,000
Common Stock Equity		
Common stock ($.01 par value, 300,000 shares authorized and 109,343 shares outstanding as of December 31, 1999, and 200,000 shares authorized and 125,894 shares outstanding as of December 31, 1998)	**1,108**	631
Capital in excess of par value	**659,255**	1,057,904
Retained earnings	**782,588**	662,562
Treasury stock, at cost (1,500 shares at December 31, 1999, and 272 shares at December 31, 1998)	**(38,997)**	(7,611)
Total Common Stock Equity	**1,403,954**	1,713,486
Total Liabilities and Stockholders' Equity	**$3,769,397**	$4,898,210

The notes on pages 28 through 41 are an integral part of the financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31	1999	1998	1997
(Thousands)			
Operating Activities			
Net income	**$218,751**	$194,205	$175,211
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	**639,069**	191,079	201,768
Federal income taxes and investment tax credits deferred, net	**(442,232)**	38,749	5,884
Gain on sale of generation assets	**(674,572)**	–	–
Writeoff of Nine Mile Point 2	**82,050**	–	–
Pension income	**(77,559)**	(35,814)	(22,807)
Extraordinary loss, net of tax	**17,566**	–	–
Changes in current operating assets and liabilities			
Accounts receivable	**(8,671)**	40,296	35
Inventory	**58,504**	2,584	(5,751)
Accounts payable and accrued liabilities	**17,195**	(8,399)	3,858
Taxes accrued	**14,145**	(5,559)	6,146
Other, net	**28,639**	50,646	82,390
Net Cash (Used in) Provided by Operating Activities	**(127,115)**	467,787	446,734
Investing Activities			
Sale of generation assets	**1,850,000**	–	–
Utility plant additions	**(69,853)**	(129,049)	(122,325)
Temporary investments	**(760,996)**	–	–
Other property and investments	**(24,664)**	19,070	(57,803)
Net Cash Provided by (Used in) Investing Activities	**994,487**	(109,979)	(180,128)
Financing Activities			
Repurchase of common stock	**(396,915)**	(177,243)	(7,245)
Treasury stock acquired, net	**(31,373)**	(7,611)	(39,447)
Repayments of first mortgage bonds and preferred stock of subsidiary, including net premiums	**(329,719)**	(60,600)	(73,000)
Changes in funds set aside for first mortgage bond repayments	**–**	–	25,000
Long-term notes, net	**(26,842)**	7,733	(5,203)
Notes payable, net	**84,940**	20,300	(71,300)
Dividends on common stock	**(98,725)**	(100,487)	(95,496)
Net Cash Used in Financing Activities	**(798,634)**	(317,908)	(266,691)
Net Increase (Decrease) in Cash and Cash Equivalents	**68,738**	39,900	(85)
Cash and Cash Equivalents, Beginning of Year	**48,068**	8,168	8,253
Cash and Cash Equivalents, End of Year	**$116,806**	$48,068	$8,168

The notes on pages 28 through 41 are an integral part of the financial statements.

Consolidated Statements of Changes in Common Stock Equity

(Thousands, except per share amounts)

	Common Stock Outstanding[1]		Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total
	Shares	Amount				
Balance, January 1, 1997	139,341	$464,469	$816,384	$489,129	–	$1,769,982
Net income				175,211		175,211
Common stock dividends declared ($.70 per share)				(95,496)		(95,496)
Common stock repurchased	(666)	(2,219)	(5,026)			(7,245)
Treasury stock transactions, net	(3,658)		56		$(39,447)	(39,391)
Amortization of capital stock issue expense			234			234
Balance, December 31, 1997	135,017	462,250	811,648	568,844	(39,447)	1,803,295
Net income				194,205		194,205
Common stock dividends declared ($.78 per share)				(100,487)		(100,487)
Common stock repurchased	(8,850)	(20,015)	(157,228)			(177,243)
Treasury stock transactions, net	(273)	(12,192)	(27,235)		31,836	(7,591)
Change in par value of common stock		(429,412)	429,412			–
Amortization of capital stock issue expense			1,307			1,307
Balance, December 31, 1998	125,894	631	1,057,904	662,562	(7,611)	1,713,486
Net income				218,751		218,751
Common stock dividends declared ($.84 per share)				(98,725)		(98,725)
Two-for-one stock split		598	(598)			–
Common stock repurchased	(15,324)	(121)	(396,794)			(396,915)
Treasury stock transactions, net	(1,227)		13		(31,386)	(31,373)
Other			(1,270)			(1,270)
Balance, December 31, 1999	109,343	$1,108	$659,255	$782,588	$(38,997)	$1,403,954

[1] Par value of $.01 at December 31, 1999 and 1998, and $6.66 2/3 at January 1 and December 31, 1997.

The notes on pages 28 through 41 are an integral part of the financial statements.

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

Principles of consolidation: These financial statements consolidate the company's majority-owned subsidiaries after eliminating intercompany transactions.

Depreciation and amortization: The company determines depreciation expense using straight-line rates, based on the average service lives of groups of depreciable property in service. The company's depreciation accruals were equivalent to 3.4% of average depreciable property for 1999 and 1998 and 3.5% for 1997. Amortization expense includes the amortization of certain regulatory assets and the accelerated amortization of Nine Mile Point 2 authorized by the PSC. (See Note 7. Sale of Coal-fired Generation Assets.)

Revenue recognition: The company recognizes revenues upon delivery of energy and energy-related products and services to its customers.

Accounts receivable: The company has an agreement that expires in November 2002 to sell, with limited recourse, undivided percentage interests in certain of its accounts receivable from customers. The agreement allows the company to receive up to $152 million from the sale of such interests.

At December 31, 1999 and 1998, accounts receivable on the consolidated balance sheets are shown net of $152 million of interests in accounts receivable sold. All fees related to the sale of accounts receivable are included in other income and deductions on the consolidated statements of income and amounted to approximately $9 million in 1999, 1998 and 1997. Accounts receivable on the consolidated balance sheets are also shown net of an allowance for doubtful accounts of $7 million at December 31, 1999, and $9 million at December 31, 1998. Bad debt expense was $12 million in 1999, $18 million in 1998 and $17 million in 1997.

Temporary investments: The company has temporary investments in various securities, including cash equivalents and debt instruments, that are classified as available-for-sale. The temporary investments have various maturity dates ranging from less than 30 days through August 2005. There were unrealized losses on the temporary investments, net of taxes, of $1 million at December 31, 1999. The investments will be used to fund the company's pending mergers and its ongoing share repurchase program.

Income taxes: The company files a consolidated federal income tax return. Deferred income taxes reflect the effect of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and the amount recognized for tax purposes. Investment tax credits (ITC) are amortized over the estimated lives of the related assets.

Utility plant: The company charges repairs and minor replacements to operating expense accounts, and capitalizes renewals and betterments, including certain indirect costs. The original cost of utility plant retired or otherwise disposed of and the cost of removal less salvage are charged to accumulated depreciation.

Regulatory assets and liabilities: Pursuant to Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, the company capitalizes, as regulatory assets, incurred costs that are probable of recovery in future electric and natural gas rates. It also records, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs. In accordance with its current rate agreements in New York State, the company no longer defers most costs that were previously subject to deferral accounting.

Unfunded future federal income taxes and deferred income taxes are amortized as the related temporary differences reverse. Unamortized loss on debt reacquisitions is amortized over the lives of the related debt issues. Demand-side management program costs, other regulatory assets and other regulatory liabilities are amortized over various periods in accordance with the company's current New York State rate agreements. The company earns a return on all regulatory assets for which funds have been spent.

Consolidated statements of cash flows: The company considers all highly liquid investments with a maturity date of three months or less when acquired to be cash equivalents. Those investments are included in cash and cash equivalents on the consolidated balance sheets.

Total income taxes paid were $647 million in 1999, $97 million in 1998 and $111 million in 1997.

Interest paid, net of amounts capitalized, was $123 million in 1999, $119 million in 1998 and $117 million in 1997.

Risk management: The company uses natural gas futures and options contracts to manage its exposure to fluctuations in natural gas commodity prices. Such contracts allow the company to fix margins on sales of natural gas generally expected to occur over the next 18 months. The cost or benefit of natural gas futures and options contracts is included in the commodity cost when the related sales commitments are fulfilled.

The company uses electricity contracts, both physical and financial, to manage its exposure to fluctuations in the market price of electricity. These contracts allow the company to fix the cost of physical electricity purchases. The cost or benefit of electricity contracts is included in the cost of electricity purchased when the electricity is sold.

The company uses interest rate swap agreements to manage the risk of increases in variable interest rates. It records amounts paid and received under the agreements as adjustments to the interest expense of the specific debt issues.

In June 1999 the company entered into a $500 million, one-year interest rate hedge on the benchmark 30-year Treasury Bond in anticipation of its expected issuance of long-term debt related to its pending mergers.

Gains and losses resulting from the use of risk management techniques in 1999 and 1998 were not material to the company's financial position or results of operations. The company does not hold or issue financial instruments for trading or speculative purposes.

Estimates: Preparation of the consolidated 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts have been reclassified on the consolidated financial statements to conform with the 1999 presentation.

Note 2. Common Stock Split

In January 1999 the company declared a two-for-one stock split on common stock outstanding. Shareholders of record at the close of business on March 12, 1999, were entitled to the shares on April 1, 1999. All per share amounts and shares outstanding in the consolidated financial statements have been restated to reflect the stock split.

Note 3. Income Taxes

Year ended December 31	1999	1998	1997
(Thousands)			
Current	**$646,757**	$98,427	$111,829
Deferred, net			
Accelerated depreciation	**(379,422)**	20,684	29,070
Pension expense	**37,311**	12,410	565
Miscellaneous	**(16,423)**	10,308	(18,695)
ITC	**(83,187)**	(4,653)	(5,056)
Total	**205,036**	137,176	117,713
Less amount classified as extraordinary item	**(9,458)**	–	–
Total Before Extraordinary Item	**$214,494**	$137,176	$117,713

The company's effective tax rate differed from the statutory rate of 35% due to the following:

Year ended December 31	1999	1998	1997
(Thousands)			
Tax expense at statutory rate	**$149,273**	$118,987	$105,792
Depreciation not normalized	**123,435**	16,776	16,854
ITC amortization	**(77,919)**	(6,354)	(6,359)
Other, net	**10,247**	7,767	1,426
Total	**205,036**	137,176	117,713
Less amount classified as extraordinary item	**(9,458)**	–	–
Total Before Extraordinary Item	**$214,494**	$137,176	$117,713

The increase in depreciation not normalized and ITC amortization are the result of the sale of coal-fired generation assets and the writeoff of Nine Mile Point 2. (See Note 7. Sale of Coal-fired Generation Assets and Note 8. Nuclear Generation Assets.)

The company's deferred tax liabilities consisted of the following:

December 31	1999	1998
(Thousands)		
Current Deferred Tax Liabilities	**$48,607**	$10,029
Noncurrent Deferred Tax Liabilities		
Depreciation	**$239,089**	$775,034
Unfunded future federal income taxes	**13,024**	60,896
Accumulated deferred ITC	**26,800**	109,987
Other	**4,849**	(23,392)
Total Noncurrent Deferred Tax Liabilities	**283,762**	922,525
Valuation allowance	**1,191**	2,001
Less amounts classified as regulatory liabilities		
Deferred income taxes	**58,923**	98,038
Deferred income taxes, unfunded future federal income taxes	**13,024**	60,896
Noncurrent Deferred Income Taxes	**$213,006**	$765,592

Note 4. Long-term Debt

All of the company's consolidated long-term debt at December 31, 1999 and 1998, was issued by its subsidiaries.

	Maturity Dates	Interest Rates	Amount 1999	Amount 1998
(Thousands)				
First mortgage bonds (1)	2002 to 2023	6 3/4% to 9 7/8%	**$596,000**	$800,000
Pollution control notes (2)	2006 to 2034	3.15% to 6.15%	**613,000**	613,000
Various long-term notes			**26,246**	51,435
Obligations under capital leases			**7,347**	8,605
Unamortized premium and discount on debt, net			**(4,898)**	(6,843)
			1,237,695	1,466,197
Less debt due within one year – included in current liabilities			**2,606**	31,077
Total			**$1,235,089**	$1,435,120

At December 31, 1999, long-term debt and capital lease payments (in thousands) that will become due during the next five years are:

2000	2001	2002	2003	2004
$2,606	$22,527	$151,844	$1,198	$717

(1) NYSEG's first mortgage bond indenture constitutes a direct first mortgage lien on substantially all of its utility plant. The mortgage also provides for a sinking and improvement fund. This provision requires the company to make an annual cash deposit with the Trustee equal to 1% of the principal amount of all bonds delivered and authenticated by the Trustee before January 1 of that year (excluding any bonds issued on the basis of the retirement of bonds). Pursuant to the terms of the mortgage, the company satisfied the requirement in 1999 by crediting "bondable value of property additions" against the amount of cash to be deposited. The company redeemed, in June 1999, $50 million of 7 5/8% Series first mortgage bonds, due November 1, 2001, and purchased, in November 1999, $77 million of 9 7/8% Series first mortgage bonds, due May 1, 2020, and $77 million of 9 7/8% Series first mortgage bonds, due November 1, 2020. Those transactions resulted in an after-tax extraordinary loss on early extinguishment of debt of $18 million, or 15 cents per share.

(2) Fixed-rate pollution control notes totaling $306 million were issued to secure the same amount of tax-exempt pollution control revenue bonds issued by a governmental authority. The interest rates range from 5.70% to 6.15%.

Adjustable-rate pollution control notes totaling $132 million were issued to secure the same amount of tax-exempt adjustable-rate pollution control revenue bonds (Adjustable-rate Revenue Bonds) issued by a governmental authority. The Adjustable-rate Revenue Bonds bear interest at rates ranging from 4.01% to 4.38% through dates preceding various annual interest rate adjustment dates. On the annual interest rate adjustment dates the interest rates will be adjusted, or at the company's option, subject to certain conditions, a fixed rate of interest may become effective. Bond owners may elect, subject to certain conditions, to have their Adjustable-rate Revenue Bonds purchased by the Trustee. The company has entered into interest rate swaps to manage the risk of increases in the interest rates on the Adjustable-rate Revenue Bonds, and such swaps are reflected in the above interest rates.

Multi-mode pollution control notes totaling $175 million were issued to secure the same amount of tax-exempt multi-mode pollution control refunding revenue bonds (Multi-mode Revenue Bonds) issued by a governmental authority. The Multi-mode Revenue Bonds have a structure that allows the interest rates

to be based on a daily rate, a weekly rate, a commercial paper rate, an auction rate, a term rate or a fixed rate. Bond owners may elect, while the Multi-mode Revenue Bonds bear interest at a daily or weekly rate, to have their bonds purchased by the Registrar and Paying Agent. The maturity dates of the Multi-mode Revenue Bonds are February 1, 2029, June 1, 2029, and October 1, 2029, and can be extended subject to certain conditions. At December 31, 1999, the interest rate for the multi-mode pollution control notes was at the daily rate. The weighted average interest rate for all three series was 3.15%, excluding letter of credit fees, for the year ended December 31, 1999.

NYSEG has irrevocable letters of credit that support certain payments required to be made on the Adjustable-rate Revenue Bonds and Multi-mode Revenue Bonds, and that expire on various dates. If the company is unable to extend the letter of credit related to a particular series of Adjustable-rate Revenue Bonds, that series will have to be redeemed unless a fixed rate of interest becomes effective. Multi-mode Revenue Bonds are subject to mandatory purchase when there is any change in the interest rate mode and in certain other circumstances. Payments made under the letters of credit in connection with purchases of Adjustable-rate Revenue Bonds and Multi-mode Revenue Bonds are repaid with the proceeds from the remarketing of those Bonds. To the extent the proceeds are not enough, the company is required to reimburse the bank that issued the letter of credit.

Note 5. Preferred Stock of Subsidiary

At December 31, 1999 and 1998, NYSEG's serial cumulative preferred stock was:

Series	Par Value Per Share	Redemption Price Per Share	Shares Authorized and Outstanding (1)	Amount 1999	Amount 1998
(Thousands)					
Redeemable solely at the option of the company:					
3.75% (2)	$100	$104.00	78,379	**$7,838**	$15,000
4 1/2% (1949) (2)	100	103.75	11,800	**1,180**	4,000
4.15% (2)	100		–	**–**	1,400
4.40% (2)	100	102.00	7,093	**709**	5,520
4.15% (1954) (2)	100	102.00	4,317	**432**	3,520
7.40% (3)	25		–	**–**	25,000
Adjustable Rate (3)	25		–	**–**	50,000
				10,159	104,440
Less preferred stock redemptions due within one year – included in current liabilities				**–**	75,000
Total				**$10,159**	$29,440
Subject to mandatory redemption requirements:					
6.30% (4)	100		–	**–**	$25,000

(1) At December 31, 1999, there were 2,353,411 shares of $100 par value preferred stock, 10,800,000 shares of $25 par value preferred stock and 1,000,000 shares of $100 par value preference stock authorized but unissued.

(2) On April 1, 1999, the company purchased, at a discount, the following amounts of these series of preferred stock: $7.2 million of 3.75%, $2.8 million of 4 1/2% (Series 1949), $1.4 million of 4.15%, $4.8 million of 4.40%, and $3.1 million of 4.15% (Series 1954).

(3) Redeemed February 1, 1999.

(4) Redeemed December 10, 1999.

Note 6. Bank Loans and Other Borrowings

The company uses short-term, unsecured notes to finance certain refundings and for other corporate purposes. The weighted average interest rate on short-term debt, all of which belonged to NYSEG, was 7.2% at December 31, 1999, and 6.2% at December 31, 1998.

NYSEG has a revolving credit agreement with certain banks that provides for borrowing of up to $200 million through December 31, 2001. The revolving credit agreement does not require compensating balances. The company had no outstanding loans under this agreement at December 31, 1999 or 1998. At the company's option, the interest rate on borrowings is related to the prime rate, the London Interbank Offered Rate or the interest rate applicable to certain certificates of deposit. The agreement provides for payment of a commitment fee, which was .125% at December 31, 1999 and 1998.

Note 7. Sale of Coal-fired Generation Assets

The company accepted offers totaling $1.85 billion from The AES Corporation and Edison Mission Energy in August 1998 for its seven coal-fired stations and associated assets and liabilities, which were placed up for auction earlier in 1998. The company completed the sale of its Homer City generation assets to Edison Mission Energy in March 1999, and the sale of its remaining coal-fired generation assets to AES in May 1999.

The proceeds from the sale of those assets – net of taxes and transaction costs – in excess of the net book value of the generation assets, less funded deferred taxes, were used to write down the company's 18% investment in Nine Mile Point 2 by $374 million. This treatment is in accordance with the company's restructuring plan approved by the PSC in January 1998. The company wrote down its investment by an additional $102 million due to the required writeoff of funded deferred taxes related to Nine Mile Point 2. These writedowns are reflected in depreciation and amortization in the 1999 consolidated statement of income. (See Note 8. Nuclear Generation Assets.)

Note 8. Nuclear Generation Assets

The company has an 18% interest in the output and costs of Nine Mile Point 2, which is operated by Niagara Mohawk Power Corporation. Ownership of Nine Mile Point 2 is shared with Niagara Mohawk 41%, Long Island Power Authority 18%, Rochester Gas and Electric Corporation (RG&E) 14% and Central Hudson Gas & Electric Corporation 9%. The company's 18% share of the rated capability is 210 megawatts. The company's share of operating expenses is included in the consolidated statements of income.

The company announced in June 1999 that it has agreed to sell its 18% interest in Nine Mile Point 2 to AmerGen Energy Company, a joint venture of PECO Energy Company and British Energy. In the same announcement, Niagara Mohawk announced the sale of its interest in Nine Mile Point 2 to AmerGen. At closing, the company will receive $27.9 million in proceeds, subject to adjustments, based on its 18% ownership share. The company may be entitled to additional payments through 2012 under a financial sharing agreement. A power purchase agreement with AmerGen requires the company to purchase 17.1% of all electricity from Nine Mile Point 2 at negotiated prices for three years.

AmerGen will assume full responsibility for the decommissioning of its ownership share of Nine Mile Point 2. The decommissioning fund will be pre-funded to a fixed amount by the sellers, with all potential costs above the fixed amount paid by AmerGen.

In December 1999 RG&E, a Nine Mile Point 2 cotenant, exercised its right of first refusal in connection with the sale of the plants, and stated that it would match AmerGen's offer and accept the terms and conditions of the AmerGen agreements. RG&E has contracted with a subsidiary of Entergy Corporation to lease, operate and maintain the plants. The PSC began settlement negotiations in January 2000 seeking modifications to the proposed terms of the sale of the company's and Niagara Mohawk's interests in the Nine Mile Point units, whether to AmerGen or RG&E. The company cannot predict the effect of this event on the sale of Nine Mile Point 2.

Based on its agreement to sell Nine Mile Point 2 to AmerGen the company wrote off $82 million, its remaining nuclear generation investment after the writedowns discussed in Note 7, in accordance with Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. (See Note 7. Sale of Coal-fired Generation Assets.)

Nuclear insurance: Niagara Mohawk maintains public liability and property insurance for Nine Mile Point 2. The company reimburses Niagara Mohawk for its 18% share of those costs.

The public liability limit for a nuclear incident is approximately $8.9 billion. Should losses stemming from a nuclear incident exceed the commercially available public liability insurance, each licensee of a nuclear facility would be liable for up to $84 million per incident, payable at a rate not to exceed $10 million per year. The company's maximum liability for its 18% interest in Nine Mile Point 2 would be approximately $15 million per incident. The $84 million assessment is subject to periodic inflation indexing and a 5% surcharge should funds prove insufficient to pay claims associated with a nuclear incident. The Price-Anderson Act also requires indemnification for precautionary evacuations whether or not a nuclear incident actually occurs.

Niagara Mohawk has obtained property insurance for Nine Mile Point 2 totaling approximately $2.8 billion through the Nuclear Insurance Pools and Nuclear Electric Insurance Limited (NEIL). In addition, the company has purchased NEIL insurance coverage for the extra expense that would be incurred by purchasing replacement power during prolonged accidental outages. Under NEIL programs, should losses resulting from an incident at a member facility exceed the accumulated reserves of NEIL, each member, including the company, would be liable for its share of the deficiency. The company's maximum liability per incident under the property damage and replacement power coverage is approximately $2 million.

Nuclear plant decommissioning costs: Based on the results of a 1995 decommissioning study, the company's 18% share of the cost to decommission Nine Mile Point 2 is $167 million in 2000 dollars ($422 million in 2026 when Nine Mile Point 2's operating license will expire). The estimated liability for decommissioning Nine Mile Point 2 using the Nuclear Regulatory Commission's minimum funding requirement is approximately $102 million in 2000 dollars. The company's electric rates in New York State currently include an annual allowance for decommissioning of $4 million, which approximates the minimum funding requirement as set forth in the 1995 decommissioning study. Decommissioning costs are charged to depreciation and amortization expense and are recovered over the expected life of the plant.

The company has established a Qualified Fund under applicable provisions of the federal tax law to comply with NRC funding regulations. The balance in the fund, including reinvested earnings, was approximately $27 million at December 31, 1999, and $21 million at December 31, 1998. Those amounts are included on the consolidated balance sheets in other property and investments, net. The related liability for decommissioning is included in other liabilities – other. The investments are recorded at market value and changes in market value are reflected in the decommissioning liability. At December 31, 1999, the external trust fund investments were classified as available-for-sale.

Note 9. Environmental Liability

From time to time environmental laws, regulations and compliance programs may require changes in the company's operations and facilities and may increase the cost of electric and natural gas service.

The U.S. Environmental Protection Agency and the New York State Department of Environmental Conservation (NYSDEC), as appropriate, notified the company that it is among the potentially responsible parties who may be liable for costs incurred to remediate certain hazardous substances at nine waste sites, not including its sites where gas was manufactured in the past, which are discussed below. With respect to the nine sites, seven sites are included in the New York State Registry of Inactive Hazardous Waste Sites and three of the sites are also included on the National Priorities list.

Any liability may be joint and several for certain of those sites. The company recorded an estimated liability of $1 million related to five of the nine sites. The ultimate cost to remediate the sites may be significantly more than the estimated amount. Factors affecting the estimated remediation amount include the remedial action plan selected, the extent of site contamination and the portion attributed to the company.

The company has a program to investigate and perform necessary remediation at its sites where gas was manufactured in the past. In 1994 and 1996, the company entered into Orders on Consent with the NYSDEC. These Orders require the company to investigate and, where necessary, remediate 34 of its 38 sites. Eight sites are included in the New York State Registry.

The company's estimate for all costs related to investigation and remediation of the 38 sites ranges from $77 million to $175 million at December 31, 1999. That estimate is based on both known and potential site conditions and multiple remediation alternatives for each of the sites. The estimate has not been discounted and is based on costs in 1996 dollars that the company expects to incur through the year 2017. The estimate could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes to current laws and regulations.

The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites, reflected in the company's consolidated balance sheets was $77 million at December 31, 1999, and $79 million at December 31, 1998. The company recorded a corresponding regulatory asset, net of insurance recoveries, since it expects to recover the net costs in rates.

Note 10. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of some of the company's financial instruments included in its consolidated balance sheets are shown in the following table. The fair values are based on the quoted market prices for the same or similar issues of the same remaining maturities.

December 31	1999 Carrying Amount	1999 Estimated Fair Value	1998 Carrying Amount	1998 Estimated Fair Value
(Thousands)				
Investments held in external trust funds – classified as available-for-sale	**$31,587**	**$31,742**	$30,097	$30,230
Preferred stock subject to mandatory redemption requirements	**–**	**–**	$25,000	$25,188
First mortgage bonds	**$591,102**	**$610,756**	$793,157	$861,756
Pollution control notes	**$613,000**	**$608,979**	$613,000	$631,421

The carrying amounts for cash and cash equivalents, temporary investments, notes payable and interest accrued approximate their estimated fair values.

Special deposits may include restricted funds set aside for preferred stock and long-term debt redemptions. The carrying amount approximates fair value because the special deposits have been invested in securities that mature within one year.

Note 11. Retirement Benefits

	Pension Benefits		Postretirement Benefits	
	1999	1998	1999	1998
(Thousands)				
Change in projected benefit obligation				
Benefit obligation at January 1	**$803,281**	$746,008	**$269,452**	$258,884
Service cost	**19,083**	19,500	**6,291**	6,283
Interest cost	**52,325**	51,556	**17,132**	16,606
Actuarial loss (gain)	**(44,528)**	21,831	**(15,000)**	(3,889)
Curtailment	**(19,577)**	–	**–**	–
Settlement	**–**	–	**(11,023)**	–
Benefits paid	**(37,497)**	(35,614)	**(9,869)**	(8,432)
Projected benefit obligation at December 31	**$773,087**	$803,281	**$256,983**	$269,452
Change in plan assets				
Fair value of plan assets at January 1	**$1,296,526**	$1,176,184	**–**	–
Actual return on plan assets	**128,661**	155,956	**–**	–
Benefits paid	**(37,497)**	(35,614)	**–**	–
Fair value of plan assets at December 31	**$1,387,690**	$1,296,526	**–**	–
Funded status	**$614,603**	$493,245	**$(256,983)**	$(269,452)
Unrecognized net actuarial gain	**(431,333)**	(395,780)	**(23,023)**	(12,847)
Unrecognized prior service cost	**21,654**	26,290	**–**	–
Unrecognized net transition (asset) obligation	**(30,183)**	(37,421)	**118,636**	144,618
Prepaid (accrued) benefit cost	**$174,741**	$86,334	**$(161,370)**	$(137,681)

The sale of generation assets resulted in a curtailment gain and a settlement gain, which were the result of the termination of certain generation employees. The curtailment gain reduced the expected years of future service under the pension benefit plan and the settlement gain reduced the postretirement benefit obligation.

The company's postretirement benefits were unfunded as of December 31, 1999 and 1998.

	Pension Benefits		Postretirement Benefits	
	1999	**1998**	**1999**	**1998**
Weighted-average assumptions as of December 31				
Discount rate	**7.5%**	6.5%	**7.5%**	6.5%
Expected return on plan assets	**8.5%**	8.5%	**N/A**	N/A
Rate of compensation increase	**4.0%**	3.75%	**N/A**	N/A

The company assumed a 7% annual rate of increase in the costs of covered health care benefits for 2000 that gradually decreases to 5% by the year 2003.

	Pension Benefits			Postretirement Benefits		
	1999	**1998**	**1997**	**1999**	**1998**	**1997**
(Thousands)						
Components of net periodic benefit cost						
Service cost	**$19,083**	$19,500	$19,317	**$6,291**	$6,283	$7,010
Interest cost	**52,325**	51,556	50,951	**17,132**	16,606	17,075
Expected return on plan assets	**(100,195)**	(84,007)	(73,777)	**–**	–	–
Amortization of prior service cost	**1,833**	2,016	2,078	**–**	–	–
Recognized net actuarial gain	**(37,442)**	(26,384)	(18,056)	**(3,771)**	(4,865)	(3,565)
Amortization of transition (asset) obligation	**(7,238)**	(7,238)	(7,238)	**9,527**	10,330	10,330
Deferral for future recovery	**–**	–	–	**(4,377)**	(9,600)	(11,766)
Curtailment charge (credit)	**(16,773)**	–	–	**15,402**	–	–
Settlement charge (credit)	**–**	–	–	**(11,023)**	–	–
Net periodic benefit cost	**$(88,407)**	$(44,557)	$(26,725)	**$29,181**	$18,754	$19,084

The net periodic benefit cost for postretirement benefits represents the cost the company charged to expense for providing health care benefits to retirees and their eligible dependents. The amount of postretirement benefit cost deferred was $8 million as of December 31, 1999, and $10 million as of December 31, 1998. The company expects to recover any deferred postretirement costs by March 2003. The transition obligation for postretirement benefits is being amortized over a period of 20 years.

A 1% increase or decrease in the health care cost inflation rate from assumed rates would have the following effects:

	1% Increase	**1% Decrease**
Effect on total of service and interest cost components	$5 million	$(4 million)
Effect on postretirement benefit obligation	$43 million	$(34 million)

Note 12. Stock-Based Compensation

The company applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, to account for its stock-based compensation plans. Compensation expense would have been the same in 1999, 1998 and 1997 had it been determined consistent with Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation.

The company may grant options and stock appreciation rights (SARs) to senior management and certain other key employees under its stock option plan. Options granted in 1997 vested in 1997, while those granted in 1998 vest over three years and those granted in 1999 vest over either two-year or three-year periods, subject to, with certain exceptions, continuous employment. All options expire 10 years after the grant date. Of the 6.6 million shares authorized, unoptioned shares totaled 3.6 million at December 31, 1999, and 4.7 million at December 31, 1998.

During 1999 1,122,412 options/SARs were granted with a weighted-average exercise price of $26.68. 3,118 options with a weighted-average exercise price of $16.90 and 102,362 SARs with a weighted-average exercise price of $18.70 were exercised in 1999. 30,000 options/SARs with an exercise price of $18.43 were forfeited in 1999. The 2,277,858 options/SARs outstanding at December 31, 1999, had a weighted-average exercise price of $21.75. Of those outstanding at December 31, 1999, 206,170 options/SARs with exercise prices ranging from $10.88 to $14.69 and a weighted-average remaining life of seven years had a weighted-average exercise price of $10.88 and 2,071,688 options/SARs with exercise prices ranging from $17.94 to $28.72 and a weighted-average remaining life of nine years had a weighted-average exercise price of $22.83. Of those exercisable at December 31, 1999, 206,170 options/SARs with exercise prices ranging from $10.88 to $14.69 had a weighted-average price of $10.88 and 645,172 options/SARs with exercise prices ranging from $17.94 to $28.72 had a weighted-average exercise price of $22.97.

During 1998 1,100,616 options/SARs were granted with a weighted-average exercise price of $18.43. 22,876 options with a weighted-average exercise price of $10.88 and 189,356 SARs with a weighted-average exercise price of $10.93 were exercised in 1998. 36,000 options/SARs with an exercise price of $17.94 were forfeited in 1998. The 1,290,926 options/SARs outstanding at December 31, 1998, had a weighted-average exercise price of $17.14. Of those outstanding at December 31, 1998, 226,310 options/SARs with exercise prices ranging from $10.88 to $17.07 and a weighted-average remaining life of eight years had a weighted-average exercise price of $10.98, and 1,064,616 options/SARs with exercise prices ranging from $17.94 to $28.72 and a weighted-average remaining life of nine years had a weighted-average exercise price of $18.45. Of those exercisable at December 31, 1998, 226,310 options/SARs with exercise prices ranging from $10.88 to $17.07 had a weighted-average exercise price of $10.98, and 484 options/SARs with exercise prices ranging from $17.94 to $28.72 had an exercise price of $19.63.

During 1997 840,958 options/SARs were granted with a weighted-average exercise price of $10.91. 15,866 options and 386,550 SARs with an exercise price of $10.88 were exercised in 1997. The 438,542 options/SARs outstanding at December 31, 1997, had a weighted-average exercise price of $10.95. 433,584 outstanding options/SARS with a weighted-average exercise price of $10.88 were exercisable at December 31, 1997.

The company recorded compensation expense for options/SARs of $(4.8) million in 1999, $9.2 million in 1998 and $4.9 million in 1997.

The company's Long-term Executive Incentive Share Plan provides participants cash awards if certain shareholder return criteria are achieved. There were 178,588 performance shares outstanding at December 31, 1999, and 217,154 outstanding at December 31, 1998. Compensation expense was $1.0 million for 1999 and $5.2 million for 1998.

Note 13. Commitments

Capital spending: The company has commitments in connection with its capital spending program. Capital spending, excluding the pending merger transactions, is projected to be $88 million in 2000 and is expected to be paid for entirely with internally generated funds. The program is subject to periodic review and revision. The company's capital spending will be primarily for the extension of energy distribution service, necessary improvements to existing facilities and compliance with environmental requirements.

Non-utility generator power purchase contracts: The company expensed approximately $354 million in 1999, $326 million in 1998 and $324 million in 1997 for NUG power. The company estimates that NUG power purchases will total $349 million in 2000, $359 million in 2001 and $387 million in 2002, unless it is able to change the NUG contracts or it is successful in its current efforts to sell entitlements to 470 megawatts of natural gas-fired energy, capacity and certain other benefits under three of its power purchase agreements with NUGs.

Note 14. Segment Information

Year	Energy Distribution	Other	Total
(Thousands)			
1999			
Operating Revenues	**$2,220,167**	**$58,441**	**$2,278,608**
Depreciation and Amortization	**$635,377**	**$3,692**	**$639,069**
Operating Income	**$564,430**	**$(17,219)**	**$547,211**
Interest Charges, Net	**$128,609**	**$4,299**	**$132,908**
Federal Income Taxes	**$210,709**	**$3,785**	**$214,494**
Income Before Extraordinary Item	**$229,830**	**$6,487**	**$236,317**
Extraordinary Loss, Net of Tax	**$17,566**	**–**	**$17,566**
Net Income	**$212,264**	**$6,487**	**$218,751**
Identifiable Assets	**$2,943,818**	**$825,579**	**$3,769,397**
Capital Spending	**$69,853**	**$12,821**	**$82,674**
1998			
Operating Revenues	$2,465,749	$33,819	$2,499,568
Depreciation and Amortization	$187,879	$3,200	$191,079
Operating Income	$486,102	$(12,724)	$473,378
Interest Charges, Net	$123,913	$1,644	$125,557
Federal Income Taxes	$140,749	$(3,573)	$137,176
Net Income	$202,516	$(8,311)	$194,205
Identifiable Assets	$4,822,530	$75,680	$4,898,210
Capital Spending	$129,255	$8,095	$137,350
1997			
Operating Revenues	$2,129,989	$40,113	$2,170,102
Depreciation and Amortization	$198,559	$3,209	$201,768
Operating Income	$442,668	$(5,707)	$436,961
Interest Charges, Net	$121,682	$1,517	$123,199
Federal Income Taxes	$119,787	$(2,074)	$117,713
Net Income	$180,797	$(5,586)	$175,211
Identifiable Assets	$4,874,658	$166,808	$5,041,466
Capital Spending	$123,907	$5,644	$129,551

Selected financial information for the company's business segments is presented in the table on the previous page. The company's "Energy Distribution" segment consists of its electricity distribution, transmission and generation operations and its natural gas distribution, transportation and storage operations in New York. "Other" includes the company's energy services businesses, natural gas and propane air distribution operations outside of New York, corporate assets and intersegment eliminations.

Note 15. Merger Agreements

The company signed definitive merger agreements with four energy companies during 1999: Connecticut Energy Corporation (CNE) on April 23, CMP Group, Inc. on June 14, CTG Resources, Inc. on June 29, and Berkshire Energy Resources (Berkshire Energy) on November 9. Each of the four companies will become a wholly-owned subsidiary of the company. The four transactions will be accounted for using the purchase method and are expected to close by the end of the second quarter of 2000. In connection with the mergers the company intends to register as a holding company with the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935.

Connecticut Energy Merger: This transaction is valued at $617 million, including the assumption of approximately $181 million of debt. Under the agreement 50% of the common stock of CNE will be converted into the company's common stock with a value of $42.00 per CNE share, and 50% will be converted into $42.00 in cash per CNE share, subject to restrictions on the minimum and maximum number of shares to be issued. Shareholders will be able to specify the percentage of the consideration they wish to receive in stock and in cash, subject to proration.

On September 14, 1999, the CNE shareholders approved the merger agreement. The Connecticut Department of Public Utility Control (DPUC) issued an order approving the merger on December 16, 1999. The merger is subject to, among other things, the approvals of various regulatory agencies, including the SEC. All necessary filings have been made.

CMP Group Merger: The company will acquire all of the common stock of CMP Group for $29.50 per share in cash. The transaction has an equity market value of approximately $957 million. The company will also assume approximately $113 million of CMP Group preferred stock and long-term debt.

On October 7, 1999, the CMP Group shareholders approved the merger agreement. The Maine Public Utilities Commission issued an order approving the merger on January 4, 2000. The merger is subject to, among other things, the approvals of various regulatory agencies, including the SEC, Federal Energy Regulatory Commission (FERC) and Nuclear Regulatory Commission. All necessary filings have been made.

CTG Resources Merger: This transaction values CTG Resources' common equity at approximately $355 million, and the company will assume approximately $220 million of CTG Resources' long-term debt.

Under the agreement, 45% of the common stock of CTG Resources will be converted into the company's common stock with a value of $41.00 per CTG Resources share, and 55% will be converted into $41.00 in cash per CTG Resources share, subject to restrictions on the minimum and maximum number of shares to be issued. Shareholders will be able to specify the percentage of the consideration they wish to receive in stock and in cash, subject to proration.

On October 18, 1999, the CTG Resources shareholders approved the merger agreement. The Connecticut DPUC issued an order approving the merger on January 19, 2000. The merger is subject to, among other things, the approvals of various regulatory agencies, including the SEC. All necessary filings have been made.

Berkshire Energy Resources Merger: The company will acquire all of the common stock of Berkshire Energy for $38.00 per share in cash. The transaction has an equity market value of approximately $96 million. The company will also assume approximately $40 million of Berkshire Energy preferred stock and long-term debt. The merger is subject to, among other things, the approvals of Berkshire Energy shareholders and the SEC. A meeting of Berkshire Energy shareholders for approval of the merger will be held on February 29, 2000. Filings with the SEC have been made.

Note 16. Quarterly Financial Information (Unaudited)

Quarter ended (Thousands, except per share amounts)	**March 31**	**June 30**	**Sep. 30**	**Dec. 31**
	1999	**1999**	**1999**	**1999**
Operating Revenues	**$654,438**	**$507,927**	**$571,020**	**$545,223**
Operating Income	**$159,224**	**$194,845**	**$98,040**	**$95,102**
Income Before Extraordinary Item	**$87,036**	**$55,496**	**$46,881**	**$46,904**
Extraordinary Loss, Net of Tax	**–**	**–**	**–**	**$17,566**
Net Income	**$87,036**	**$55,496**[2]	**$46,881**	**$29,338**
Earnings Per Share, basic and diluted	**$.71**	**$.48**[2]	**$.41**	**$.26**
Dividends Per Share	**$.21**	**$.21**	**$.21**	**$.21**
Average Common Shares Outstanding	**122,939**	**116,623**	**114,204**	**111,647**
Common stock price[1]				
High	**$28.63**	**$28.12**	**$27.06**	**$25.75**
Low	**$24.56**	**$24.75**	**$22.62**	**$20.56**
	1998	**1998**	**1998**	**1998**
Operating Revenues	$637,630	$548,308	$698,705	$614,925
Operating Income	$155,644	$87,817	$117,026	$112,891
Net Income	$76,171	$29,353	$45,050	$43,631
Earnings Per Share, basic and diluted	$.57	$.23	$.35	$.35
Dividends Per Share	$.18	$.20	$.20	$.20
Average Common Shares Outstanding	132,817	128,699	127,335	126,206
Common Stock Price[1]				
High	$20.25	$22.10	$25.69	$29.00
Low	$16.53	$19.47	$19.94	$23.38

(1) The company's common stock is listed on the New York Stock Exchange. The number of shareholders of record was 31,484 at December 31, 1999.

(2) Includes the effect of a nonrecurring benefit from the sale of generation assets net of the writeoff of Nine Mile Point 2 that increased net income by $10 million and earnings per share by 9 cents.

Report of Management

The company's management is responsible for the preparation, integrity and reliability of the consolidated financial statements, notes and other information in this annual report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include estimates that are based upon management's judgment and the best available information. Other financial information contained in this report was prepared on a basis consistent with that of the consolidated financial statements.

The company maintains a system of internal controls designed to provide reasonable assurance to its management and board of directors regarding the preparation of reliable published financial statements and the safeguarding of assets against loss or unauthorized use. The system contains self-monitoring mechanisms and actions are taken to correct deficiencies as they are identified. Even an effective internal control system, no matter how well designed, has inherent limitations, including the possibility of the circumvention or overriding of controls, and therefore can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Further, because of changes in conditions, internal control system effectiveness may vary over time.

The company maintains an internal audit department that independently assesses the effectiveness of the internal controls. In addition, the company's independent accountants, PricewaterhouseCoopers LLP, have considered the company's internal control structure to the extent they considered necessary in expressing an opinion on the consolidated financial statements. Management is responsive to the recommendations of its internal audit department and the independent accountants concerning internal controls and corrective measures are taken when considered appropriate. The board of directors oversees the company's financial reporting through its audit committee. The committee, which consists entirely of outside directors, meets regularly with management, the internal auditor and the independent accountants to discuss auditing, internal control and financial reporting matters. Both the internal auditor and independent accountants have direct access to the audit committee, independent of management.

The company assessed its internal control system as of December 31, 1999, in relation to criteria for effective internal control over financial reporting and the safeguarding of assets described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the company believes that, as of December 31, 1999, its system of internal control over financial reporting and over the safeguarding of assets against loss or unauthorized use met those criteria.

Robert E. Rude
Vice President and Controller

Wesley W. von Schack
Chairman, President and Chief Executive Officer

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

To the Shareholders and Board of Directors,
Energy East Corporation and Subsidiaries
Albany, New York

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in common stock equity present fairly, in all material respects the financial position of Energy East Corporation ("the Company") and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. 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 of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

New York, New York
January 28, 2000

Selected Financial Data

(Thousands, except per share amounts)	1999	1998	1997	1996	1995	1994
Operating Revenues						
Sales and services	**$2,278,608**	$2,499,568	$2,170,102	$2,108,865	$2,040,895	$1,918,431
Operating Expenses						
Electricity purchased and fuel used in generation	**905,367**	992,236	643,063	582,855	548,199	474,000
Natural gas purchased	**186,722**	158,757	164,661	180,866	157,476	161,627
Other operating expenses	**312,129**	367,897	406,830	412,915	367,150	354,553
Maintenance	**85,849**	111,503	110,373	107,697	116,807	106,637
Depreciation and amortization	**639,069** [1]	191,079	201,768	192,501	188,367	182,598
Other taxes	**194,783**	204,718	206,446	206,715	210,910	210,729
Gain on sale of generation assets	**(674,572)**	–	–	–	–	–
Writeoff of Nine Mile Point 2	**82,050**	–	–	–	–	–
Total Operating Expenses	**1,731,397**	2,026,190	1,733,141	1,683,549	1,588,909	1,490,144
Operating Income	**547,211**	473,378	436,961	425,316	451,986	428,287
Other (Income) and Deductions	**(39,214)**	7,857	11,496	16,403	9,865	2,089
Interest Charges, Net	**132,908**	125,557	123,199	122,729	129,567	136,092
Preferred Stock Dividends of Subsidiary	**2,706**	8,583	9,342	9,530	18,721	18,947
Income Before Federal Income Taxes	**450,811**	331,381	292,924	276,654	293,833	271,159
Federal Income Taxes	**214,494**	137,176	117,713	107,943	115,864	102,461
Income Before Extraordinary Item	**236,317**	194,205	175,211	168,711	177,969	168,698
Extraordinary Loss on Early Extinguishment of Debt, Net of Income Tax Benefit of $9,458	**17,566**	–	–	–	–	–
Net Income	**218,751** [2]	194,205	175,211 [3]	168,711 [4]	177,969	168,698 [5]
Common Stock Dividends	**98,725**	100,487	95,496	99,611	100,104	142,265
Retained Earnings Increase	**$120,026**	$93,718	$79,715	$64,717	$77,865	$26,433
Average Common Shares Outstanding	**116,316**	128,742	136,306	142,255	143,006	142,509
Earnings Per Share, basic and diluted	**$1.88** [2]	$1.51	$1.29 [3]	$1.19 [4]	$1.24	$1.18 [5]
Dividends Paid Per Share	**$.84**	$.78	$.70	$.70	$.70	$1.00
Book Value Per Share of Common Stock at Year End	**$12.84**	$13.61	$13.36	$12.70	$12.19	$11.64
Capital Spending	**$82,674**	$137,350	$129,551	$215,731	$167,446	$282,703
Total Assets	**$3,769,397**	$4,898,210	$5,041,466	$5,061,604	$5,114,331	$5,230,685
Long-term Obligations, Capital Leases and Redeemable Preferred Stock	**$1,235,089**	$1,460,120	$1,475,224	$1,505,814	$1,606,448	$1,776,081

Reclassifications: Certain amounts included in Selected Financial Data have been reclassified to conform with the 1999 presentation.

(1) Depreciation and amortization includes accelerated amortization of Nine Mile Point 2 related to the sale of the company's coal-fired generation assets, authorized by the PSC. (See Note 7. Sale of Coal-fired Generation Assets.)

(2) Includes the effect of the extraordinary loss related to the early extinguishment of debt that decreased net income by $18 million and earnings per share by 15 cents and the nonrecurring benefit from the sale of the company's coal-fired generation assets net of the writeoff of Nine Mile Point 2 that increased net income by $14 million and earnings per share by 12 cents.

(3) Includes the effect of fees related to an unsolicited tender offer that decreased net income by $17 million and earnings per share by 12 cents.

(4) Includes the effect of the writedown of the investment in EnerSoft Corporation that decreased net income by $10 million and earnings per share by 7 cents.

(5) Includes the effect of the 1993 production-cost penalty that decreased net income by $8 million and earnings per share by 6 cents.

Financial Statistics

	1999	1998	1997	1996	1995	1994
Financial Statistics						
Mortgage bond interest (Times earned)	**5.7**	4.9	4.4	4.1	4.0	3.5
Interest charges and preferred dividends (Times earned)	**2.6**	2.4	2.3	2.3	2.2	2.1
Common stock price at year end	**$20.81**	$28.25	$17.75	$10.81	$12.94	$9.50
Dividend payout ratio (Percent)	**44.7**	51.3	54.5	59.1	56.2	84.4
Price earnings ratio at year end	**11.1**	18.7	13.8	9.1	10.4	8.0
Property, Plant and Equipment (Includes construction work in progress) (Thousands)						
Electric	**$3,395,554**	$5,315,597	$5,267,080	$5,208,307	$5,125,336	$5,027,137
Natural gas	**636,453**	611,430	586,144	544,898	472,056	431,202
Common	**142,134**	147,265	162,322	162,758	157,823	171,639
Total	**$4,174,141**	$6,074,292	$6,015,546	$5,915,963	$5,755,215	$5,629,978
Accumulated Depreciation	**$2,034,312**	$2,211,608	$2,093,274	$1,933,599	$1,791,625	$1,642,653
Number of Shareholders of Record						
Common stock	**31,484**	33,792	38,238	45,608	50,576	56,279
Preferred stock	**263**	803	1,068	1,211	1,297	1,329

Energy Distribution Statistics

(Thousands)	1999	1998	1997	1996	1995	1994
Electric Deliveries						
(Megawatt-hours)						
Residential	**5,322**	5,143	5,267	5,393	5,286	5,399
Commercial	**3,366**	3,393	3,495	3,430	3,405	3,315
Industrial	**3,141**	3,118	3,065	2,992	3,010	2,997
Other	**2,014**	1,623	1,411	1,401	1,392	1,437
Total Retail	**13,843**	13,277	13,238	13,216	13,093	13,148
Wholesale	**10,978**	22,711	10,406	7,914	7,636	6,827
Total Electric Deliveries	**24,821**	35,988	23,644	21,130	20,729	19,975
Electric Revenues						
Residential	**$736,368**	$715,705	$728,776	$744,439	$725,299	$679,124
Commercial	**383,818**	391,224	403,480	400,841	395,076	366,854
Industrial	**222,426**	239,455	243,850	242,792	247,576	245,218
Other	**196,342**	172,823	157,537	158,377	158,568	153,888
Total Retail	**1,538,954**	1,519,207	1,533,643	1,546,449	1,526,519	1,445,084
Wholesale	**312,727**	611,851	232,138	162,232	150,444	141,902
Other	**37,637**	28,810	26,383	14,466	31,334	13,089
Total Electric Revenues	**$1,889,318**	$2,159,868	$1,792,164	$1,723,147	$1,708,297	$1,600,075
Natural Gas Deliveries						
(Dekatherms)						
Residential	**23,295**	20,955	24,357	25,470	23,512	24,662
Commercial	**8,182**	7,898	10,178	10,146	10,540	10,611
Industrial	**1,669**	1,779	2,409	2,726	2,587	2,180
Other	**2,677**	2,568	2,735	2,230	2,463	2,038
Transportation of customer-owned natural gas	**23,426**	20,962	19,645	20,970	19,433	19,133
Total Retail	**59,249**	54,162	59,324	61,542	58,535	58,624
Wholesale	**8,617**	7,527	3,027	4,056	4,754	–
Total Natural Gas Deliveries	**67,866**	61,689	62,351	65,598	63,289	58,624
Natural Gas Revenues						
Residential	**$181,235**	$171,382	$190,564	$198,338	$181,697	$185,073
Commercial	**62,563**	60,966	83,091	83,393	75,178	72,360
Industrial	**8,123**	8,155	13,044	14,509	11,310	11,542
Other	**14,745**	14,257	17,839	15,697	14,584	12,997
Transportation of customer-owned natural gas	**33,572**	29,589	21,949	17,476	13,718	12,791
Total Retail	**300,238**	284,349	326,487	329,413	296,487	294,763
Wholesale	**21,831**	17,791	9,114	10,444	8,771	–
Other	**8,780**	3,741	2,224	4,528	3,673	4,017
Total Natural Gas Revenues	**$330,849**	$305,881	$337,825	$344,385	$308,931	$298,780

Electric Supply Statistics

	1999	1998	1997	1996	1995	1994
System Capability (Megawatts)						
Coal	**–**	2,286	2,277	2,236	2,226	2,278
Nuclear	**210**	205	207	206	206	189
Hydro	**59**	59	66	62	61	69
Internal combustion	**1**	7	7	7	7	7
Total Generating Capability	**270**	2,557	2,557	2,511	2,500	2,543
Purchased Power						
New York Power Authority	**643**	641	594	591	517	514
NUGs	**556**	565	551	599	595	594
Other	**2,444**	–	–	–	–	–
Less: Firm sales	**(1,072)**	(527)	(625)	(607)	(118)	(367)
Total System Capability	**2,841**	3,236	3,077	3,094	3,494	3,284
System Capability (Percent)						
Coal	**–**	71	74	72	63	69
Nuclear	**7**	6	7	7	6	6
Hydro	**2**	2	2	2	2	2
Total Generating Capability	**9**	79	83	81	71	77
Purchased Power						
New York Power Authority	**23**	20	19	19	15	16
NUGs	**20**	17	18	20	17	18
Other	**86**	–	–	–	–	–
Less: Firm sales	**(38)**	(16)	(20)	(20)	(3)	(11)
Total System Capability	**100**	100	100	100	100	100
Megawatt-Hour Production, Net (Thousands)						
Generated						
Coal	**4,833**	16,146	14,985	14,195	14,296	14,338
Nuclear	**1,581**	1,315	1,598	1,566	1,306	1,509
Hydro	**252**	317	313	309	240	321
Total Generated	**6,666**	17,778	16,896	16,070	15,842	16,168
Purchased Power						
New York Power Authority	**2,291**	2,006	1,957	1,921	1,849	1,700
NUGs	**4,265**	4,016	4,051	4,235	4,413	3,601
Other, net	**12,263**	13,548	2,199	465	155	14
Total	**25,485**	37,348	25,103	22,691	22,259	21,483
Production Expenses (Thousands)						
Generated	**$139,164**	$330,590	$327,042	$322,233	$335,706	$339,546
Purchased Power						
New York Power Authority	**44,502**	32,253	27,923	27,263	26,079	21,478
NUGs	**353,958**	326,008	323,959	319,958	283,913	214,010
Other	**421,349**	394,717	58,001	13,532	8,448	6,864
Total	**$958,973**	$1,083,568	$736,925	$682,986	$654,146	$581,898

Note: The company completed the sale of its Homer City generation assets to Edison Mission Energy in March 1999, and the sale of its remaining coal-fired generation assets to The AES Corporation in May 1999.

Board of Directors

Richard Aurelio • a director since 1997, is a director of the Citizens Committee for New York City, Inc. and the Javits Foundation, both in New York, New York.

James A. Carrigg • a director since 1983, is a director of Security Mutual Life Insurance Company of New York and a trustee of Dr. G. Clifford & Florence B. Decker Foundation, both in Binghamton, New York.

Alison P. Casarett • a director since 1979, is Dean Emeritus at Cornell University in Ithaca, New York and Emeritus Professor of Radiation Biology at the New York State College of Veterinary Medicine of Cornell University.

Joseph J. Castiglia • a director since 1995, is Chairman of the Catholic Health System of Western New York and of Blue Cross & Blue Shield of Western New York, both in Buffalo, New York.

Lois B. DeFleur • a director since 1995, is President of the State University of New York at Binghamton in Binghamton, New York.

Paul L. Gioia • a director since 1991, is of counsel at LeBoeuf, Lamb, Greene & MacRae, attorneys-at-law in Albany, New York.

John M. Keeler • a director since 1989, is of counsel at Hinman, Howard & Kattell, attorneys-at-law in Binghamton, New York.

Ben E. Lynch • a director since 1987, is President of Winchester Optical Company in Elmira, New York.

Walter G. Rich • a director since 1997, is Chairman, President, Chief Executive Officer and a director of Delaware Otsego Corporation in Cooperstown, New York, and its subsidiary, The New York, Susquehanna & Western Railway Corporation.

Wesley W. von Schack • a director since 1996, is Chairman, President and Chief Executive Officer of the corporation.

Committees • (Chairperson listed first)

Audit: Lynch, DeFleur, Gioia, Rich
Executive Compensation and Succession: Castiglia, Aurelio, Lynch
Nominating: Aurelio, DeFleur, Keeler
NYSEG's Corporate Responsibility: Carrigg, Casarett, Keeler, Rich

Executive Officers

Energy East Corporation

Wesley W. von Schack • Chairman, President, and Chief Executive Officer

Kenneth M. Jasinski • Executive Vice President and General Counsel

Michael I. German • Senior Vice President

Robert D. Kump • Vice President and Treasurer

Robert E. Rude • Vice President and Controller

Daniel W. Farley • Secretary

Shareholder Information

Shareholder Services

Shareholder Services representatives are available between 8 a.m. and 4:30 p.m. (Eastern Time) on regular business days at 1-800-225-5643. Or you may write to:

Energy East Corporation
Attention: Shareholder Services
P.O. Box 3200
Ithaca, NY 14852-3200

Please contact Shareholder Services with questions regarding:

- dividend reinvestment and stock purchase plan
- dividend payments or lost dividend checks
- direct deposit of dividends
- replacement of lost certificates
- a change of address
- annual report requests
- annual meeting of shareholders

The Shareholder Connection

Investor information is available at your fingertips. This service provides quick access to Energy East's common stock closing price as well as timely dividend and news release information 24 hours a day, seven days a week.

Internet Address

Information of interest to shareholders, including financial documents and news releases, is available at our Web site.

Transfer Agent and Registrar

To present certificates for transfer (certified or registered mail is recommended) write to:

ChaseMellon Shareholder Services
P.O. Box 3312
South Hackensack, NJ
07606-1912

To request transfer instructions, write to:

ChaseMellon Shareholder Services
P.O. Box 3315
South Hackensack, NJ
07606-1915

Investor Relations

Members of the financial community may contact our Manager, Investor Relations by phone at 607-347-2561 or by fax at 607-347-2560.

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Albany, New York 12212-2904

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Trading Symbol

NEG is the trading symbol for Energy East Corporation common stock listed on the New York Stock Exchange.

Annual Meeting

Formal notice of the meeting, a proxy statement and form of proxy will be mailed to shareholders.

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